

Agrokor, d.d.

Mr. Ivica Todorčić, President of the Management Board

Trg Dražena Petroviča 3

10000 Zagreb

Republic of Croatia

[by e-mail: predsjednik@agrokor.hr]

[by express mail]

Subject: Acquisition of fast-moving consumer goods retail operations of the Agrokor Group

Dear Mr. Todorčić, President of the Management Board,

We have learned from the media about Agrokor's views with regard to business combination of trade operations of the Agrokor Group and the Mercator Group, and about your estimates of the implications of such combination. We are somewhat surprised that you had not, in the spirit of fair and honest business relations, informed us of your intent to publicly announce your views in this regard, particularly in light of the close business relations we have maintained throughout the years as traditional business partners.

Needless to say, we understand your efforts for strategic restructuring of the Agrokor Group as we are familiar with the conditions of the business environment, financial markets, and competition in the region, as well as strategic, operational, and financial position of the Agrokor Group. In Europe, there are nearly no trade companies maintaining a substantial vertical integration with their own manufacturing subsidiaries and as such they have not proven conducive to long-term competitiveness and development capacity of a supply chain, nor to the creation of benefits for the consumers, and consequently for the company, its employees, and all other stakeholders. In activities where the economies of scale are essential and international competition increasingly stringent, only the focus on the core activity by reaping development and business synergies within the core activity can be the source of long-term competitiveness of a company, for the benefit of the customers and therefore the ability to persist and thrive in the harshly competitive business environment.

The intent of this letter is to express our interest in examining the possibility of the acquisition of fast-moving consumer goods retail operations of the Agrokor group by the Mercator Group, and to step up the partnership relationship and cooperation between the two Groups in the field of procurement of alimentary products provided by the Agrokor Group.

Such strategic alliance **would allow both Groups to focus on their core activities**, which is consistent with the strategic approaches of top-performing European and global international corporations in comparable industries. **Agrokor Group would thus focus on the core activity of manufacturing in which it is already the region's leader** with numerous reputable brands and formidable manufacturing capacity. At the same time, positive financial effects would allow further investment in agriculture and food processing industry. This is strategically important both from the aspect of the importance of this sector in the region and the wider European area, as well as from the aspect of diminished possibilities of receiving government subsidies after the accession of the Republic of Croatia to the European Union, which currently bear a notable effect on Agrokor Group performance in this segment. On the other hand, **Mercator Group could continue to focus on its operations as the leading retail chain with fast-moving consumer goods in the entire Southeastern European region** in order to provide the best possible offer for the consumers. Currently, we are present in seven markets of the region and we are planning to enter two more within the following few years; thus, our presence will be extended to all nine markets of the region.

In case of business combination, or alliance, presented above, **Mercator Group would certainly continue to foster successful cooperation with the manufacturing part of the Agrokor Group or its food processing division**, and even further expand and intensify the partnership in this field in light of new relations. As you are aware, trade companies of the Mercator Group have continuously worked successfully with virtually all manufacturing companies of the Agrokor Group in all markets for a number of years; after all, sound business cooperation with local suppliers of quality products is a fundamental part of our strategy. In addition, Mercator Group's retail activities are already present in three additional markets in which Agrokor Group has not yet developed retail operations. Thus, our development policies will surely support your internationalization and expansion to new markets in the region.

Our preliminary estimates indicate that **forging an alliance as described above would not include or necessitate any layoffs** as Mercator Group's growth would provide social security and long-term employment in the Group to both Mercator's existing employees and our new colleagues that would join the Group as a result of the acquisition.

Equally important, **Mercator Group would be able to fully retain its current supplier relations policy as we tend to favour and prefer competitive local suppliers providing high-quality and reasonably priced products for our consumers, in all markets**. Corporate social responsibility and fair relations to all stakeholders are also a fundamental part of our strategy which we would certainly continue to pursue in case of an alliance.

We are aware that competition law is a major potential obstacle for such arrangement in all markets where FMCG retail operations of either Group are currently conducted. In Croatia, Agrokor is the leading player with a dominant position in several regions; Mercator is the second largest retailer in the country. In the Serbian market, Mercator is the second-largest and Agrokor is the third-largest retailer. In Bosnia and Herzegovina, Agrokor is the largest retailer while Mercator currently ranks third. In Slovenia and Montenegro, Mercator is the market leader while Agrokor is not present with retail activities. It is highly likely that proposed business combination would not be permitted from the aspect of horizontal concentration, pursuant to the European principles of competition protection; or it would only be permissible subject to major restrictions. Additionally, the leading or dominant position of Agrokor's manufacturing companies or their products in many relevant markets would also give rise to issues of vertical concentration within the supply (procurement-sales) relationship, although the proposed alliance would not include any mutual corporate governance implications. Since the competition protection aspects are viewed as a major issue regarding the viability of proposed business combination, it is of course imperative that the effects and consequences in competition protection in all key markets be analyzed in great detail before any further steps are taken.

In light of the numerous speculations in the media, we shall, pursuing our policy of transparent communication and the spirit of honest and fair business relations, announce this writing, unabridged, in the Ljubljana Stock Exchange info system.

This letter does not express the intent to take over any company of the Agrokor Group and you are kindly asked not to interpret it as such. It is a friendly business proposition to examine the proposed form of strategic alliance which would certainly yield positive effects for both corporate groups, their respective stakeholders, and the broad social environment in the entire region.

Should you be willing to address more closely the option of selling the fast-moving consumer goods retail operations of the Agrokor Group to the Mercator Group, while forging a long-term partnership between the two corporate groups, you are kindly invited to contact us at the electronic mail address ziga.debeljak@mercator.si or at the phone number of Secretary to the President of the Management Board +386 1 5601195. We shall be happy to immediately arrange a meeting and visit you in Zagreb, while at the same time we extend our kind invitation to Ljubljana where you are always welcome. Thus, we shall be able to discuss in person the possible approaches and required procedures regarding our offer.

Yours sincerely,

Žiga Debeljak,
President of the Management Board