AGROKOR

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN 2014

April 23rd, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements for the year ended December 31st, 2013 and December 31st, 2014 and the related notes. Our consolidated financial statements have been prepared in accordance with IFRS. This discussion includes forward-looking statements based on assumptions about our future business that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on our current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from those contained in the forward-looking statements. For most relevant accounting policies please refer to Note 1 of our FY 2014 consolidated statement.

Important Notice: The Management's discussion and analysis of financial condition and results of operations in this document refers to the Agrokor Group and all its Restricted Subsidiaries and Unrestricted Subsidiaries ("Agrokor" or "Company"). Restricted Subsidiaries are all Agrokor's subsidiaries which form the Agrokor Group excluding Poslovni sistem Mercator d.d. ("Mercator"). Pursuant to the indenture governing our Senior Secured Notes due 2019 and 2020 and our other financial arrangements which are in general in line with the indentures, Mercator has been designated as an Unrestricted Subsidiary of Agrokor. All information regarding Mercator can be found on their IR website http://www.mercatorgroup.si/en/investor-relations/.

Overview

Last year was marked by extremely bad weather conditions notably throughout spring and summer. These conditions resulted in severe floods in spring across most of our Primary Markets[1] whilst these also jeopardized the touristic season in Croatia. Moreover, the macroeconomic conditions remained challenging whereby GDPs contracted further which put additional pressure on consumption. Nevertheless, we have managed to maintain our sales and profitability within the Restricted Subsidiaries whilst on a consolidated basis results were enhanced by the Mercator acquisition. On a consolidated basis our total sales[2] increased by 16.0 per cent from HRK 30,144.8 million to HRK 34,969.1 million. EBITDA increased by 5.9 per cent, from HRK 3,053.0 million to 3,164.6 million, while EBITDA margin decreased from 10.0 per cent to 9.1 per cent.

During 2014 we have continued to focus on increasing and/or maintaining our market shares across both of our divisions through proactive measures in the form of effective marketing strategies, investments in prices and adequate product portfolio management which also included various portfolio extensions. We further continued to focus on cost optimization and efficiency improvement measures coupled with further systematization and reorganization of the companies across the Group. In addition to that, in the second half of the year and following the acquisition of Mercator, we have focused on the integration of the Mercator business with the rest of the Group.

Retailing and Wholesale division contributed with 78.9 per cent of total consolidated sales and posted an increase of 20.7 per cent compared to the previous year with sales increasing from HRK 22,854.9 million to HRK 27,588.8 million. Division's EBITDA increased from HRK 1,303.3 million to HRK 1,636.0 million representing a 25.5 per cent increase with EBITDA margin increasing from 5.4 per cent to 5.6 per cent, on an unconsolidated basis. Strong growth in both sales and EBITDA was predominantly driven by the Mercator acquisition.

Food Manufacturing and Distribution division generated 16.9 per cent of the total consolidated sales. Sales in this division decreased by 4.8 per cent compared to the same period last year, from HRK 6,194.2 million to HRK 5,897.1 million. Division's EBITDA also decreased, from HRK 1,797.8 million to HRK 1,423.8 million representing a 20.8 per cent decline. EBITDA margin decreased from 15.9 per cent to 12.8 per cent, on an unconsolidated basis, predominantly due to poor weather conditions and drop in edible oil prices.

Other Businesses[3] division posted a significant increase in total consolidated sales of 41.8 per cent, from HRK 996.9 million to HRK 1,414.0 million. This division contributed 4.0 per cent of the consolidated sales. EBITDA posted a strong growth of 176.0 per cent from HRK 84.3 million to HRK 232.8 million with EBITDA margin increasing from 4.1 per cent to 9.2 per cent, on an unconsolidated basis. The increase in sales was the result of an

[1] Primary Markets: Croatia, Slovenia, Serbia, Bosnia and Herzegovina, Montenegro
[2] Total sales includes Revenues and Sale of Services
[3] Excluding Agrokor Holding

increase in volumes related to the need to source commodities needed for both, our agriculture and meat business but also for external buyers, as the floods had a detrimental impact on a range of agricultural commodities across the region. EBITDA improved also as a result of a continuous increase in profitability of our renewable energy and IT businesses.

Key highlights of Group Results and Strategy

Increase in topline predominantly as a result of the Mercator acquisition

We have managed to maintain our sales within the Restricted Subsidiaries. These sales were further enhanced by the Mercator acquisition.

Maintaining market shares across the region

We have managed to maintain or even increase our market shares and keep our leadership positions across most of our businesses within the Food Manufacturing and Distribution division whilst in the Retailing and Wholesale division we have increased our market shares as a result of the Mercator acquisition. We managed to further improve our offering as we continued to tailor our pricing policies, marketing activities through promotions and innovations as well as product assortment to be able to cope with the overall environment.

M&A and other activities

Agrokor d.d. acquired management control of Mercator in September 2014, following the acquisition of the initial stake of 53.2 per cent at the end of June 2014 and the subsequent MTO which expired on September 1st. Agrokor started with the consolidation of Mercator from September 30th, 2014. Agrokor owned 3.040.597 shares as at September 30th, 2014 which represented 80.8 per cent of Mercator's share capital. Pursuant to the indenture governing our Senior Secured Notes due 2019 and 2020 and our other financial arrangements which are generally in line with the indentures, Mercator has been designated as an unrestricted subsidiary of Agrokor.

We acquired management control of Eko Biograd d.o.o. through the purchase of 100 per cent ownership of Eko Biograd d.o.o by PIK Vinkovci d.d. for HRK 30.7 million. The main business activity of Eko Biograd d.o.o. is real estate management.

We sold our fleet maintenance business to the Emil Frey Group, which entered the regional market in October 2013. Belje, our agribusiness company, sold its logistics business to Croatian logistics company Ricardo and PIK Vrbovec, our meat production company, sold its canned products business to Podravka.

We have successfully disposed of part of the stores that were subject to Anti-Trust measures in Croatia.

Recent Developments

On February 20th 2015 we signed €300 million club term loan facility with Barclays, Credit Suisse, Deutsche Bank, Goldman Sachs, J.P. Morgan and Morgan Stanley. This facility matures on August 20, 2016. We also amended and restated existing agreement with BNP Paribas resulting with an additional €25 million exposure which maturity is aligned to the club facility.

In February 2015 Agrokor acquired from Agrokor Investments B.V. an additional 9.5 per cent in Mercator, increasing its shareholding to 59.5 per cent.

Mercator signed in April a share purchase agreement with Don Don, a regional pastry company, for the sale of Pekarna Grosuplje, its bakery business. Completion is conditional to Anti-Monopoly approvals.

The sale of other non-core businesses and assets is ongoing. We have started disposal process for Dijamant Agrar and are in the advance stages of negotiations.

Performance of divisions

Retailing and Wholesale

Generally the retail environment across the Primary markets is still facing adverse trends. As a response to these conditions, throughout 2014 we have continued refurbishing our existing network, with emphasis on convenience stores, adjusting the private label offering and further leveraging our customer-centric retailing capabilities which enabled us to tailor competitive pricing policies and focus further on customer care while offering the best value for money proposition to our faithful customers.

Retailing and Wholesale division in 2014 posted 21.8 per cent increase in sales on unconsolidated basis, from HRK 23,946.3 million to HRK 29,171.8 million, with an EBITDA increase of 25.5 per cent, from HRK 1,303.3 million to HRK 1,636.0 million. EBITDA margin increased by 17 bps, from 5.4 per cent to 5.6 per cent. The increase in sales and profitability is predominantly due to the Mercator acquisition.

Acquisition of Mercator – integration process

Besides regular operational activities, the second half of 2014 was marked by the integration activities following the completion of the acquisition of Mercator. The integration process has been structured such that the overall operations in Croatia and Bosnia and Herzegovina will be carried on by Konzum (Konzum Croatia and Konzum Bosnia and Herzegovina) whereas the operations in Serbia will be carried on by Mercator (Mercator Serbia). The operating businesses are subject to leasing arrangements where Mercator's stores in Croatia and Bosnia and Herzegovina are leased out to Konzum Croatia and Bosnia and Herzegovina, respectively, whilst iDEA's stores in Serbia are leased out to Mercator Serbia. By doing so, Mercator Croatia, Mercator Bosnia and Herzegovina and iDEA in Serbia became property management companies.

Acquisition of Mercator – synergies

In order to assure integration and full synergies extraction we have engaged a renowned international consulting firm. Together with them we have identified 9 synergy areas and 13 synergy projects in 4 countries in order to implement our synergy opportunities. These synergy areas center around purchasing, logistics/supply chain, store capital expenditures, headquarter personnel and organizational blueprint, store reflagging and in-store operations, marketing spend, running costs and utilities in-store, loyalty/customer relationship management and asset utilization. The majority of our synergies are expected from purchasing, which includes five different areas: harmonization of quick wins, annual negotiations, private label, commodities, and non-food. Under our purchasing synergy, we aim to harmonize purchasing conditions through a best practice exchange. For example, following the transfer of Mercator stores in Croatia to Konzum, the former Mercator stores were immediately able to benefit from Konzum's existing supply chain, under which the former Mercator stores enjoyed terms that were approximately 10 per cent better compared to their prior supplier contracts. The former Mercator stores therefore recorded lower costs of goods sold and a higher profit margin.

Based on our work with consultants we estimate that we will achieve net cost synergies of approximately €130 million in 2015 as a result of the acquisition and successful integration of Mercator into our existing business.

Croatia

Croatian food retail market is still impacted by challenging macroeconomic environment and the persistence of negative trends. The strategy of repositioning our portfolio of convenience stores is proving to be successful and it is an important factor in managing and attenuating the impact of unfavourable trends present in the retail industry in the country. We have also implemented a new pricing campaign across the chain which proved to be successful as seen from the positive developments of our market share. We have also continued with enhancing our bakery and meat assortment in line with best practice. In the competitive landscape, additional consolidation took place in the fourth quarter with top 10 players increasing its market share to roughly 79 per cent. Konzum market share also increased and amounted to 31 per cent.

Our wholesale business experienced a slight decrease as we deliberately decided to reduce our sales to certain customers which were significantly affected by the difficult macro environment and whose risk profile increased. Furthermore, the HoReCa channel experienced a decline as a result of bad weather conditions during the touristic season.

Acquisition of Mercator – integration process

The second half of the year was marked by extensive preparation for and the integration of Mercator Croatia. The integration process started in the first half of September and it has been completed within 3 weeks. During this period all 73 of Mercator's stores, apart from stores that need to be sold or closed subject to Anti-monopoly Agency measures, were rebranded and integrated into Konzum's network. From the end of the year, Konzum and ex Mercator stores are fully integrated and operate as one business unit. Mercator Croatia, continues to operate as a property management company, managing real estate for leased stores, including stores lease to Konzum, stores of non-core businesses as well as other non-core assets. In addition, Mercator Croatia retains operating control over stores that are subject to the Croatian competition authority's divestiture requirements until their disposal. We expect disposals to be completed (and competition authority's required measures met) by mid-July 2015 and we are in the process of seeking and negotiating with potential buyers.

Slovenia

The Slovenian food retail market has been fairly stable in the last few years despite overall economic struggles but it showed signs of recovery in 2014. The fourth quarter was marked by the beginning of the best practice transfer across our retail segment. As a result of this we have implemented a new pricing policy (i.e. guaranteed lowest price for 800 articles) and started with the improvement of our in-store operations. All of the above resulted in business turnaround visible in the last quarter.

The Slovenian and Croatian markets are the most developed markets across our Primary Markets, with relatively high fragmentation. In Slovenia the top 3 players account for roughly 70 per cent. Mercator's market share stabilised, and even increased in 2014, and amounted to 33 per cent by the year end.

Agrokor did not have any retail operations in Slovenia and therefore no physical integration took place. The focus was directed towards the improvements of the operating business.

Our wholesale business experienced a slight decrease as we deliberately decided to reduce our sales to certain customers which were significantly affected by the difficult macro environment and whose risk profile increased.

Serbia

Our Serbian operations recorded increase in both top line and EBITDA as a result of the Mercator transaction. In the competitive landscape there haven't been any major changes within the top 10 players which are still accounting for roughly 33 per cent, despite the struggle from mom and pap's stores seen in the market. iDEA and Roda had the highest single increase in market share becoming the largest retailer. Market share of Mercator Serbia increased and amounted to 13.5 per cent.

Our wholesale segment experienced a slight decrease mainly due to deteriorated conditions of mom and pap's stores and integration of the different business models between iDEA and Mercator.

Acquisition of Mercator – integration process

The second half was marked by extensive preparation for the integration and the integration itself of iDEA into Mercator's operations. The integration of all 191 stores into Mercator, apart from those subject to Anti-monopoly measures, was successfully completed in the fourth quarter. Since iDEA and Roda were the strongest brands on the market, the decision was made that operations in Serbia would be carried out using a dual store branding strategy (iDEA and Roda). Due to the differentiated brand perception and contrasting operating models, it has been agreed that all large stores (greater than 1,500 sqm) will be operated under the Roda brand whilst all the other stores will be operated under the iDEA brand.

From the end of the year, Mercator Serbia and ex iDEA stores are fully integrated and operate as one business unit. iDEA, on the other hand, continues to operate as a property management company, managing real estate for leased stores, including stores leased to Mercator Serbia, stores of non-core businesses as well as other non-core assets.

Bosnia and Herzegovina

Our operations posted an increase in both top line and EBITDA, predominantly due to the Mercator transaction. The overall macroeconomic environment continues to be unfavourable and, coupled with extreme flooding, provided additional burden on the business environment. Despite the Mercator transaction and the overall integration process, we continued with repositioning of our portfolio of convenience stores, introducing new pricing campaigns, along with new store openings which, together with Mercator, further strengthened our leadership market position.

Our wholesale segment continued to experience growth as a result of the increase in the number of customers as well as educational activities for wholesale personnel done in house.

Acquisition of Mercator – integration process

The second half was marked by extensive preparation for and the integration of 89 Mercator BH and Mercator BL stores into Konzum B&H network. The integration process started mid-September and lasted until mid-November. In the fourth quarter all Mercator stores have been successfully integrated into Konzum's network. The relevant competition authority gave full clearance to the integration, meaning no remedial measures were required.

Mercator BH and Mercator BL remain in operation as property management companies, managing real estate for leased stores, including stores leased to Konzum BH, stores of non-core businesses as well as other non-core assets.

Store breakdown in our Primary markets

As at December 31st, 2014 we had a total of 1,912 retail FMCG stores and 67 wholesale FMCG stores. Out of these, Agrokor (operation in Croatia and B&H) had a total of 1,000 retail FMCG stores and 28 Velpro wholesale stores, while Mercator (operations in Slovenia, B&H and Montenegro) had a total of 912 FMCG stores and 39 wholesale stores, owned or operated under operating lease and rental arrangements[4]

The tables below show Agrokor and Mercator stores by format:

Konzum (Restricted Subsidiary)

FY 2014 Ended December 31, 2014	Start of Period		Croatia		Bosnia and Herzegovina		Period End		
	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)	Share
Small	837	165.612	619	127.419	181	36.750	800	164.169	34,9%
Maxi	94	73.921	47	42.281	62	50.478	109	92.759	19,7%
Super	90	196.190	75	177.006	16	36.635	91	213.641	45,4%
Hyper	1	5.837					0	0	0,0%
Total FMCG retail	1.022	441.560	741	346.706	259	123.863	1.000	470.569	100,0%
Velpro	34	109.198	23	49.762	5	8.278	28	58.040	
Total FMCG retail and wholesale	**1.056**	**550.758**	**764**	**396.468**	**264**	**132.141**	**1.028**	**528.609**	
Tisak	1.085	14.315	1.063	14.312			1.063	14.312	

[4] Including Mercator stores in Croatia and Bosnia and Herzegovina leased out and integrated in Konzum network and including Agrokor stores (Idea stores) leased out and integrated in Mercator Serbia.

Mercator (Unrestricted Subsidiary)

FY 2014 Ended (December 31, 2014)	Start of Period *(December 31st, 2013)*		Slovenia	Serbia	Croatia	B&H	Montenegro	Macedonia and Albania	Period end	
ACTIVITY	**Number of stores**	**Sales Area (m2)**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Sales Area (m2)**
Hypermarkets	61	187.441	22	43	1		2		68	192.746
Supermarkets	244	173.006	62	43	5		10		120	108.323
Neighbour stores	576	119.942	390	234	15		76		715	182.421
Comfort stores	4	5.070	1	1	1				3	4.237
Mini stores	1	83	5	1					6	471
TOTAL FMCG retail	**886**	**485.543**	**480**	**322**	**22**	**0**	**88**	**0**	**912**	**488.197**
Cash & Carry / VELPRO	37	82.731	13	15	10		1		39	103.035
Restaurants	30	6.059	8	11		2			21	2.906
TOTAL FMCG program	**953**	**574.332**	**501**	**348**	**32**	**2**	**89**	**0**	**972**	**594.138**
Technical consumer goods	**80**	**70.244**	**50**	**14**			1		**65**	**56.725**
Clothing program and drugstores	**125**	**50.968**	**52**	**13**	**35**	**12**			**112**	**47.306**
Clothing program	105	48.888	43	7	35	8			93	45.258
Drugstores and perfumeries	20	2.080	9	6		4			19	2.048
Intersport	**84**	**40.225**	**34**	**11**	**28**	**9**	**2**		**84**	**40.222**
M holidays	**13**	**242**	**12**						**12**	**242**
Other	**0**	**0**	**3**						**3**	**335**
TOTAL specialised programs	**222**	**91.434**	**151**	**38**	**63**	**21**	**3**	**0**	**276**	**144.830**
TOTAL retail units under management	**1.255**	**736.011**	**652**	**386**	**95**	**23**	**92**	**0**	**1.248**	**738.969**
Franchise stores	**351**	**41.820**	**227**	**83**	**1**			**4**	**315**	**42.900**
TOTAL	**1.606**	**777.831**	**879**	**469**	**96**	**23**	**92**	**4**	**1.563**	**781.868**

Food Manufacturing and Distribution

Food Manufacturing and Distribution division recorded a decline of unconsolidated sales of 1.9 per cent, from HRK 11,312.7 million to HRK 11,094.2 million. EBITDA decreased by 20.8 per cent, from HRK 1,797.8 million to HRK 1,423.8 million with EBITDA margin also decreasing by 306 bps from 15.9 per cent to 12.8 per cent. The decrease of sales was driven by adverse weather conditions, including severe flooding in Croatia in May which impacted our Meat and Agriculture division. The greater number of rainy days also negatively impacted sales of our Ice Cream and Frozen Food and Water and Beverages divisions. In addition, sales in our Edible Oils and Margarines division were negatively impacted by an overall decrease of commodity prices on the markets and due to an increase in private label competitors who were able to enter the market following Croatia's accession to the EU in July 2013.

Recent Macroeconomic Developments

Croatia

According to the Croatian Bureau of Statistics, real GDP in 2014 decreased by 0.4 per cent year on year and the unemployment rate was on average 17.3 per cent in 2014. The labor market continues to remain challenging as a result of the enduring recession and the limited adjustment capacity of the economy. On an average annual basis, retail trade increased 1.1 per cent year on year in 2014. According to the cumulative data, the number of the tourist arrivals and overnight stays rose by 5.2 per cent and 2.6 per cent year on year in 2014, respectively. The European Commission estimates the annual inflation rate in 2014 in Croatia was negative 0.1 per cent.

Slovenia

The European Commission estimates that economic conditions in Slovenia improved in the year ended December 31, 2014 as compared to the previous year with GDP increasing by 2.6 per cent and the unemployment rate decreasing (it peaked at 10.3 per cent in February 2014 but decreased to 9.6 per cent in November 2014). The European Commission also reported a slight increase in private sector salaries as compared to the prior year. In 2014, Slovenian household consumption increased for the first time since 2010 (estimated growth of 0.6 per cent from the prior year). According to the Statistical office of the Republic of Slovenia the inflation rate in 2014 averaged 0.2 per cent, which was an all-time low.

Serbia

According to estimates by the Statistical office of the Republic of Serbia, real GDP growth in Serbia decreased by 1.8 per cent in the year ended December 31, 2014 as compared to the previous year. The European Commission estimates that the inflation rate was 2.2 per cent. At the end of 2014, unemployment remained high at 19.6 per cent, however showing a slight improvement from the precedent year, as at the end of the year 2013 the unemployment rate was 22.1 per cent. Data from the European Commission indicates that trends in household consumption and public spending remain negative, with the former decreasing 1.3 per cent in 2014 and the latter decreasing 1.0 per cent, in each case as compared with the prior year.

Bosnia and Herzegovina

The economy suffered as a result of the major flooding that occurred in May 2014 that are estimated to have caused losses equivalent to approximately 15 per cent of GDP according to the World Bank. Nonetheless, the Agency for Statistics of Bosnia and Herzegovina estimated that the GDP in Bosnia and Herzegovina grew by 1.3 per cent in the year ended December 31, 2014 as compared to the prior year. The inflation rate in 2014 was recorded at 1.5 per cent while the unemployment rate remained extremely high at 27.5 per cent. Due to this and other factors, it is estimated that household consumption decreased in 2014 compared to the prior year.

Montenegro

According to the European Commission estimates, real economic growth in Montenegro is estimated at 1.4 per cent in the year ended December 31, 2014. Unemployment remained high in 2014 at 19.2 per cent but is gradually decreasing, according to data from previous years and European Commission forecasts. The Central Bank of Montenegro estimates that the annual change in inflation rate at September 2014 was negative 0.7 per cent. Public consumption increased in 2014 by 1.4 per cent as compared to the prior year.

Certain Factors Affecting Our Financial Condition and Results of Operations

Our results of operations for the periods under review have been primarily affected by:

Macroeconomic factors

Macroeconomic conditions in the countries in which we operate may have a significant effect on our results of operations. The food industry is generally impacted less by economic downturns than other industries that rely on a greater amount of discretionary spending. However, in periods of recession, when the GDP declines in any or all of the markets in which we operate, customers may reduce their consumption of certain products, reducing our sales volumes or switch from premium brands to lower cost brands and private label products, which may reduce the average prices we can achieve. In such an economic environment, we may also need to reduce our prices (including through price based promotions) in response to increased competition.

Raw material prices

Our key raw materials include wheat and corn (for animal feed), beef, pork and other meats (for our fresh and processed meat industry), milk and butter (for the production of ice cream and cheese), sunflower and other oil seeds (for the production of margarine and vegetable oils), as well as plastic bottle pre-forms and other packaging materials.

The Food Manufacturing and Distribution division is affected by the prices of the raw materials used. The Retailing and Wholesale division is also affected by the prices of raw materials as it affects the costs of goods sold.

Our strategy is to source the majority of our requirements for key raw materials (except for packaging material) internally through production and contract farming and to obtain the rest through the commodity markets.

New store openings

In the Retailing and Wholesale division, we have expanded our market coverage by opening new stores in the countries in which we operate. While new store openings increase our sales, we incur high fixed costs during the construction and/or refurbishment period at a time when the store is generating no sales. In addition, following a store opening, there is a period of up to three years, depending on the store format, during which sales have not reached their maturity potential.

Exchange rate fluctuations

We are subject to currency transaction risks when our sales and costs are denominated in different currencies. For example, our sales have principally been denominated in Kuna, our currency of account, whereas our debt and operating expenses have been denominated both in Kuna and in a number of foreign currencies, principally Euro, in which a greater proportion of our indebtedness is denominated. We attempt to manage this currency transaction risk principally by matching sales and costs in the same currency. However, our ability to match our euro denominated costs; particularly financing costs, in this manner is limited.

In addition, we are subject to currency translation risk in that the results of each of our subsidiaries are reported in the operating currency of the jurisdiction in which it primarily operates. These amounts, if not reported in Croatian Kuna, are then translated into Kuna for inclusion in our consolidated financial statements. Accordingly, changes in foreign exchange rates may impact the contribution of our non-Croatian subsidiaries to our financial results in a manner different to the changes in the results of those subsidiaries in their local currencies. The principal currencies of account of our subsidiaries include Kuna, Euro, Convertible Marks (which are pegged to the Euro), Serbian Dinars and Forint.

Other factors

Other factors that affected our results of operations for the period under review include among others:

Economies of scale achieved in past years - As our business has grown, we have achieved certain economies of scale as a result of our increased size. Our greater purchasing power allows us to negotiate more favorable prices with suppliers. In addition, as we are filling out our geographic footprint in the region, we are achieving increasing economies of scale in terms of transportation, distribution and sales and marketing.

Product range expansion - We have also sought to expand the range of products that we offer. For example, in Retailing and Wholesale, we have extended our private labels portfolio both in terms of number of SKU's as well as in terms of private label categories in order to capture the segment of price sensitive consumers and to meet changing customer's preferences driven to a large extent by decreasing purchasing power.

Seasonality - Sales from certain of our products and brokerage activities, including ice cream, mineral water and agricultural products are seasonal, resulting in uneven cash flows and working capital requirements, as well as the need to adjust production in anticipation of fluctuating demand. In addition, certain products and brokerage activities, such as ice cream, mineral water and agricultural products, are also dependent on weather conditions. As a result, our sales do not occur evenly throughout the year. In addition, to a certain extent, some of our businesses, like ice cream and mineral water, are dependent on the success of the touristic season, which has a seasonal character and whose success directly impacts our profitability.

Results of Operations

Profit and Loss Account

The following table presents our results of operations for the periods ended December 31st, 2014 and December 31st, 2013;

	Agrokor Group			
	For the Year Ended December 31,			
	2013	**% of Total sales**	**2014**	**% of Total sales**
	(HRK thousands)			
Income Statement Data:				
Continuing Operations:				
Sales revenue	29,593,170	98.2	34,042,326	97.4
Sales of services	551,583	1.8	926,733	2.7
Total sales	30,144,753	100.0	34,969,059	100.0
Other income	347,779	1.2	352,068	1.0
Change in inventories of finished goods and works in progress	89,604	0.3	76,718	0.2
Cost of materials and goods sold	(21,266,553)	(70.6)	(24,762,193)	(70.8)
Cost of services	(2,369,986)	(7.9)	(2,928,004)	(8.4)
Staff costs	(2,696,341)	(8.9)	(3,286,319)	(9.4)
Depreciation and amortization	(988,234)	(3.3)	(1,168,342)	(3.3)
Other costs	(1,209,649)	(4.0)	(1,563,562)	(4.5)
Operating Profit	**2,064,758**	**6.9**	**1,996,233**	**5.7**
Excess of fair value of net assets over the cost of acquisition net of written-off goodwill	(18,772)	(0.1)	411,767	1.2
Sale of properties, net	(7,480)	—	(79,114)	(0.2)
Financial income	287,153	1.0	576,980	1.7
Financial expense	(2,040,664)	(6.8)	(2,502,361)	(7.2)
Share of gain/loss of associates	(2,445)	—	(7,189)	—
Profit before tax from continuing operations	**269,164**	**0.9**	**89,508**	**0.3**
Taxation	(234,173)	(0.8)	(225,196)	(0.6)
Profit for the year from continuing operations	**34,991**	**0.1**	**(135,688)**	**(0.4)**
Profit/(loss) after tax for the year from discontinued operations	—	—	(89,859)	(0.3)
Attributable to				
Equity holders of the parent	(142,004)	(0.5)	(243,010)	(0.6)
Minority interest	176,995	0.6	17,463	0.1

Segmental Analysis

The table below provides information on results of our business segments for the periods ended on December 31st, 2014 and December 31st, 2013:

Business operating segments

	Agrokor Group					
	Agrokor Holding	**Food Manufacturing and Distribution**	**Retailing and Wholesale**	**Other Businesses**	**Intersegment Sales**	**Consolidated**
	(HRK thousands, except percentages)					
2014						
Sales to external customers	69,126	5,897,078	27,588,825	1,414,030	—	—
Intersegment sales	312,015	5,197,169	1,583,015	1,128,517	(8,220,716)	—
Total sales	**381,141**	**11,094,247**	**29,171,840**	**2,542,547**	**(8,220,716)**	**34,969,059**
Operating profit	(135,790)	989,423	932,216	210,384	**—**	1,996,233
Operating profit margin (%)	(35.6)	8.9	3.2	8.3	—	5.7
Depreciation and amortization	7,825	434,356	703,758	22,403	—	1,168,342
Agrokor Group Adjusted EBITDA(1)	(127,965)	1,432,779	1,635,974	232,787	—	3,164,575
2013						
Sales to external customers	98,826	6,194,168	22,854,857	996,901	—	—
Intersegment sales	343,381	5,118,482	1,091,448	1,063,001	(7,616,312)	—
Total sales	**442,207**	**11,312,650**	**23,946,305**	**2,059,902**	**(7,616,312)**	**30,144,752**
Operating profit	**(140,169)**	**1,356,738**	**784,792**	**63,397**	**—**	**2,064,758**
Operating profit margin (%)	(31.7)	12.0	3.3	3.1	—	6.8
Depreciation and amortization(2)	7,688	441,088	518,524	20,934	—	988,234
Agrokor Group Adjusted EBITDA(1)	(132,481)	1,797,826	1,303,316	84,331	—	3,052,992

(1) Agrokor Group Adjusted EBITDA represents net (loss) / profit for the year adjusted to exclude the effects of, as relevant, taxation, finance expense, finance income, depreciation, amortization, excess of fair value of net assets over the cost of acquisition net of written-off goodwill, share of gain/loss of associates, impairment of financial assets, sale of subsidiaries, and sale of properties, net for the Agrokor Group, which includes Mercator as of September 30, 2014. Agrokor Group Adjusted EBITDA and other non-GAAP measures should not be considered in isolation or construed as a substitute for GAAP measures in accordance with IFRS.
(2) For 2013, depreciation and amortization is reported under "Other expenses" in our consolidated income statement. It is shown separately here solely for purposes of calculating Agrokor Group Adjusted EBITDA.

Comparison of the Periods Ended December 31st, 2014 and December 31st, 2013

Sales revenue

Sales revenue increased by HRK 4,449.2 million, or 15.0 per cent, from HRK 29,593.2 million in the year ended December 31st, 2013 to HRK 34,042.2 million in the year ended December 31st, 2014. The increase in sales revenue was primarily the result of our continued focus on increasing our market share in the region, including via the acquisition of Mercator, whose results were consolidated with the Agrokor Group from September 30th, 2014. The increase was also due to our continued emphasis in both our divisions on product line extension and innovation, portfolio management, effective pricing strategy and strong marketing of our products, offset by a weaker tourism season and challenging macroeconomic conditions in our Primary Markets. As a percentage of total sales, sales revenue decreased from 98.2 per cent to 97.4 per cent.

Sales of services

Sales of services increased by HRK 375.2 million, or 68.0 per cent, from HRK 551.6 million in the year ended December 31st, 2013 to HRK 926.7 million in the year ended December 31st, 2014. The increase in sales of services was primarily the result of the Mercator acquisition. As a percentage of total sales, sales of services increased from 1.8 per cent to 2.7 per cent.

Total sales

Sales increased by HRK 4,824.3 million, or 16.0 per cent, from HRK 30,144.8 million in the year ended December 31st, 2013 to HRK 34,969.1 million in the year ended December 31st, 2014. This increase was primarily driven by the increase in sales revenue due to the Mercator acquisition.

Other income

The table below illustrates the components of other income during the periods shown:

	Agrokor Group	
	Year Ended December 31,	
Other income	**2013**	**2014**
	(HRK millions)	
Gain on sale of securities	132.2	91.6
Government grants	120.7	120.9
Reversal of provisions	31.7	67.0
Collected receivables written off	14.0	21.5
Other revenues	14.1	7.4
Inventory surplus	35.2	43.6
Total	**347.8**	**352.1**

Other income increased by HRK 4.3 million, or 1.2 per cent, from HRK 347.8 million in the year ended December 31st, 2013 to HRK 352.1 million in the year ended December 31st, 2014. The increase was principally driven by the increase in reversal of provisions for litigation and collected receivables written off, offset by a decrease in other revenues. As a percentage of total sales, other income decreased from 1.2 per cent to 1.0 per cent.

Change in inventories of finished goods and works in progress

Change in inventories of unfinished and finished goods decreased by HRK 12.9 million, or 14.4 per cent, from HRK 89.6 million in the year ended December 31st, 2013 to HRK 76.7 million in the year ended December 31st, 2014 principally due to changes in the composition of inventories of finished goods and works in progress.

Cost of materials and goods sold

Cost of materials and goods sold increased by HRK 3,495.6 million or 16.4 per cent from HRK 21,266.6 million in the year ended December 31st, 2013 to HRK 24,762.2 million in the year ended December 31st, 2014. As a percentage of total sales, cost of materials and goods sold increased from 70.5 per cent in 2013 to 70.8 per cent in 2014. These increases are in line with the expansion of the Group’s scale of business and increase in sales volume, which were primarily driven by the consolidation of Mercator.

Cost of services

Cost of services increased by HRK 558.0 million, or 23.5 per cent, from HRK 2,370.0 million in the year ended December 31st, 2013 to HRK 2,928.0 million in the year ended December 31st, 2014. The increase is predominantly the result of the Mercator acquisition and increased scale of operations. As a percentage of total sales, cost of services increased from 7.9 per cent to 8.4 per cent.

Staff costs

Staff costs increased by HRK 590.0 million, or 21.9 per cent, from HRK 2,696.3 million in the year ended December 31st, 2013 to HRK 3,286.3 million in the year ended December 31st, 2014. The increase is predominantly the result of the Mercator acquisition. As a percentage of total sales, staff costs increased from 8.9 per cent to 9.4 per cent.

The table below illustrates the components of staff costs during the periods shown:

	Agrokor Group	
	Year Ended December 31,	
Staff costs	**2013**	**2014**
	(HRK millions)	
Wages and salaries	1,654.5	2,030.4
Taxes, social insurance and pension costs	1,041.8	1,255.9
Total	**2,696.3**	**3,268.3**

Depreciation and Amortization

Depreciation and amortization increased by HRK 180.1 million, or 18.2%, from HRK 988.2 million in the year ended December 31st, 2013 to HRK 1,168.3 million in the year ended December 31st, 2014. The increase is predominantly the result of capital expenditures undertaken throughout 2014, including capital expenditures relating to the acquisition and integration of Mercator, which was the primary driver. As a percentage of total sales, depreciation and amortization increased from 3.2 per cent to 3.3 per cent.

Other costs

The table below illustrates the components of other costs during the periods shown:

	Agrokor Group	
	Year Ended December 31,	
Other costs	**2013**	**2014**
	(HRK millions)	
Bank charges	128.6	134.1
Other material rights of employees	305.2	317.8
Costs of early bond redemption	—	275.2
Contributions, membership fees and other charges	119.4	137.1
Value adjustments of assets	88.8	101.7
Insurance costs	86.3	84.5
Entertainment costs	44.3	44.4
Travel expenses	38.7	37.2
Lawyer, auditor and tax advisory charges	79.8	34.2
Shortages	39.7	44.7
Sponsorships, helps and donations	16.5	17.3
Provisions	11.9	24.7
Mandatory litigation expenses	—	23.8
Supervisory board members compensation	11.3	8.2
Impairment of financial assets	13.4	7.8
Other expenses	225.6	271.0
Total	**1,209.6**	**1,563.6**

Other costs increased by HRK 353.9 million, or 29.3 per cent, from HRK 1,209.6 million in the year ended December 31st, 2013 to HRK 1,563.6 million in the year ended December 31st, 2014, primarily due to the costs of early bond redemption.

Operating profit

Operating profit decreased by HRK 68.6 million, or 3.4 per cent, from HRK 2,064.8 million in the year ended December 31st, 2013 to HRK 1,996.2 million in the year ended December 31st, 2014. Operating profit margin decreased from 6.5 per cent in 2013 to 5.8 per cent in 2014. This decrease in operating profit margin is predominantly the result of the acquisition of Mercator, whose operating profit is lower than the rest of the Agrokor Group, and the drop in profitability of our Food Manufacturing and Distribution division.

Sale of properties, net

Net sale of properties increased by HRK 71.6 million, from a loss of HRK 7.5 million in the year ended December 31, 2013 to a loss of HRK 79.1 million in the year ended December 31, 2014 principally due to the sale of non-core assets.

Financial income

Financial income increased by HRK 289.8 million, or 100.9 per cent, from HRK 287.2 million in the year ended December 31st, 2013 to HRK 577.0 million in the year ended December 31st, 2014 principally due to HRK 227.4 million in financial income from currency swaps that we engaged in as a means of hedging part of our exposure under our U.S. dollar-denominated 2020 Notes.

Financial expense

Financial expense increased by HRK 461.7 million, or 22.6 per cent, from HRK 2,040.7 million in the year ended December 31st, 2013 to HRK 2,502.4 million in the year ended December 31st, 2014. The increase was principally due to the Mercator acquisition and overall increase of indebtedness as a result thereof. As a percentage of sales, financial expense increased from 6.7 per cent of total consolidated sales in 2013 to 7.1 per cent in 2014.

Income before taxation

As a result of the foregoing items, income before taxation decreased by HRK 179.7 million, or 66.8 per cent, from HRK 269.2 million in the year ended December 31st, 2013 to HRK 89.5 million in the year ended December 31st, 2014.

Taxation

Taxation decreased by HRK 9.0 million, or 3.8 per cent, from HRK 234.2 million in the year ended December 31st, 2013 to HRK 225.2 million in the year ended December 31st, 2014. Our effective tax rate was 251.6 per cent for the year ended December 31st, 2014 compared to 87.0 per cent in the corresponding period of 2013.

Corporate taxation is based on the accounting profit for the year adjusted for permanent and temporary differences between taxable and accounting income.

Net profit

Due to the factors discussed above, net profit decreased by HRK 170.7 million, from HRK 35.0 million in the year ended December 31st, 2013 to a loss of HRK 135.7 million in the year ended December 31st, 2014. Net loss attributable to our equity holders decreased by HRK 101.5 million from a loss of HRK 142.0 million to a loss of HRK 243.5 million and the non-controlling interest decreased by HRK 159.5 million, or 90.1 per cent, from HRK 177.0 million to HRK 17.5 million.

Agrokor Group Adjusted EBITDA

Agrokor Group Adjusted EBITDA increased by HRK 111.6 million, or 36.5 per cent from HRK 3,053.0 million in the year ended December 31st, 2013 to HRK 3,164.6 million in the year ended December 31st, 2014. This increase was primarily a result of the Mercator acquisition.

Liquidity and Capital Resources

The main sources of our liquidity continued to be cash and cash equivalents generated in the regular course of business and financial arrangements with banks and financial institutions. Cash and cash equivalents as at December 31th, 2014, amounted to HRK 2,681.3 million compared to HRK 1,286.3 million as at December 31st, 2013.

In the year ended December 31st, 2014, the investments in our Retailing and Wholesale division included investments in the refurbishment of retail stores that were acquired as part of the Mercator acquisition and other expenditures relating to integration of Mercator, including the integration of Mercator's warehouses and equipment, administration, IT system and distribution network. In the year ended December 31st, 2014, in the Food Manufacturing and Distribution division we continued to invest in the development of renewable energy through the construction of biogas plants in Ovčara and Popovac and the increase in the capacity of our biogas plant in Gradec. We also invested in reconstruction and increase of production capacity in our dairy farms in Mitrovac, the increase of production capacity at our farm in Prosine and continued investment in irrigation systems and the mandatory renewal of permanent orchards.

Net cash generated from financial activities reflects changes in credit lines that were available to the Group. Debt as of December 31st 2014 totals HRK 23,688.2 million (on December 31st, 2013 it amounted to HRK 13,449.4 million) and interest rates were in the range of 3.5 per cent to 10.5 per cent.

The table below presents a summary of our cash flows for the period ended December 31st, 2014 and December 31st, 2013:

Cash flows	**31.12.2013**	**31.12.2014**
	(HRK million)	
Net cash flows from operating activities before changes in working capital	**3,009.7**	**2,842.5**
Interest paid	(1,655.2)	(1,913.7)
Changes in working capital	349.4	271.7
Net cash provided by/(used in) operating activities	**1,319.0**	**1,280.0**
Capex	(1,135.4)	(1,463.5)
Acquisitions of subsidiaries, net of cash acquired	(513.9)	(1,912.9)
Net cash used in investing activities	**(2,586.5)**	**(11,534.0)**
Net cash from financing activities	**1,565.3**	**11,649.0**
Net increase/(decrease) in cash and cash equivalents	**297.9**	**1,395.0**

Changes in working capital

At December 31st, 2014 changes in working capital were positive and amounted to HRK 271.7 million compared to the also positive contribution of HRK 349.4 million in the corresponding period last year. The main drivers were an increase in accounts payables that more than offset increases in inventories and receivables.

Capital expenditure

Capital expenditures increased by HRK 328.0 million, or 28.9 per cent, from HRK 1,135.4 million to HRK 1,463.5 million. Main driver of this increase was Mercator acquisition.

Indebtedness

The following table summarizes our indebtedness at December 31st, 2013 and December 31st, 2014:

BORROWINGS

		(in thousands of HRK)
Long-term borrowings	**2014**	**2013**
Bank loans	13,487,028	1,410,722
Bonds	6,603,515	10,507,991
Non-bank loans	34	64
Finance leases	1,350,555	4,164
Total long-term borrowings	**21,441,132**	**11,922,941**
Current portion of long-term borrowings		
Bank loans	(481,048)	(131,342)
Non-bank loans	(34)	(64)
Finance leases	(132,341)	(2,164)
Total current portion of long-term borrowings	**(613,423)**	**(133,570)**
Long-term debt	**20,827,709**	**11,789,371**
Short-term borrowings		
Bank loans	2,217,660	1,515,367
Non-bank loans	29,367	11,075
Total short-term borrowings	**2,247,027**	**1,526,442**
TOTAL BORROWINGS	**23,688,159**	**13,449,383**

The table below summarizes the maturity profile of our long-term borrowings at December 31st, 2014:

Maturity Long Term Debt (HRK million)	Total
2016	2,092.2
2017	2,287.9
2018	815.2
2019	3,443.7
2020	5,844.7
2021 and later	5,125.8
Total	**19,609.5**