Business plan of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2014

Ljubljana, December 2013

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SUMMARY

In 2014, Mercator will continue to pursue successful cost-cutting and marketing measures that are expected to improve the satisfaction of our customers and our cost efficiency.

In Slovenia, economic growth in 2014 is expected to remain negative, while it will be slightly better in foreign markets

According to the European Commission forecasts, the European Union's economy will see positive economic growth in the coming two years, also as a result of higher domestic demand. Moreover, a decrease in the unemployment rate is anticipated for 2015. Positive economic growth is also forecast for foreign markets of Mercator's operations. In Serbia and Montenegro, the unemployment rate is forecast to decrease and private consumption is expected to increase. In Bosnia and Herzegovina, the unemployment rate will remain high and it is not expected to decrease considerably. The forecast for Croatia in 2014 is minimal economic growth, while a slight increase of private consumption is only expected in 2015. According to the forecast for Slovenia, the number of employees will increase and economic growth will be negative in 2014. Positive economic growth is only expected in 2015.

Mercator's revenue in 2014 will reach the amount of EUR 2.7 billion

Considering the fact that we will remain focused on providing the profitability of our operations in 2014, it is our estimate for 2014 that our revenue will reach EUR 2,672 million, which is lower than the 2013 end-of-year estimate. The decrease in revenue will mostly result from closing down of non-profitable units, exit from non-strategic markets, and persistently harsh economic conditions. The drop of revenue at the Group level will amount to 3.5% with sales decreasing by 3.6% in Slovenia and by 3.2% in most foreign markets except for Montenegro where minimal growth is expected.

We will consistently implement our cost-control and marketing measures

We shall focus on long-term projects aimed especially at cutting the costs and on improving the customer perception of Mercator. We will work to create value for our customers through activities to provide well-priced offer, the Pika card customer loyalty system, domestic and local offer, proximity to our customers, and fresh and high-quality offer. We shall carry on the development of convenient store formats and upgrade the online shopping operations. With regard to cost-cutting measures, we shall work to cut the energy and logistics costs and continue to divest non-core assets and close down non-profitable retail units.

Mercator will end the year with a positive result

Activities and measures laid down for 2014 will bring positive results. Result from operating activities for the year 2014 is planned at EUR 34.9 million. Moreover, Mercator Group's net income in 2014 will amount to EUR 339 thousand, a considerable improvement over 2013.

Close to EUR 60 million allocated for investment in 2014

In 2014, Mercator Group will allocate EUR 58.9 million for investments, the majority of which will be intended for refurbishments of the existing retail units. We shall acquire over 30 thousand square meters of new area, almost exclusively through operating lease. We shall carry on our activities of divesting non-core assets, from which we expect proceeds of EUR 30 million.

Successful financial restructuring will improve the structure of financial liabilities by maturity

Financial management in 2014 will be positively affected by the successful financial restructuring which shall considerably decrease our liquidity risk and refinancing risk which has been particularly high in the last year. The goal of financial restructuring is to adjust the dynamics of debt repayment to the actual free cash flow, to adjust the interest rate, and to drastically improve the structure of financial liabilities in terms of maturity.

INTRODUCTION

MERCATOR GROUP PROFILE

Company Profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. Several changes in the Group composition will take place in 2014: hence, Mercator will be present with five (5) companies in Slovenia, and nine (9) subsidiaries will be operating in other Southeastern European markets by the end of 2014. Poslovni sistem Mercator, d.d., headquartered in Slovenia, is the parent company of the Group.

Poslovni sistem Mercator, d.d.

Telephone	+3861 560 10 00
E-address	info@mercator.si
Website	www.mercator.si
Headquarter	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT number	45884595
Company share capital as at September 30, 2013	EUR 157,128,514.53
Number of shares issued and paid-out as at September 30, 2013	3,765,361
Share listing	Ljubljana Stock Exchange, d.d., official market, prime market, symbol MELR

Mercator Group Composition

As at the end of 2014 following companies are going to be included in the Mercator Group:

MERCATOR GROUP

MERCATOR OPERATIONS SLOVENIA AND CROATIA

Poslovni sistem Mercator, d.d., Slovenia
Mercator - H, d.o.o., Croatia (99.9%)
Mercator IP, d.o.o., Slovenia (100.0%)
M - Energija, d.o.o., Slovenia (100.0%)

OTHER OPERATING ACTIVITIES

Intersport ISI, d.o.o., Slovenia (100.0%)
Mercator - Emba, d.d., Slovenia (100.0%)

MERCATOR REAL ESTATE

Investment Internacional, d.o.o.e.l., Macedonia (100.0%)*

MERCATOR OPERATIONS SOUTHEASTERN EUROPE

Mercator - S, d.o.o., Serbia (100.0%)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0%)
M - BL, d.o.o., Bosnia and Herzegovina (100.0%)
Mercator - CG, d.o.o., Montenegro (100.0%)
Mercator - B, e.o.o.d., Bulgaria (100.0%)
Mercator - A, sh.p.k., Albania (100.0%)
Mercator Makedonija, d.o.o.e.l., Macedonia (100.0%)*

* The company does not conduct business operations or is in the closing process.

Branch Offices
As at the end of 2014 Mercator Group companies are not going to have any branch offices.

Other Organizations
The company Poslovni sistem Mercator, d.d., is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees.

The company Mercator - S, d.o.o., is the founder of the Mercator Solidarity Foundation in Serbia, and Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro. The purpose of these two organizations is to provide solidarity aid to employees in social or economic distress.

MERCATOR GROUP BUSINESS STRATEGY

Vision

Mercator will be the largest, the most successful and the most efficient retailer in the region.

Mission

- A satisfied customer recognizes us as the best retailer that offers everything the competitors can offer, at better terms, and much more.
- Employees with **smiles on their faces and sparkles in their eyes** are our key competitive advantage. They will be able to develop their potential in a stable environment.
- We are striving towards a **stable equity structure** that will support the company development based on merit and results.
- Mercator is striving to win the **confidence of all stakeholders.**

Principles of corporate governance

Our work shall be:

Motivated

Elementarily simple

Rational

Common goal oriented

Ambitious

Thorough

Oriented on profitability and development

Rapturous

MERCATOR GROUP PLANNED PERFORMANCE HIGHLIGHTS IN 2014

	Plan 2014	Estimate 2013	Index Plan 2014/ Estimate 2013
Revenue (EUR thousand)	2,672,342	2,768,130	96.5
Results from operating activities (EUR thousand)	34,884	21,237	164.3
Profit before income tax (EUR thousand)	1,011	(24,505)	-
Profit for the financial period (EUR thousand)	339	(22,887)	-
EBITDA (EUR thousand)	113,565	103,603	109.6
EBITDAR (EUR thousand)	170,201	162,504	104.7
Capital expenditure (EUR thousand)	58,900	39,146	150.5
Return on sales	0.0%	(1.0%)	-
EBITDA / revenue	4.2%	4.4%	95.7
EBITDAR / revenue	6.4%	6.4%	99.3
Employee productivity	125.0	127.4	98.1

BUSINESS REPORT

EXPECTED ECONOMIC CONDITIONS AND COMPETITION IN THE MARKETS OF MERCATOR'S OPERATIONS IN 2014

Economic conditions in the markets of Mercator operations in 2014[1]

European Union

According to the European Commission's autumn forecast, the economy of the European Union will recover to a positive GDP growth. After a slow increase in economic activity by the end of 2013, owing to which the GDP will remain at the same figure in 2013 as it was in 2012 (the GDP will drop by 0.4% in the euro zone), growth in 2014 and 2015 is anticipated to be more robust and fuelled by an increase in domestic demand. Thus, growth of 1.4% is anticipated in 2014, and growth of 1.9% is expected in 2015 (in the euro zone: 1.1% in 2014 and 1.7% in 2015). The results of the crisis (divestment, scattered financing, higher uncertainty etc.) will continue to affect the growth; however, their effect is expected to fade, especially when progress is made with regard to fixing the piled-up macroeconomic imbalances and when domestic demand becomes the main generator of growth as anticipated. Foreign demand is forecast to increase as well, albeit slower than previously expected, because of a slowdown in the emerging markets and appreciation of the euro.

In the period from October 2012 to October 2013, consumer confidence index in the European Union and in the euro zone improved considerably and approached its long-standing average; however, it is forecast to decrease again in November 2013 and its development in the future is unclear. Unemployment is expected to remain approximately the same in 2014 in the European Union. In 2015, it is anticipated to start declining; however, major differences between particular countries will persist.

[1] Economic conditions are commented based on the following data sources: IMAD (Institute of Macroeconomic Analysis and Development); Bank of Slovenia; EBRD (European Bank of Reconstruction and Development); European Commission; UniCredit Bank; National Bank of Serbia; and statistical offices or bureaus of individual countries

Slovenia

In 2014, Slovenia will still lag behind the European Union average. According to the Institute of Macroeconomic Analysis and Development (IMAD), economic growth in 2013 will be negative at -2.4%; for 2014, it is expected to remain negative at -0.8%. Growth will only be recorded in 2015 when it is forecast at 0.4%, which is still considerably below the European Union average. The number of unemployed is expected to increase further in 2014, adding to the significant growth in 2013. Unemployment rate is thus forecast at 13.3% in 2013 (an increase of 1.3 percentage points relative to 2012, or approximately 10,400 employed persons more); it is expected at 13.6% in 2014 and at 13.5% at 2015. Moreover, gross salaries and domestic consumption, private and government, are expected to decrease. In the first half of 2013, the consumer confidence index kept up with the European trend and it kept increasing; however, this was followed by a turnaround and a sharp decline. Nevertheless, consumer confidence index in November 2013 was 2 percentage points above the figure for November 2012 and equal to the average for the year before. In any case, the value of this indicator and its long-standing average are lower than the indicator for the European Union and the euro zone.

Serbia

According to the European Commission forecasts, Serbian economy will grow in 2013 by 1.7%. The National Bank of Serbia is forecasting inflation rate of 3.5% for 2013. For 2014 a lower economic growth rate is anticipated, at 1.5%. Inflation is expected to be higher in 2014 than the 2013 estimate; it is forecast at 4.9%. In 2014, both private and public consumption are expected to drop, as they did in 2013. Only in 2015 is private consumption anticipated to pick up some steam and the decline of public consumption will stop and remain at the same level as in 2014. Unemployment rate will remain at the high level of 2013 (24%); in 2015, it is expected to start declining. In 2013, the average Serbian dinar exchange rate is forecast to amount to RSD 114.30 per 1 EUR; for 2014, depreciation of the Serbian dinar is anticipated, driving the exchange rate to RSD 117.80 per 1 EUR.

Croatia

Economic growth in Croatia in 2013 is estimated by European Comission at a negative -0.7%. According to the expectations for 2014, growth rate will be positive at 0.5%. Private consumption in 2013 and 2014 will continue to drop at a rate of 0.5%; in 2015, it is expected to increase by 0.5%. Inflation rate in 2013 is estimated to reach 2.6 percent; in 2014, inflation rate is expected to drop to 1.8 percent. Average annual exchange rate for Croatian kuna in 2013 is anticipated at HRK 7.60 per 1 EUR. For 2014 and 2015, the average kuna exchange rate is forecast at HRK 7.50 per 1 EUR.

Bosnia and Herzegovina

According to the EBRD 2013 estimates, the growth rate for the economy of Bosnia and Herzegovina in 2013 will amount to 0.1%; for 2014, it is expected to grow at a rate of 1.8%. Inflation rate is steadying and it is anticipated at around 2% in 2013 and 2014. The exchange rate of the convertible mark is pegged to the euro in the ratio of BAM 1.96 per 1 EUR. The main problem remains the very high unemployment rate at almost 45%, which is not expected to decrease considerably in the years ahead.

Montenegro

Increase in Montenegrin gross domestic product in 2013 is estimated at 1.9% according to the European Commission estimates; in 2014, economic growth is expected to increase further as GDP growth is anticipated at 2.3%. Inflation for 2013 is estimated at 2.0%; in 2014, it is expected to remain at a similar rate. Montenegrin official currency is the euro. Unemployment rate is expected to gradually decrease from just under 20% in 2013 to a level below 19% in 2015. Moreover, private consumption is expected to increase in 2014 and 2015, which is still estimated to be negative in 2013.

Changes in consumer behaviour and effect of the market situation on consumption

Despite the early signs of recovery in the euro zone in 2014, an improvement of economic conditions is not expected yet for Slovenia. In other markets of Mercator's operations, the circumstances are expected to gradually start improving, as indicated by the forecasts of higher economic growth. The trend of decline in private consumption will continue and unemployment remains high. Consumers in all markets still believe we are in a recession (over 90%) and they do not expect improvement in the coming year (over 70%)[2]. They are the most concerned about the security of their employment. All this has a negative effect on their consumption.

In **Slovenia**, rationalization of consumption will continue. The consumers will continue to adapt to the crisis by spending less and more rationally, and by saving. According to a study by the Statistical Office of the Republic of Slovenia, the consumer confidence indicator in November 2013 is low. Consumers have pessimistic expectations for 2014 regarding their personal finance, general economic situation in Slovenia, and the unemployment rate. They are, however, more optimistic about the possibilities to save in the next year. Unemployment rate in Slovenia is expected to increase in 2014, according to the IMAD estimates.

In **foreign markets**, consumption will also shrink. Consumers will shop more rationally, which will also be evident in a preference for cheaper brands and labels. In the markets of Serbia, Bosnia and Herzegovina, and Montenegro, the GDP is forecast to increase; however, unemployment rate will remain high as it is in 2013. Further decline in private consumption is expected in Croatia and Serbia; in Montenegro, it is expected to increase.

2 Nielsen: Consumer Confidence Index, Q3 2013, Serbia, Slovenia, Croatia

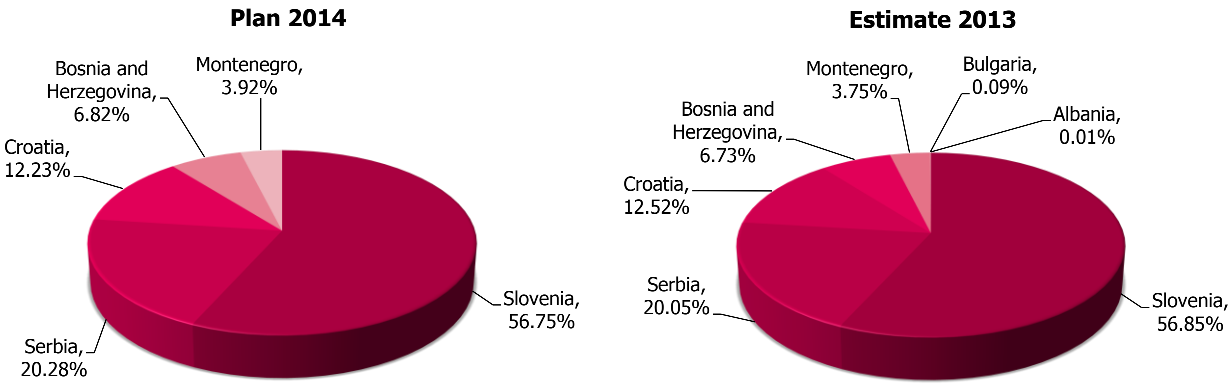
SALES AND MARKETING

Sales

According to the 2013 end-of-year estimate, Mercator Group will generate revenue of EUR 2,768,130 thousand in the year. For 2014, revenue is planned at EUR 2,672,342 thousand. Considering the 2013 estimate, Mercator Group revenue will decrease in 2014 by 3.5%. Revenue will drop in all markets except for Montenegro where minimal growth is expected.

Lower income will be a result of the withdrawal from the markets of Albania and Bulgaria, closing down of non-profitable or units, and persistently harsh conditions.

Mercator Group revenues by geographical segments:



Marketing

Our marketing activities in the coming year will be focused on the priorities for respective markets, and the dynamics of activities for respective categories, as well as primary target customer segments. In defining our projects, we shall pursue the goal of creating value for the customers in the following fields:

1. Pricing benefits for the consumers

In fast-moving consumer goods retail we are continuously monitor the consumer trends and adapt to the needs and demand of our customers. Convenience, rationality, and quality are important factors affecting the consumers' choices. Hence, **focus on the consumer and providing well-priced shopping remains the main orientation** in all markets of our operations. Key target tasks will be geared towards **improving Mercator's pricing perception** and **making the offer more appealing** in order to retain the existing customers and to attract new ones.

We prepare regular and seasonal special offers and campaigns, and various short-term activities that involve well-priced offer. We are focused on the actual needs of our customers. We adapt our offer to their demand and we have been introducing even more Slovenian offer in our fresh produce.

By continuously adapting the marketing mix and with powerful campaigns, Mercator is making sure that our basket of products represents the best value for our customers, both in terms of price and quality.

In addition to favourable price, today's consumer expects freshness and breadth of the offer, attractive promotion, high quality of a wide range of products, attractive shopping environment, and quality service.

2. Pika card customer loyalty program

Focusing on the consumer, we shall carry on the development of the **advantages of the Pika customer loyalty system**. Now, the customers can win and use their loyalty points for almost entire offer; they are also offered Special Pika discounts for select products; in addition, the card allows a deferral of the payment and payment in up to 24 instalments at a zero interest rate. For the segment of customers keen on shopping in the web store, we will continue to allow the functionality of online payment for alimentary products and technical consumer goods using the Pika card.

The Pika card brings a number of benefits for the customers in the Mercator sales network and at partner outlets. To make it even more appealing, we will continue to expand the network of partners in the future. Value added of the Pika card is enhanced with new partner tools that offer appealing complementary offer exclusively for us and for our target segments.

Future projects in the Pika card system will be focused on the development and implementation of new functionality for the users and on delivering an offer that is well-adapted to our consumers.

3. Domestic, local offer; proximity to the consumer

The offer of homemade Slovenian produce and products is increasingly important. We are committed to preserving the environment, nurturing tradition, and allow smaller growers to offer their products in our stores via direct delivery. Our most important guiding principle, however, is to satisfy the needs and demand of our customers. Thus, we added tradition and integration into the regional environment to increasing demand of our customers for seasonal home made products by launching the project "Iz domačih krajev" (Locally Grown). We have also introduced stands in the fruit and vegetable department; furthermore, stands were also introduced in the departments of bread, fresh meat, wine, milk and dairy products, and deli meats with certified origin.

The trend of choice of convenient store formats and products remains strong. In order to adapt to the changes in the shopping behaviour, we are intensively expanding our offer of convenient products. In busy retail units, we are implementing the so-called »**grab&go« modules** which provide offer of products ready for immediate consumption in one place.

At the **supermarket and hypermarket** format, intensive activities are under way to expand the area allocated to special offers and the area allocated to highlighted seasonal products.

Neighbourhood stores are particularly important for the consumers and their daily shopping as they provide proximity and convenience, and faster shopping. Therefore, particular attention is paid to the neighbourhood stores as they are refurbished to expand the offer of the daily-fresh program, to expand **the offer of ready-made food for immediate consumption** or **food that only needs reheating**, to expand the offer of **pre-packed fresh products**, to include additional services (fast Tik-Tak check-outs) and to integrate them into the local environment (cooperation with the local environment, communication with the customers, encouraging proposals etc.).

To date, Mercator retains the position of the only Slovenian traditional retailer that also offers FMCG through a web store. This channel has been further developed by the introduction of the new Click&Collect service. Following the model of international European retailers, our web store combines web ordering and collection of the order at the select store. The service is intended for highly mobile consumers who prefer web shopping and who find it more convenient to pick up their orders on their way home from work or when running errands, than waiting for the order to be delivered to their homes.

4. Fresh and high-quality offer

Mercator is successfully building its distinction and recognition with its **private label** products as these are only available in Mercator's retail network. Moreover, we are offering quality products by renowned manufacturers, at lower prices. Mercator private label lines offer a variety of products for all occasions, at all price segments. **Mercator was the first Slovenian retailer to offer its consumers private label lines** which were gradually expanded to other markets of Mercator's operations. Introduction of private labels allows Mercator some control over the supply chain and targeted management in such way that allows offering the customers the best quality products at reasonable prices. The share of sale of private label products has been continuously rising.

INVESTMENT AND RETAIL NETWORK DEVELOPMENT

In 2014, Mercator Group will continue to pursue the real property management strategy adopted in 2013, subject to the conditions prevalent in the domestic and international financial markets. In investment, we will continue to favour leasing real property and refurbishing our existing stores. In Slovenia, refurbishments will be focused on neighbourhood stores, while major investment projects include the update of the shopping centers in Sarajevo and in Kragujevac.

We have set two goals also for 2014: to divest as much non-core assets as possible and to expand our network in areas with the highest return on investment.

In 2014, the activities to update Mercator's shopping centers and to plan the layout and update of smaller neighbourhood stores will continue.

Investment and Divestment

In 2014, Mercator Group CAPEX will amount to EUR 58.9 million. Of this amount, 49.96% will be invested in Slovenia, and 50.04% is to be invested internationally.

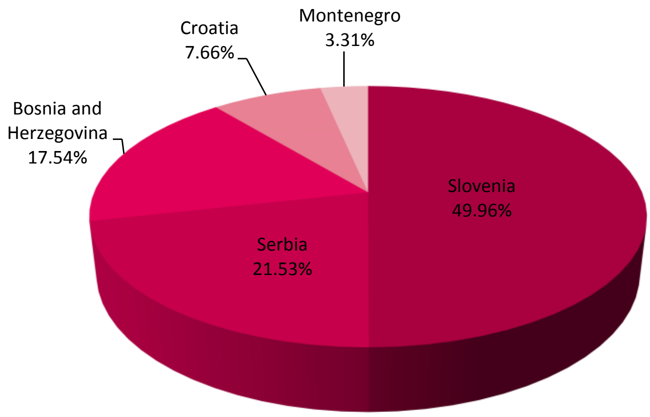
	Planned capital expenditure for year 2014 (in EUR thousand)	Composition (in %)
Slovenia	29,429	49.96%
Serbia	12,682	21.53%
Bosnia and Herzegovina	10,331	17.54%
Croatia	4,510	7.66%
Montenegro	1,948	3.31%
TOTAL	**58,900**	**100.00%**

Investment into expansion of retail area will represent 24.73% of total investment in 2014; refurbishments of existing units will account for 56.83%; remaining 18.44% will be invested in logistics, IT, and non-trade activities.

In 2014, Mercator Group will acquire 31,356 square meters of gross store area, of which 91.62% will be acquired through operating lease and 8.38% will be acquired by refurbishment of existing units.

Divestment of assets is planned at EUR 30 million.

Share of investments by markets



Summary of planned total gross area as at December 31, 2014:

Gross retail area in m²	Used for own operations	Leased out	Total as at December 31, 2014
Owned retail area	749,503	210,321	959,824
Leased retail area	376,247	35,203	411,451
Total retail area	**1,125,750**	**245,524**	**1,371,275**
Owned warehouse capacity	139,723	575	140,298
Leased warehouse capacity	45,088	0	45,088
Total warehouse capacity	**184,811**	**575**	**185,386**
Owned commercial facilities	27,922	2,129	30,051
Leased commercial facilities	6,108	43	6,151
Total commercial facilities	**34,031**	**2,172**	**36,203**
GROSS AREA UNDER MANAGEMENT	**1,344,592**	**248,271**	**1,592,863**
- of which owned	917,148	213,025	1,130,173
- of which leased	427,444	35,246	462,690

PLANNED COST-CUTTING AND MARKETING MEASURES

Throughout 2013, several activities have been in progress across the entire Mercator Group, to rationalize and optimize the operations. Four strategic goals were pursued: profitability, focus, growth, and optimization.

In 2014, we shall carry on our long-term projects focused in particular on reduction of costs – **cost-cutting measures**, and on improvement of Mercator's competitiveness as perceived by the customers – **marketing measures**.

Cost-cutting measures

SLOVENIA AND CROATIA:
In 2014, we will continue to implement cost-cutting measures in Slovenia and Croatia, especially in the field of **optimization**. We shall improve the efficiency of attainment of our goals and work to hire new employees in excess-demand jobs. Funding for additional third-party training and education will be reduced as education by internal instructors will be favoured. We shall continue to successfully implement the measures to cut the consumption of power, and energy for heating. Divestment of non-core assets will remain one of the main activities in real estate management in 2014.

SOUTHEASTERN EUROPE:
In 2014, more attention will be paid to **optimization** of the marketing activities in the Southeastern European markets. We shall also optimize our rental expenses through renegotiation. Activities will be in progress to reduce the service costs and the costs of procurement of non-trade goods. Closing down the non-profitable retail units will remain one of the important tasks to provide solid performance of the entire Mercator Group in 2014. We shall **focus** on the development of supermarket and market store formats, and we shall generate **growth** by refurbishing the existing retail units and open new ones with the highest return on investment.

Marketing measures

SLOVENIA AND CROATIA:
We shall continue to conduct promotional activities planned to increase our sales, and activities to increase the sales of our private label products. In Slovenia, we shall more actively promote our online store which shall also be upgraded. We shall reap, to a greater extent as to date, the synergy effects between Slovenia and Croatia.

SOUTHEASTERN EUROPE:
In the Southeastern European markets, we shall improve our purchasing terms and reduce inventory. Intensive marketing activities will be under way to increase sales and increase the share of private label sales. We shall reposition and expand our offer and improve the quality of service. We shall increase the number of Pika card holders and members of Mercator's customer loyalty clubs. In the field of working capital management, even more attention will be paid to credit risk management and risk of default/payment delinquency.

EMPLOYEES

Employees are at the heart of our operations. They bring a major contribution to customer satisfaction and to success of the pursuit of Mercator's business goals. In development and pursuit of human resource management activities, the following guidelines will be pursued:

- **The employees are our competitive advantage** (quality of service based on integrity and friendly, respectful, and professional communication with the customers).
- **We are improving the efficiency** of the attainment of our goals (optimum usage of the available resources, competencies, and potentials according to the possibilities and situation in the market).
- Strategic human resource management **goals are changing** in compliance with the changes in the labour market, consistently with the business policies of the management, regional needs, and characteristics and possibilities or operational implementation at the local level.

Our key goal is to have competent, motivated, and satisfied employees.

Hiring and recruitment

Hiring and recruitment activities are based on standardized HRM processes required for timely provision of adequate human resources. At the regional level, action plans will be in place to recruit excess-demand human resources (butchers, cooks, bakers etc.). We wish to improve the level of expertise and the reputation of the human resource management function within the company and in the entire Mercator Group. To this end, we shall define the competencies of the human resource management staff and encourage their professional and personal development.

Care for development

Despite the harsh conditions and low available resources and funds, we are aware that investment into knowledge is the way to development. In training and education, we will work with key third-party partners – schools and universities where our potential and new employees are educated. Our training and education activities will be aimed at developing and operating the induction programs for new employees, programs for key and talented employees, and development of internal education with emphasis on expert training. We will also support attendance at quality third-party training and education sessions, allowing the transfer of fresh expert knowledge into the corporation. We will continue to develop, expand, and upgrade our network of internal instructors. E-learning can save time and money for the company. Therefore, we will promote e-seminars and electronic learning.

Excellent leaders develop the mission and vision and allow the attainment thereof. Therefore, particular care will be paid to leadership development, nurturing the development of our leaders at all levels through key leadership competencies.

Motivation and rewards

Salary and rewards are an important source of motivation, and motivation is a key element of successful work. If permitted by the business results, we will revise our salary system. We shall also implement changes in the method of assigning the variable share of the salary, which will allow us to reward the top performers. The best employees will be motivated with promotions, project rewards, and Mercator Awards. Non-cash forms of rewards will include contests in which the best individuals or collectives will be voted. Also motivating further work will be the *team-building* workshops and employee meetings which traditionally take place each year. We shall continue to develop a culture of praises and feedback.

Connecting our employees

Connections between employees foster a sense of loyalty to the company and builds trust among co-workers. Many good and useful ideas are generated by the employees. Therefore, we will support entrepreneurship, motivate innovation, and look for possibilities for improvement. The array of different generations offers an opportunity to learn from the experienced and to seek the freshness of the younger employees. To this end, we shall develop inter-generational cooperation and connections. In a system as large as Mercator, communication is of utmost importance. Therefore, we shall strengthen communication at all levels through different forms of internal communication. In communication, cooperation with our social partners is of key importance. In the broad environment and within the company we will act in a socially responsible manner. Activities awarded by the Family-Friendly Company certificate will be a part of our efforts to make balancing the professional and family life easier for our employees. Mercator Humanitarian Foundation in Slovenia and Mercator Solidarity Foundations in Serbia and Montenegro will provide aid to those who need it the most. As health is the foundation that allows our employees to perform their work, we shall continue to carry out the many activities of the health promotion project.

RISK MANAGEMENT

Managing the key risks in 2014

In most markets of Mercator's operations the trend of high unemployment rates and low GDP growth rates will continue in the coming year, which will negatively affect the purchasing power of the general population and impose a burden on our entire operations. In managing our risks, we shall continue to pursue the measures that have proven effective in the past, and seek new ways to accommodate the increasingly rapid changes in the market.

Business Risks

Risk of a decline in purchasing power

The risk of a decline in purchasing power is related to the rate of economic growth, unemployment rate, increase in personal income, and changes in the prices of essentials.

In Slovenia, gross domestic product is expected to fall by around 0.8% in 2014 and that the unemployment rate will increase further, to 13.6%. Salary per employee will decrease by 1.4% in real terms. Consumer price index will rise by 1.9%. A drop of household consumption of 2.7% is also forecast.

According to the European Commission, GDP growth in Mercator's international markets is expected at 1.5% in Serbia, at around 2% in Bosnia and Herzegovina and Montenegro, and at 0.5% in Croatia; however, unemployment rate will remain high as it is in 2013. Increase in wages has been low in all markets and its effect has been neutralized by the increase in the consumer prices. Private consumption is expected to drop in Croatia and Serbia; in Montenegro, it is expected to increase.

Purchasing power will remain low; therefore, adjusting the entire marketing mix in order to provide well-adapted offer for the consumers and to retain the revenue will be of key importance.

Risks in the supply process

As to date, we shall continue to successfully manage our risks in the supply process in 2014 by choosing different suppliers. Joint purchasing of the Group companies for the private label products, seasonal products, and home products, will result in lower upstream prices and better procurement terms and conditions.

We shall continue to nurture clear and transparent operations with our suppliers and to conduct an annual appraisal of the suppliers, which will be extended and adapted to the current conditions in 2014, as dictated by the economic situation. Regular monitoring and checking of supplier solvency by monitoring the ratings will be a key tasks, the results of which will allow timely transition to new supply sources. Delivery failures by individual suppliers will be monitored on a monthly basis and corrective measures will be adopted.

Legal risks will be managed by working with lawyers to analyze in detail the key elements of the contracts before entering or signing them.

Risks of sub-optimum marketing mix and effects of the competitive environment

In 2014, we shall continue to develop and maintain the unified assortments across different store formats, which will allow us to provide the products most frequently sought for by our customers, at all our stores. We shall regularly monitor the sales assortment an update or extend it in accordance with the trends and changes in consumer behaviour.

Risks of failure to attain the planned profit margin

We shall continue to manage this risk by daily management of regular and promotional retail prices and by monitoring of all key performance indicators on a weekly basis.

Financial risks

Credit risks

Mercator Group has been paying particular attention to payment defaults by our third-party wholesale customers, Pika card holders, and lessees, and we shall continue to do so in the future. Credit risks are managed by launching collection procedures for our delinquent customers or debtors, and by offsetting the receivables and liabilities with our wholesale customers who are also our suppliers. In 2014, we shall establish an updated offsetting system that will allow us to more efficiently conduct bilateral and especially multilateral offsetting. With wholesale customers with a weaker rating, we are seeking first-grade payment protection insurance, and we are monitoring customers with a record of late payments to mitigate our exposure. In the future, we shall pay attention to even more accurate setting of credit limits according to each customer's rating, available insurance, and the amount of outstanding receivables. For customers paying with the Pika card, credit limits are set according to their credit rating and recommendations by third-party credit agencies; in case of payment default or delinquency, their cards are revoked. In the year ahead, we shall revise our credit limit policy in order to further mitigate the credit risk.

Currency risk

Exposure of Mercator Group to currency risk will be assessed by monitoring the changes in exchange rates as well as their macroeconomic background and all other related aspects. Considering the expected changes in macroeconomic indicators, we shall seek to adapt our operations in a way that mitigates or entirely hedges or evades the currency risk.

Interest rate risk

Interest rate risk at Mercator Group will be managed by regular monitoring of the changes in interest rates and by examining the possibilities to sign derivative financial instruments for hedging the said risk in case of interest rate hikes.

Liquidity risk

In 2014, we shall manage our liquidity risk by releasing the financial assets currently tied up in receivables related to Pika cards (payments in up to 24 instalments). These payments will henceforth be financed by a third-party financial institution. Moreover, if required, we shall take the opportunity to take out additional loans, subject to the provisions specified in the agreement in the financial restructuring process.

Operational risks

Strategic risks

Strategic risk management will include monitoring the attainment of the adopted strategic goals. In this regard, correct and clear definition of goals and efficient action to implement them is of key importance. We shall also monitor in detail and improve the flow of information within the entire Group. Negative information in the market regarding Mercator increases the risk of loss of reputation. Therefore, we shall carry on the well-conceived process of communication with the public and different communities, and other forms of integration into the social environments in which we are present. Although the activities of withdrawal from the foreign markets of Bulgaria and Albania are already in the final stage, additional unforeseen costs and expenses may still occur; therefore, activities will be in place to perceive such risk as soon as possible and to decrease the exposure to it.

Operational risks in category management and procurement

Due to the harsh economic conditions, negative economic growth, and rising unemployment, consumer behaviour is changing and purchasing power is dropping across all segments; this is particularly evident in the sales of seasonal products. The offer at Mercator will be adjusted to lower demand as we will diligently monitor sales and inventory of seasonal products and take required measures in a timely fashion.

In procurement, we shall monitor the changes of the prices of tradable commodities which have a material effect on the prices of some of our important products, and respond appropriately. We shall stay up-to-date with the changes in legislation that stipulate shorter payment terms to our suppliers and may therefore reduce our liquidity. We shall actively control delivery failures and conduct measures to reduce the delivery failure risks. We shall actively monitor the changes in excise duties on cigarettes and alcoholic beverages, and their effect on our downstream prices.

Core activity operational risks

Due to the outdated facilities and equipment in the warehouses in Zalog and Bohova, particular attention will be paid to managing the risk of refrigeration system failure as the probability of system failure remains high despite the corrective measures taken. In addition to the mandatory monitoring by relevant inspectors, we shall also conduct internal control of preventive equipment maintenance and education of refrigeration system operators.

Investment risk

More attention will also be paid to monitoring and mitigating the exposure to the risk of failure to complete our investments. Shrinking of available investment funds renders development and expansion of our retail network increasingly harder; in addition, it increases the possibility of failure to comply with the provisions and covenants specified in the contracts and agreements already signed. This also increases the need for operating lease of both buildings and equipment.

IT risks

The risk of failure of central IT systems will be mitigated by using parallel system premises with dedicated equipment for improving the reliability and availability of key IT systems, regular preventive maintenance of infrastructure, and by laying the building blocks of data centres under the auspices of the IT equipment operation control systems. Using the new incident management tool, we shall effectively control the incidents in IT and telecommunications, and improve the efficiency of eliminating the faults and failures, and thereby improve the availability of the systems and services. We shall carry on our activities to implement the principles of service management, by which we intend to further standardize the internal processes and improve their efficiency, and activities for the transition to unified software on market program check-out terminals in order to mitigate the risk related to the control of such systems.

Food safety risks

We shall stay up-to-date with the legislation and implement all relevant requirements in practice, train our employees, promote the sound hygiene and work practice within the company, and carry out internal control according to the principles of the HACCP system in order to provide safe food. We shall conduct product monitoring activities and maintain a product withdrawal or recall system to make sure the products in our aisles are of adequate quality and that they are safe.

Environmental risks

Consistently with the requirements of sustainable development, reduction of power consumption will remain our key activity. We shall carry out the projects of efficient use of energy and management of other environmental aspects, such as the Retail Care project, adjustment of lighting (interior and exterior) and visual identity elements, installation of combined heat and power devices and solar power plants, replacement of old cooling devices.

Human resource risks

Given the restricted possibilities to implement the activities to improve employee satisfaction and motivation, we shall focus primarily on raising the awareness of the employees about the urgency of change to improve our performance, as this is the only way to keep the jobs and, in the long run, allow increase of salary and open up possibilities or promotion. We shall carry on our training and education programs as they are the key factors for improving employee motivation. We shall continue to be creative in provision of required excess-demand human resources to allow unimpeded operations. We shall inform the employees about healthy lifestyle in order to decrease absenteeism.

Project risks

By continuous monitoring of the completion of tasks and activities in accordance with the project plans, we shall provide timely, quality and goal-oriented project completion; in case of discrepancies, we shall promptly adopt relevant measures. We shall provide internal resources required for implementation, and identify any bottlenecks, critical points, and milestones to provide the grounds for decision-making by the project managers. We find the key risk to be provision of third-party resources in IT, especially with regard to meeting the contractual obligations in a timely manner on their part, as some of these contractual obligations are the subject of our quantifiable contractual covenants.

FINANCIAL MANAGEMENT

Net financial debt

Net financial debt as at the end of 2014 is planned at EUR 1,043 million, which is 8.1 percent more than the estimate by the end of 2013. Improvement in the maturity structure of Mercator Group debt is planned, i.e. the increase of the share of long-term liabilities relative to total liabilities: by the end of 2014, the ratio between long-term and short-term liabilities will be at 89.6:10.4.

in EUR thousand	Plan 2014	Estimate 2013	Index Plan 2014/ Estimate 2013
Non-current financial liabilities	1,004,161	1,024,839	98.0
Current financial liabilities	116,000	16,000	725.0
Derivative financial instruments (liabilities)	2,298	2,275	101.0
Financial liabilities including derivative financial instruments	**1,122,458**	**1,043,114**	**107.6**
Cash and cash equivalents	25,104	20,204	124.3
Derivative financial instruments (assets)	51	51	101.0
Available-for-sale financial assets	845	841	100.4
Loans and deposits	53,564	57,015	93.9
Financial assets	**79,564**	**78,111**	**101.9**
NET FINANCIAL DEBT	**1,042,895**	**965,002**	**108.1**

Financial restructuring

The most important effect on Mercator Group financial management will certainly be a result of the financial restructuring which is planned to be completed by the end of 2013. Essential results of the financial restructuring for the financial management in 2014 will include the following:

- adjusting the dynamics of loan principal repayment to Mercator's actual free cash flow generated;
- adjustment of interest rate;
- notably improved structure of financial liabilities in terms of maturity.

Restructuring will eliminate the risk of refinancing, which has been particularly high in the last year. This will allow the stabilization of financial management and above all allow the company management to focus more closely in 2014 on other aspects of Mercator Group operations.

Since a part of the pressure on the decrease of financial debt was also translated into pressure on trade payables, extra attention will certainly be paid to these aspects in the future. In 2014, financing related to Pika card payments is planned to be transferred to a third-party financial institution, so that the assets tied up in these receivables are considerably decreased and most released assets are available for repayment of trade payables. Consistently with the terms and conditions of financial restructuring, taking out additional loans will presumable be allowed up to an agreed maximum amount. This will additionally alleviate the pressure on trade payables.

In the period 1–11 2013, average 6 -month EURIBOR amounted to 0.33%; this is a rate at which it has steadied particularly in the period after June 30, 2013. One important change took place in early November when the ECB decreased the main refinancing operations rate to a historic low of 0.25%, which resulted in an immediate drop of EURIBOR; however, long-term effect is not known at this time. Following the previous decrease in May 2013, EURIBOR also temporarily decreased only to bounce back slightly in subsequent months and steady at the above rate. In any case, no major increase of EURIBOR is expected in 2014 as the European Central Bank stated it would maintain such policy for as long as necessary.

Dividend policy

The company Poslovni sistem Mercator, d.d., did not pay out any dividend in 2013; likewise, no dividend payment is planned for 2014.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., have been prepared in compliance with International Financial Reporting Standards and they are unaudited.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Poslovni sistem Mercator, d.d., is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Planned consolidated financial statements for 2014 include the company Mercator, d.d., and its subsidiaries, as follows:

- in Slovenia: Intersport ISI, d.o.o., Mercator - Emba, d.d., Mercator IP, d.o.o., M - Energija, d.o.o.;
- abroad: Mercator - H, d.o.o., Croatia, Mercator - S, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Mercator - CG, d.o.o., Montenegro, Mercator Makedonija, d.o.o.e.l., Macedonia, Investment Internacional, d.o.o.e.l., Macedonia, Mercator - B, e.o.o.d., Bulgaria and Mercator - A, sh.p.k., Albania;

(hereinafter referred to as the "Mercator Group").

Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

Condensed consolidated statement of financial position

EUR thousand	Plan Dec 31, 2014	Estimate Dec 31, 2013	Index Plan Dec 31, 2014/ Estimate Dec 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	1,755,991	1,818,628	96.6
Investment property	2,209	2,187	101.0
Intangible assets	14,485	16,150	89.7
Deferred tax assets	20,737	20,605	100.6
Loans and deposits	50,824	55,766	91.1
Available-for-sale financial assets	845	841	100.5
	1,845,091	**1,914,177**	**96.4**
Current assets			
Inventories	249,286	248,600	100.3
Trade and other receivables	225,962	220,301	102.6
Current tax assets	180	312	57.7
Loans and deposits	2,740	1,249	219.4
Derivative financial instruments	51	51	100.0
Cash and cash equivalents	25,104	20,204	124.3
	503,323	**490,717**	**102.6**
Total assets	**2,348,414**	**2,404,894**	**97.7**
EQUITY	**635,674**	**638,335**	**99.6**
LIABILITIES			
Non-current liabilities			
Trade and other payables	1,664	1,793	92.8
Financial liabilities	1,004,161	1,024,839	98.0
Deferred tax liabilities	52,852	52,159	101.3
Provisions	29,374	29,081	101.0
	1,088,051	**1,107,872**	**98.2**
Current liabilities			
Trade and other payables	505,967	640,003	79.1
Current tax liabilities	424	409	103.7
Financial liabilities	116,000	16,000	725.0
Derivative financial instruments	2,298	2,275	101.0
	624,689	**658,687**	**94.8**
Total liabilities	**1,712,740**	**1,766,559**	**97.0**
Total equity and liabilities	**2,348,414**	**2,404,894**	**97.7**

Condensed consolidated income statement

EUR thousand	Plan 2014	Estimate 2013	Index Plan 2014/ Estimate 2013
Revenue	2,672,342	2,768,130	96.5
Cost of goods sold and selling costs	(2,554,993)	(2,664,803)	95.9
Administrative expenses	(93,875)	(99,091)	94.7
Other income	11,410	17,001	67.1
Results from operating activities	**34,884**	**21,237**	**164.3**
Finance income	3,241	6,478	50.0
Finance expenses	(37,114)	(52,220)	71.1
Net finance expense	**(33,873)**	**(45,742)**	**74.1**
Profit (loss) before tax	**1,011**	**(24,505)**	**-**
Tax expense	(672)	1,618	-
Profit (loss) for the period	**339**	**(22,887)**	**-**

Notes to condensed consolidated financial statements

Notes to condensed consolidated income statement

Revenue

In 2014, Mercator Group will generate EUR 2,672,342 thousand of revenue, which is 3.5 percent less relative to the 2013 estimate. Revenue will decrease by 3.6 percent in Slovenia; in foreign markets, the drop will amount to 3.2 percent.

Cost of goods sold and selling costs

For 2014, Mercator Group costs of sales, which include the cost (purchase value) of goods sold, production costs, selling and marketing costs, and other expenses, are planned at EUR 2,554,993 thousand. Depreciation and amortization cost for 2014 is planned at EUR 78,681 thousand; the estimate for this figure in 2013 stands at EUR 82,364 thousand.

Administrative expenses

Mercator Group administrative expenses for 2014 are planned at EUR 93,875 thousand, which is 5.3 percent less than the estimate for 2013. The decrease of the share of administrative expenses in sales revenue is a result of cost rationalization measures.

Results from operating activities

Mercator Group's results from operating activities in 2014 are planned at EUR 34,884 thousand, which is 64.3 percent above the 2013 estimate.

Finance income and expenses

Finance income in 2014 will amount to EUR 3,241 thousand, the major part of which will be finance income from interest paid (EUR 2,171 thousand).
Finance expenses in 2014 will amount to EUR 37,114 thousand, the major part of which will be finance expenses for interest paid (EUR 27,318 thousand).

Profit before income tax

Mercator Group is planning to generate profit before income tax in the amount of EUR 1,011 thousand in 2014.

Profit for the financial period

Mercator Group profit for 2014 is planned at EUR 339 thousand.

EBITDA

Mercator Group EBITDA in 2014 is planned at EUR 113,565 thousand, which is 9.6 percent more than the estimate for the year before.

EBITDAR

A measure that also includes financing of Mercator Group's retail network by operating lease, the EBITDAR, is planned at EUR 170,201 thousand for 2014, which is 4.7 percent more than the 2013 end-of-year estimate.

Notes to condensed consolidated statement of financial position

Assets

As at December 31, 2014, Mercator Group assets are planned to amount to EUR 2,348,414 thousand, which is a decrease of EUR 56,480 thousand relative to the estimate for December 31, 2013.
As at December 31, 2014, the value of Mercator Group non-current assets is planned at EUR 1,845,091 thousand, which is EUR 69,086 thousand less than the estimate for December 31, 2013. Property, plant, and equipment will represent the largest share of non-current assets at 96.1% (EUR 1,772,685 thousand), which is EUR 64,280 thousand less than the estimate for the end of 2013.
As at December 31, 2014, the value of Mercator Group current assets is planned at EUR 503,323 thousand, which is EUR 12,606 thousand less than at the end of 2013. The largest share thereof will include inventories (49.5%) and trade and other receivables (44.9%).

Equity and liabilities

As at December 31, 2014, Mercator Group equity is planned to amount to EUR 635,674 thousand, which is EUR 2,661 thousand, or 0.4 percent less than the estimate for the end of 2013.
As at December 31, 2014, the value of Mercator Group total financial liabilities is planned at EUR 1,120,161 thousand, which is EUR 79,322 thousand more than the estimate for the end of 2013. Net financial debt of the Mercator Group, calculated as the difference between the Group's financial liabilities and financial assets, will amount to EUR 1,042,895 thousand as at December 31, 2014 (estimate for December 31, 2013: EUR 965,002 thousand).

Provisions as at December 31, 2014 are planned at EUR 29,374 thousand. Compared to the estimate for the end of 2013, provisions are planned to increase by EUR 293 thousand.

Trade and other payables as at December 31, 2014 are planned to amount to EUR 505,967 thousand, which is EUR 134,036 thousand less than at the 2013 year end.

As at December 31, 2014, long-term coverage of non-current assets with non-current liabilities at the Mercator Group is planned at 94.5%, which is 2.4 percentage points more than as at the end of 2013.