NEIGHBOUR NEWSFLASH

For Mercator, 2013 was a year of many challenges and important decisions.

Annual report 2013

Mercator

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Introduction

Mercator

REPORT BY THE PRESIDENT OF THE MANAGEMENT BOARD

The clock ticks away faster when there is a lot to be done. Thus, 2013 flew by quickly for us. Three processes were in progress simultaneously at Mercator, which are of key importance for the company's further development: sales process, operations restructuring process, and corporate debt restructuring process. These processes are highly complex as they are; moreover, they have been taking place in an extremely challenging environment that has included changes in shopping behaviour, poor pricing perception among the consumers, and further aggravation of economic conditions in all markets of Mercator's operations.

The fundamental goal of Mercator Group in 2013 was to stabilize company operations and performance and to provide financial stability by further cost optimization, focus on core activity, and business restructuring. This involves numerous activities in key areas of operations, and it requires joint effort by all employees. Successful reorganization of company operations and performance improvement measures have led to decrease in our loss and financial debt from one quarter to the next, as well as exceed plan for cost savings. Decline of profitability has stopped and our overall debt has been decreased despite the harsh conditions. The framework agreement on long-term financial liability restructuring, signed by Mercator Group with the coordination team of creditors, is also highly important. The agreement has laid down solid foundations for long-term debt reprogramming which will allow Mercator to improve liquidity and stabilize and optimize its performance to the benefit of all stakeholders. This will lead to long-term financial stability and allow us to truly focus in the future on our regular operations and, most importantly, on our customers.

The year 2013 was defined by processes that bear long-term impact on Mercator's operations: sales process, operations restructuring process, corporate debt restructuring process.

The strategy we have laid down is therefore sound and solid. It has yielded initial success. Yet there is still a lot of work to be done. Retail business brings about new tasks and challenges every day. And yet, we can be content as we look back on what has been done. In 2013, Mercator withdrew from the markets of Albania and Bulgaria and commenced the reorganization of the Group. We have merged the companies Modiana, Intersport, and Tehnika (technical consumer goods) to Mercator's respective international subsidiaries; in Slovenia, we have merged the company M - Tehnika, d.d. We have improved our efficiency by cutting our costs and divesting. On the other hand, we focused more on our core activity for the customers and stabilized our market share after several years of decline. We have established a more efficient system of global supply and supplier relations, and improved category management. Revision of the Pika card customer loyalty system was also a major and successful project which has resulted in 250 thousand of new or reactivated card holders in the first two months alone. In Slovenia, we introduced a new concept of an urban store called Mercator Neighbour (Mercator Sosed). In Croatia, we divested our underperforming units, adjusted the store formats and offer, and reaped the business synergies between Slovenia and Croatia as the latter joined the European Union. Despite the decisive measures, Croatian market remains among our greatest challenges. Competition is also stringent in the Serbian market. However, owing to sound business decisions by our regional management, we have managed to retain our market share there. In the markets of Montenegro and Bosnia and Herzegovina, our operations were stable.

We believe Mercator's operations are stable despite the negative market situation and a decline in revenue, as we have succeeded in retaining our market position in all markets of our operations.

Cost rationalization measures led to considerable decrease of operating costs as we exceeded the plan for cost savings by over 50 percent. With the right measures in cost management and marketing, we generated operating profit of EUR 36 million in 2013.

Mercator Group revenue in 2013 amounted to nearly EUR 2.8 billion, which is 3.7 percent less than in 2012. Lower revenue is mostly a result of poorer sales of apparel and technical consumer goods, and a drop in revenue in Slovenia and Croatia. Also leading to the decrease in revenue was the necessary business restructuring process which is one of the most challenging projects of this kind in this part of Europe.

The figures indicate our success clearly and indisputably. However, in retail, which is predominantly a service activity, success relies even more heavily on people – on both ends of the sales counter: our customers whose satisfaction is our ultimate goal day in, day out; and our employees whose work proves that we can attain the goals laid down. For both, Mercator is their shop as well. This capital, immeasurable by figures, was the most important aspect of our success and it will remain the key for further implementation of our business strategy and the attainment of the challenging goals that lie ahead.

In the period ahead, we have to further improve our operating profitability and efficiency of all our activities, as well as continue the restructuring of our operations. Investment will be almost entirely targeted at refurbishment of our stores in order to make them even more convenient and friendly and to make our offer even more competitive and well-priced. We shall carry on the activities that generate value for our customers, and we shall continue to develop open and sustainable partner relationships with our suppliers.

I sincerely thank everyone who has proven in this harsh year with their work that we can overcome the hardship; everyone who is our partner both in challenges and in success; everyone who trusts us and believes in our vision. As time flies quickly, we shall seek to reach our goals faster; however, we will act deliberately and prudently, one step at a time.

President of the Management Board
Poslovni sistem Mercator, d.d.
Toni Balažič

Ljubljana, April 25, 2014

SUPERVISORY BOARD REPORT

Supervisory Board Activities

Pursuant to the legislation and company Articles of Association, operations of the company Poslovni sistem Mercator, d.d., as the controlling company of the Mercator Group were supervised in 2013 by a Supervisory Board which met at six regular sessions in the course of the year.

At the 19th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on June 18, 2013 Bojan Brank was appointed new Supervisory Board member representing the interest of shareholders. On July 3, 2013, Vesna Stojanović was appointed new Supervisory Board member representing the interests of the employees. On November 4, 2013, Veljko Tatić was appointed new Supervisory Board member, also representing the interests of the employees.

Thus, the composition of the Supervisory Board in 2013 was as follows: Matej Lahovnik (Supervisory Board chairman), Rok Rozman (deputy chairman), Boris Galić, Zdenko Podlesnik, Marjeta Zevnik, and Bojan Brank as representatives of shareholders, and Ivan Valand, Vesna Stojanović, and Veljko Tatić as representatives of employees.

At the meetings, the Supervisory Board mostly discussed current performance and property of the company Mercator, d.d., and the Mercator Group, interim reports and Annual Report; it supervised the Management Board activities, investment activities, implementation of major projects, financial policy and financial position, annual business plans, and implementation of the resolutions adopted by the Supervisory Board.

Major Supervisory Board resolutions

In 2013, the Supervisory Board discussed and adopted the audited financial statements for 2012 for the company Poslovni sistem Mercator, d.d., and the Mercator Group, and took note of the quarterly performance and results of the company Poslovni sistem Mercator, d.d., and the Mercator Group in 2013.

In addition, the Supervisory Board discussed other current issues and adopted the major resolutions with regard to the following:

- the Supervisory Board discussed and adopted the Annual Report for the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2012, and confirmed the wording of the Supervisory Board Report on the 2012 Annual Report audit;
- the Supervisory Board was informed about the report on the effects of revaluation of real property and investments into subsidiaries to fair value, and impairment of some assets of the Mercator Group companies as at December 31, 2012;
- the Supervisory Board was informed about the decision of the Management Board of the company Poslovni sistem Mercator, d.d., to waive their right to performance bonus for the year 2012;
- the Supervisory Board was informed about the progress of sale of the majority share of the stock of the company Poslovni sistem Mercator, d.d.;
- the Supervisory Board was informed about the progress of the negotiations with banks on debt refinancing;
- the Supervisory Board confirmed the value and the categories of performance appraisal indicators for the Management Board of the company Poslovni sistem Mercator, d.d., for the fiscal year 2013;
- the Supervisory Board adopted the report on the merger of the company M–Tehnika, d.d., to the company Poslovni sistem Mercator, d.d., and the information on the status of activities of Mercator's withdrawal from the markets of Albania and Bulgaria;
- The Supervisory Board adopted the Report on the Fulfilment of Commitments related to the cartel charge and proceedings, pursuant to the decision by the Competition Protection Office of the Republic of Slovenia, No 306-182/2007 dated May 7, 2009, for the year 2012; and the Report on the Fulfilment of Commitments related to the proceedings for alleged violation of dominant position, pursuant to the decision by the Competition Protection Office of the Republic of Slovenia, No 306-178/2007 dated June 26, 2009, for the year 2012.

- the Supervisory Board was informed about the intent of the company Poslovni sistem Mercator, d.d., to conduct a capital increase in the amount of EUR 10,164,000.00 at the company Mercator–B, e.o.o.d., in order to facilitate the voluntary liquidation proceedings of this company;
- adopted the Business Reports of the Mercator Group and the company Mercator, d.d., for the periods I-III 2013, I-VI 2013, and I-IX 2013;
- confirmed the Business Plan of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2014;
- discussed the report on the findings of the financial benchmark analysis (comparative study of competition) in the alimentary and FMCG trade industry for 2012,
- confirmed the Business Plan for the year 2014,
- discussed the interim report on activities regarding any claims for damages against former Management Board members..

Activities of the Audit Committee

The Audit Committee, consisting of the chairwoman Marjeta Zevnik (Supervisory Board member), and three members: Rok Rozman (Supervisory Board member), Sergeja Slapničar, and Aleksander Igličar (the latter two independent experts in accounting and auditing), held eight sessions in the 2013 fiscal year: January 28, 2013; February 14, 2013; March 4, 2013; May 10, 2013; August 26, 2013; October 7, 2013; November 11, 2013; and December 9, 2013. At these meetings, the Audit Committee addressed the following major issues:

- the Audit Committee reviewed and commented on the report on the effects of revaluation of real property and investments into subsidiaries to fair value, and impairment of some assets of the Mercator Group companies as at December 31, 2012;
- the Audit Committee confirmed the 2013 annual plan for the internal audit department;
- the Audit Committee discussed and commented the Annual Report of the company Mercator, d.d., and the Mercator Group for the year 2012;
- the Audit Committee was presented the report by the independent certified auditor on the progress and findings of the second stage of the audit carried out at the company Poslovni sistem Mercator, d.d., and the Mercator Group in 2012, and discussed this report with the independent auditor;
- the Audit Committee discussed and confirmed the offer for auditing services for the company Mercator, d.d., and the Mercator Group for the year 2013 and proposed to the Supervisory Board that the auditing company Deloitte revizija, d.o.o., be selected as the company auditor;
- the Audit Committee examined and proposed suggestions for improvement of the Business Reports of the company Mercator, d.d., and the Mercator Group for the periods I-III 2013, I-VI 2013, and I-IX 2013;
- the Audit Committee confirmed the Rules and Regulations on Mercator Group Internal Audit;
- the Audit Committee submitted a proposal on the implementation of a whistle blowing system;
- the Audit Committee discussed the report on the findings of the financial benchmark analysis (comparative study of competition) in the alimentary and FMCG trade industry for 2012;
- the Audit Committee supervised the work of Internal Audit in 2013 and submitted proposals for improvements;
- the Audit Committee discussed the report by the independent certified auditor on the progress and findings of the first stage of the audit conducted at the company Poslovni sistem Mercator, d.d., and the Mercator Group in 2013;
- the Audit Committee discussed the Mercator Group Business Plan for year 2014 and provided recommendations for the plan's improvement;
- the Audit Committee discussed the internal audit methodology and provided recommendations for the improvement thereof;
- the Audit Committee discussed the internal audit plan for the year 2014; the Committee also provided recommendations for the plan's improvement;
- the Audit Committee adopted its draft session schedule for the year 2014;
- the Audit Committee discussed the interim report on activities regarding any claims for damages against former Management Board members.

Semiannual and Annual Report for 2013

The Supervisory Board examined the non-audited Semi-annual Business Report of the company and the Mercator Group for the period I-VI 2013 at their session held on August 27, 2013. The company announced its non-audited semiannual report pursuant to the relevant legislation and the Rules and Regulations of the Ljubljana Stock Exchange, d.d.

At its regular meeting held on April 25, 2014 the Supervisory Board discussed the audited non-consolidated and audited consolidated Annual Report for the year 2013, audited by the auditing company Deloitte revizija, d.o.o., Ljubljana. The Annual Report had previously been discussed on March 28, 2014 by the Audit Committee of Mercator, d.d. Also present at this Audit Committee session was the certified auditor who provided any additional explanations required. On April 25, 2014, the auditing company issued an unqualified opinion on the non-consolidated and consolidated Annual Report. Supervisory Board did not have any objections to the certified auditor's reports and concurred with both.

The Supervisory Board had no objections to the submitted Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for 2013, and confirmed it unanimously at the meeting held on April 25, 2014.

The Mercator Group generated a loss of EUR 16.9 million in year 2013.

In 2013, the company Poslovni sistem Mercator, d.d., ran a net loss of EUR 35,599,369.98. Retained earnings were also negative in amount of EUR 14,790,059.72. Net loss for the year and retained earnings were covered from other revenue reserves in the amount of EUR 50,389,429.70.

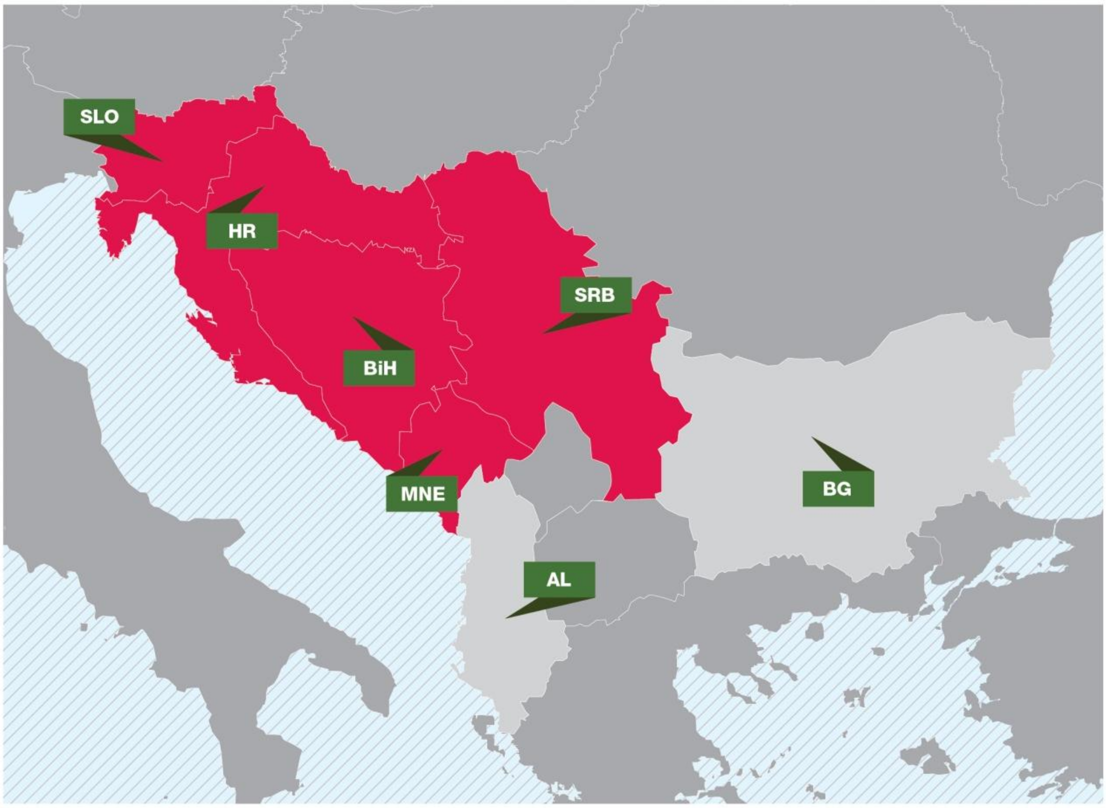
As at December 31, 2013, the company did not report distributable loss or distributable profit.

This Report was issued by the Supervisory Board pursuant to the provisions of Article 282 of the Companies Act. The Report is intended for the Shareholders Assembly.

Matej Lahovnik
Supervisory Board Chairman

Ljubljana, April 25, 2014

2013 HIGHLIGHTS BY MARKETS



MERCATOR GROUP

Revenue	EUR 2,766 mn
Number of employees	22,922
Number of retail units	1,606
Gross area of retail units	1,186,825

SLOVENIA

Revenue	EUR 1,563 mn
Number of employees	11,521
Number of retail units	920
Gross area of retail units	584,592

BOSNIA AND HERZEGOVINA

Revenue	EUR 190 mn
Number of employees	2,009
Number of retail units	112
Gross area of retail units	77,421

SERBIA

Revenue	EUR 564 mn
Number of employees	4,754
Number of retail units	246
Gross area of retail units	238,157

MONTENEGRO

Revenue	EUR 105 mn
Number of employees	1,244
Number of retail units	86
Gross area of retail units	38,266

CROATIA

Revenue	EUR 341 mn
Number of employees	3,381
Number of retail units	242
Gross area of retail units	248,389

ALBANIA and BULGARIA

Revenue	EUR 2 mn
Number of employees	13

OPERATION AND PERFORMANCE HIGHLIGHTS

Summary of Mercator Group operations in the period 2007-2013

	2007	2008	2009	2010	2011 restated	2012 prilagojeno	2013	Index 2013/2012
INCOME STATEMENT								
Revenue (in EUR 000)	2,445,258	2,708,560	2,643,315	2,781,604	2,870,971	2,873,186	2,765,868	96.3
Results from operating activities (in EUR 000)	91,335	100,327	71,842	94,505	76,841	-36,059	35,973	-
Profit (loss) before income tax (in EUR 000)	54,475	49,993	25,196	40,344	19,940	-102,165	-16,945	16.6
Profit (loss) for the year (in EUR 000)	43,814	40,761	21,119	30,387	12,489	-96,506	-16,929	17.5
Gross cash flow from operating activites (EBITDA) (in EUR 000)	162,046	176,773	167,296	170,087	158,146	111,091	109,709	98.8
Gross cash flow from operating activites before rental expenses (EBITDAR) (in EUR 000)	171,781	198,158	190,619	204,846	202,330	167,328	166,107	99.3
BALANCE SHEET								
Total assets (in EUR 000)	2,070,473	2,540,122	2,476,348	2,586,759	2,613,659	2,379,475	2,303,841	96.8
Equity (in EUR 000)	688,196	814,101	805,390	776,704	756,457	538,926	514,294	95.4
Net financial debt (in EUR 000)	749,439	958,881	986,966	949,081	1,091,145	1,023,509	977,326	95.5
INVESTMENT ACTIVITIES								
Capital expenditure (in EUR 000)	164,850	298,305	157,353	116,394	119,715	67,330	29,499	43.8
Long-term financial investments (in EUR 000)	49,221	15,104	1,801	0	2,248	9	0	0.0
EMPLOYEES								
Number of employees as at the end of the period	20,893	21,636	21,404	23,482	24,266	23,920	22,922	95.8
Number of employees based on hours worked	19,099	20,438	20,266	21,632	22,602	22,769	22,239	97.7
FINANCIAL INDICATORS								
Productivity (in EUR 000)	128.0	132.5	130.4	128.6	127.0	126.2	124.4	98.6
Value added per employee per hours worked (in EUR 000)	22.9	22.8	22.0	21.4	22.5	20.4	20.3	99.4
Return on sales	1.8%	1.5%	0.8%	1.1%	0.4%	-3.4%	-0.6%	18.2
Return on equity	6.8%	5.6%	2.6%	3.9%	2.4%	-13.9%	-3.2%	22.8
Net financial debt / equity	1.09	1.18	1.23	1.19	1.44	1.90	1.90	100.1
Net financial debt / gross cash flow from operating activities (EBITDA)	4.62	5.42	5.90	5.58	6.90	9.21	8.91	96.7
Gross cash flow from operating activites (EBITDA) / revenue	6.6%	6.5%	6.3%	6.1%	5.5%	3.9%	4.0%	102.6
Gross cash flow from operating activites before rental expenses (EBITDAR) / revenue	7.0%	7.3%	7.2%	7.4%	7.0%	5.8%	6.0%	103.1
SHARE								
Market value per share as at the end of the period (in EUR)	335.0	158.1	153.2	157.7	147.0	114.0	82.0	71.9
Dividend per share (in EUR)	4.00	4.25	4.50	7.20	8.00	6.00	0.00	0.0
Earnings per share (in EUR)	11.8	10.9	5.7	8.2	3.3	-25.6	-4.5	17.5
NUMBER OF COMPANIES IN THE GROUP								
Number of companies in the group as at the end of the period	16	20	23	26	26	36	17	47.2

* Employee productivity is calculated as the ratio of revenue to number of employees based on hours worked.

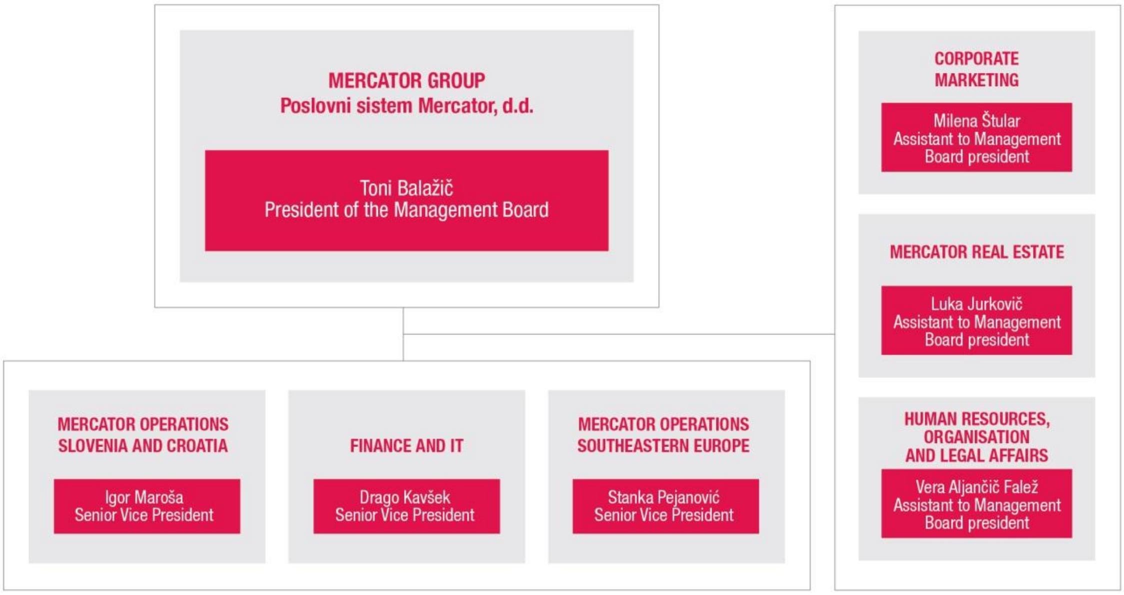
MERCATOR GROUP PROFILE AND ORGANIZATION

Mercator Group Profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. It consists of trade companies of which eight are headquartered in Slovenia while 9 more subsidiaries operate in the other seven markets of Southeastern Europe. Poslovni sistem Mercator, d.d., headquartered in Slovenia, is the parent company of the Group.

Poslovni sistem Mercator, d.d.	
Telephone	(01) 560 10 00
E-mail	info@mercator.si
Website	www.mercator.si
Company head office	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT tax code	45884595
Company share capital as at December 31, 2013	EUR 157,128,514.53
Number of shares issued and paid-up as at December 31, 2013	3,765,361
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Organization of the Mercator Group



Management Board of Mercator Group's parent company, headed by the **President of the Management Board**, is organized to manage the following respective fields: **Mercator operations Slovenia and Croatia**; **Finance and IT**; and **Mercator operations Southeastern Europe**.

Support fields of corporate marketing, real estate, human resource development, organization, and legal affairs are managed and headed by assistants to the President of the Management Board.

Such organization has proven very effective in practice. By managing two separate groups of markets, the Management Board succeeded to a great extent in optimizing the costs and in reaping other positive effects of such management. Positive effects were seen in **transfer and exchange of best business practices**, in connecting of development, marketing, and other contents, as well as in centralized management of analytical and other **support activities**. Their efficiency has been improved, and a more comprehensive approach was enabled to planning, implementing, and monitoring of activities at the level of the entire Mercator Group.

Mercator Group composition as at December 31, 2013

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%)
Modiana, d.o.o., Slovenia (100.0%)
Mercator - Emba, d.d., Slovenia (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 REAL ESTATE

Mercator - Optima, d.o.o., Slovenia (100.0%)***
M - nepremičnine, d.o.o., Slovenia (100.0%)
Investment Internacional, d.o.o.e.l., Macedonia (100.0%)*
Mercator Makedonija, d.o.o.e.l., Macedonia (100.0%)*

* The company does not conduct business operations.
** The company is in the liquidation proceedings.
*** The company was struck from the court register on January 22, 2014

Branch Offices
As at December 31, 2013 Mercator Group companies did not 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 ACTIVITIES

The primary and key activity of the Mercator Group is retail of fast-moving consumer goods. This core activity is extended with offer of supplementary services. Thus, we are looking to present to our customers a comprehensive offer that will fit their needs and desires.

Fast-moving consumer goods

In the dense and extensive retail network in Slovenia and abroad, we provide a wide and quality offer of fast-moving consumer goods to satisfy all wishes, tastes, and needs of our customers. We provide broad market coverage with our neighbourhood store format that represents over 60 percent of all our FMCG stores. In addition, we operate hypermarkets, supermarkets, comfort stores, convenience stores, wholesale stores, and discount stores. We were the first traditional Slovenian retailer to offer our products to the customers via our web store and our services Click and Collect and Click for Home Delivery.

Home products

The Tehnika (technical consumer goods) stores offer products for home at favourable payment terms. The offer includes small and major home appliances, consumer electronics, tools and accessories, construction equipment and machinery, and products for a cosy home and ambient. Our offer in brick-and-mortar stores is complemented by the offer from the M Tehnika online store.

Apparel and cosmetics

Modiana stores offer a broad choice of fashionable apparel by renowned Slovenian and selected international brands. Our offer of apparel is upgraded at the Beautique stores where our customers are offered body care products, perfumes, and other cosmetic products of renowned brands.

Sportswear and equipment

Comprehensive offer of sportswear and equipment is available at the Intersport stores. In addition to the offer of the latest, cutting-edge products by established brands and exclusive labels, we provide expert service and advice.

Maxi

Maxi department store delivers a comprehensive offer including apparel, cosmetics, footwear, groceries, as well as culinary services and additional offer. Thus, it champions the development of shopping culture while successfully catering to fastidious tastes of even the most demanding shoppers.

Mercator Real Estate

Real estate is a separate field at Mercator as the extent of our real property portfolio requires particular care and management. Within this field, we seek to reach the optimum in managing our buildings, developing our retail network, and improving the attractiveness of our shopping centers.

Service activities and manufacturing

Mercator's all-around presence is rounded off by the offer of services rendered at the Maxen self-service petrol stations, M holidays tourist services, and M mobil mobile telephony services. Mercator Group also includes the manufacturing company Mercator - Emba, d.d., whose key activities include coffee processing, production of instant beverages and hot chocolate, dessert icings, grain products, and packed dried fruit and nuts. Mercator IP, d.o.o., is a manufacturing and service company operating according to a modern concept of employment of persons with disabilities, to whom the company pays particular attention.

MAJOR EVENTS

Changes in the composition of the Mercator Group

In the first quarter of 2013, activities of the companies Intersport, Modiana, and Tehnika were transferred to the local subsidiaries in Serbia and Croatia, respectively, consistently with the medium-term strategy. In Slovenia, the company M - Tehnika, d.d., was merged as of July 1, 2013 with the company Poslovni sistem Mercator, d.d. The companies Intersport H, d.o.o., Croatia, Modiana, d.o.o., Croatia, and Mercator centar tehnike, d.o.o., Croatia, were merged with the company Mercator - H, d.o.o., as of July 5, 2013. On August 15, 2013 the companies Intersport S-ISI, d.o.o., and Modiana, d.o.o., Serbia, were merged with the company Mercator - S, d.o.o. Following the transfer of the activities of the companies Intersport, Modiana, and Tehnika to Mercator's local subsidiaries in Croatia and Serbia, respectively, the activities of the companies Intersport and Modiana in Bosnia and Herzegovina were transferred to the company Mercator - BH, d.o.o., in the third quarter of the year. On September 13, 2013 the companies Intersport BH, d.o.o., and Modiana, d.o.o., Bosnia and Herzegovina, were merged with the company Mercator - BH, d.o.o.

As the project of Mercator real estate monetization was stopped, the companies Argentum whose sole shareholder was the company Poslovni sistem Mercator, d.d., were deleted from the court register.

Liquidation proceedings to wind up the company Mercator - K, l.l.c, Kosovo, have been completed. On September 30, 2013, the company M.COM, d.o.o., which did not perform any operating activities, was deleted from the court register.

Corporate governance of the company Poslovni sistem Mercator, d.d.

At the 19th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., which took place on June 18, 2013 **Bojan Brank** was appointed as the new Supervisory Board member representing the interests of shareholders. Moreover, the shareholders appointed the auditing company **Deloitte revizija, d.o.o., as the auditor of the company Mercator, d.d.**

On July 3, 2013, **Vesna Stojanović** was appointed new Supervisory Board member representing the interests of the employees. On November 4, 2013, **Veljko Tatić** was appointed new Supervisory Board member, also representing the interests of the employees.

Corporate activities

On January 17, 2013 Mercator took part in a **Roadshow**, i.e. a corporate presentation for investors and financial partners. The presentation included all information regarding the issue of commercial papers of the company Mercator, d.d.

As of March 1, 2013 the new Mercator Group organizational structure was implemented. It covers the following three main fields: **Mercator operations Slovenia and Croatia, Mercator operations Southeastern Europe**, and **Finance and IT**.

On April 18, 2013 Mercator took part in the **Investor's conference of the Ljubljana Stock Exchange**, the purpose of which is to keep and boost confidence among investors and stock companies. The conference was attended, apart from Mercator, by eight companies from the Ljubljana Stock Exchange prime market, and nine domestic and four international institutional investors.

On February 26, 2013 the **Pre-negotiation Agreement** came into effect, signed by all Mercator Group companies with the creditor banks. On June 18, 2013, this Pre-negotiation Agreement was **amended and restated** so that the maturity of the principal of all credit liabilities was shifted to December 31, 2013. In November 2013, Mercator Group reached a **framework agreement with the coordination team of creditors** regarding the key commercial terms of long-term restructuring of financial liabilities of the companies within the Group. In December 2013, Mercator reached an agreement with the creditors' coordination team regarding the **extension of the Pre-negotiation Agreement** in compliance with the terms laid down in the framework restructuring agreement, **through March 31, 2014**.

On June 18, 2013 the companies Poslovni sistem Mercator, d.d., and Agrokor, d.d., signed as a part of the procedure of the sale (acquisition) of Mercator, d.d., shares, the **Business Combination Agreement** which specifies the relations between the company and the buyer in the period from the signing of the Business Combination Agreement to the execution of the Share Acquisition Agreement and other procedures related thereto, and commitments of the buyer, i.e. the company Agrokor, d.d., regarding the operations of the company after the buyer assumes control of the company.

Awards received

In the Trusted Brand survey conducted by the Reader's Digest magazine, Mercator was ranked among the brands that are the most trusted by consumers. Slovenian subscribers of the Reader's Digest magazine were asked to choose 40 most trustworthy brands – 20 global and 20 local. Mercator was voted in the top twenty among the local brands as **the most trustworthy shopping center**.

Pekarna Grosuplje received gold medals for **the best bakery products of excellent quality** for the tenth year. Pekarna Grosuplje was awarded gold medals for all types of bread applied for the contest. These medals are deemed the most reputable awards in the bakery industry in Slovenia.

In the Best Annual Report Contest organized by the Finance daily paper, the company Poslovni sistem Mercator, d.d., received at the award ceremony held on November 13, 2013 the award for **the best annual report in the segment of business analysis and planning among enterprises for the year 2012**.

On December 12, 2013 Mercator received a **special award upon the extension of the full Family-Friendly Company certificate for the following three years**. The award was presented by the Ekvilib Institute and the Ministry of Labour, Family, Social Affairs and Equal Opportunities.

In the best HRM project contest, organized by Planet GV and the HRM magazine, **Mercator qualified among the best** with its project All-Around Leader Development with Internal Coaches.

Events following the end of 2013 fiscal year

On January 1, 2014 the activities of the company Modiana, d.o.o., Slovenia, were transferred to the company Mercator, d.d. Merger of the company is planned for the second half of 2014.

On January 22, 2014 the company Mercator - Optima, d.o.o., was struck from the court register; thus, liquidation of this company was successfully completed.

On April 25, 2014, Mercator acquired signed commitments of all necessary lending banks of the Mercator Group for the implementation of proposed financial restructuring of the Mercator Group in accordance with detailed legal and commercial terms, that are now agreed with such lenders. The financial restructuring of the Mercator Group is one of the largest and most complex financial restructurings in the region. The restructuring process, that started in early 2013, has been extremely challenging due to the existence of different inter-related processes connected with the Mercator Group, due to the large number of creditors, the broad range of financial instruments, the multiple jurisdictions involved and due to the lack of financial restructuring infrastructure in the region. Creditors have expressed strong support for the Mercator Group and provided stability to complete the implementation of the financial restructuring. This financial restructuring will benefit the financial stability of the Mercator Group and will bring important knowledge in financial restructuring processes to the wider region of Central and Eastern Europe.

CORPORATE GOVERNANCE STATEMENT

Pursuant to Article 70, Paragraph 5 of the Companies Act (ZGD-1), Business Report of the company Poslovni sistem Mercator, d.d., also includes a Corporate Governance Statement.

Reference to the Corporate Governance Code

The governance of the company Poslovni sistem Mercator, d.d., is based on legal provisions, sound business practice, and the principles of the Corporate Governance Code. The Corporate Governance Code (Official Journal RS No. 118/2005, dated December 17, 2005, changed and amended on February 5, 2007, revised and adopted on December 8, 2009) – hereinafter referred to as the Code – is available in Slovenian and English at the website of the Ljubljana Stock Exchange, at www.ljse.si. The company's decision to commit to the provisions of the Code is voluntary.

Management and Supervisory Board of the company Poslovni sistem Mercator, d.d., headquartered at Dunajska cesta 107, Ljubljana, hereby submit this statement of compliance with the Code, which is also a constituent part of the 2013 Annual Report. It is available on the company website at www.mercator.si.

Compliance with the provisions of the Code

Management Board and Supervisory Board of the company Poslovni sistem Mercator, d.d., have reviewed the corporate governance at the company Poslovni sistem Mercator, d.d., and the Mercator Group, and the compliance thereof with the Code, and prepared a new statement which reflects the actual situation of corporate governance at the company Poslovni sistem Mercator, d.d., and the Mercator Group.

It was found that corporate governance at the company Poslovni sistem Mercator, d.d., and the Mercator Group complies with the provisions of the Corporate Governance Code, with particular deviations explained below.

Relations with shareholders

Recommendation 4.2: Given the fact that major shareholders communicate their investment plans on own initiative, the company did not invite them separately to publicly disclose their management policies with regard to their investment in this publicly traded stock corporation.

Recommendation 5.2: The company publicly announced on its website all information about lodging proxies for voting at particular Shareholders Assemblies; in addition, each shareholder was informed individually in this regard. However, the company did not announce on its website the information on the cost of organized lodging of voting proxies at particular Shareholders assemblies, although it did make sure the most competitive provider of these services was hired.

Supervisory Board

Recommendation 7.1: Some Supervisory Board members have not produced documentation to prove their specialized professional or expert competencies for Supervisory Board membership. Nevertheless, they qualify for such engagement due to professional competencies or experience.

Recommendation 8: All Supervisory Board members have signed a special statement specifying their position on meeting each of the independence criteria. However, the company did not announce the signed statements on its website; the statements are deposited at the company headquarters.

Mercator shall continue to observe the recommendations of the Code in the future, looking to implement as far as possible the non-binding recommendations of the Code and thus to improve its corporate governance system.

Description of key characteristics of internal control and risk management at the company, with regard to the financial reporting process

Provision of financial information is the responsibility of the company Management Board. Risks occurring in the process of preparation and compilation of such information are managed in the following ways:

- clear and concise accounting practices and their strict implementation;
- completely synchronized accounting policy throughout the entire Group;
- efficient organization of the accounting function at each company, as well as at the Mercator Group level.
- comprehensive and extensive disclosures and explanations;
- timely preparation, detailed treatment, and suitable concept in terms of contents and substance in statements relevant for business decision-making;
- preparation of financial statements in line with the International Financial Reporting Standards (IFRS);
- regular internal and external audits and reviews of business processes and operations.

Mercator Group companies compile their financial statements pursuant to the International Financial Reporting Standards (IFRS), making sure that the financial position, business performance, and cash flows are presented fairly and consistently with the actual effects of business events.

Many internal controls have been put into place in order to support and facilitate these activities. The purpose of internal controls in accounting is to manage the risks pertaining principally to the following:

- credibility of accounting information based on valid and credible bookkeeping documents, and evidence of the existence of business events, complete with a clear presentation of all information relevant for correct bookkeeping of such events;
- accuracy of financial data which is appropriately reviewed before announcement; controls are conducted at several levels by comparing the data of analytic bookkeeping to the data in the bookkeeping documents, as well as to the data of business partners or actual physical status of assets, and bringing into line the analytical accounting and the main ledger;
- completeness and timeliness of financial information, provided by uniform accounting policies and precisely defined procedures and recording deadlines as laid down in the Accounting manual of the Mercator Group, and in other internal acts of the Group companies; also important is appropriate delineation of tasks and responsibilities.

The information system plays a vital role in the provision of quality accounting information from the aspect of the use of modern technology. Most Mercator Group companies employ SAP as the main IT system. It is fittingly integrated with other IT solutions at the Group companies. Operation of the SAP system and the internal controls integrated therein are checked annually in cooperation with authorized third-party service providers.

All this, however, is only possible with highly professional, meticulous, and persistent employees complying with the relevant legislation and sharing Mercator's values. Therefore, a lot of care is devoted to their regular education. We provide both internal and third-party professional education, as well as training to acquire the "soft" skills.

Audit

Pursuant to the Companies Act, audit of financial statements is mandatory for Mercator Group companies. The purpose of the audit is to increase the level of trust among the users of financial information. The auditor applies appropriate audit procedures and methods to review the financial statements and passes an opinion as to whether they are compiled in compliance with the appropriate framework of financial reporting in all relevant aspects.

External audit

At their 19th regular Shareholders Assembly, the shareholders appointed the auditing company Deloitte revizija, d.o.o., Slovenia, as the auditor for the company Mercator, d.d. The auditing company Deloitte is also in charge of auditing the Group and most of the subsidiaries.

Auditing company Deloitte revizija, d.o.o., employs the most recent audit methodology which is developed to comply with the latest national and international auditing standards, as well as to support and improve the quality of the audit and contribute to its efficiency.

Internal audit

Internal audit is an independent and non-biased activity engaged in providing assurance and recommendations. In addition to the Management Board, Supervisory Board, and independent auditor, internal audit is one of the pillars of corporate governance. It also offers aid to Audit Committee members by providing assurance regarding risk management, effectiveness of internal controls, and managerial processes within individual companies.

Following reorganization which has been effective as of March 2013, Mercator Group internal audit department is a part of the field Finance and IT. Internal audit is organized within the parent company and it is directly subordinated to the Senior Vice President in charge of finance and IT, i.e. Drago Kavšek. This grants a higher level of independence to this department and allows it easier access to the Management Board. Its purpose is to boost the benefits and improve the operations and performance of all Mercator Group companies. It aids the companies in the pursuit of their goals by promoting carefully thought out and clear methods of evaluation of internal controls and risks, and improvement of the success of risk management processes. It is important for this department to operate in the best interest of and at the level of the entire Mercator Group. Internal audit reports to the Management Board and to the Audit Committee of the Mercator, d.d., Supervisory Board. Activities of Mercator Group internal audit are compliant with the International Standards of Professional Conduct in internal auditing, Code of Professional Ethics for Internal Auditors, and the Code of Internal Auditing Principles.

Internal audit system is closely related to the risk management system. The subject of Mercator Group internal audit is especially the fields with a higher degree of risk and the fundamental, key processes. From the aspect of internal audit, key processes are those with a major impact on the financial statements of companies; those that are critical for the attainment of strategic goals of particular companies and the Mercator Group; and those that are subject to disclosure requirements accounting to the International Accounting Standards or the relevant effective legislation.

Internal audit conducts regular and extraordinary audits. In 2013, internal audit conducted 18 regular and 10 extraordinary internal audits at 10 Mercator Group companies. The following major fields or processes were audited: risk management; merchandise procurement; management of receivables and discounts granted to wholesale customers; procurement of non-trade goods and services in marketing, maintenance, minor refurbishments, and investment; travel expense accounting; and personal vehicle fleet management.

Corporate social responsibility is viewed by Mercator Group as a cornerstone of future success of our society and the Group. We support the culture of openness according to the highest standards of integrity and responsibility. Following an initiative by the Supervisory Board and the Audit Committee, Mercator Group companies established a whistle-blowing system called **Povejmo** (Say it out loud), which allows reporting dubious or disputable conduct. Mercator Group internal audit is in charge of this activity.

Rules in this respect were laid down in the document titled "Policy of Motivating Responsibility and Integrity". It is the goal of this policy to encourage all benevolent reports of any concerns, objections, reservations, and observations of non-transparent conduct or disputable business practices at Mercator, in order to prevent by prompt action any disputable business practices and the resulting damage to the Mercator Group before such damage is incurred, to provide all employees providing such benevolent reports protection from any retaliation (especially mobbing, harassment, or intimidation), and to additionally encourage by responsible treatment and resolution of such reports more ethical, moral, and fair conduct.

In the period from July to December 2013, internal audit processed 13 reports from different companies of Mercator Group.

Audit Committee

Audit Committee of the Supervisory Board of the company Poslovni sistem Mercator, d.d., has been in operation with varying membership since 2008. It plays an important role in the total corporate governance structure of the company Mercator, d.d., and the Mercator Group. It aids the Supervisory Board in performance of its tasks, especially by monitoring and supervising the financial reporting, internal controls, risk management, and the work of internal and external auditors. The tasks and powers of the Audit Committee were defined by the Supervisory Board and laid down in the Audit Committee Rules of Procedure. These Rules of Procedure comply with the requirements of Article 280 of the Companies Act (ZGD-1). The Audit Committee reports to the Supervisory Board.

Horizontal Monitoring

On October 5, 2010, the company Mercator, d.d., signed an agreement with the Tax Administration of the Republic of Slovenia to take part in the pilot project of Horizontal Monitoring. Cooperation was initially agreed upon for the years 2011 and 2012. Late in 2012, an annex was signed to extend the cooperation to the year 2013.

In 2011 and 2012, operation of internal controls was reviewed with regard to accounting of value-added tax, personal taxes, and corporate income tax. The Tax Administration found that the system of internal controls in place at the company worked well in the said fields, and proposed some further improvements. In 2013, operation of internal controls was reviewed in the field of corporate income tax accounting. The Tax Administration again found that the system of internal controls worked well. In December 2013, an annex was signed to extend the project to 2014. Participation in the Horizontal Monitoring project leads to higher certainty in terms of taxation, particularly due to partner relationship and continuous open cooperation with the Tax Administration.

Composition of major holders of company securities as at December 31, 2013

	Major Shareholders	Country	Number of shares	Share
1	Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2	Nova Ljubljanska banka, d.d.	Slovenia	404,832	10.75%
3	Societe Generale - Splitska Banka, d.d.	Croatia	399,998	10.62%
4	Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
5	UniCredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
6	Nova KBM, d.d.	Slovenia	197,274	5.24%
7	Hypo Alpe-Adria-Bank, d.d.	Croatia	186,352	4.95%
8	Gorenjska banka, d.d.	Slovenia	142,920	3.80%
9	Prvi faktor - faktoring, d.o.o., Belgrade	Serbia	125,963	3.35%
10	Radenska, d.d.	Slovenia	96,952	2.57%
		Total	**2,637,616**	**70.05%**

Company rules on appointment and replacement of members of managerial and supervisory bodies and changes to the Articles of Association

The company Poslovni sistem Mercator, d.d., is represented by the Management Board. The Management Board consists of four members. Its purpose is to diligently and responsibly pursue the goals laid out, in compliance with the Corporate Governance Code. The number of Management Board members and their respective fields of work and responsibilities are defined as proposed by the president of the Management Board and confirmed by the Supervisory Board with the adoption of the Management Board Act. Based on the Supervisory Board resolution, President of the Management Board and Senior Vice Presidents were appointed for a five-year term, starting from June 1, 2012 for the President and June 19, 2012 for the Senior Vice Presidents. All Management Board members of the company Poslovni sistem Mercator, d.d., signed their respective fixed-term employment agreements with the company for a period of five years, which is consistent with the duration of their terms.

The fundamental function of the Supervisory Board is to supervise the management of company affairs. Pursuant to the corporate governance code, Supervisory Board member are independent in their work and decision-making. The Supervisory Board members, who are elected by the Shareholders Assembly, and and members who represent the interests of the employees and are appointed pursuant to the Worker Participation by the Works Council, represent the interests of the shareholders and all the employees within the powers of the Supervisory Board.

Changes to the Articles of Association are adopted by the Shareholders Assembly with a three-quarter majority of the represented share capital.

Information on the Shareholders Assembly operations and the rights of shareholders and the manner of their enforcement

Shareholders Assembly is the superior body of governance through which the shareholders assert their rights with regard to the company affairs. The company Poslovni sistem Mercator, d.d., is committed to full compliance with the principle of equal treatment of shareholders, allowing them to exercise their legal or statutory rights. All shareholders shall have equal voting rights.
As a rule, Company Management Board shall convene the Shareholders Assembly of Poslovni sistem Mercator, d.d., once per year. The convocation shall be announced at least 30 days before the Assembly meeting. The convocation of the Assembly shall be announced in the Delo daily paper, and in the electronic information dissemination system of the Ljubljana Stock Exchange, called SEOnet, at least one month prior to the Assembly date.

In addition to the location and time of the Assembly, the convocation, or announcement defines the conditions for taking part in the assembly and asserting the voting right, as well as the agenda and proposed resolutions. A shareholder or a proxy may assert the voting right at the Assembly by presenting a written authorization. Convocation of the Assembly, agenda, proposed resolutions with the relevant explanations, and the Assembly resolutions, are also announced on the company website at www.mercator.si.

On June 18, 2013, 19th regular Shareholders Assembly took place with 69.23% of total shares with voting rights present. Annual Report and the Supervisory Board Report on the results of the review of 2012 Annual Report were presented. The shareholders were informed about the offsetting of net loss; about the compensation and rewards paid out to members of managerial and supervisory bodies; and about the Supervisory Board evaluation procedure and granting discharge from liability to the Management Board and the Supervisory Board. They were also presented the report on the findings of the special auditor appointed to review particular company transactions regarding the takeover intent and takeover bid for the acquisition of all shares of the company Pivovarna Laško, d.d.

The Shareholders Assembly also appointed Bojan Brank as the Supervisory Board member, and appointed the auditing company Deloitte revizija, d.o.o., as the company auditor for the fiscal year 2013.

Managerial and supervisory bodies

MANAGEMENT BOARD:

President of the Management Board – Toni Balažič

Education:

- MBA, BA Economics

Fields of responsibility:

- coordinating the work of Management Board of the company Poslovni sistem Mercator, d.d., and the Mercator Group
- strategic marketing
- public relations
- human resources, legal affairs, and organization
- real estate management
- management of other fields subject to authorization by the President of the Management Board

Senior Vice President in charge of Mercator operations Southeastern Europe – Stanka Pejanović

Education:

- MScBA, BA Economics

Fields of responsibility:

- management of trade operations in the markets of Southeastern Europe: Serbia, Bosnia and Herzegovina, Montenegro, Albania, and Bulgaria.

Senior Vice President in charge of finance and IT – Drago Kavšek

Education:

- BA Economics

Fields of responsibility:

- finance, controlling, accounting, and internal audit
- IT and telecommunication
- management of other fields subject to authorization by the President of the Management Board

Senior Vice President in charge of trade operations in Slovenia and Croatia – Igor Maroša

Education:

- MA business administration and organization, BA economics

Fields of responsibility:

- management of trade operations in Slovenia and in Croatia
- managing other fields subject to authorization by the President of the Management Board.

From left to right: Igor Maroša, Stanka Pejanović, Drago Kavšek, Toni Balažič

SUPERVISORY BOARD MEMBERS:

Supervisory Board Chairman – Matej Lahovnik

- Education: PhD in management and organization
- Employment: Faculty of Economics, University of Ljubljana; assistant professor

Supervisory Board Members Representing Shareholders

Rok Rozman, Deputy Chairman

- Education: Master of Laws (LL.M.)
- Employment: UniCredit Banka Slovenija, d.d.; authorized representative with statutory power (procurator)

Boris Galić

- Education: BA Economics
- Employment: Allianz Zagreb, d.d.; management board president

Zdenko Podlesnik

- Education: BA Economics
- Employment: Inovativni projekti, d.o.o., Celje; managing director

Marjeta Zevnik

- Education: Bachelor of Laws (LL.B.)
- Employment: Pivovarna Laško, d.d., Laško; Management Board member in charge of legal affairs, HRM, and general affairs

Bojan Brank

- Education: MA business administration and organization.
- Employment: Abena, d.o.o.

Supervisory Board Members Representing Employees

Ivan Valand

- Education: BA Economics
- Employment: Head of Hypermarket II at Poslovni sistem Mercator, d.d.

Vesna Stojanović

- Education: administration clerk
- Employment: senior independent expert in HRM and general affairs at Poslovni sistem Mercator, d.d.

Veljko Tatić

- Education: sales manager, VI level of education
- Employment: senior business consultant in retail channels at Poslovni sistem Mercator, d.d.

Information on activities and composition of the Audit Committee

The Audit Committee of the Supervisory Board of the company Poslovni sistem Mercator, d.d., operates pursuant to the provisions of the Companies Act (ZGD-1). The activities of the Audit Committee are aimed at further improvement of performance of the supervisory function at the company.

In 2013, the Audit Committee membership changed to include chairwoman Marjeta Zevnik (Supervisory Board member) and three members: Rok Rozman (Supervisory Board member), and Sergeja Slapničar and Aleksander Igličar (both independent experts on accounting and auditing).

Management of subsidiaries

Mercator Group consists of the parent company Poslovni sistem Mercator, d.d., and its subsidiaries in which the parent company holds, directly or indirectly, the majority interest or the majority of voting rights. Parent company controls its subsidiaries within a single Management Board.

The company Poslovni sistem Mercator, d.d., as the parent company of the Mercator Group, operates by the principles of improving business performance in each subsidiary and the Group as a whole, common harmonized development of the Group, optimum supply of fast-moving consumer goods and services in all markets of Group's operations, improving competitiveness, efficient allocation and coordination of material flows, harmonized and coordinated procurement and sales at home and abroad, financing current operations and development with common funds, and security, risk and liquidity management, and maximum returns in financial management.

In Slovenian and foreign subsidiaries incorporated as limited companies (d.o.o.), the parent company Management Board performs the function of company Assembly; alternatively, the parent company Management Board, either entirely or partially (with involvement of only some of its members), takes part in the work of the Supervisory Boards of these companies. The employees present in the bodies of governance at these companies do not receive any additional compensation for the performance of such functions.

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

Activities as a part of the four pillar strategy implemented in 2013

FOCUS

In early 2013 we **withdrew from the market of Bulgaria**, keeping our focus on other markets of our operations, which are of greater strategic importance.
We carried on the process of restructuring of operations in Croatia, pursuing the goal of improving the company performance and reaping synergies between Slovenia and Croatia, especially in terms of **optimization of logistics infrastructure and consolidation of suppliers**.
Business activities of the companies **Tehnika, Modiana, and Intersport** were **successfully merged with Mercator's respective subsidiaries** in foreign markets. In Slovenia, successful integration of the company M - Tehnika, d.d., will be followed by the integration of Modiana, d.o.o., in early 2014.
The project **Locally Grown** involves offering an increasing amount of local produce, especially in the categories of meat and meat produce, milk and dairy products, fruit and vegetables, and bakery products.
At the stores, we **standardized the assortment** or adjusted it at critical units. Moreover, activities were in progress to standardize sales area in our stores.
We actively **monitored exposure to credit risk** and carried out measures to cut the days receivables outstanding (i.e. to collect our receivables earlier), especially the receivables due from Pika card holders.
We sought to improve our performance by promoting the issue of new Pika cards, by carrying out extra marketing activities in critical locations, and by introducing corrective measures focused on price competitiveness.

OPTIMIZATION

We implemented operating cost optimization measures which have resulted in savings that exceed our initial plans by over 50 percent. Major activities were carried out in the field of **information technology**, including a migration to uniform cash register software, outsourcing the electronic mail system to a third-party service provider with ample experience in the field, introduction of a new tool for efficient IT system troubleshooting and transfer of business applications of the company M - Energija, d.o.o., to the framework of Mercator, d.d.
We succeeded in **cutting the costs of training and education** by relying less on third-party services and providing education with in-house instructors.
Negotiations were held to **reduce rental expenses**.
Labour costs were reduced as a result of reorganization of the Mercator Group and re-integration of the companies Modiana, Intersport, and Tehnika to Mercator's subsidiaries in respective markets.
We efficiently cut energy costs and costs related to paper, or hard copy, documentation.
We actively optimized the process of goods ordering and returns; additional measures were also carried out on supply optimization projects. Moreover, activities were in progress to implement the functionality of GOLD and to discontinue the current solutions.
The financial restructuring process is successfully under way, which includes negotiations on long-term debt refinancing that will allow Mercator to improve its liquidity and to stabilize and optimize its operations.
The **working capital management** project has resulted in a decrease of days in inventory, decrease of dead inventory, and improvement in overall working capital.
The process of divesting non-core and underperforming assets included **divestment of as many as 34 pieces of real property**, of which 31 were located in Slovenia.

PROFITABILITY

Activities were conducted to **renegotiate the terms with suppliers** to improve the commercial terms and conditions.
We have revised or updated some of the existing private labels and introduced new products within the existing ones in order to increase the share of private label sales in total revenue.
Promotional activities took place in sales campaign planning for appealing special offers, improve customer and employee satisfaction, and to improve and reward customer loyalty.
Profitability was also improved by cutting maintenance and servicing costs, as well as the costs of cleaning in office buildings and landscaping costs.
We have shut down our non-profitable units.
In the technical consumer goods program, we improved seasonal sale management and introduced a new approach to promotional activities.

GROWTH

In 2013, we actively **refurbished and updated our neighbourhood stores** as a part of the **Mercator NEIGHBOUR** project in all markets of operation, and included departments for fast and simple shopping for freshly prepared food in these stores. Investments into refurbishments have already yielded positive results.
We were the first traditional retailer in Slovenia to launch our online store. In this respect, we advanced our services of online sale with the project **Click and Collect** that allows highly mobile consumers to collect the products ordered online at their store of choice.
We have extended our wholesale network by over three thousand square meters of new sales area as we opened two new units in Slovenia and Serbia.
Revision of the Pika card customer loyalty system has resulted in new customers actively using the benefits of the Pika card. Moreover, customer loyalty system at Mercator stores and "DP marketi" stores have thus been unified.

NEIGHBOUR NEWSFLASH

Mercator remains the best neighbour for all loyal customers.

Business report

Mercator

SALES AND MARKETING

Sales

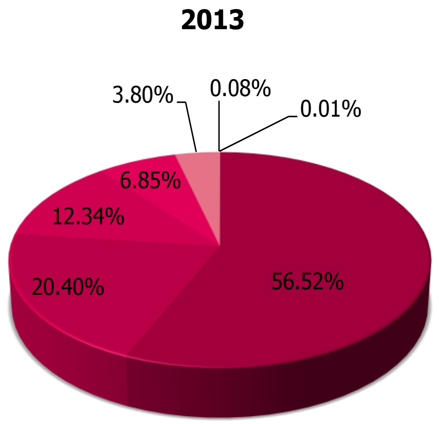
In 2013, economic growth was negative in Slovenia and Croatia and positive in other markets of Mercator's operations. Unemployment rates remain relatively high, especially in the market of Bosnia and Herzegovina, while the situation has improved slightly in Serbia and Montenegro. Purchasing power remains low and consumers continue to be conservative in their decisions, dispersing their shopping over a larger number of retailers. As a result of economic hardship and conservative stance of the consumers, competition in all markets has grown even more stringent.

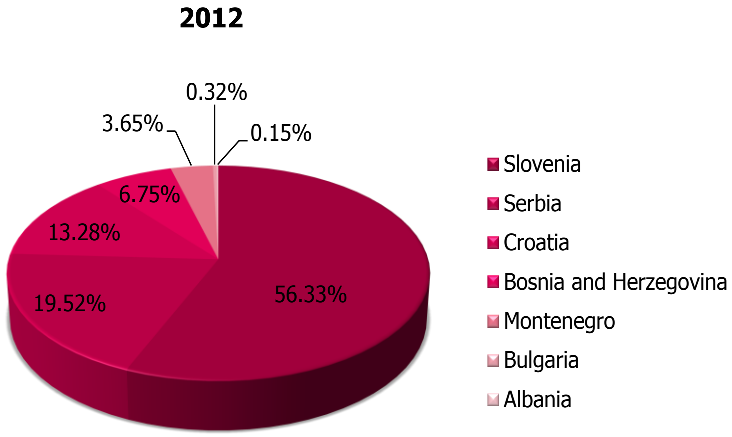
In 2013, Mercator Group's **revenue amounted to EUR 2,766 million**, which is **3.7% less than in the year before**.

In Slovenia, revenue dropped by 3.4%. Revenue increased slightly in Serbia (0.6%) and Montenegro (0.4%), while having dropped in Bosnia and Herzegovina (by 2.3%) and in Croatia (by 10.5%). As a result of withdrawal from the markets of Bulgaria and Albania, revenue in these two countries was minimal.

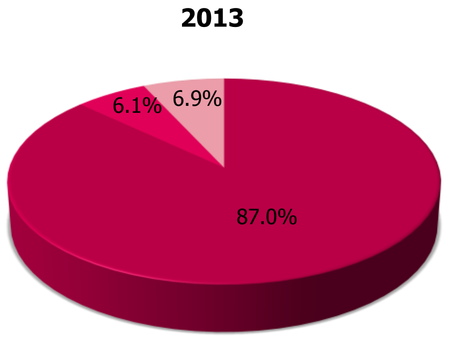
Relative to the year 2012, sales revenue is lower by 3.7%, which is partly a result of persistent negative market conditions and withdrawal from non-strategic markets.

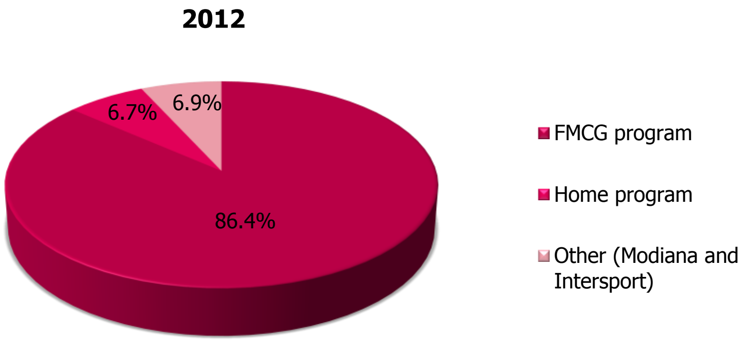
Mercator Group revenue by geographical segments:





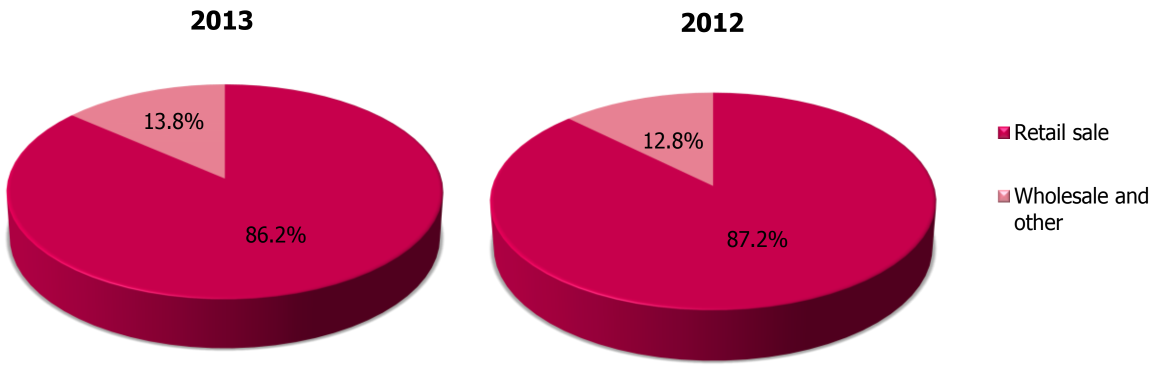
Mercator Group revenue from trade operations by programs:





In 2013, the majority of Mercator Group trade revenue resulted from sales of fast-moving consumer goods as they accounted for 87 percent of total revenue; revenue from other specialized programs amounted to 13 percent. Decrease of revenue in home products program is also a result of the shrinking of the assortment at M Tehnika at the end of 2012 when we discontinued sale of furniture at our technical consumer goods stores.

Mercator Group revenue by type of sale:



In 2013, Mercator Group retail operations generated 86.2 percent of the Group's revenue from sales of goods and material, while the remaining 13.8 percent was generated in wholesale. The share of wholesale in total sales thus rose by 1 percentage point, which is consistent with the opening of two wholesale units, in Slovenia and Serbia respectively.

Store formats, customer segments, and category management

Late in 2012 we implemented the three-dimensional marketing approach which includes coordinated management of categories, customer segments, and store formats and services in order to please every customer at every Mercator store.

Our customers have varying needs and desires. Therefore, we are doing our best to learn about them and to adjust accordingly our offer and the space where this offer is presented to the customers. Each activity may have three dimensions: **customer, offer (product), and store (place)**.

Store Formats

Mercator Group's retail units are present in five markets. Due to different levels of economic maturity in these markets, operations have to be adapted to the needs of the customers in each of them. To this end, Mercator has put in place a multi-level strategy of brands and a multi-format strategy with a broad range of store formats. These are intended to allow both major, previously planned shopping sessions, as well as minor, daily or occasional shopping for fast-moving consumer goods, technical consumer goods, apparel and cosmetics, sportswear, tourist services, and fuel at petrol stations.

Development of New Store Concepts

In recent years, we have been witnessing major changes in the shopping behaviour of the consumers, which may be attributed to several trends in our broad environment: ageing of the population, longer working hours, longer commutes, smaller households, changes in diets of our consumers, rise of online commerce and development of new technologies that make shopping easier, recession, market saturation, and rising prices of fuel.

Modern consumers are price-sensitive. Their average shopping basket is smaller and they shop more frequently, dispersing their shopping over several retailers and store formats. When planning their shopping, they avoid longer trips. There are fewer impulse purchases, and shoppers tend to be more rational when buying non-alimentary products of higher value.

Mercator is attentive to the wishes and needs of modern consumers and seeks to adapt as much as possible. After years of expansion of major shopping centers, we have thus shifted our focus back to **smaller stores**, **redesign of our existing retail network**, and **intensive development of online commerce**. **Diversification of store formats** remains the key strategy. Therefore, we were particularly focused in 2013 on redefining the neighbourhood store concept.

In terms of both the number of units and the number of customers, neighbourhood stores are Mercator's most important store format and they represent a competitive advantage due to their convenient location and broad regional coverage. We have redefined the **Mercator NEIGHBOUR** store format in order to adapt to particular micro environments and target customer segments, their shopping behaviour and habits, and their needs.

In 2013, we opened five stores implementing the redefined Mercator NEIGHBOUR store format concept.

The highlights and focus of this format are the **offer of fresh produce** (depth and variety of offer) and **innovative ideas of the offered mix**:

- **heavy emphasis on the freshness of products** – daily fresh and prepared at the store, highlighted within the store area, and presented to the customer in a visually appealing manner;
- **introduction or expansion of the offer of ready-made food that is ready to be consumed either immediately or upon reheating** – products that provide the customer with an idea or offer a solution on how to quickly prepare a meal;
- **larger offer of pre-packed fresh products** – the customer may choose the product and avoid waiting for service;
- **placement of the "Minute" department into the units in busy locations** – a combined offer in one place of different "convenient" products which customers buy for snacks or lunches as they are ready for immediate consumption: beverages, energy drinks, pre-packed sandwiches, pre-packed pastry, sliced fruit, vegetable salads, dried fruit, selected sweet and savoury snacks, dairy drinks, yoghurt etc.

The Mercator NEIGHBOUR concept also promotes the idea of the **local community** that we are a part and which we are looking to be actively involved in by working with the local community, communicating with the consumers, motivating new proposals etc.

In order to implement or present the new concept, the first test stores were opened in the second half of the year:

- **urban neighbourhood store – on Celovška and on Trg komandanta Staneta in Ljubljana,** focused on fresh program and daily shopping, i.e. supplementary shopping for products the consumers have run out of during the week;

- **suburban, country neighbourhood stores – Market Na gmajni, Ljubljana**, and **Gala, Metlika**, focused on fresh program and daily shopping, but also allowing stock-up shopping ;

- **convenience neighbourhood store – Market Titov trg, Koper,** with emphasis on diverse and innovative offer of convenient products ("Minute" department) and on minor occasional shopping.

In order to respond to the shopping trends in the market, i.e. increasing price sensitivity, increased appreciation of quality local produce, rational and conservative approach to purchases of non-FMCG products, and to provide a pleasant shopping experience for our customers, **two hypermarkets were fully refurbished** in the fourth quarter of the year:

- **HM KOPER**
  Despite the smaller shopping area, this remains a hypermarket with a modern sales concept:
  - well thought-out concept of particular departments with emphasis on visual elements: lighting, overall visual identity of departments and labelling, equipment, technologies, extras etc.;
  - introduction of the Mercator marketplace project that promotes products from our countryside;
  - the "**Minute**" department located at the very entrance to the store, allowing the customers to quickly and simply, from the walkway, purchase freshly prepared food suitable for immediate consumption.

- **HM ŠIŠKA**
  This hypermarket was refurbished this year in terms of offer, visual identity, and layout:
  - layout with a winding shopping alley emphasizes respective departments presenting a rich and varied offer: appealing, diverse and competitive offer of non-FMCG products, extended offer of food, Minute department located at the very entrance to the store;
  - highlighted special offers or seasonal products at the store;
  - visual design of respective departments;
  - fresh produce departments are linked into a comprehensive image of a marketplace.

To provide a varied appealing offer, we included at **five units** (hypermarkets Koper, Šiška, Rudnik, Tabor, and Maximarket) a range of frozen products (fish, seafood etc.) available by self-service – "cool house".

Following the decision to discontinue the **HURA! discount stores**, these stores were being intensively converted to "standard" supermarket or neighbourhood store format in the last quarter of the year. Four HURA! discount stores have already been converted to neighbourhood stores, while one was converted to a supermarket. Key changes include greater variety of offer and addition of service lines, services, and projects present at Mercator's FMCG (grocery) stores.

HURA! discount store format was discontinued and the HURA! stores were transformed: four to neighbourhood stores, and one to a supermarket.

In Croatia, activities to **revise the existing store concept of the Getro Cash & Carry banner** were under way. Previously, these stores were mostly targeted at wholesale customers; recently, there has been a shift towards the retail customers. The goal of concept revision was to establish a shopping environment that is pleasant for retail customers. Therefore, changes pertain to the shopping path, distribution of different categories of products in the store, in-store communication, as well as adjustment of the program mix and assortment. The first refurbished unit, Getro Vrbani, was opened in July 2013.

Composition of retail units as at December 31, 2013

COUNTRY	SLOVENIA	SERBIA		CROATIA		BOSNIA AND HERZEGOVINA		MONTENEGRO		MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Mercator	Getro	Mercator	Drvopromet	Mercator	Roda			
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	23	3	14	12	1	6	-	1	1	61	286,274	187,441
Supermarkets	130	-	44	27	3	18	13	-	9	244	267,728	173,006
Neighbourhood stores	339	-	55	42	18	5	46	2	69	576	205,607	119,942
Comfort stores	1	1	-	1	-	1	-	-	-	4	8,521	5,070
Convenience stores	1	-	-	-	-	-	-	-	-	1	159	83
Cash & Carry	14	-	6	-	16	-	-	-	1	37	122,250	82,731
Restaurants	18	10	-	-	-	2	-	-	-	30	8,868	6,059
TOTAL FMCG program	**526**	**14**	**119**	**82**	**38**	**32**	**59**	**3**	**80**	**953**	**899,406**	**574,332**
Home program	54	13	-	12	-	-	-	-	-	79	109,133	69,278
Furniture program	-	-	-	-	-	-	-	1	-	1	1,421	967
TOTAL home program	**54**	**13**	**-**	**12**	**-**	**-**	**-**	**1**	**-**	**80**	**110,554**	**70,244**
Clothing program and drugstores	**66**	**13**	**-**	**34**	**-**	**12**	**-**	**-**	**-**	**125**	**61,157**	**50,968**
Clothing program	56	7	-	34	-	8	-	-	-	105	58,755	48,888
Drugstores and perfumeries	10	6	-	-	-	4	-	-	-	20	2,401	2,080
Intersport	**34**	**11**	**-**	**28**	**-**	**9**	**-**	**2**	**-**	**84**	**52,457**	**40,225**
M holidays	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**242**	**242**
TOTAL specialised programs	**113**	**24**	**-**	**62**	**-**	**21**	**-**	**2**	**-**	**222**	**113,855**	**91,434**
TOTAL retail units under management	**693**	**51**	**119**	**156**	**38**	**53**	**59**	**6**	**80**	**1,255**	**1,123,815**	**736,011**
Franchise stores	**227**	**-**	**76**	**48**	**-**	**-**	**-**	**-**	**-**	**351**	**63,010**	**41,820**
TOTAL	**920**	**51**	**195**	**204**	**38**	**53**	**59**	**6**	**80**	**1,606**	**1,186,825**	**777,831**

Store formats by country and store brands

	STORE FORMAT	STORE BRAND	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO
FMCG	Hypermarkets	Mercator	■	■	■	■	■
		RODA		■			■
		GETRO			■		
	Supermarkets	Mercator	■		■	■	■
		RODA		■			■
		GETRO			■		
		MARKETI za korpu VIŠE...				■	
	Neighbourhood, convenience and comfort stores	Mercator	■	■	■	■	■
		RODA		■			■
		GETRO			■		
		MARKETI za korpu VIŠE...				■	
	Cash&Carry	Mercator	■				
		RODA		■			■
		GETRO			■		
	Franchise stores	Mercator	■		■		
		RODA		■			
Home products, textile and cosmetics, sportswear and other operating activities	Home and furniture program	Mercator	■	■	■		■
		RODA					
	Sports program	INTERSPORT	■	■	■	■	■
	Clothing program	MODIANA	■	■	■	■	
	Drugstores and perfumeries	BEAUTIQUE	■	■		■	
	M holidays	HOLIDAYS	■				
	Maxen	MAXEN MAXIMALNA ENERGIJA	■				

Customer segments

Customers are at the very heart of our efforts. In order to come even closer to them, we have revised our customer loyalty system. Early in the year, or at the start of the new benefit period on February 1, 2013, **we launched in all countries simultaneously the revised Pika card customer loyalty system**.

In Croatia, the Pika card system was also introduced at Getro Cash & Carry stores, and in Bosnia and Herzegovina, it was introduced in the DP Marketi stores. Revision of the system was supported by media communication and a sizeable investment into staff training and education, as this represents the foundation of the relations with our customers. Hence, we made sure our employees are able to confidently help Pika card holders understand the changes in the system.

We have revised the Pika card customer loyalty system and launched it in all markets of our operations simultaneously. By the end of 2013, we have signed over 340 thousand new Pika card holders.

The consumers responded well to the changes. From February to the end of the year, a total of **340 thousand new Pika card holders** signed in at the Group level. Furthermore, the share of Pika card holders who shopped at least once in a month rose by 20% in Slovenia, by 50% in Montenegro, and by over 80% in other countries where the Pika card system is in place. The share of revenue generated with Pika card checkouts at the Mercator Group level rose by 14 percentage points.

Category management

In category management, our goal within each category is to build a quality multi-level offer of both branded and private label products, to provide competitive prices for branded and private label products, to include appealing offer in our sales promotion activities, to efficiently manage our store area at the level of each product or category, and to provide adequate in-store sales service.

Key activities in 2013 were focused on the following five fields:

- **Locally Grown** project which in turn includes:
  - labelling fresh meat at the stores, 100-percent guarantee of regular offer of fresh meat from livestock raised in Slovenia with the slogan "raised in Slovenia";
  - providing freshly baked products where finishing the baking process of bread and pastry is possible, with the slogan "freshly baked every two hours";
  - increasing the offer of Slovenian fresh fruit and vegetables with the slogan "fresh fruit and vegetables";
  - at the store, labelling milk and dairy products made out of 100-percent Slovenian milk, and advertising in campaign flyers and in other media with the slogan "100-percent Slovenian milk";
- **Assortment management by categories** and new product placement in some categories;
- **Appealing presentation of special offers and seasonal products in special offer flyers**.

Marketing

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

CREATING VALUE FOR THE CUSTOMER

- **Pricing benefits for our customers;**
- **Pika customer loyalty card;**
- **Domestic, local offer; proximity to the consumer;**
- **Fresh and high-quality offer.**

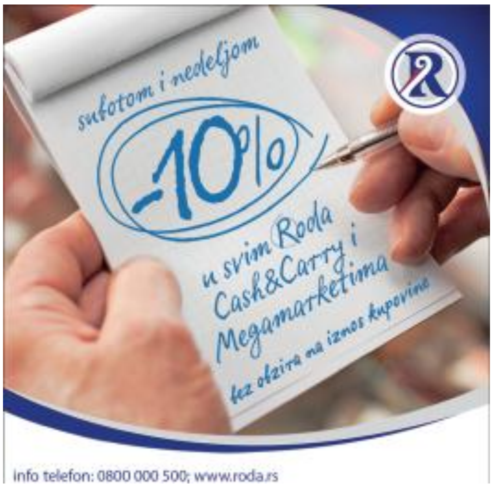
Pricing benefits for the consumers

As the economic hardship persisted, the consumers have increasingly **sought lower-priced offer**. At Mercator, we keep track of the wishes and needs of our customers and continuously seek to adapt to them. We are proud that the consumers rated our special offer flyer which they received with their mail as the most attractive in the market. This goes to show that we are always focused on the customers when developing discounted offer and providing products they can trust.

In addition to different discounts and coupons for our customers, we also introduced two new projects in 2013. The **Good Price** range in Slovenia and Croatia includes products that our customers are the most familiar with, at competitive prices. A similar project was launched at the Getro stores in Croatia. **Slovenian basket** is intended for customers in Slovenia who are particularly attentive to the country of origin of the products they buy, as it only includes products made in Slovenia. For customers who appreciate local produce and origin, we provide additional in-store labelling for products that are either **made of 100% Slovenian milk**, or which are of **100% Slovenian origin**, as well as **regional Slovenian wines**, and **over-the-counter meat 100% raised in Slovenia**.

The customers are offered quality offer of products, inviting discounts, excellent service, and pleasant shopping environment every day. We pay extra attention to the quality of fresh produce: the quality of fruit and vegetables is checked every two hours, and we also provide freshly baked bread and pastry every two hours.

Every day, the customers are also offered several benefits in other Mercator Group store formats found in international markets under the banners Roda and DP marketi. In Serbia and Montenegro, customers at Roda stores were offered lower prices with promotional campaigns **10 lowest prices in town** and **10% weekend discount**.



In the markets of Serbia, Bosnia, and Montenegro where we are present with two store format banners, we often develop joint sales activities.

Pika customer loyalty card

With a pronounced focus on the consumers, we continue to develop the **benefits of the Pika card customer loyalty system**. Now, the customers can win and use their loyalty points for virtually the entire offer; they are also offered special Pika discounts for select products; in addition, the card allows them to defer the payment or to pay in up to 24 instalments at a zero interest rate. For the segment of customers keen on shopping online, we also allow the functionality of online payment for alimentary products and technical consumer goods by Pika card.

Value added of the Pika card is enhanced in cooperation with new partner companies that offer appealing **complementary offer** exclusively for us and for our target segments.

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

On February 1, 2013 the **revised Pika card customer loyalty system** was successfully launched in all five markets of our operations. The key novelties for the card holders are the changed value of each Pika point and revised benefit scale.

Upon revision, the **Getro Friend card** was included in the Pika system in Croatia; in Bosnia, Pika card was rolled out to the **DP marketi** store format.

Domestic, local offer; proximity to the consumer

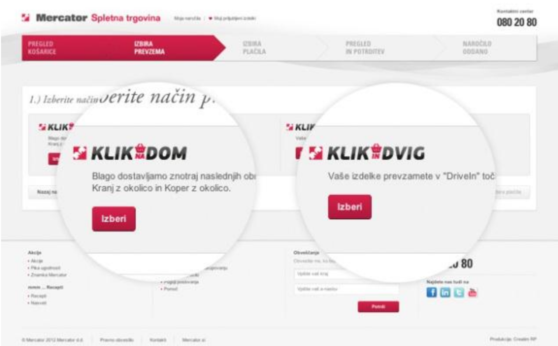
The offer of homemade Slovenian produce and products is increasingly important. We are committed to preserving the environment, nurturing tradition, and allow smaller growers to offer their products in our stores via direct delivery. Our most important guiding principle, however, is to satisfy the needs 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 project of local offer was successfully rolled out to other markets as well. In **Croatia**, local offer is combined in the **Taste the homemade** activity; in **Bosnia and Herzegovina** we have carried on the activity **100% local product.**

We continued to supply domestic, local offer and we successfully expanded it to international markets: to Croatia under the slogan "Taste the Homemade"; to Bosnia and Herzegovina with the slogan "100% Local Product", and to Serbia under the slogan "Recommending Local Products".

In **Serbia**, select local products are offered under the slogan **Recommending Local Products.**

To date, Mercator has retained the position of the only Slovenian traditional retailer that also offers ***FMCG through a web store***. This channel has been further developed by **introducing the new Click and 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.



We are the first and to date still the only Slovenian traditional retailer offering online sale of fast-moving consumer goods.

For the convenience of our consumers, we also provide complementary services such as **M holidays** tourist services and our own petrol stations **Maxen**.

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 and stores of our other banners across the region. 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. In 2013, **Mercator Group** saw **8-percent increase of private label product share** in all markets of our operations as the private label included 3,084 products in different product lines.

The share of private label products in total sales has increased again this year, by 8 percent.

Current private label lines and their presence on Mercator's markets

PRIVATE LABEL	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTENEGRO
Mercator Naše ime, naš značaj.					
BONUS PLUS					
Mercator ACTIVE LIFE					
Mercator Minute					
LUMPI					
Pekarna Grosuplje					
Mercator mybody					
ambient					
Mercator PREMIUM					
Mercator comfort					
kranjski kolaček					
Mercator Bio					
TOTAL NUMBER OF PRIVATE LABEL LINES	12	10	11	7	5

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

In 2013, Mercator Group conducted tasks consistently with the adopted strategy in real property management, subject to conditions prevalent in the domestic and international financial markets. In investment, preference was given to acquiring real property on lease, and to refurbishment of our existing stores.

We did not construct any own facilities in 2013, except for the replacement Cash & Carry facility in Požarevac, Serbia, where constructing a new facility was a more cost-effective option than refurbishment. Investment funds were used for refurbishment and update of the existing retail network and completion and equipping of leased store area.

In 2013 we prepared a new overview of real estate portfolio, classifying it by the fields of use. It was our goal to divest as much non-core and underperforming assets as possible. Thus, we divested through tenders 34 pieces of property, 31 of which in Slovenia. Moreover, it was our goal to expand our network in the areas with the highest return on investment.

We continued to update Mercator's shopping centers and we fully refurbished the Mercator Center Koper I. In addition, we continued to integrate the offer internationally renowned brands at our shopping center by leasing out retail area to their providers.

A new concept of neighbourhood store redesign was developed within the Mercator NEIGHBOUR project, according to which we have refurbished five FMCG stores. In 2014, refurbishment efforts will continue at other stores.

We invested a total of EUR 29,499 thousand into refurbishment of the existing retail network and into equipment and decoration of the leased area.

Following are Mercator's key goals in real estate management:

Investment and Divestment

In 2013, Mercator Group investment into property, plant, and equipment (CAPEX) amounted to EUR 29.5 million. Of this amount, 57.6% was invested in Slovenia, and 42.4% was invested in foreign markets.

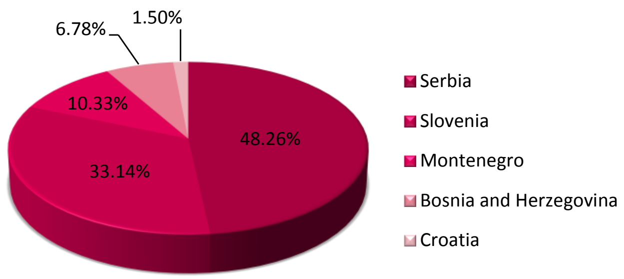
	Capital expenditure in 2013 (EUR thousand)	Structure (in %)
Slovenia	17,008	57.66%
Serbia	6,923	23.47%
Montenegro	2,636	8.94%
Croatia	2,184	7.40%
Bosnia and Herzegovina	746	2.53%
Bulgaria	2	0.01%
TOTAL	**29,499**	**100.00%**

Investments in expansion of retail facilities (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 29.4% of total investments; 40.4% was allocated for refurbishment of the existing facilities; and the remaining 30.2% was invested into logistics, IT, and non-trade activities.

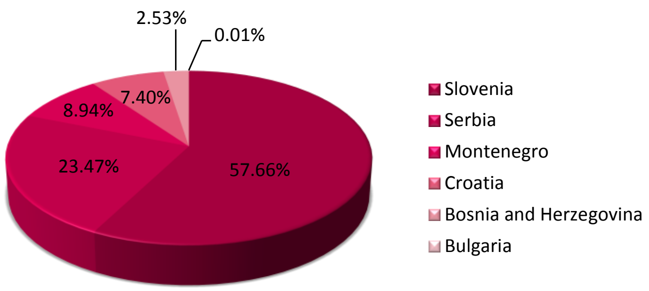
In 2013, Mercator Group acquired 24 new units spanning a total of 20,356 square meters. Of this area, 63% was acquired through operating lease and 37% was acquired by constructing replacement facilities or refurbishment of existing units.

In 2013, Mercator Group divested of EUR 9,487 thousand worth of property, plant and equipment.

Share of newly launched facilities by markets:



Share of investments by markets:



Summary of total gross retail area as at December 31, 2013:

	Gross area in m^2		
	Used for own operations	Leased out	Total
Owned retail area	773,542	198,529	972,071
Leased retail area	350,273	36,400	386,673
Total retail area	**1,123,815**	**234,929**	**1,358,745**
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	23,765	2,198	25,963
Leased commercial facilities	6,108	43	6,151
Total commercial facilities	**29,874**	**2,241**	**32,115**
GROSS AREA UNDER MANAGEMENT	**1,338,500**	**237,745**	**1,576,245**
- of which owned	937,030	201,302	1,138,333
- of which leased	401,470	36,443	437,913

SUMMARY OF RETAIL UNIT LAUNCHES BY MARKETS IN 2013

SLOVENIA
Area of new facilities: 6,745 m^2
Number of retail units: 6
Openings:
Intersport MC Ravne, Intesport BTC Ljubljana, Maxi Ambient Ljubljana, Cash & Carry Maribor, Intersport Hrastnik, Modiana TC Slovenska Bistrica

CROATIA
Area of new facilities: 305 m^2
Number of retail units: 2
Openings:
Modiana Novigrad, Intersport Crikvenica

SERBIA
Area of new facilities: 9,823 m^2
Number of retail units: 10
Major openings:
Supermarket Kruševac, hypermarket and Intersport in shopping center Stadion center Voždovac in Belgrad, market Kej in Novi Sad, market Vrbas, Cash & Carry Požarevac

BOSNIA AND HERZEGOVINA
Area of new facilities: 1,380 m^2
Number of retail units: 2
Openings:
Supermarket Starčevica 2 in Banja Luka, supermarket Prijedor

MONTENEGRO
Area of new facilities: 2,103 m^2
Number of retail units: 4
Openings:
Superette Budva Bulevar, supermarket Cetinje, supermarket Blok 6, Podgorica, market Berane

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN 2013[1]

Economic conditions in 2013

In 2013, the effects of the financial crisis continued to burden the economies of all markets of Mercator's operations. Gross domestic product (GDP) growth was negative in Slovenia and Croatia, and positive in other markets of Mercator's operation. In 2014, further drop is only anticipated in Slovenia, which, however, is Mercator's largest market.

Slovenia is strongly dependent on the economy of the European Union, which is, according to the autumn forecast, estimated to have remained at the same level in 2013 as in 2012 (although growth can be seen in the last months of the year); in the euro zone, the economy is expected to shrink by 0.4%. Ten European Union member states are estimated to have seen a decline in the GDP in 2013. In 2014, only two are expected to see negative GDP growth; sadly, Slovenia is one of them. Gross domestic product is forecast to rise in 2014 by 1.4% in the European Union and by 1.1% in the euro zone. Growth is also expected for 2015 when GDP is anticipated to increase by 1.9% in the European Union and by 1.7% in the euro zone. Growth in 2015 is also forecast for all European Union countries. Inflation in the period 2014–2015 is expected to remain low, around 1.5%.

In 2013, the European Central Bank further decreased the interest rate for the main refinancing operations to 0.25%. This is a record low which has also resulted in persistently low Euribor. At the end of 2013, the latter rate rose relative to the rate from the start of the year, but it is still very low. Average 6-month EURIBOR in 2013 was 0.336% while the average for 2012 was at 0.828%.

[1] Economic conditions and competition are commented based on the following data sources: UMAR (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), ECB (European central bank), EBRD (European Bank for Reconstruction and Development), S&P (Standard&Poor's ratings services), statistical offices or respective countries, IMF (International Monetary Fund), market research company Nielsen, and EC (European Commission).

Economic conditions and competition in the markets of Mercator's operations

SLOVENIA

Macroeconomic conditions

According to the estimates of the Institute of Macroeconomic Analysis and Development (UMAR), GDP dropped by 2.4% in 2013 as a result of a decline in domestic consumption; this decline is greater than initially forecast last year (1.4%). Further decline in GDP of 0.8% is expected for 2014 (which is a larger decline than anticipated in the spring forecast when it stood at 0.2%); the trend is only expected to be reversed in 2015 when a 0.4% economic growth is anticipated. EBRD 2013 forecast for Slovenia includes a 1.7% drop in GDP; in 2014, GDP is expected to decline by 2%, which, however, is an improvement over the November 2013 forecast. According to the Statistical Office of the Republic of Slovenia, inflation rate in 2013 was 0.7% (it stood at 2.7% in the year before); average annual inflation rate for 2013 was 1.8% (2.6% a year before). Accounting for the measures adopted in the field of taxation, and assuming absence of any supply (commodity price) shocks from the international environment, UMAR (IMAD) forecasts inflation that is lower than this year and staying below 2% in the two years ahead, mostly because of persistently harsh economic conditions. In 2013, Slovenia's credit rating was downgraded; as of February 2013 it has been A-, yet with stable outlook. Yield of Slovenian 10-year bonds in 2013 rose from the initial level of around 5% to nearly 7%; at the end of the year, it returned to the level from the start of the year.

Effect of market situation on consumption

Consumer confidence in Slovenia was slightly more optimistic in 2013 than in the year before – the consumer confidence indicator rose by 2 percentage points, as surveyed by the national statistical office. According to Nielsen data, however, consumer confidence in Slovenia remained below the European average. Most consumers believe the country is still in a recession (over 94%) and they do not expect improvement in the year 2014 (over 80% of respondents). Security of their employment is their prime concern. Most consumers cannot afford the things they need or wish. A good quarter of the consumers are left with no funds after paying for the basic costs of living. Those who do have some surplus available mostly use it for savings or debt repayment. Consumers have adapted their consumption to reduce household expenditure relative to the year 2012 in the following ways: mostly by switching to lower-priced brands of food, by reducing their budget spent on clothing and out-of-home entertainment, and by delaying the purchase of the latest technological gadgets.

Consumers continue to adapt their consumption and shopping behaviour to the economic crisis. They tend to be more rational more sensitive to price than to origin and quality of the product. In addition, they tend to shop more frequently with smaller baskets. They proactively seek lower prices by browsing the special offers, discounts, and using their customer loyalty cards in order to save. Discount retailers have drawn even more consumers with their competitive prices and inclusion of local produce into their offer. The consumers are conservative when buying durables and semi-durables, seeking to postpone such purchases.

Competition

Retail industry is relatively stable and consolidated. Importance of discount retailers continues to increase as they make the already stringent competition even harsher by opening new stores and driving down product prices. Due to increased consumer sensitivity to pricing, strong pressure on prices is expected in the future as well.

SERBIA

Macroeconomic conditions

According to the estimate of the Serbian statistical office, Serbian GDP growth in 2013 amounted to 2.4%. According to the EBRD estimate, gross domestic product grew by 2.2% in 2013; growth in 2014 is expected at 1.3%. Inflation has steadied and amounted in 2013, according to the estimate by the Serbian central bank (National Bank of Serbia), to 2.2%. In 2014, it is expected to gradually increase to a target rate of 4%. Average exchange rate of the Serbian dinar in 2013 stood at RSD 113.09 per 1 EUR, which is virtually the same as in 2012. However, volatility was rather high during the year 2013 as the exchange rate spanned from RSD 110.54 to RSD 115.26 per 1 EUR. As at December 31, 2012, the Serbian dinar exchange rate stood at RSD 113.7183 per 1 EUR; in 2013, the exchange rate on the last day of the year was at RSD 114.6421 per 1 EUR. According to the forecasts for 2014, the average exchange rate of the Serbian dinar should not exceed RSD 117.5 per 1 EUR. Serbia's rating remains the same in 2013, at BB- with negative outlook.

Effect of market situation on consumption

According to Nielsen data, consumer confidence in Serbia is below European average. The consumers believe the country is still in a recession (over 90% of respondents) and they do not expect improvement in the year 2014 (over 70% of respondents). Besides further economic development, security of their employment is their biggest concern. Most consumers cannot afford the things they need or wish. A good quarter of the consumers are left with no funds after paying for the basic costs of living. Just under one third of consumers allocate any surplus current income for debt repayment. Consumers have adapted their consumption to reduce household expenditure relative to the year 2012, mostly by switching to lower-priced brands of food, and by reducing their budget spent on clothing, out-of-home entertainment, and holidays.

The consumers are more rational and price-sensitive. They tend to plan their shopping and they do not opt for major shopping sessions. They only buy the essential groceries, actively look for products included in special offers, and generally buy less. Economic crisis has also spurred the growth of the informal (grey) market which has had an effect on the legitimate sales channels. Informal retail is estimated to account for 10%.

Competition

In addition to the regional retailers (Mercator, Roda, Idea), there are several international retailers present in Serbia, such as Delhaize, Intermarche, and Metro, as well as domestic retailers like DIS and Univerexport. Retail industry is relatively less consolidated (top ten retailers combined account for 30 percent of the market). Traditional retail (smaller independent retailers) still account for approximately one half of the market. In 2013, Idea and DIS saw the highest growth rate as they opened new stores. Further growth of these two retailers is expected in 2014; the same applies for growth of Delhaize and Univerexport. Belgrade is the focus of all retailers. Idea has seen particular growth in this city through development of small format stores. Further consolidation of the market is expected, and the entry of the retail chain Lidl towards the end of 2014 is anticipated.

CROATIA

Macroeconomic conditions

According to the estimates of the Croatian central bank (HNB), GDP was in decline for the fifth consecutive year in Croatia. In 2013, the drop amounted to 0.8%. According to the EBRD, gross domestic product dropped by 0.7% in 2013. This is expected to be followed by a 1% growth in 2014. Inflation was steadier again in 2013, reaching the rate of 2.6%. Further decrease of inflation is anticipated for 2014. Average exchange rate for Croatian kuna in 2013 rose from HRK 7.52 per 1 EUR in 2012 to HRK 7.57 per 1 EUR in 2013. As at the 2013 year end, the closing rate was HRK 7.6376 per 1 EUR. Just like with the Serbian dinar, Croatian kuna exchange rate also saw considerable fluctuation during the year (seasonal effect). Thus, minimum HRK exchange rate in 2013 was at HRK 7.4438 per 1 EUR, while maximum rate was at HRK 7.6498 per 1 EUR. Croatia's credit rating in 2013 remained at BB+, with outlook downgraded from stable to negative.

Effect of market situation on consumption

According to Nielsen data, consumer confidence in Croatia is below European average and it remains among the lowest in Europe. Nevertheless, it has improved slightly relative to 2012. The consumers believe the country is still in a recession (over 95% of respondents) and they do not expect improvement in the year 2014 (just under 85% of respondents). Security of their employment and debts are their prime concern. Most consumers cannot afford the things they need or wish. A good third of the consumers are left with no funds after paying for the basic costs of living. Just under one quarter of consumers allocate any surplus current income for debt repayment. The consumers have adapted their consumption to reduce household expenditure relative to the year 2012 by switching to lower-priced brands of food, and by reducing their budget spent on clothing, out-of-home entertainment, and telephones.

The consumers responded to the market situation by only purchasing the essentials (in FMCG), by proactively seeking products included in special offers, and by purchasing smaller amounts.

Competition

Croatia is the country with the largest number of retail chains present among all markets of Mercator's operations. In addition to domestic retailers (Konzum, Plodine, Diona, Tommy, KTC, and association of retailers NTL and Ultragros), the following European retailers are present in Croatia: Schwarz Group (Lidl and Kaufland), Rewe Group (Billa and Bipa), Interspar, DM – Drogerie Markt, and Metro as a wholesaler. Top ten retailers combined account for 80% of the entire market. Further consolidation of the market is expected with possibility of entry of new, especially discount retailers.

BOSNIA AND HERZEGOVINA

Macroeconomic conditions

According to the EBRD forecast, GDP grew by 0.8% in 2013; in 2014, it is expected to grow by 1.8%. The exchange rate of the convertible mark is pegged to euro at the rate of KM 1.95583 per 1 EUR. In 2013, Bosnia and Herzegovina saw deflation of 1.2%. Extremely high unemployment rate is a major problem in the country. Credit rating of Bosnia and Herzegovina remains unchanged: B with stable outlook.

Effect of market situation on consumption

Household consumption dropped in Bosnia and Herzegovina. Record unemployment rate and the lowest purchasing power in the region define the market. Bosnia and Herzegovina is at the very top among European countries in terms of price sensitivity and the resulting shopping decisions of the consumers who prefer lower-priced products. The trend among the consumers is to buy less and only the essentials, and to proactively look for products in special offers. Moreover, the average shopping basket has shrunk.

Competition

The market of Bosnia and Herzegovina is less consolidated. International retail chains are present (Delhaize, Intermarche), as well as regional chains (Mercator, Konzum, and Tuš) and several smaller and larger local retailers. Further consolidation of the market is expected in the years ahead, mostly through organic growth, as well as through takeovers among the currently existing players. Bingo, a major local retailer, continues its aggressive growth in 2014.

MONTENEGRO

Macroeconomic conditions

According to the estimate by the Montenegrin Ministry of Finance, GDP in the country rose by 2.6% in 2013. In 2014, growth is expected at 3.6% and a similar growth rate is anticipated for 2015 and 2016. According to the EBRD, gross domestic product rose by 1.5% in 2013. This is expected to be followed by a 2.0% growth in 2014. Inflation rate in 2013 amounted to 2.2%. Montenegrin official currency is the euro. Montenegro's credit rating is BB- with negative outlook.

Effect of market situation on consumption

Economic crisis in 2013 resulted in a drop of income and, in turn, a drop in purchasing power. This led to smaller average shopping basket and less frequent shopping. The consumers are more rational, more attentive to price, and they tend to buy less. Purchasing power is three-fold lower than the European average.

Competition

In 2013, local retail chain Albona discontinued its operations, and the international retailer Delhaize withdrew from this market. Replacing the Delhaize chain in this market is the new local company Domaća Trgovina which took over the Delhaize units and a part of the Albona stores. Competitor Voli continues to expand its network by opening new stores, especially in the northern part of the country. Local retailer HD Laković retained its position in the market.

2013 PERFORMANCE ANALYSIS

Effects of economic crisis persisted in the market in 2013. According to the most recent information, the economy of the European Union lingered at the 2012 level in 2013; improvement is expected for 2014. Most international markets of Mercator's operations saw positive economic growth rate in 2013. In Slovenia and Croatia, economic growth was negative in 2013. Consumers in all markets have remained rational and, looking ahead, they are not optimistic about market development. This is a result of persistently high unemployment rate which has decreased somewhat in Serbia and Montenegro, but remains high, in Bosnia and Herzegovina it is the highest. Decrease of consumption and the resulting drop in Mercator Group revenue was also strongly affected by the higher VAT rate in Slovenia (from 20% to 22%) and in Serbia (from 18% to 20%).

For Mercator Group companies, 2013 was a milestone year in many respects. There were several changes in the Group composition. Some companies were terminated; some were wound up and their activities were transferred to other companies. Following the closing of the last retail unit in Albania at the end of 2012, we also withdrew from the market of Bulgaria. Major activities were carried out to restructure our financial liabilities.

Following is a performance analysis for 2013 for the Mercator Group, the parent company Poslovni sistem Mercator, d.d., and respective markets of the Group's operations. It should be taken into account when reading and interpreting the analysis that the parent company has a double role in the Group: it is the controlling company that holds the ownership shares in the Group's subsidiaries; at the same time, it is an operating company carrying out all trade and other activities in Slovenia.

REVIEW OF WRITE-OFFS, REVALUATION ADJUSTMENTS, AND IMPAIRMENTS

To present the performance analysis of Mercator Group and the company Poslovni sistem Mercator, d.d., in meaningful and comparable terms, all write-offs and impairments that affected the accounting items in 2012 and 2013 were eliminated.

Year 2012

Mercator Group

Impairment of real estate

Pursuant to the corporate accounting policies, Mercator Group re-appraised its real property to fair value in 2012. Real estate impairment had a negative effect of EUR 35,118 thousand on the income statement; however, the overall effect of real estate appraisal was positive as it increased the equity by EUR 20,402 thousand as a result of value increases recognized in revaluation adjustment to equity.

Impairment of intangible assets

Goodwill impairment amounted to a total of EUR 5,885 thousand, with impairments pertaining to the following:

- Takeover of the company Presoflex, d.o.o., Croatia, in the amount of EUR 4,360 thousand, which was entirely impaired in 2012.
- Goodwill generated in the 2005 takeover of the companies Era Tornado, d.o.o., and Trgohit, d.o.o., in Croatia in the amount of EUR 1,579 thousand, was impaired by EUR 688 thousand in 2012.
- Remaining goodwill in the amount of EUR 837 thousand was entirely impaired in 2012.

Impairment of other intangible assets in the amount of EUR 6,977 thousand pertains to impairment of the Getro brand and other minor impairments to intangible assets.

Costs of withdrawal from the markets of Albania and Bulgaria

Pursuant to the adapted strategy of exit from the markets of Albania and Bulgaria, Mercator Group recognized in 2012 in the income statement expenses related to the exit from these two markets, amounting to EUR 17,470 thousand. Costs and expenses relate to liquidated damages for termination of lease contracts in Bulgaria and Albania; impairment of investments into foreign property, plant, and equipment; revaluation adjustment equipment and inventories; and recognition of provisions for employee's severance packages.

Other non-recurring items

In 2012, Mercator Group also recognized revaluation adjustments to receivables, in the amount of EUR 11,198 thousand, which is EUR 5,897 thousand more than the figure for 2011. The increase is related to recognition of revaluation adjustment to trade receivables, revaluation adjustment for rental expenses paid in advance in Serbia, and revaluation adjustment to receivables regarding accounting of charges on offset payment for meal allowance and holiday/annual leave allowance.

Poslovni sistem Mercator, d.d.

Impairment of tangible and intangible assets

Impairment of property, plant, equipment and intangible assets in 2012 had a negative effect on the income statement, amounting to EUR 9,780 thousand.

Of this amount, goodwill impairment accounted for EUR 691 thousand; more specifically:

- Goodwill from takeover of the company Interier, d.o.o., in 2007 was entirely impaired in 2012 in the amount of EUR 457 thousand.
- Goodwill from takeover of the company Evolution, d.d., in 2008 was entirely impaired on 2012 in the amount of EUR 234 thousand.

Impairment of long-term financial investments and loans granted to subsidiaries

Impairment of long-term financial investments had an effect of EUR 68,323 thousand on the income statement, of which impairment of financial investments into the companies Mercator - B, e.o.o.d., Mercator - A, sh.p.k., and Mercator - K, l.l.c., combined, amounted to EUR 27,601 thousand and the elimination of decrease of fair value of the investment into the company Mercator - H, d.o.o., amounts to EUR 37,475 thousand. Given impairments did not have any impact on financial statements of the Mercator Group.

Provisions

Pursuant to the adopted strategy of withdrawal from the markets of Albania and Bulgaria, the company Poslovni sistem Mercator, d.d., recognized reorganization costs pertaining to these two markets in the total amount of EUR 19,810 thousand. Of this amount, reorganization costs for Bulgaria amounted to EUR 13,835 thousand; reorganization costs for Albania amounted to EUR 5,975 thousand; and other provisions amounted to EUR 2,829 thousand.

Other non-recurring items

In 2012, the company Poslovni sistem Mercator, d.d, also recognized revaluation adjustments to receivables in the total amount of EUR 5,879 thousand, which are not related to trade operations in Slovenia.

Write-offs and impairments had a combined total effect of EUR 101,767 thousand on the net income of the company Mercator, d.d., in 2012.

Write-offs and impairments in 2012 had a total effect of EUR 68,371 thousand on Mercator Group's overall results, and effect of EUR 101,767 thousand on the results of the company Poslovni sistem Mercator, d.d. In 2013, major write-offs and impairments had a combined total effect of EUR 40,633 thousand on the net income of the company Mercator, d.d.

Year 2013

Mercator Group

In 2013, Mercator Group did not report any major write-offs or impairments in its financial statements.

Poslovni sistem Mercator, d.d.

Provisions

Reversal of provisions had an effect of EUR 15,535 thousand on the income statement. Of this amount, EUR 13,835 thousand were reversed for the reorganization costs at Mercator - B, e.o.o.d.

Impairment of long-term financial investment

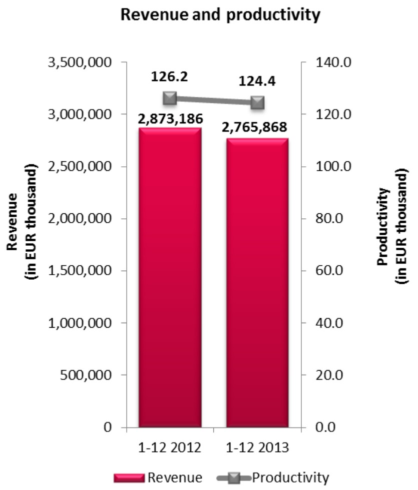
Impairment of long-term financial investments had an effect of EUR 56,168 thousand on the income statement. Of this amount, write-off of investment into the company Mercator - B, e.o.o.d., amounted to EUR 10,468 thousand and the impairment of investment into the company Mercator - H, d.o.o., amounted to EUR 45,700 thousand.

MERCATOR GROUP OPERATIONS AND PERFORMANCE ANALYSIS

Revenue and productivity

Revenue drop by 3.7% in 2013 relative to the year before, reaching a total of EUR 2,765,868 thousand. In Slovenia, revenue dropped by 3.4%, especially in the range of products for the home, in which we shrunk our assortment as we discontinued our furniture program. Drop in sales is also a result of harsh economic conditions and stringent competition, as well as lower investment into retail network development. Revenue in foreign markets was different from one country to the next; overall revenue in international markets declined by 4.1%. The decline in revenue is a result of difficult economic conditions, ever harsher competition, especially in Croatia, as well as the withdrawal from the markets of Bulgaria and Albania.

Productivity was lower by 1.4% relative to 2012, which corresponds to the drop in revenue and the lower number of employees following the reorganization.



Operating costs

Activities in cost rationalization were carried on successfully in 2013. By the end of 2013, we saved almost EUR 35 million at the level of the entire Group. Savings were attained in all main cost categories. Only costs of legal representation and consulting increased as a result of three major processes in 2013: process of sale (of Mercator shares), financial restructuring process, and business restructuring process.

Mercator Group cost of goods sold and selling costs, which include the purchase value of goods sold, production costs, selling costs, and other operating expenses, amounted to EUR 2,658,893 thousand in 2013, which is 2.9% less than in 2012.

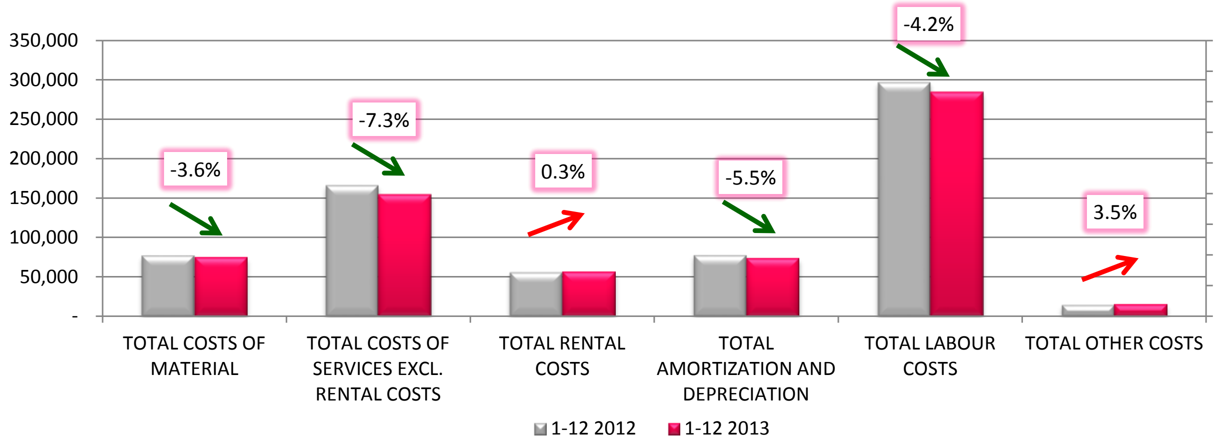
Administrative expenses in 2013 amounted to EUR 94,857 thousand, which is more than a half less than in 2012 when they were particularly high due to costs and expenses related to the withdrawal from the markets of Bulgaria and Albania, and other write-offs.

Total costs, including the purchase value and impairments, write-offs and other operating expenses amounted to EUR 2,753,750 thousand in 2013, which is EUR 175,709 thousand less than in the year before. Adjusting for write-offs which accounted for a good share of costs, total costs in 2013 would have been lower by EUR 100,203 thousand relative to 2012.

Labour costs were also notably decreased as a result of a decline in the number of employees following the withdrawal from the markets of Bulgaria and Albania, and decrease in the number of employees in administration, especially at the parent company Poslovni sistem Mercator, d.d., where the number of employees in administration was slashed by 16.5%. From December 31, 2012 to the last day of 2013, the number of employees in the entire Mercator Group was cut by 998; number of employees in administration was decreased by 359 at the Group level.

Other costs and expenses rose by EUR 509 thousand, especially on the account of higher real estate charges.

At the Mercator Group level, cost rationalization in 2013 led to savings of almost EUR 35 million, which exceeds our plans.



Results from operating activities

Mercator Group's result from operating activities in 2013 was positive at EUR 35,973 thousand. Last year's negative result from operating activities was a consequence of non-recurring impairments and write-offs; in addition, harsh economic conditions and stringent competition in the market also contributed to poorer performance. Without such write-offs and impairments, the Group would have attained a positive result from operating activities in the amount of EUR 33,044 thousand in 2012, which is 8.1% lower than in 2013.

Net finance expenses

In 2013, net finance expenses amounted to EUR 52,918 thousand, which is 19.9% less than in the year before. Interest expenses, amounting to EUR 47,950 thousand, account for the largest share of finance expenses. In 2012, net finance expenses were higher by EUR 13,188 thousand. Financial expenses in 2012 were higher due to negative currency translation differences resulting from the depreciation of the Serbian dinar and Croatian kuna in the amount of EUR 9,325 thousand, and higher revaluation adjustments to receivables amounting to EUR 11,198 thousand.

Profit for the period

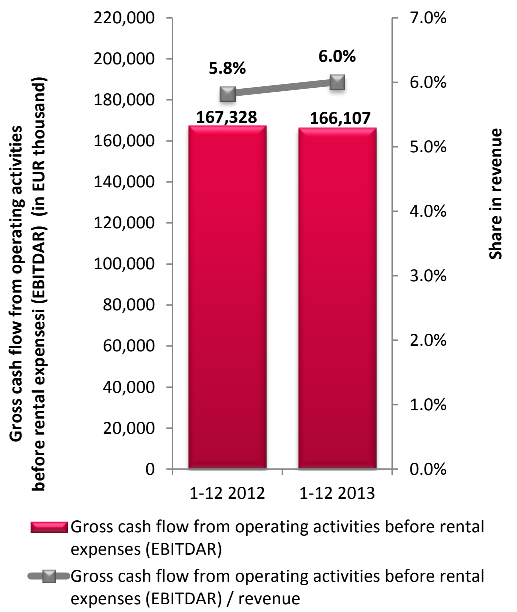
In 2013, Mercator Group realized a net loss of EUR 16,929 thousand, which is EUR 10,488 thousand less than the loss realized before write-downs and impairments in 2012. Most of last year's loss, specifically the amount of EUR 68,371 thousand, pertained to impairments and write-offs after deferred tax, which were the key reason of the loss, apart from the harsh economic conditions. Without the said write-offs and impairments, loss in 2012 would have been lower at EUR 27,417 thousand.

Gross cash flow from operating activities (EBITDA) and gross cash flow from operating activities before rental expenses (EBITDAR)

Gross cash flow from operating activities (EBITDA) amounted to EUR 109,709 thousand in 2013, which is 1.2% less than the year before. Following a notable drop in the profit margin in fast-moving consumer goods in 2012, which had a strong negative impact on the gross cash flow from operating activities, there was a slight further decline in profit margin in 2013 resulting from strong competitive pressure and a drop in purchasing power. The marketing and cost rationalization measures we have introduced have already yielded some results. However, these measures are aimed to deliver long-term results and their effects are hardly one-off and rapid.

Gross cash flow from operating activities before rental expenses (EBITDAR) was lower by 0.7% in 2013, amounting to EUR 166,107 thousand, while EBITDAR margin rose by 0.2 percentage points.

Gross cash flow from operating activities before rental expenses (EBITDAR) and share in revenue



Assets

Mercator Group assets as at December 31, 2013 amounted to EUR 2,303,841 thousand, which is EUR 75,633 thousand less than at the end of 2012, mostly due to lower property, plant, and equipment, and lower cash and cash equivalents.

Mercator Group's non-current assets as at December 31, 2013 amounted to EUR 1,775,014 thousand, which is EUR 58,952 thousand less than at the end of 2012. Property, plant, and equipment account for the highest share of non-current assets (96.0%); relative to the end of 2012, they are lower by EUR 55,356 thousand. Decrease in the value of property, plant, and equipment is mostly a result of divestment of non-core and underperforming assets, annual depreciation, and lower investment or capital expenditure.

Mercator Group's current assets as at December 31, 2013 amounted to EUR 528,828 thousand, which is EUR 16,682 thousand less than at the end of 2012. The largest share thereof includes inventories (50.1%) and trade and other receivables (44.4%).

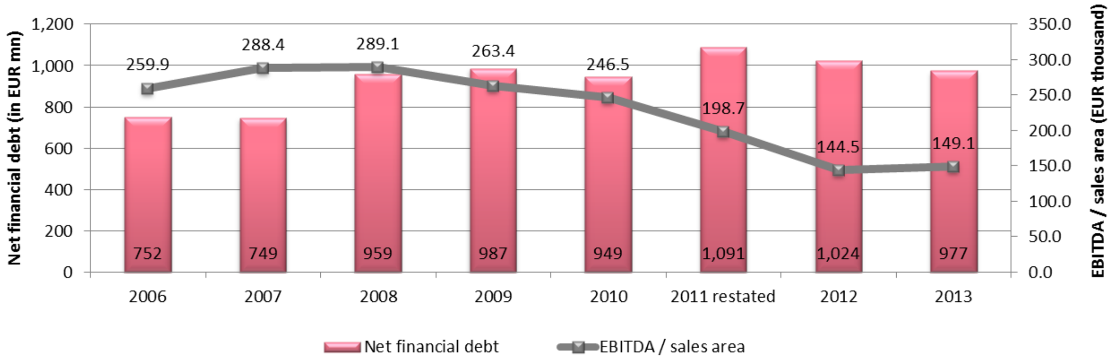
Equity and liabilities

Key changes in equity in 2013 pertain to the following: negative net income (loss) of EUR -16,929 thousand; currency translation differences in the amount of EUR -1,805 thousand; changes in fair value of risk hedging instruments in the amount of EUR 3,731 thousand; recognition of deferrals and accruals for unused annual leave of employees in the amount of EUR -4,927 thousand; and other changes in the amount of EUR -4,701 thousand.

Mercator Group's borrowings and other financial liabilities as at December 31, 2013 amounted to EUR 1,037,807 thousand, which is EUR 56,912 thousand less than at the end of 2012. Decrease in borrowings and other financial liabilities is a result of the Group's deleveraging efforts. Net financial debt of the Mercator Group as at December 31, 2013 amounts to EUR 977,326 thousand, which is 4.5% lower than the 2012 figure. In the last two years, 2012 and 2013, we succeeded in decreasing out net financial debt by EUR 113,820 thousand. At the same time, we stopped the decline in gross cash flow from operating activities per square meter of sales area. This indicator had been dropping since the onset of the financial crisis in Slovenia in 2008; in 2013, we reversed the trend and recorded a 3.2% growth.

As at December 31, 2013 net financial debt is 4.5 percent lower than a year earlier and it is below EUR 1 billion for the first time after 2010. After years of declining gross cash flow from operating activities per square meter of store area, this indicator rose by 3.2 percent this year.

Net financial debt and EBITDA / sales area by years



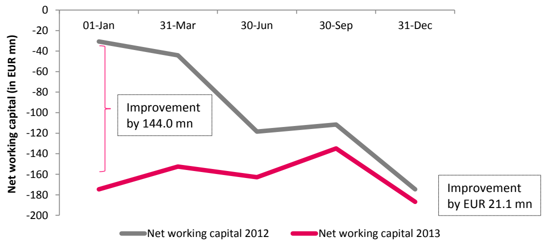
Trade and other payables as at December 31, 2013 amounted to EUR 687,359 thousand, which is EUR 12,038 thousand more than at the end of 2012. Increase in trade and other payables is a result of deleveraging and optimization of working capital.

Provisions as at December 31, 2013 amounted to EUR 25,047 thousand, which is EUR 6,413 thousand less than as at the end of 2012, especially due to provisions for legal disputes, retirement benefits and jubilee premiums.

As at December 31, 2012, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounted to 52.4%, which is 13.1 percentage points less than as at the end of 2012.

Changes in working capital

Notable improvements to working capital were made in 2012, and also in 2013 we carried on our working capital optimization policy which has resulted in release of additional funds previously tied up in working capital. Compared to the end of 2012, net working capital was cut by EUR 12,120 thousand, mostly due to the increase of trade payables.



PERFORMANCE ANALYSIS BY MARKETS

Slovenia

Negative economic circumstances again had a notable impact on economic activity in Slovenia in 2013. The decline in GDP was higher than initially anticipated; moreover, further decline in GDP is forecast for the next year. Consumer confidence indices point to improvement, but they remain below the European average. The consumers adjusted their shopping behaviour. They tend to search for the best-priced offer, they shop less frequently, and they buy less in each shopping session. Another reflection of the adjustment to economic conditions are the changes in the organizational structure of the company Mercator, d.d. As of July 1, 2013 the company M - Tehnika, d.d., was merged with the company Poslovni sistem Mercator, d.d. Revenue amounted to EUR 1,563,145 thousand in 2013, which is 3.4% less than in 2012. Lower revenue is mostly a result of the adjustment of the consumers to the current economic circumstances, which involves changes in their shopping behaviour, which in turn has led to higher sales of private label products, and more deliberate search for the best offer from the retailer with the lowest price. Revenue from sale of home products have dropped notably as a result of a general decline in sales of durables and the shrinking of the assortment offered at M Tehnika stores as the furniture range was discontinued. In addition, lower consumption and revenue was a result of higher VAT rate effective as of July 1, 2013, when it was increased from 20% to 22%.

We successfully responded to the economic conditions by timely implementation of measures for cost optimization and rationalization of operations. We further pursued our working capital management policy, cost rationalization policy, and policy of employee productivity improvement. We have also adapted to the changes in consumer behaviour by conducting numerous marketing activities designed to improve customer satisfaction by offer of simple shopping for quality products at reasonable prices. Thus, we opened five refurbished Mercator NEIGHBOUR stores in 2013, which have already yielded initial positive results.

Parent company Poslovni sistem Mercator, d.d.

In 2013, the company Poslovni sistem Mercator, d.d., generated revenue of EUR 1,464,319 thousand, which is 2.7% more than in the year before. Adjusting for the revenue of the company M - Tehnika, d.d., merged with the parent company as of July 1, 2013, the company Mercator, d.d., generated revenue of EUR 1,367,977 thousand in 2013, which is 4.0% less than in 2012.

Administrative expenses in 2013 dropped considerably relative to the results of the year before – by as much as 52.5%, or 49.5% when accounting only for the company Mercator, d.d., without the company M - Tehnika, d.d.
Adjusting for impairments and write-offs in 2012, administrative expenses would have been lower, amounting to EUR 57,857 thousand. Thus, the decrease in expenses in 2013 would have been 25.9% with the merged company M - Tehnika, d.d., or 21.2% when the merger of M - Tehnika, d.d., is adjusted for.

In 2013, the company Mercator, d.d., generated a loss of EUR 35,599 thousand, which is an improvement of EUR 39,147 thousand over the adjusted figures for 2012. Accounting only for the company Mercator, d.d., without the merged company M - Tehnika, d.d., the loss for 2013 would have been lower, amounting to EUR 30,614 thousand.
Adjusting for all write-offs and impairments in 2012, the company Mercator, d.d., would have seen a positive result – profit after taxes of EUR 27,021 thousand. Adjusting for write-offs and impairments in 2013, the company Mercator, d.d., would have generated a positive result in 2013, amounting to EUR 6,733 thousand; eliminating the effects of the merged company M - Tehnika, d.d., the profit would have amounted to EUR 11,718 thousand.

Adjusting for all write-offs and impairments, the company Mercator, d.d., would have generated profit of EUR 6,733 thousand this year. Eliminating the effect of the merged company M - Tehnika, d.d., the profit would have amounted to EUR 11,718 thousand.

The decline in comparable profit was affected in particular by the following:

- decrease of revenue by 4.0% (negative effect on profit of EUR 13,719 thousand);
- decrease in profit margin of 0.14% (negative effect on profit of EUR 3,799 thousand).

Effects of cost rationalization alleviated the negative effects to some extent; however, they could not have offset the effects of the drop in purchasing power entirely.

Gross cash flow from operating activities (EBITDA) amounted to EUR 89,318 thousand in 2013, which is 51.6% more than in the year before, mostly as a result of a notable decrease of administrative expenses in 2013.
Adjusting for write-offs and impairments in 2012, EBITDA would have amounted to EUR 91,356 thousand, which would have been 2.2% more than in 2013.
Adjusting for write-offs and impairments in 2013, EBITDA would have amounted to EUR 75,484 thousand, which would have been 17.4% less than in 2012.
Accounting only for the company Mercator, d.d., i.e. without the merged company M - Tehnika, d.d., gross cash flow from operating activities (EBITDA) in 2013 would have been higher, mostly due to lower selling costs and lower administrative expenses. EBITDA in such case would have amounted to EUR 92,739 thousand; eliminating for impairments and write-offs, it would have amounted to EUR 78,904 thousand, which is 13.6% less than the EBITDA before write-offs in 2012.

Development of gross cash flow from operating activities before rental expenses (EBITDAR) was consistent with that of EBITDA. In 2013, it amounted to EUR 101,400 thousand, which is 45.3% more than in 2012.
Adjusting for write-offs and impairments in 2012, gross cash flow from operating activities before rental expenses (EBITDAR) would have amounted to EUR 102,217 thousand, which would have been 0.8% more than in 2013.
Adjusting for write-offs and impairments in 2013, EBITDAR would have amounted to EUR 87,565 thousand, which would have been 14.3% less than EBITDAR before write-offs in 2012.
Accounting only for the company Mercator, d.d., i.e. without the merged company M - Tehnika, d.d., gross cash flow from operating activities before rental expenses (EBITDAR) in 2013 would have been higher, amounting to EUR 104,279 thousand; adjusting for impairments and write-offs, it would have amounted to EUR 91,168 thousand, which is 10.8% less than EBITDAR before write-offs in 2012.

Croatia

Hostile economic environment had a negative impact on operations and performance in Croatia as well. Drop of GDP seen in 2013 is forecast to continue next year as well. Inflation rate has increased as well. Consumer confidence remains at the low end and expectations for next year are pessimistic. Hence, consumer purchasing power remains very low. Moreover, rapidly growing competition also had a negative effect on performance. Revenue in Croatia amounted to EUR 341,379 thousand, which is 10.5% less than in 2012. We saw a minor slip in retail sales under the Mercator label, and a somewhat more significant decline in the retail sales under the Getro label. Lower sales in 2013 were a result of high fixed costs and several openings of competitors' retail units in direct vicinity of Mercator and Getro stores. We continued the intensive cost rationalization and considerably cut our operating costs. Additional rationalization was attained by merging the activities of the companies Intersport H, d.o.o., Modiana, d.o.o., Croatia, and Mercator centar tehnike d.o.o., Croatia, to the company Mercator - H, d.o.o., as of July 5, 2013. The loss of our Croatian subsidiary at the end of the fiscal year was substantially lower than it the preceding year when it was mostly the result of write-offs. Adjusting for last year's write-offs and impairments, this year's loss would have been higher than last year.

Responding to poor performance and loss, a program of restructuring and revival of the company was adopted as early as in 2012. It is the goal of the project to reach a higher level of integration of all business functions and to define the ways to reap the business synergies between Slovenia and Croatia, which are allowed by the latter's accession to the European Union as of July 1, 2013. This has opened up the opportunities to simplify operations, to introduce uniform logistics infrastructure for the two countries, to optimize the use of logistics capacities and other infrastructure, and to optimize the suppliers. In addition to conducting a number of cost management measures, a restructuring plan is being developed, focused on cost optimization as well as optimising purchasing conditions and on the improvement of shopping experience for the consumers. Activities in the field of leasing od unused logistic facilities will aslo be carried out.

In 2013, we opened the first refurbished Mercator NEIGHBOUR stores in Slovenia and in Croatia. Investments into refurbishments have already yielded positive results.

Serbia

Despite the positive economic growth and optimistic forecasts of macroeconomic indicators for the year ahead, consumer confidence remains below the European average in Serbia. The consumers are more rational and price-sensitive. They tend to plan their shopping and they do not opt for major shopping sessions. In addition, consumer behaviour was affected by the increase of VAT rate from 18% to 20%. Prompt response to the changes in consumer behaviour, implementation of appropriate marketing measures, and adjustment of the assortment resulted in revenue growth in 2013 as well. Revenue amounted to EUR 564,260 thousand, which is 0.6% more than in 2012. The growth was also a result of the opening of 10 new units with a total area of 9,823 square meters. The company wrapped up the 2013 fiscal year with profit, which is a result of effective implementation of cost optimization and the right response to the changes in consumer behaviour.

Reorganization was also introduced in the Serbian market, as it was in Slovenia and Croatia. On August 15, 2013 the companies Intersport S - ISI, d.o.o., and Modiana, d.o.o., Serbia, were merged with the company Mercator - S, d.o.o.

Bosnia and Herzegovina

Record unemployment rate and the lowest purchasing power in the region define the market. Consumers buy less, choosing only the essentials and products included in special offers. After a low figure in 2013, economic growth rate is expected to increase in 2014. However, consumer confidence remains low and expectations for the future remain pessimistic. Revenue in Bosnia and Herzegovina amounted to EUR 189,532 thousand in 2013, which is 2.3% less than in 2012. Lower revenue is mostly a result of closing of underperforming units. The companies Mercator - BH, d.o.o., and M – BL, d.o.o., wrapped up the year with profit.

Following the transfer of the activities of the companies Intersport, Modiana, and Tehnika to respective parent companies in Croatia and Serbia, the activities of the companies Intersport and Modiana in Bosnia and Herzegovina were also transferred to their parent companies in the third quarter of the year. On September 13, 2013 the companies Intersport BH, d.o.o., and Modiana, d.o.o., Bosnia and Herzegovina, were merged with the company Mercator - BH, d.o.o.

Montenegro

Despite the positive GDP growth, the effect of the economic crisis which has resulted in the drop of income and purchasing power, and, in turn, a decrease in the value of the average shopping basket and the shopping frequency, persists in this market. Despite low purchasing power, revenue continued to grow in 2013, by 0.4% to a total of EUR 105,166 thousand. Revenue growth is a result of opening of new units and closing down of the units of our major competitor. Solid performance is also a result of timely response to the changes in consumer behaviour, and effective implementation of cost rationalization measures. Revenue increased especially in wholesale and as a result of newly opened and refurbished units. Cost rationalization measures had a positive impact as it led to lower costs and a positive bottom line at the end of the fiscal year.

By implementing effective cost management measures and by adapting to the consumers with new marketing activities, we improved the performance of all companies in the markets of Southeastern Europe compared to the year before.

Bolgarija in Albanija

At the end of December 2012, Mercator Group closed down its last unit in Albania and this exited this market. On July 1, 2013 the last store in Bulgaria was closed as well.

In 2013, operations of the companies in Albania and Bulgaria did not have a negative impact on Mercator Group operations and performance as the provisions recognized for the withdrawal from these two markets sufficed for covering all expenses incurred in this process.

	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro	Bulgaria and Albania	Mercator Group
Revenue (in EUR thousand)	1,563,145	564,260	341,379	189,532	105,166	2,386	2,765,868
Share Group revenue	56.5%	20.4%	12.3%	6.9%	3.9%	0.1%	100.0%
Gross cash flow from operating activities (EBITDA) (in EUR thousand)	76,540	26,860	-5,151	7,736	1,511	2,211	109,709
Gross cash flows from operating activities (EBITDA) / revenue	4.9%	4.8%	-1.5%	4.1%	1.4%	92.6%	4.0%
Gross cash flow from operating activities before rental expenses (EBITDAR) (in EUR thousand)	90,125	42,477	8,048	15,490	7,228	2,740	166,107
Gross cash flow from operating activities before rental expenses (EBITDAR) / revenue	5.8%	7.5%	2.4%	8.2%	6.9%	114.8%	6.0%

Operations and performance plans for 2014

Forecasts for 2014 are more optimistic than they have been in recent years. More robust economic growth is forecast for the European Union, fuelled by an increase in domestic demand. Negative effects of the economic crisis which have had a considerable impact on corporate performance and consumer behaviour in the recent period are expected to continue to hinder even higher economic growth; however, their potency will gradually fade. Hence, economic growth will be largely the result of higher demand as the unemployment rate is not expected to increase any further and even anticipated to decrease in 2015.

Improvement of conditions is forecast for most international markets of Mercator's operations; nevertheless, consumers are expected to retain their conservative stance. Positive economic growth is forecast for Serbia, Bosnia and Herzegovina, and Montenegro, while Slovenia and Croatia are expected to fall short of joining the economies with a positive market trend.

For 2014, Mercator Group is planning to improve its performance, especially by consistent implementation of **cost-cutting and marketing measures** to improve Mercator's competitiveness as perceived by the customers. **Successful financial restructuring** will also have a positive effect on operations and performance.

Cost-cutting measures

Following are the major cost optimization measures adopted in Slovenia and Croatia:

- improving the efficiency in the pursuit and attainment of the goals laid down;
- hiring new employees for excess-demand jobs;
- more training and education courses held by internal instructors with less third-party training and education;
- reducing the consumption of electricity and heating fuels.

In the markets of Southeastern Europe, emphasis will be placed on the following measures:

- optimization of marketing activities;
- optimization of rental expenses through re-negotiation;
- cutting the costs of services and procurement of non-trade goods;
- closing down underperforming retail units;
- focusing on the development of supermarkets and market stores.

Marketing measures

We shall carry on our promotional activities in Slovenia and Croatia to increase sales, and activities to boost private label sales. We shall also reap more intensively the synergy effects between the two countries. We shall promote more actively our online sales in Slovenia.

Our marketing activities in the Southeastern European markets will be focused on the following:

- improving the commercial terms for procurement and decreasing the amount of inventory;
- increasing the share of sale of private label products;
- repositioning and expanding the offer;
- improving the quality of service;
- increasing the number of Pika card holders and members of Mercator's customer loyalty clubs,
- managing credit risk and payment delinquency risk.

Retail network development

In retail network development, we shall above all continue to:

- update Mercator's existing shopping centers;
- update smaller neighbourhood stores;
- acquire new store area exclusively by lease;
- rent out stores at our shopping centers to internationally renowned retailers and service providers;
- divest non-core and underperforming assets (property, plant, and equipment).

Financial restructuring

The completed financial restructuring will have positive effects in 2014. In particular, we expect the following:

- adjustment of the dynamics of loan principal repayment to the Group's actual free cash flow generated;
- adjustment of interest rate;
- improvement of financial liability composition by maturity;
- elimination of refinancing risk;
- possibilities to take out new loans;
- stabilization of financial management that will allow the management to focus on other aspects of the Group's operations.

Moreover, financing of Pika card receivables by a third-party financial institution is also planned, which will decrease the amount of funds tied up in receivables, making the available for repayment of our trade payables.

Performance in 2014 will be improved especially by the effects of cost-cutting and marketing measures implemented in 2012 and 2013, as well as more concrete changes in financial restructuring.

Key projected economic indicators for year 2014

	Plan 1-12 2014	1-12 2013	Index Plan 1-12 2014/ 1-12 2013
Revenue (EUR thousand)	2,672,342	2,765,868	96.6
Results from operating activities (EUR thousand)	34,884	35,973	97.0
Profit before income tax (EUR thousand)	1,012	(16,945)	-
Profit for the financial year (EUR thousand)	339	(16,929)	-
Gross cash flow from operating activities (EUR thousand)	113,565	109,709	103.5
Gross cash flow from operating activities before rental expenses (EUR thousand)	170,201	166,107	102.5
Equity (EUR thousand)	635,674	514,294	123.6
Assets (EUR thousand)	2,348,414	2,303,841	101.9
Capital expenditure (EUR thousand)	58,900	29,499	199.7
Return on equity	0.0%	(3.2%)	-
Return on sales	0.0%	(0.6%)	-
Gross cash flow from operating activities / revenue	4.2%	4.0%	107.1
Gross cash flow from operating activities before rental expenses / revenue	6.4%	6.0%	106.1
Net financial debt / equity	1.64	1.90	86.3

RISK MANAGEMENT

In 2013, economic activity in all markets of Mercator's operations was still under strong pressure of the effects of the financial crisis. The markets of Southeastern Europe saw positive economic growth; in Slovenia and Croatia, the GDP declined. Persistently high unemployment rate, dwindling of consumer purchasing power, and ever harsher competition from discount retailers had a negative effect on Mercator's operations and performance. Therefore, Mercator is paying even more attention to all key risks in order to mitigate them to an acceptable level.

Managing the key risks in 2013

In 2013, major activities took place in risk management in the supply process, Pika card credit risks, liquidity risk, and IT risks.

- In supply process risks, we took a major step forward by signing an agreement on cooperation and strengthening of partnership in the vegetable chain.
- Pika card credit risk is expected to decrease in the year 2014, also as a result of the factoring agreement for Pika receivables and financing of Pika card holders by a Slovenian banking partner.
- Signing the agreement on the Group's financial restructuring, between the Mercator Group companies and creditor banks, will notably alleviate the liquidity risk as the repayment plan will be adjusted to the Group's actual cash flow.
- IT risks were hedged by, among other measures, implementation of a new incident management tool, migration to uniform software for FMCG cash registers, and outsourcing of the electronic mail system to IT equipment of an experienced third-party service provider.

We believe potential risks in 2014 will be lower than in 2013, especially in the field of financial risks, as a result of, among others, financial restructuring measures adopted by the Group.

Overview of key risks by areas

For the year 2014 we expect the exposure to business risks to remain high, as it was in 2013, as persistently harsh economic conditions in the markets of Mercator's operations will only start to gradually improve late in 2014 and in 2015.

Business Risks

Business risks are related to company operations and our core activity.

Key risk	Risk management analysis for 2013	Planned activities	Assessment of the change in exposure 2014/2013
Risk of a decline in purchasing power *Assessment of the risk of a decline in purchasing power (size of market) due to challenging economic conditions*	Risks in the operations of trade companies increase as a result of the changes in the shopping behaviour of the consumers, and particularly due to a drop in their purchasing power. Unemployment rate is the key indicator of purchasing power and the sense of security on the part of the consumers. This category has reached the highest levels of recent years in the key markets of Mercator's operations. Moreover, there has been a further drop of GDP in Slovenia and Croatia, while Serbia saw low growth in the second half of 2013. Consumer prices remained at the 2012 level; wage growth rate was zero to very low. Risk of a decline in purchasing power is related to economic conditions and thus, Mercator cannot affect or manage it directly. We adapt to the market conditions with suitably pricing policy and other activities aimed at providing the right offer for our consumers and keeping the revenue at the attained levels. Regular monitoring of key macroeconomic indicators (unemployment, GDP, inflation etc.) and their effect on company operations and the retail and wholesale industry in all markets is a precondition for adopting the right business decisions.	We shall continue to adjust our marketing activities to the changed conditions in order to provide well-adjusted offer for our consumers. This includes: • developing the offer of private label line products, • expanding the offer in the key categories, • improving the efficiency of sales promotion campaigns, • further adjustment of pricing policy. We shall carry on the upgrade of the customer loyalty system and continue to adjust our promotional activities. An important aspect of managing the risk of a decline in purchasing power is the rationalization of operations and seeking untapped internal potential for further improvement thereof.	
Risks of sub-optimum marketing mix and effects of the competitive environment *Assessment of risk based on market conditions and Mercator's position in the Group's target markets*	At Mercator Group, we are monitoring the perception of key elements of the marketing mix and we are pursuing further the implementation of the measures adopted to mitigate the risk of sub-optimum marketing mix and the effects of the competition. Risks of sub-optimum marketing mix and effects of the competitive environment represent the risks stemming from the generally accepted definition of the marketing mix which includes price, promotion, product, and place. In Slovenia, we saw minor relative improvement of the market position, which was a result of more efficient marketing mix management.	Highly competitive environment in all markets compels us to monitor our competitors even more closely with regard to every aspect of the marketing mix, and to respond promptly. Efficient marketing mix management with clearly defined strategies and tactics for each category based on consumer behaviour and actions by our competitors remains an important task for us, which we shall approach in the following way: • managing regular and promotional prices according to the adopted strategy; • conducting successful and effective promotional activities; • proactive assortment management by particular categories; • store management with planograms for all types of stores / store formats.	

Key risk	Risk management analysis for 2013	Planned activities	Assessment of the change in exposure 2014/2013
Risks of failure to attain the planned profit margin *Assessment of the effect of further aggravation of economic conditions on the purchasing power and consequently on the attained profit margin*	Changes in the economic circumstances and competitive environment require investment into retail product pricing, which affects the profit margin. Consumer purchasing power is eroding due to harsh economic conditions and high unemployment and the consumers are very rational when making their shopping decisions. As a result, the amounts of the goods sold and the profit margin are lower.	The risk of failure to attain the planned profit margin will be mitigated with the following activities: • effective management of regular and promotional retail prices; • monthly monitoring of planned and actual key performance indicators for all store formats and all categories; • weekly monitoring of the actual profit margin; • in case of discrepancies or deviations, adopting short-term and long-term measures at the level of categories, as well as on the level of particular products.	
Risks in the supply process *Risk of global and local impact on Mercator's supply processes*	Risks in the supply process are affected by global and local factors. Global risks include risks of fluctuation of prices of tradable commodities (energy, basic foodstuffs) and exchange rate fluctuations which affect the purchasing prices of products at the Mercator Group. Local risks in the supply process are rooted in the harsh economic conditions faced by our suppliers. Such conditions may result in insolvency and bankruptcy of our suppliers. Global risks in the supply process are alleviated by combining or pooling in the sourcing process with Mercator Group subsidiaries. In 2013, we worked with proven suppliers. Our cooperation is transparent to allow timely identification of any problems faced by the suppliers in the harsh economic conditions, and prompt adjustment, which reduces the probability of delivery failures. One important step towards a closer grip on the supply risks is the signing of the agreement on cooperation and strengthening of partnership in the vegetable chain, at the AGRA tradeshow in Gornja Radgona. Signing of the agreement is expected to boost good relations with our suppliers and to provide regular supply of Slovenian vegetables.	We shall carry on our carefully thought out procurement policy and maintain a choice of different suppliers for each category in order to reduce or disperse the risks. We shall regularly evaluate the suppliers and monitor and check their credit rating, which will allow us to switch to new supply sources in a timely manner. Local effects on the supply processes and related delivery failure risks will be monitored on a monthly basis. Corrective measures will be adopted to alleviate them. We shall continue to manage the legal risks by consulting our legal affairs department about the key elements of each agreement before signing it. We shall continue to reap the positive effects of joint purchasing, including lower purchasing prices and better terms, by combining our procurement operations with those of the company Mercator - H, d.o.o., and our subsidiaries in Southeastern Europe.	

Legend:
- Risk will decrease
- Risk will remain the same
- Risk will increase

Financial risks

Financial risks are those that may negatively affect the ability to generate finance income, management of finance expenses, maintaining the value of financial assets, and managing financial liabilities.

<table>
<tr><th>Key risk</th><th>Risk management analysis for 2013</th><th>Planned activities</th><th>Assessment of the change in exposure 2014/2013</th></tr>
<tr>
<td>Credit risk in wholesale

Assessment of the risk that receivables from business partners resulting from deferred payment will only be settled partly or not at all</td>
<td>We are monitoring on a daily basis the level and changes in the level of receivables to wholesale customers. Weekly reports are compiled on the amount of receivables outstanding, with emphasis on receivables overdue by over 60 days. We are monitoring the disputed receivables (receivables in the process of collection) on a monthly basis.

In 2013, general liquidity was poor and payment defaults and delinquency were rampant, to which we responded by tightening our limit policy for customers and by intensive activities in collection of all outstanding receivables due.

Revaluation adjustments to receivables are specified based on the age of the receivable. Disputed receivables shall be impaired by 100%, while others shall be adjusted by 50% if the receivable is overdue by 61 to 74 days; 75% if the receivable is overdue by 75 to 89 days; and by 100% if the receivable is overdue by 90 days or more. Receivables with quality security are exempt from this calculation.

Impairment of receivables:
<table>
<tr><th>EUR thousand</th><th>2013</th><th>2012</th><th>Index 2013/2012</th></tr>
<tr><td>Revaluation of receivables</td><td>7,277</td><td>11,198</td><td>64.98</td></tr>
</table>
</td>
<td>Activities will be focused on improvement in internal processes that allow better monitoring of receivables (fewer late payments in transfers of invoices).

We shall establish a uniform central system for managing the limits of individual customers within SAP. This will allow us to regulate our exposure to individual customers based on their performance in terms of timely settlement of their liabilities, and based on the credit ratings by third-party credit rating institutions.

We shall define stricter conditions for sale to customers who are not within the specified limits or who are late with their payments. The emphasis will be on decreasing the overdue unpaid liabilities to Mercator.

We shall increase the number of bilateral and multilateral netting.

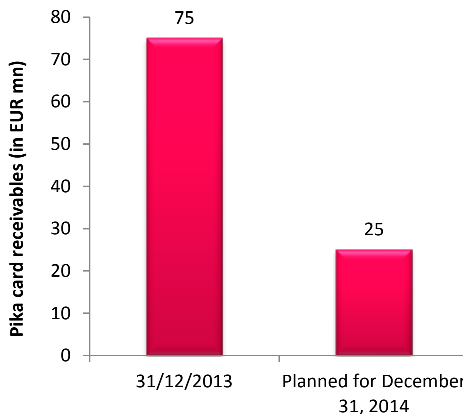
We shall continue to collect overdue receivables with the aid of a third-party agency, and monitor exposure to individual customers at the Mercator Group level.</td>
<td></td>
</tr>
<tr>
<td>Pika card credit risk

Assessment of the Pika card credit risks (possibility that receivables from customers, resulting from deferred payment, shall only be settled partly or not at all)</td>
<td>We are monitoring on a daily basis the changes in receivables from Pika card holders. In 2013, we continued strict implementation of measures to control these risks, and carried on the trend of lowering the percentage of unpaid receivables overdue by more than 60 days.

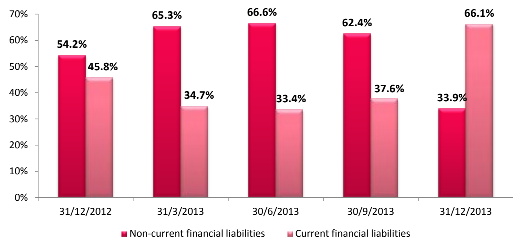
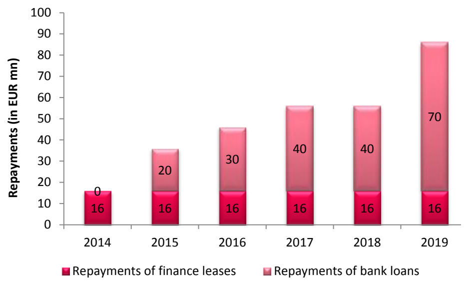
In addition, we have been considering the option to outsource the financing of Pika card holders to one of the banks which would thus assume the Pika card credit risks.

Revaluation adjustments to Pika card sales shall be made in the rate of 100% if the receivables are overdue by 90 days or more. Impairment rate of 100% shall also apply to disputed receivables (legal action, bankruptcy, compulsory settlement).</td>
<td>In January 2014, Mercator signed with a Slovenian bank the agreement on factoring the Pika card receivables and outsourcing of Pika card holder financing.

Thus, Mercator Group reduced the receivables from Pika card holders that are exposed to credit risk by over 60%.


</td>
<td></td>
</tr>
</table>

Key risk	Risk management analysis for 2013	Planned activities	Assessment of the change in exposure 2014/2013
Interest rate risk *EURIBOR interest rate is subject to market fluctuations and it is changing on a daily basis, which can lead to an increase in financing costs*	Mercator Group liabilities include some liabilities that are dependent on the changes in the EURIBOR variable interest rate. Unlike in 2012, fluctuation of the 6M EURIBOR was rather low in 2013. Most of the year, it was between 0.3% and 0.35% (average for 2013 was at 0.336%). However, 6M EURIBOR rose steeply late in 2013 (by nearly 25% from the end of November to the end of the year). Considering the record low in EURIBOR's absolute value in 2013, this development does not constitute a major growth; however, it is a reason for us to monitor the changes in EURIBOR even more closely than to date. The company holds derivative financial instruments for the purpose of hedging from the increase in reference interest rates: interest rate cap and interest swap. Both financial instruments will expire in 2014. We shall consider our strategy and the development of the EURIBOR rate in making our decision on how to hedge the interest rate risk in the future.	In order to alleviate and properly manage the interest rate risk, we shall continue to regularly monitor the changes in variable interest rates and, given any forecasts of rising interest rates, examine the possibilities offered by derivative financial instruments in order to hedge the interest rate risk. At any moment, at least 50 % of all financial liabilities and at least 25% of total financial liabilities are hedged.	
Currency risk *Assessment of the loss of economic benefit due to changes in exchange rate*	Mercator Group is exposed to currency risk especially in the markets of Serbia and Croatia, in the segment of servicing financial liabilities of subsidiaries Mercator - H, d.o.o., and Mercator - S, d.o.o., resulting from international and local euro-denominated borrowings. Based on the general trends and expectations, we are looking to adapt our operations, as far as possible, in such way that it is naturally unexposed to foreign currency risk. The HRK exchange rate fluctuated as usually in 2013 as a result of the summer tourist season. After the initial rate of HRK 7.55 per 1 EUR, the HRK depreciated in the first few months of the year, only to appreciate to HRK 7.45 per 1 EUR in the middle of the year. By the end of the year, the rate depreciated back to HRK 7.65 per 1 EUR. RSD exchange rate also fluctuated a lot in 2013. At the beginning of the year, it appreciated quickly from the initial rate of RSD 113.72 per 1 EUR, lingered between RSD 111 and RSD 112 per 1 EUR for a while, then rapidly depreciated to RSD 114 per 1 EUR and stayed between RSD 114 and RSD 115 per 1 EUR until the end of the year. As at December 31, 2013, the exchange rate was RSD 114.64 per 1 EUR.	We shall continue to constantly monitor the macroeconomic background of the changes in the exchange rates at hand, and other related macroeconomic indicators and trends. In case of an increase in the currency risk, we will consider additional measures for protection and hedging of this risk. Due to the fluctuations of the RSD and HRK exchange rate in the past, there are no measures available in the market to hedge these risks that would be effective or economically justifiable for the Mercator Group.	

Key risk	Risk management analysis for 2013	Planned activities	Assessment of the change in exposure 2014/2013
Liquidity risk *Assessment of the risk that at a certain moment, the company will not have enough liquid assets to settle its current liabilities*	In 2013, Mercator introduced central liquidity planning and management for the Group, which involves weekly plans for day-to-day liquidity for the following ten weeks, at the level of each Mercator Group company. These liquidity plans allow optimal Mercator Group liquidity management and timely allocation of liquidity surpluses and deficits within the Mercator Group. As the structure of Mercator's financial liabilities deteriorated strongly in 2012, Mercator Group signed in February 2013 an agreement with the creditor banks on the postponement of the repayment of principals, and launched the negotiations on financial restructuring in order to adjust the dynamics of Mercator's financial liabilities with the Group's actual cash flow available for debt repayment. Changes in composition by maturity for Mercator Group liabilities 2013: 	On April 25, 2014, Mercator acquired signed commitments of all necessary lending banks of the Mercator Group for the implementation of proposed financial restructuring of the Mercator Group in accordance with detailed legal and commercial terms, that are now agreed with such lenders. Due to the existence of several inter-related processes connected with the Mercator Group, due to the large number of creditors, the broad range of financial instruments, the different jurisdictions involved and due to the lack of financial restructuring infrastructure in the region, the restructuring process has been extremely challenging. On the basis of this agreement, liquidity risk will significantly decrease as the agreement stipulates that the repayment plan will be adjusted to Mercator's actual cash flow in the years ahead. Financial liability repayment plan by years (EUR million) 	

Legend:

Risk will decrease

Risk will remain the same

Risk will increase

Operational risks

Operational risks are related to the progress of business processes and activities at the Mercator Group, and to the consumption and costs incurred in the progress of business processes.

Key risk	Risk management analysis for 2013	Planned activities	Assessment of the change in exposure 2014/2013
Category management operational risks *Seasonal effect*	In procurement, we monitor and manage the risks related to the seasonal effect, increase of tradable commodity prices, and delivery failures. Seasonal effect represents the risk the value of which involves estimating the possibility of profit margin failure due to a decrease in prices required to sell the seasonal goods. Unfavourable economic situation and high unemployment are reflected in a drop of consumer purchasing power in all segments, and especially in seasonal products. Sale of seasonal products is additionally affected by the weather.	The offer of seasonal products is adjusted to lower demand as we diligently monitor sales and inventory of seasonal products and take required measures in a timely fashion. We also negotiate additional discounts in the contracts with our suppliers for additional price discounts after the end of the season, and for goods returns after the end of the season. We shall carry on these activities in the future.	
Increase of tradable commodity prices	Market conditions which involve decrease of crop area, concentration of ownership, shift of selling flows to the Far East and Russia, and commodity market speculations, have resulted in an exceptional increase of food prices, which in turn has caused a hike in the prices of essential products. Elasticity of prices that depend on stock market development is not sufficient not to lead to a decrease in our profit margin. Thus, increase of tradable commodity prices represents a risk of a drop in profit margin and a decrease in demand for such products.	Risk related to the increase of tradable commodity prices will be hedged by keeping track of the development of prices for the raw materials that significantly affect product prices and by taking appropriate measures. In sourcing of fresh fruit and vegetables, we shall continue to ensure stability of prices through agreements on long-term purchase.	
Delivery failures	Delivery failure risk is related to inefficient inventory management, lack of goods on the shelves of retail units, extra distribution costs, and loss of revenue that could have been generated had the goods been delivered in a timely manner. Supply failures were supervised and corrective measures were adopted to reduce such occurrences. We have reduced the risk of delivery failures in purchasing of technical consumer goods by establishing a priority system of goods movement between our units using our own logistics resources, before ordering from our suppliers.	Delivery failures are monitored and measures to mitigate delivery failures are implemented on a monthly basis. In 2014, we shall implement a messaging system that will also include reports on delivery failures to retail, and allow comprehensive control over delivery failures, as well as taking appropriate measures in a timely manner.	
Core activity operational risks *Failure of the refrigeration system and electrical wiring*	In warehouses in Zalog and on Bohova street, measurements were conducted in 2012 on electrical wiring which has shown inadequate results in some cases. The following resolutions were adopted in the first quarter of 2013 in order to deal with this non-compliance: • reparation of electrical wiring; and • repeating the measurements after the repairs. Following the restoration of electrical wiring with inadequate results, the measurements were repeated in July and the results are now compliant with the requirements and regulations.	In 2014, particular attention will be paid to the control of refrigeration equipment in Zalog and on Bohova Street where possibility of a system failure still exists, despite the implemented corrective measures. In addition to the mandatory periodic examinations by inspection bodies, we shall supervise the implementation of permanent measures with our internal control resources. In case of inadequate results of periodical examinations of pressure vessels, relevant resolutions to eliminate any non-compliance shall be adopted.	

Key risk	Risk management analysis for 2013	Planned activities	Assessment of the change in exposure 2014/2013
IT risks *Failure of the central information systems (SAP, GOLD, Login, e-mail etc.)*	Business applications of the company M - Energija, d.o.o., were transferred to the data centers of the company Mercator, d.d., thereby migrating to a neat and controlled IT environment. All internet connections to petrol stations were integrated into Mercator's telecommunication network. In the third quarter, we introduced a new incident management tool that allows efficient error management and thus improves the availability of IT systems and services.	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.	
Incorrect data in the central or retail systems	We have placed the data center building blocks under the auspices of the IT equipment operation control systems (monitoring). The system allows early and automated identification of system errors or failures before they actually affect the operation of an IT service. When an error occurs, the system allows simpler and faster identification of the error source.	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 the activities for introducing the service management principles (ITIL and ITSM) by which we intend to further standardize our internal processes and advance their effectiveness.	
Failure of central data systems	Activities for transition to single software on the market program (FMCG) cash registers were also carried out. Thus, we reduced the number of administrators (especially third-party administrators) in charge of system maintenance. We successfully completed the transfer of the electronic mail system to a cloud, i.e. to new IT equipment maintained in entirety by a third-party service provider whose rich experience allow him to manage the systems more effectively and thus improve the availability of the service.	Activities for migration to uniform FMCG cash register software, which is aimed at reducing the risks related to the management of these systems, will be continued at companies outside Slovenia.	
Environmental risks *Electrical energy* *Heating fuels*	In 2013, we employed the internal portal to inform each quarter, upon changes of seasons, our employees about the changes in temperature settings and to remind them to comply with the instructions laid down in the manual of efficient use of energy. Based on the agreement on rendering the services of control of the refrigeration equipment, signed with the company Danfoss, the works of installation of equipment and connection to the Retail Care system took place at 50 hypermarkets and supermarkets, as per schedule. An application was filed for a grant through the GEN I program. By the end of 2013, 46 out of a total of 50 units were connected to the Retail Care remote refrigeration equipment control system. Nine combined heat and power (co-generation) units were installed in 2012. In 2013, three additional CHP units were installed.	Consistently with the requirements of sustainable development, reduction of power consumption will remain our key activity. We shall carry out the projects for 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 etc.	

Ključno tveganje	Analiza obvladovanja tveganj v letu 2013	Načrtovane aktivnosti	Ocena spremembe obsega izpostavljenosti 2014/2013
	We confirmed the pilot project of remote power consumption control with three service providers. Agreements were signed with two service providers, Enekon and SolveraLynx, to analyze power consumption; in addition, energy performance inspections of buildings were carried conducted. By the end of 2013, preliminary energy performance reviews were conducted on selected units, and activities were proposed regarding the measures for improving the energy efficiency. We replaced the existing fluorescent lighting with LED lighting at seven select facilities, including 4 garages and 7 outdoor and indoor lightboxes. Boiler rooms were restored at six units, and a transition to a cheaper source of energy was carried out: heat pump was replaced at four units; connection was made to district heating system at one unit; and natural gas was substituted for extra-light heating oil at one unit. Energy-saving restoration was carried out on the façade of two buildings.		

Legend:

- Risk will decrease
- Risk will remain the same
- Risk will increase

FINANCIAL MANAGEMENT

Stable Financial Operations

As at December 31, 2013 Mercator Group net financial debt amounted to EUR 977,326 thousand, which is 4.5 percent less than as at the end of 2012. The decrease is a result of Mercator Group's deleveraging activities.

in EUR thousand	Dec 31, 2013	Dec 31, 2012	Index Dec 31, 2013/Dec 31, 2012
Non-current financial liabilities	351,583	593,841	59.2
Current financial liabilities	686,225	500,879	137.0
Derivative financial instruments (liabilities)	1,469	5,269	27.9
Financial liabilities including derivative financial instruments	**1,039,276**	**1,099,989**	**94.5**
Cash and cash equivalents	18,505	24,677	75.0
Derivative financial instruments (assets)	16	1	1,598.5
Available-for-sale financial assets	820	1,069	76.7
Loans and deposits	42,609	50,732	84.0
Financial assets	**61,950**	**76,480**	**81.0**
NET FINANCIAL DEBT	**977,326**	**1,023,509**	**95.5**

Debt-to-Equity Ratio

Mercator Group's debt-to-equity ratio, i.e. the ratio between equity and net financial debt, did not change relative to the last day of 2012; as at December 31, 2013, it stood at 1:1.90.

Current to Non-Current Financial Liability Ratio

The ratio between non-current and current financial liabilities changed considerably by the end of 2013. Contrary to the year before, Mercator Group's share of current financial liabilities was higher. As at December 31, 2013, the share of non-current financial liabilities amounted to 33.9% while current financial liabilities accounted for a 66.1% share.

Ratio of variable to fixed or hedged financial liabilities

The ratio of variable to fixed or hedged financial liabilities was improved in 2013 to the benefit of hedged financial liabilities which now account for nearly 54% of all financial liabilities. This is consistent with and within the framework of the Mercator Group financing policy.

Available liquidity lines as at December 31, 2013

As at December 31, 2013 Mercator Group had access to the following liquidity lines:

in EUR thousand	Dec 31, 2013
Cash and cash equivalents	18,505
Bank deposits	1,453
Standby revolving credit lines	8,833
Total	**28,791**

Collateral for bank loans

In the process of financial restructuring Mercator Group has committed to enable registration of mortgages on Mercator's real estate in order to collateral bank loans. Closure of financial restructuring is expected in spring of 2014, and until then the bank loans will not be unsecured by mortgages.

Fulfilment of financial commitments to banking partners

Financial commitments made by the Mercator Group in relation to its lenders are uniform for all financial liabilities and they include three indicators:

- financial leverage indicator (ratio between net financial liabilities and equity),
- interest coverage ratio (ratio between gross cash flow from operating activities (EBITDA) and net interest expense), and
- Group equity.

Mercator Group obtained in 2013 a waiver regarding its covenants from all creditors/lenders.

Financial restructuring of the Mercator Group

The year 2013 was very important in terms of financial management as the Mercator Group was in the midst of a financial restructuring process. In practice, this severely restricted the availability of financial management measures (diversification of financing, regulating the maturity of financial liabilities etc.); at the same time, most employees otherwise in charge of financial management were fully involved in Mercator Group's financial restructuring which is one of the major projects in this part of Europe.

Early in the year, on February 26, 2013 the **pre-negotiation agreement** came into effect, signed by all Mercator Group companies and the creditor banks, and was effective in its original form until June 30, 2013. Based on this arrangement, Mercator Group temporarily, until a more long-term solution is adopted, postponed the repayment of the principal of its borrowings, and only paid interest. On June 28, 2013, the **amended and restated pre-negotiation agreement between the Mercator Group companies and creditor banks** was signed, according to which the maturity of principal payments was extended to December 31, 2013. In November 2013, Mercator Group reached a **framework agreement with the coordination team of creditors** regarding the key commercial terms of long-term restructuring of the Group's financial liabilities; in the months to follow, the key task was to reach an agreement with the majority of the remaining creditors. In December 2013, Mercator reached with the majority of creditors **an agreement on the extension of the Pre-negotiation Agreement** in compliance with the terms laid down in the framework restructuring agreement, **through March 31, 2014**.

On April 25, 2014, Mercator acquired signed commitments of all necessary lending banks of the Mercator Group for the implementation of proposed financial restructuring of the Mercator Group in accordance with detailed legal and commercial terms, that are now agreed with such lenders. On the basis of this agreement, liquidity risk will significantly decrease as the agreement stipulates that the repayment plan will be adjusted to Mercator's actual cash flow in the years ahead.

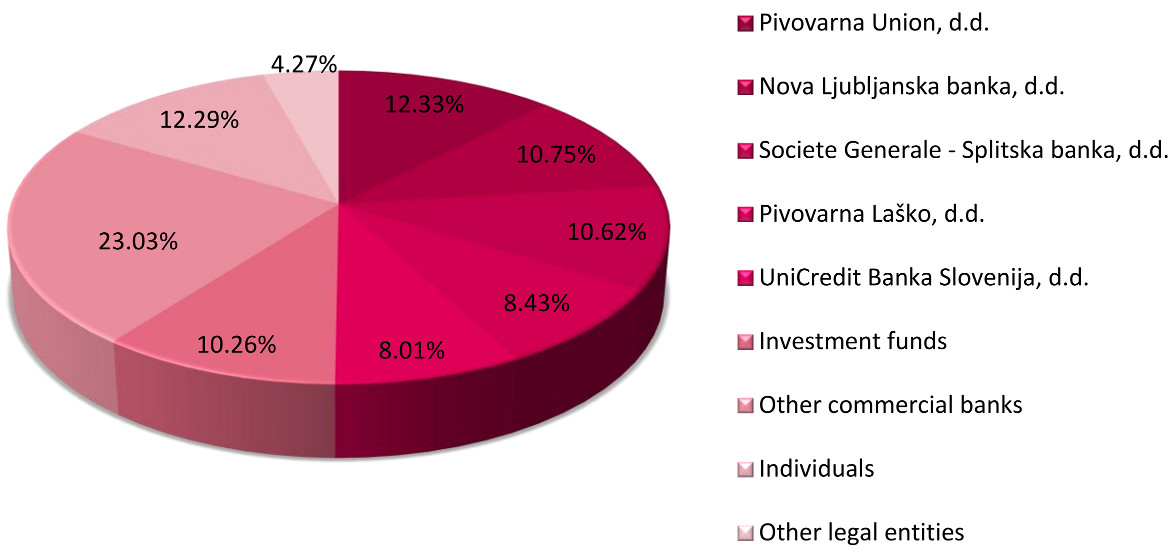
MERCATOR SHARE AND INVESTOR RELATIONS

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31, 2013

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljana Stock Exchange, d.d.
Share capital	EUR 157,128,514.53
Number of shares	3,765,361
Number of treasury shares	42,192
Number of shareholders	12,927

Ownership structure of the company Poslovni sistem Mercator, d.d., as at December 31, 2013



Major Shareholders

As at December 31, 2013 the following ten largest shareholders held a combined share of **70.05%** of the company:

	Major Shareholders	Country	Number of shares	Share
1	Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2	Nova Ljubljanska banka, d.d.	Slovenia	404,832	10.75%
3	Societe Generale - Splitska Banka, d.d.	Croatia	399,998	10.62%
4	Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
5	UniCredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
6	Nova KBM, d.d.	Slovenia	197,274	5.24%
7	Hypo Alpe-Adria-Bank, d.d.	Croatia	186,352	4.95%
8	Gorenjska banka, d.d.	Slovenia	142,920	3.80%
9	Prvi faktor - faktoring, d.o.o., Beograd	Serbia	125,963	3.35%
10	Radenska, d.d.	Slovenia	96,952	2.57%
		Total	**2,637,616**	**70.05%**

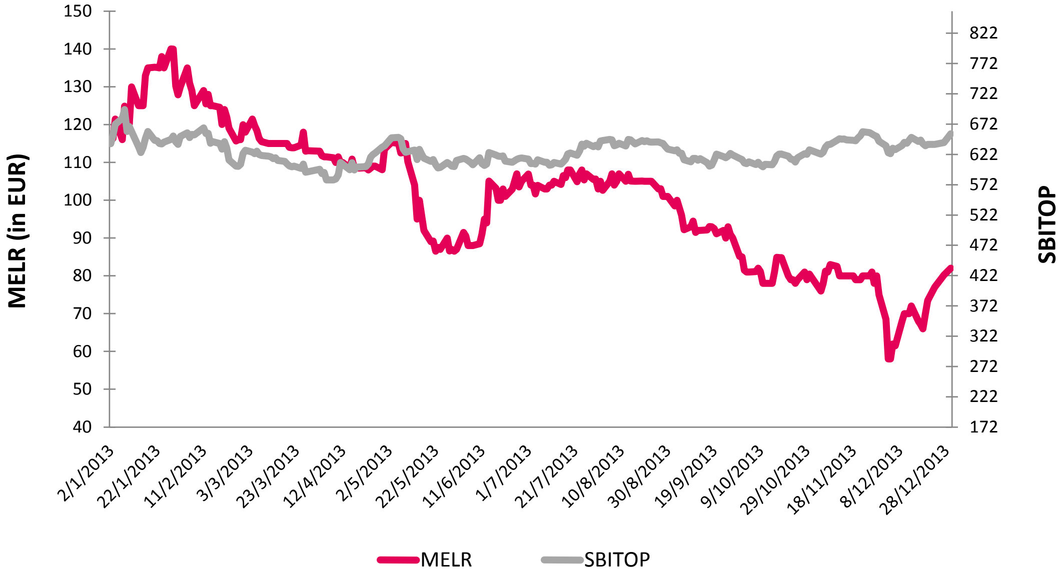
Shares held by Management and Supervisory Board members as at December 31, 2013

	First and last name	Position	Number of shares	Share
	Management Board			
1	Toni Balažič	Management Board President	0	0.0000%
3	Stanka Pejanović	Senior Vice President	0	0.0000%
4	Drago Kavšek	Senior Vice President	0	0.0000%
5	Igor Maroša	Senior Vice President	0	0.0000%
		Total	**0**	**0.0000%**
	Supervisory Board			
1	Matej Lahovnik	Supervisory Board Chairman	0	0.0000%
2	Rok Rozman	Deputy Supervisory Board Chairman	0	0.0000%
3	Boris Galić	Supervisory Board member	0	0.0000%
4	Zdenko Podlesnik	Supervisory Board member	0	0.0000%
5	Marjeta Zevnik	Supervisory Board member	0	0.0000%
6	Bojan Brank	Supervisory Board member	0	0.0000%
7	Veljko Tatić	Supervisory Board member	0	0.0000%
8	Vesna Stojanović	Supervisory Board member	36	0.0010%
9	Ivan Valand	Supervisory Board member	0	0.0000%
		Total	**36**	**0.0010%**

Foreign shareholders

As at December 31, 2013, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **26.25%**, which is 2.76 percentage point more than at the end of 2012.

Movement of closing price per MELR share in the period 1-12 2013, compared to the movement of the SBITOP index



Key information for the shareholders

	Dec 31, 2013	Dec 31, 2012	Index Dec 31, 2013/ Dec 31, 2012
Number of shares entered in the court register	3,765,361	3,765,361	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	308,759,602	429,251,154	139.0
Market price per share (in EUR)	82.00	114.00	139.0
Share book value (in EUR)	155.19	167.87	108.2
Minimum close rate in the period (in EUR)	58.00	111.00	191.4
Maximum close rate in the period (in EUR)	140.05	151.95	108.5
Average close rate in the period (in EUR)	100.70	123.46	122.6
Net return on equity – ordinary shares (in EUR)	(9.6)	(20.1)	210.0
P/E ratio	(8.6)	(5.7)	66.2
Capital gain (in %)	(28.07)	(22.45)	80.0
Dividend yield (in %)	0.00	4.08	-
Total yield (in %)	(28.07)	(18.37)	65.4

Market capitalization is calculated by multiplying the number of shares entered into the court register as at December 31st with market price per share as at December 31st.
Net return on equity (ordinary share) is calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares.
Share book value is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at December 31st, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.
P/E (price-to-earnings ratio) is calculated as the ratio between market price per share as at December 31st and net profit per share.
Capital gain is calculated as the ratio between market price per share as at December 31st in the period at hand and market price per share as at December 31st in the previous period.
Dividend yield is calculated as the ratio between dividend per share and market price per share as at December 31st.

Dividend policy

As a result of loss in 2012, the company Poslovni sistem Mercator, d.d., did not pay out any dividend in 2013.

Management Board works with the Supervisory Board to examine each year the suitability of the amount of dividend, given the business and financial aspects; the decision on actual payment of dividends, however, lies with the Shareholders Assembly.

Treasury shares

As at December 31, 2013, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1-12 2013, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

Investors

The company Mercator, d.d., communicates important information and major changes in company operations or performance to all stakeholders regularly and in a timely fashion. Such information is conveyed via the website at www.mercator.si, and the Ljubljana Stock Exchange electronic information dissemination system SEOnet where Mercator is publishing releases in Slovenian and English.

Shareholders holding shares of the same class are treated equally by Mercator. Furthermore, they are motivated to actively and responsibly assert their rights.

The company motivates major shareholders and institutional investors to publicly disclose their investment policy at the company: their voting policy, level of activity in the corporate governance processes and the manner thereof, and the mechanisms and frequency of communication with the managerial or supervisory bodies.

Mercator organizes regular meetings with shareholders at company headquarters, press conferences on major business events and announcements of results, meetings with investors and analysts, presentation meetings, and conferences for investors at home and abroad.

Signing of the Business Combination Agreement

As part of the process of selling Mercator's shares (process of Mercator acquisition), the companies Mercator, d.d., and Agrokor d.d., singed a Business Combination Agreement which regulates the relations between the company Mercator, d.d., and the buyer Agrokor d.d., in the period from the signing of the Business Combination Agreement and the execution of the Acquisition Agreement and other related processes, and the buyer's commitment regarding the company operations after the buyer assumes control of the company.

Sustainability report

Mercator

INTRODUCTION BY THE PRESIDENT OF THE MANAGEMENT BOARD

Every action counts

As a socially responsible enterprise, Mercator seeks to operate to the benefit of everyone related to it. Every step in the right direction is important, as is every intent to change things for the better, and especially every specific action that benefits people and the environment. Mercator stores in Slovenia are visited by approximately 8 million customers each month; in all markets combined, the average number of customers at Mercator stores is 19 million per month. We are connected to thousands of families and neighbourhoods, enterprises, and economic activities. We are striving to be everyone's best neighbour. Therefore, our vision of how to act today for our future is very important.

As an international retailer, Mercator has an important influence in five markets of its presence on the transfer of good practices in terms of relation to customers and in terms of responsibility to employees, suppliers, and all other stakeholders, as well as the broad society and natural resources. We are increasingly aware of the co-dependence and connections not only in local environments, but also on a broader scale, regionally and globally.

In 2013, Mercator further pursued a number of corporate social responsibility projects, launched new initiatives, and developed good ideas. This Sustainability Report presents our activities in several fields that together reflect our commitment to always do better. By doing so, we take part in creating favourable conditions for today and for the future.

President of the Management Board
Poslovni sistem Mercator, d.d.
Toni Balažič

Ljubljana, April 25, 2014

Mercator is strongly intertwined with its social and natural environment. Our major impact on the environment also involves major responsibility that we are well aware of. Therefore, we actively support and encourage economic and social development of every local environment we are involved in. We constantly strive to provide a friendly and neat environment for our customers and our employees, and to offer quality goods and services. In conducting our activity, we take into account the effects on the environment. Therefore, we are rational and prudent in the use of energy, raw materials, and other natural resources. We are aware that business success is based on economic rationality, balanced development, and integration into the natural and social environment.

RESPONSIBILITY TO CUSTOMERS

Care for food safety

Consumers are at the heart of Mercator's effort. Therefore, responsibility to consumers comes first. Our mission is to see satisfied customers who perceive us as the best retailer offering everything our competitors can offer, yet at better terms, and much more. Key medium-term goals in the field of responsibility to customers include providing control over safety, compliance, and quality of Mercator private label products; efficient internal control over each unit; and control of safety and quality of food in open departments. We have upgraded to an efficient system for withdrawing or recalling non-compliant products. I order to offer our consumers safe and quality food, we analyzed 2,296 samples of private label products; monitored 2,258 samples in open departments; and recorded 565 sample analyses as a part of the national monitoring. In 2013, we thus carried out 559 regular and 23 extraordinary internal controls at our stores. In addition to establishing and carrying out our internally specified work processes, Mercator also strictly complies with the requirements of national and European legislation.

Introduction of new standards and environmentally friendly technologies

Implementation of technologically efficient refrigeration equipment is aimed towards the reduction of the use of electricity at our stores. In 2012 and 2013, we acquired modern refrigeration equipment and installed door on the existing refrigeration equipment to reduce power consumption by more than 1%. These two measures, implemented at 50 stores, resulted in savings of more than EUR 400 thousand per year.

We are looking to standardize particular solutions of sustainable development and to upgrade the existing Mercator Standards. Standardized elements are included in the sales network. Thus, we added shopping carts made of recycled materials at newly built and opened hypermarkets, as well as more efficient refrigeration equipment and lighting, which led to a reduction in power consumption relative to other comparable facilities by 2%.

Marketing activities related to the offer of environmentally friendly products and services

At Mercator, we continue to pursue the goal of consistent use of new communication solutions for environmentally friendly offer and services especially in stores and in digital media.

In 2013, our project **Locally Grown** included further establishment of the perception of Mercator as a retailer with the broadest choice of homemade, local products. We continued to offer Slovenian fruit and vegetables at over 100 markets within Mercator stores. Our own bakery Pekarna Grosuplje (Grosuplje Bakery) upgraded the offer of their products made of 100% Slovenian wheat. In addition, we prepared for our customers a special offer of "bread with tradition" during the holiday season.

We continued to communicate the offer of 100% Slovenian-grown meat. In October, we followed up this campaign with a new category of milk and dairy products. Consumers were offered the broadest choice of milk and dairy products made of 100% Slovenian milk. During the country feast season, we expanded our offer of meat produce with certified geographical origin. In order to make the choice of a Slovenian present easier for our customers, we designed in the New Year's season special corners with the slogan **"Holidays with local produce".**

Mercator is focused on the consumers. Thus, we introduced the "Locally Grown" project to offer our customers environmentally friendly locally sourced products and services.

Customer complaints

Received customer complaints are among the key sources of information based on which we seek to improve our offer, campaigns, stores, and other activities. Response to initiatives also improves customer satisfaction. We consider every complaint or proposal and we seek to take it into consideration as closely as possible, and to do away with any deficiencies in any field.

All customer complaints, regardless of who received the complaint and how it was presented (phone, e-mail etc.), are collected at our Contact Center which coordinates their resolution and provides feedback on the solution. We also analyze the received complaints and develop proposals for improvements based on the findings of what disturbs our customers and what they want more of. Moreover, we put such proposals to action.

RESPONSIBILITY TO EMPLOYEES

In 2013, human resource management was focused on the processes of restructuring and reorganization aimed at the implementation of more efficient work processes, shrinking the scope of administration work, and cutting of labour costs. Administration at all trade companies was reorganized in this period. In Slovenia, we took over the employees from the company M - Tehnika, d.d., which had been merged with the parent company. In Croatia, Serbia, and Bosnia and Herzegovina, workers from Modiana, Intersport, and Tehnika stores were transferred to respective trade companies in those markets.

As at December 31, 2013, Mercator Group had 22,922 employees, of which 49.7 percent were employed abroad. The controlling company Poslovni sistem Mercator, d.d., employed 10,161 workers which is 44.3 percent of the Group's total.

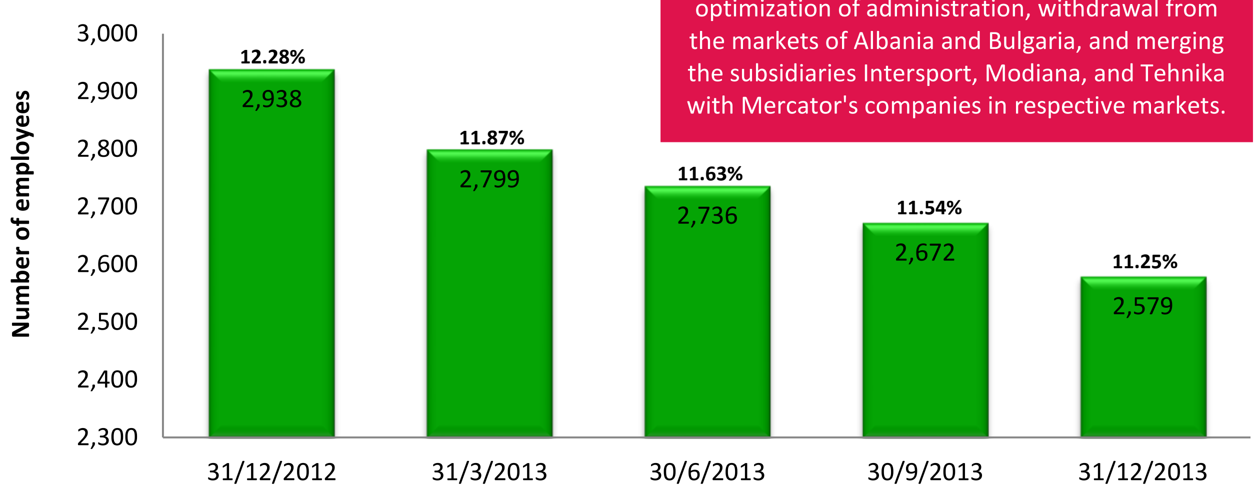
Number of employees

	Number of employees as at December 31, 2013	Number of employees as at December 31, 2012	Number of employees index Dec 31, 2013/Dec 31, 2012	Number of employees based on hours worked in the period Jan–Dec 2013
Slovenia	11,521	11,794	97.7	10,896
Serbia	4,754	4,764	99.8	4,620
Croatia	3,381	3,627	93.2	3,495
Bosnia and Herzegovina	2,009	2,004	100.2	1,869
Montenegro	1,244	1,417	87.8	1,291
Bulgaria	11	205	5.4	65
Albania	2	109	1.8	2
TOTAL	**22,922**	**23,920**	**95.8**	**22,239**

Economic crisis profoundly affected staffing and recruitment at the company as well. Hiring was cut to bare essentials required for operations. This, external fluctuation at Mercator Group amounted to 11.6% in 2013. We hired 2,041 new employees, most of which in retail; there was hardly any hiring in administration. We terminated the employment of 3,005 employees. Of this figure, 301 terminations were related to the withdrawal from the markets of Bulgaria and Albania. Process optimization in administration allowed us to slash the number of employees there by 359 employees (index 87.8).

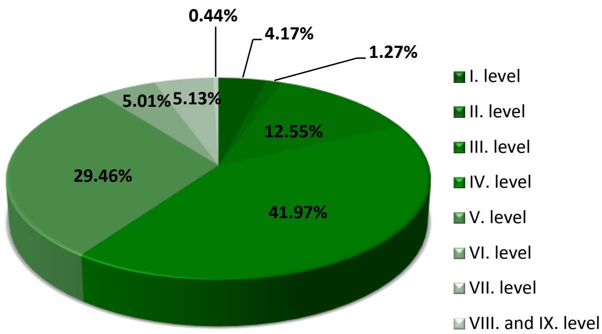
Lower number of employees in 2013 relative to 2012 is a result of reorganization and optimization of administration, withdrawal from the markets of Albania and Bulgaria, and merging the subsidiaries Intersport, Modiana, and Tehnika with Mercator's companies in respective markets.

Number of employees in administration and their share in the total number of Mercator Group employees



The nature of our activity is also reflected in the structure of employees by educations. Average level of education is 4.3; shop assistant is the most frequent job.

Composition by education



At Mercator - S, d.o.o., annex and appendix to the company collective labour agreement were adopted on July 1, 2013, regulating the changes in the workplace and ratio valuation to comply with the changes in the relevant legislation, which has also caused some changes in the payroll system. Changes in payroll accounting resulting from legislative changes have also been implemented at the companies Mercator - H, d.o.o., and Mercator - CG, d.o.o.

914 persons with disabilities are employed at Mercator Group, of which 573 (62.7%) are employed at the parent company and 203 (22.2%) are employed at the social enterprise Mercator IP, d.o.o. The company's manufacturing operations include development and production of cosmetic products and decorative textile products under the brand Dvorec Trebnik ("Trebnik Mansion"), packing of fresh fruit and vegetables, as well as drying fruit and packing dried fruit. Some activities have been transferred from the parent company to the social enterprise where such activities have subsequently been developed and expanded. In manufacturing, these activities include production of sweets under the brand Kranjski kolaček ("Kranj Cupcake"), fresh deli products, ready-made meals, and codfish processing. The social enterprise also renders some services, mostly for the parent company, including archiving, services related to occupational safety and health and fire safety, servicing of fire extinguishers, control and testing of fire hydrant networks, supply and maintenance of water dispensers, decoration services, internal control, and services related to food safety. In 2013, the activities of the social enterprise were expanded with graphic design and, in the field of security, operating reception desks and establishing video surveillance. Funding from public tenders was obtained for the said activities (training, workplace adjustment) in the amount of EUR 52.9 thousand. From the start of company operations in 2009 to the end of 2013, the company obtained from different sources total funding of EUR 188.2 thousand for this purpose.

For the 6th consecutive year, the company Mercator - BH, d.o.o, has won the prestigious title of "*The Most Desirable Employer" 2013* according to a survey of the Posao BA web portal. The same title was awarded in 2013 to the company Mercator - S, d.o.o., by the Serbian Association of Managers (SAM).

At this year's 11th award ceremony for the best HRM (human resource management) projects, Mercator was also among the award recipients. The expert jury of this contest, Organized by Planet GV and the HRM Magazine, ranked Mercator's project *All-Around Leader Development with Internal Coaches* among the best in the field.

In 2013, the whistle-blowing project **Povejmo** (Say it out loud) was launched. It allows benevolent individuals to report any concerns, objections, reservations, and observations of non-transparent conduct or disputable business practices at Mercator. The reports are processed with strict confidentiality; responsible consideration and resolution of reports is aimed at encouraging ethical, moral, and fair conduct. By the end of 2013, we received by e-mail 13 reports from various fields and companies within the Group.

We also work well with our social partners (trade unions and the Workers Council of Mercator, d.d.) who were included in the business process optimization project and the project of cutting the number of employees in administration, with regard to which joint discussions and consultations were held with the social partners.

Caring for development, motivating, and connecting our employees

Employee satisfaction is among the most important goals at Mercator. We pursue it within the very working processes, as well as by a system of rewards, personal and professional development, and promotion of employees in various fields.

A total of 160,466 hours of training were held in 2013, with 36,533 participants. Despite the austerity measures, or cost-cutting, we satisfied all essential needs for training and education. We have improved the economy of this process by transferring most educational programs from third-party training and education service providers to our internal instructors who conduct the training and education sessions and who are also the authors of the materials used, and by promoting e-learning. We also obtained special purpose funding to support our training and education efforts, in the amount of EUR 55.9 thousand.

In Slovenia, we completed the *Deputy Store Manager School*; a total of 22 groups completed the training, 344 attendants completed a combined total of 5,504 hours of training. Moreover, the 2nd generation of *Mercator's School for Stock Assistants* completed their training.

The *Third Regional School for Shop Managers of the field Mercator operations Southeastern Europe* and the *First Regional School for Wholesale Managers* took place on Kopaonik. It was attended by leaders from retail and wholesale of Mercator companies in Serbia, Montenegro, and Bosnia and Herzegovina.

In Serbia, training on leadership was held for the top management of the field Mercator Operations Southeastern Europe. At the company Mercator - CG, d.o.o., training was held for the company management, focused on the issue of identifying the possibilities to improve the organization of work. In the course of this training, a practical plan was developed.

Specialist training for work in operations was carried out for 60 retail managers at Mercator - BH, d.o.o., in Sarajevo. Intensive training of retail employees took part in all markets following the introduction of the revised Pika card.

At the parent company, we completed the pilot project to improve selling skills. The project took place at the Rakovnik and Rudnik retail units. It included meetings with the employees of both units to present the project; preparing and launching a two-day workshop; and holding coaching sessions with the two shop managers. We assisted retail in preparing appropriate advertising for the products of the week, we prepared a set of the most frequently asked questions and answers to them (Q&A) for select fields of work at the store, carried out a mystery shopper survey, and designed memos and mementos at the store to improve selling skills.

All knowledge from the pilot project was combined in the selling skills manual which will be the material for all project participants in 2014.

Employee development and motivation are fostered with team-building workshops, various training and education courses and seminars, as well as campaigns of the Health Promotion project.

In Slovenia, we prepared an e-seminar for all employees in retail, titled *Excellent Communication for Excellent Service*. E-seminar Get to Know Yourself (SDI) was held with over 70 participants. We also entirely revised the electronic material on *Occupational Safety and Health* and *Fire Safety*, which is now a part of our e-classroom. A total of 11 e-seminars were published in the e-classroom in 2013. A total of 10,970 participants took place in the e-seminars.

We held team-building workshops in Slovenia: we conducted three cooking team-building sessions and as many as 21 team-building workshops on Vogel, attended by a total of 343 participants. At Mercator - BH, d.o.o., we held a motivational team-building session for leaders and the best employees in administration. Motivational team-building session was also held at the company M - BL, d.o.o., where it was attended by shop managers and deputy shop managers, in addition to the administration workers.

In 2013, training and education sessions were held to improve leadership skills, in both operations and administration. A total of 1,196 leaders took place in these training sessions.

Coaching system is being implemented in all markets. Seventeen internal coaches are already at work. At Mercator - S, d.o.o., training courses were held in order to improve the quality of service and to develop selling skills of the employees in technical consumer goods retail units.

On November 29, 2013 the company Mercator - S, d.o.o., held the first case study competition for students of Serbian schools of economics and agriculture, titled *Mercator – Synergy of Knowledge*, focusing on Christmas marketing campaign. The competition was attended by 14 teams from six colleges. 423 high school and university students were admitted for practical training at Mercator Group.

Employees from the Intersport ISI, d. o. o., retail were trained as a part of the project *Permanent Career Orientation for Employers and Employees*, co-financed by the Public Fund of the Republic of Slovenia for Development of Human Resources and Scholarships. In September, employees of the Mercator - Emba, d.d., joined the project and commenced the initial activities.

Employees in Croatia were preparing for the country's accession to the European Union. They attended training for the implementation of new regulations and changes in the legislation, into the operations of their companies. In order to provide the transfer of knowledge within Mercator Group, we allowed access to the e-classroom to our employees from Croatia. At Mercator - S, d.o.o., we completed the introduction of the Intranet, a central internal communication medium.

Campaign "KLJUČNI KADROVI U PRODAJI" was carried out at the company Mercator - S, d.o.o., to commemorate Roda's 20th anniversary in the market. As a part of the campaign, key administration workers spent a week in operations workplaces in retail in order to learn about the processes and challenges in retail, to identify the possibilities for improvement of related business processes, to boost cooperation between the operations and administration, and to boost loyalty to the company.

New Year's participation of administration workers in retail operations was also organized as the workload tends to be much higher in the period leading up to the holidays. At the companies Mercator, d.d., and Mercator - BH, d.o.o., this work was voluntary. At Mercator - S, d.o.o., all administration workers helped out in retail with the campaign *Everybody Sell*.

We presented the Mercator Awards, the highest corporate accolades, to 27 employees from across the Group. We have selected the Best Boss of 2012. Cash rewards were presented to the top four, and ten more were presented with award plaques. In all markets, we also chose the Best Stores and rewarded their employees.

At Intersport ISI, d.o.o., five top employees in retail and one top employee in logistics are rewarded each month. At Mercator - S, d.o.o., and Mercator - CG, d.o.o., we selected 10 best sales assistants – representatives of the campaign *Roda – a Good Sign*, which were seen as being the best in promoting the friendliness and corporate values. Moreover, the company Mercator - CG, d.o.o., organized the campaign *Roda in the holiday spirit* which included a competition of Roda brand promoters during the Christmas and New Year's holidays. The best promoters received symbolic awards.

In Slovenia, the *Health Promotion* project includes a regular section Health in the Moj M ("My M") newsletter, as well as implementing numerous preventive health promotion campaigns, seminar on breast cancer for women above 45, free flu vaccination, distributing posters describing the correct way to lift loads at our stores, and distributing a brochure with instructions for back exercises to all employees. Mercator Hiking Society offers our employees Nordic walking classes and organizes hikes and trips.

In Slovenia, we carried out an extensive healthcare campaign *Measurement of Arterial Circulatory System*. The measurements took place at 24 Mercator units across Slovenia; they were conducted on 978 employees.

Solidarity Fund and Solidarity Foundation were founded at the companies Mercator - S, d.o.o., and Mercator - CG, d.o.o. The employees voluntarily contribute to these two founds and the contributions are paid out as aid to employees who find themselves in distress due to illness, natural disasters, or other unforeseeable events that threaten their social security. In Serbia, the Mercator Solidarity Foundation provided aid of over EUR 13.6 thousand to 30 employees. In Montenegro, the Solidarity Foundation helped 30 employees by providing aid in the total value of EUR 7.5 thousand. In Slovenia, Mercator Humanitarian Foundation provided aid to 138 employees. Total aid provided by the Foundation amounted to EUR 81.8 thousand.

Mercator also allows the employees to take out voluntary collective accident insurance, international travel insurance, and personal vehicle insurance. Employees are also offered holiday facilities in various popular tourist destinations across Slovenia and the Croatian coast.

Our care is devoted to employees of all generations, and it also involves their family members as we have been a holder of the Family-Friendly Company since 2007. External audit for the *Family-Friendly Company* certificate was conducted at the parent company. The audit was completed successfully and we remain the holder of full certificate for the following three years. In December, we received commendation for our achievements in the attainment or work-life balance.

RESPONSIBILITY TO NATURAL ENVIRONMENT

Reducing power consumption and heating fuel

Mercator's pursuit of the principles of efficient use of energy has become a part of the comprehensive corporate social responsibility. In addition to energy management, it involves environmental aspects, process aspects, and aspects of business performance. Mercator trade centers are constructed according to the principle of energy-efficiency. In our decisions, we also favour the use of alternative sources of energy. Mercator's goals regarding energy efficiency are consistent with the adopted National Action Plan for energy efficiency until the year 2016.

Prices of fossil fuels in the market have been increasing, making investments into alternative energy sources reasonable. Lower dependence on fossil fuels means more predictable and often lower energy costs. Therefore new alternative systems are being considered and implemented at Mercator as well. These systems are intended to promote environmental awareness, reduce the load on the environment, and improve business performance, competitiveness, and productivity of the entire Group.

Implementation of central control of refrigeration equipment will allow us to cut power consumption by 5%.

By the end of 2013, we have established central control over the operation of refrigeration equipment at all major stores. Central control will allow us to reduce power consumption by 5% and to improve the temperature conditions in the refrigerated display cases.

We have completed the project of replacing the existing fluorescent lighting with LED luminaires at the garages and in lightboxes.

In 2013, we continued to install combined heat and power (CHP) units, or co-generation units. A total of 12 such units have been installed to date. The project of targeted monitoring of energy consumption is in progress at select units.

Investment maintenance operations included restoration of several boiler rooms, as well as transition to energy sources that are more acceptable environmentally and in terms of cost. Moreover, we restored the façades on some buildings to improve energy performance.

By implementing the measures for efficient use of energy, we carry on the trend of cutting power consumption which has been decreased in the units at hand by 4%, or by as much as 7.5 million kWh.

Installation of nine CHP units resulted in positive effects on the environment, as well as annual energy cost savings of approximately EUR 150 thousand per year.

Cutting the use of natural resources and waste generation

In order to attain the medium-term plan of reducing the amount of mixed waste by 10%, we optimized the volume of waste bins at 22 units and thereby cut the mixed municipal waste handling costs by EUR 32 thousand.

In order to increase the amount of pre-sorted waste we collect, we upgraded our system of waste sorting for our employees. We also installed new waste sorting bins for separate collection of waste paper, packaging, organic waste, and other waste in the hallways of our administration buildings.

Emissions of noise into the natural environment were decreased by restoring our air conditioning equipment in several locations, and built noise barriers (soundwalls) to cut noise emissions.

At the location Mercator Center Ravne, we restored the small municipal wastewater treatment plant to decrease the effect of wastewater on our natural environment.

We provided better data in the SAP MM (Logistics Materials Management) on the amount of municipal waste generated, on the use of potable water, and on wastewater disposal. This will allow us to provide more accurate data for further analysis and for internal and external reporting.

We have evaluated the environmental risks related to the identified environmental aspects at the Mercator Group, such as use of raw materials and energy, emissions into the air, wastewater emissions, solid waste etc. The greatest environmental risks identified for 2013 were risks related to electricity, heating, and waste management. The only critical risk identified pertained to the aspect of electric energy. This risk is related to inefficient use of electric energy due to suboptimal design of business processes and technologies employed. Eight resolutions were adopted, complete with measures to mitigate the effects of the critical environmental risk. All measures have already been implemented.

In order to transfer the knowledge on environment protection to our employees in retail, we have included environment protection among the issues and contents conveyed to the employees by internal instructors and coaches. Internal training for coaches/trainers therefore also included education on environment protection.

We were involved in the European project PLASTiCE – "Innovative value Chain development for sustainable plastics in Central Europe", the purpose of which is to identify and eliminate the restrictions preventing a faster and large-scale implementation of sustainable types of plastics in Central Europe. As a socially responsible trade company, Mercator, d.d., is involved in the project in order to secure access to information confirmed by experts and to offer its customers packaging with a lesser environmental footprint while raising their awareness of the advantages and weaknesses of the use of bio-degradable and other types of plastics.

The PLASTiCE project included the Life cycle Assessment Study (hereinafter LCA) for two Mercator's plastic shopping bags and one biodegradable bag. The LCA study allows evaluating, in a transparent way, the effects on the environment throughout the life cycle of a product. The comparison of the effect of all three bags on the natural environment will provide the basis for advice to consumers on how to use the bags to minimize the impact on the natural environment.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Donations and sponsorships

Despite the harsh economic conditions, Mercator Group continued to provide sponsorships and donations in 2013 in order to be actively involved in the local environment in which we operate. We also respond to numerous requests by societies, clubs, and other organizations. In this way, we are looking to improve the current social conditions. In 2013, we supported **over 1,400 different sponsorship and donation projects**.

Our humanitarian activities included a donation to the Friends of the Youth Association Moste Polje for families in social distress, to White Ring of Slovenia to aid the victims of violence, the "Tinkerbell" ("Palčica") Shelter Home in Grosuplje, and Shelter home in Pilštanj. Since 2005, we have contributed funds to the Okrešelj Fund for the children of fatally injured rescue team members. We traditionally participate in the humanitarian project of the Slovenian Red Cross called "Drobtinica" ("Breadcrumb") by donating over 3 tons of bread. We donated products to the Food Bank of Montenegro; we distributed food packages to families in social and economic distress in Croatia and Bosnia and Herzegovina; and we donated more than 5 tons of fruit and vegetables to children's shelter homes in Croatia. We traditionally support the "Running and Walking for Hope", an event organized by EuropaDonna to launch the pink October, the breast cancer awareness month. Paediatric Clinic of the University Clinical Center of Maribor was donated funds for the acquisition of ultrasound equipment. We **responded to over 1,000 applications for humanitarian aid** in 2013, received from schools, kindergartens, children, families in social distress, disabled persons, retirees, and firefighters.

By **donating bread and pastry** from Pekarna Grosuplje to the Postojna Shelter home and the Zagorje Red Cross, Mercator helped the victims of the ice storm that affected a large part of Slovenia in early February 2014.

In sports, we continue to sponsor the Olympic Committee and the Slovenian national team, as we have done since year 2000. We traditionally support Slovenia's largest running event, the Ljubljana Marathon. We are the sponsor of Mateja Pintar, Slovenian para (wheelchair) table tennis player and holder of gold medal from the Athens Olympics and bronze from the Beijing Olympics, as well as whitewater kayaker Nejc Žnidaršič and Manca Notar, stand-up paddle surfer. We also sponsor the Krim Mercator handball club, Celje Pivovarna Laško handball club, and the Maribor football club. We support the mass hike along the wire around occupied Ljubljana. In winter sports, we are a sponsor of the Slovenian Ski Association and the final event of the ski jumping World Cup in Planica.

For a number of years, we have been the sponsor of the cycling "Tour of Slovenia"; since 2004, we have also been a partner of our wheelchair basketball team of the Ljubljana Region Paraplegic Society. In 2013, we supported **over 170 different sports societies**, **events and individuals**.

Among the cultural events, we single out our traditional sponsorship of the Cankarjev Dom Golden Subscription, which we have sponsored for twenty consecutive years and which presents the artistic achievements of top musicians from across the globe. We also sponsor the Ptuj kurent carnival, Borštnik Festival, October Senior Citizens Festival, international FineWine&GodFood show in Sarajevo, Dragon's Children Games in Novi Sad – the largest children's festival in Southeastern Europe, and the international folklore festival "Dukat fest" held in Banja Luka. As we appreciate excellence and encourage and promote local cultural creativity, we also sponsor particular events of the Ljubljana Festival. In 2013, we responded to **over 200 applications by various cultural societies** from across Slovenia.

In the field of education, we sponsored **over 30 educational events** in the course of 2013, including the national competition in sales techniques in Slovenj Gradec, Agrobiznis regional conference in Belgrade, and traditional Slovenian breakfast at paediatric clinics in Ljubljana and Maribor. As Slovenia's largest retailer with tradition spanning over sixty years, rich knowledge and experience, we do not merely follow or keep track of the trends in retail; we actively take part in setting them. Therefore, annual strategic conference on trade is an important professional event that we also support by sponsorship.

We like good deeds

In 2013, we launched the "**We Like Good Deeds"** campaign. As indicated by its very name, it was our goal to connect even more closely with the local environment and local population. The campaign included raising funds to be distributed to local organizations chosen by our customers at the refurbished neighbourhood store.

Donating food surpluses for hot meals

In 2013, we were the first Slovenian retailer to join the initiative by the Ministry of Agriculture and the Environment and donated food surpluses to those in need. Thus, we work with Lions Clubs in Celje, Maribor, and Trbovlje, and we believe that the network of volunteers will expand to Ljubljana, Domžale, Slovenj Gradec, Novo mesto, Murska Sobota, as well as other places.

In 2013, we carried out over 1,400 different sponsorship and donation projects and supported more than 170 sports societies, sporting events, and individual athletes; we responded to more than 200 applications by various cultural societies across Slovenia; we sponsored over 30 educational events; and we took part in other humanitarian campaigns.

RESPONSIBILITY TO SUPPLIERS

In category management and procurement we focus intensively on working with proven suppliers, on choosing our assortment, on pricing, promotions, and education of both employees and consumers. We seek to maintain long-term sound relations with our suppliers. Upon signing their contracts for 2013, the suppliers again signed statements of safety and quality of products, and compliance of food and materials.

Slovenian suppliers, farmers, and small growers were included in 2013 into sustainability projects.

Fresh fruit and vegetables of Slovenian origins

Our strategy is to purchase as much fruit and vegetables of Slovenian origin as possible. Excess of demand for Slovenian vegetables over supply in this year is addressed by long-term agreements on planned purchase volumes, which are signed with Slovenian farmers, small growers, and cooperatives.

Despite the poorer harvest, purchase of fruit and vegetables by Slovenian suppliers is in progress according to plan as contractually agreed at the beginning of the year with major growers.

Offer of fruit and vegetables at Mercator farmer's markets also includes over 100 small growers and farmers' cooperatives. We offered our customers Slovenian vegetables, depending on the season. For example, we included in our offer horseradish by five Slovenian growers during Easter period. During the summer when fruit and vegetable crops are the most abundant, we offered our customers over 180 sorts of fruit and vegetables from all over Slovenia.

In the EKO (organic) program, we extended the assortment of Slovenian fruit and vegetables. To this end, we introduced special labelling of Slovenian EKO fruit and vegetables in the EKO corners.

We worked with the Slovenian Vegetables Interest Group ("GIZ Slovenska zelenjava"), the mission of which is to promote and boost the sales of Slovenian vegetables, to carry out fourteen promotional events at retail units in August; further promotional events were held in September and October. The purpose of the promotional campaigns is to inform the consumers about the advantages of Slovenian vegetables from integrated farming.

After years of efforts, an *agreement on cooperation and strengthening of partnership in the vegetable chain* was reached and signed on August 27, 2013 at the AGRA fair in Gornja Radgona. The signing of the agreement represents an important step towards strengthening the sound business relations with our suppliers and it ensures regular supply of Slovenian vegetables. Clear labelling and origin traceability will allow our customers the option to check the origin of Slovenian vegetables. Continuous supervision and clearly defined criteria of vegetable acceptance will also provide the quality of offer of Slovenian vegetables. The signatories of the agreement are associations of vegetable growers: Chamber of Agriculture and Forestry of Slovenia, CCIS – Chamber of Agricultural and Alimentary Enterprises, Cooperative Association of Slovenia, and the Slovenian Vegetables Interest Group.

The call for proposals on our website continuously invites Slovenian farmers and small growers to take part. To make sure their products reach our customers faster and more appropriately packaged, we are offering standardized packaging for fruit and vegetables, made of environmentally friendly raw materials, at good prices.

Mercator is working with Slovenian suppliers, farmers, and small growers to provide a broad choice of fruit and vegetables, meat, milk, and dairy products of Slovenian origin.

Locally grown fresh meat

In the second quarter of 2013, eleven top Slovenian meat producers started regular supply of fresh pork, beef, veal, and poultry grown in Slovenia. By including the meat grown in Slovenia in to our regular offer, we are ensuring traceability and better quality of meat from the aspect of attaining the healthcare standards and increasing the share of self-sufficiency.

100-percent Slovenian milk

Twelve Slovenian suppliers of milk and dairy products signed their *Declarations on traceability of food and acceptance of commitments* as a part of the project **Locally grown – 100% Slovenian Milk**, thereby committing to supply select milk and dairy products made of 100% Slovenian milk. Slovenian milk is comparable to the milk from the European countries renowned for quality milk. Shorter routes from farms to dairy plants allow the milk to stay fresher and less damaged or modified. By offering our consumers milk and dairy products made of 100-percent Slovenian milk, we are offering what they recognize as safe products of high quality. Thus, we are carrying on our efforts to promote the consumption of locally produced food.

RESPONSIBILITY TO QUALITY

Management and continuous improvement of business processes at the Mercator Group comply with the requirements of international standards of management systems and principles of business excellence which we have introduced and connected into an integrated management system. Requirements and responsibilities for the system were laid down in the *Rules of Procedure for Mercator Group's Integrated Management System*.

The basic requirements of the integrated management system (document and record management, management of the continuous improvement system) are in place at all Mercator Group companies, regardless of whether certified management systems have been implemented there or not. As a rule, representatives of all companies meet twice per year for the Management Systems Council to address in a comprehensive way the issues of integrated management system at the Mercator Group. At the Council, they report about the status of individual management systems at companies, exchange experience, compare different views and opinions, seek possible solutions, and propose measures.

Management of certified management systems

Efficiency and effectiveness of the management systems is regularly reviewed by external certification bodies carrying out audits according to the requirements of the international standards and the effective legislation. Based on any identified inconsistencies and recommendations, the companies implement corrective measures and send the reports thereof to the certification body which evaluates the adequacy of such measures by reviewing the report and establishes during the following audit whether the measures were appropriately and efficiently introduced.

A total of **13 management systems** are currently certified at Mercator Group companies.

Company / ***Quality Management Systems***	**Mercator, d.d.**	**Mercator - S**	**Mercator - H**	**Mercator - BH**	**Mercator -IP**	**Emba**	**Modiana**
ISO 9001 - Quality Management Systems	C	C	C	C		C	
ISO 14001 – Environmental Management Systems	C						
HACCP – Food safety		C					
IFS - International Food Standard						C	
AEO – Authorized economic operator	C						
Family-Friendly Company	C				C		C
SQMS - Supplier Quality Management System						C	

In 2013, we successfully completed 5 regular audits and 7 follow-up audits. The AEO status is audited as necessary. No such audit was required in 2013. We have discontinued the certification of the GRI (Global Reporting Initiative) standard at Mercator, d.d., and the AIB (International Consolidated Standard) at Mercator - Emba, d.d.

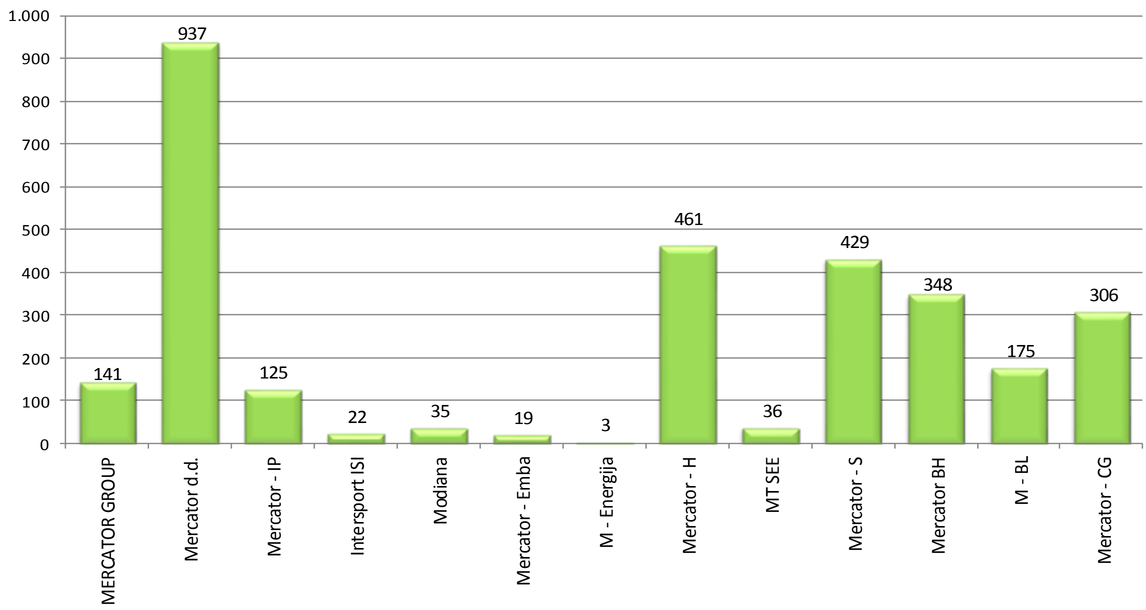
Documentation management

Requirements or rules of Mercator Group operations are kept in the Mercator Standards document collection. We manage the entire life cycle of the documents, from proposal to archiving. Effective documents are regularly revised and updated based on good practices and proposals for changes.

The document collection is managed using the Mercator Standards application which allows all employees to simply access and use the collection via Intranet. Thus, we have reduced administration costs and considerably improved communication at the company as the documents are more readily available and the users can independently look for documents related to their role in the business process, and propose improvements. This has also improved the flow of knowledge and information between employees.

The document and record management process is improved every year. This year's novelty is the introduction of mandatory document revision. Document owners have to review their documents at least once per year and either update them or extend their effectiveness. Thus, we assure that the document ownership and contents are always up to date. We have also introduced access counters to see which documents are the most commonly accessed by the employees in their work, and we changed the method of notification about new documents. Leaders now receive daily notifications of new documents, which include information for all Mercator Group companies.

As at December 31, 2013, Mercator Standards Collection included **3,037 documents**.



Common rules of operation are published in the documents pertaining to all Mercator Group companies, while documents of the field Mercator operations Southeastern Europe lay down the rules of operations for the companies Mercator - S, d.o.o., Mercator - BH, d.o.o., M - BL, d.o.o., and Mercator - CG, d.o.o.

Management of the continuous improvement system

The continuous improvement system is managed consistently with the quality policy and goals, based on the findings of the councils, customer and employee satisfaction surveys, risk management, non-compliance system, recommendations and commendations, internal and external audits, and other forms of control (internal control, audit etc.). In addition, employee proposals also provide a number of ideas for improvement. By implementing corrective and preventive measures, we prevent recurrence of non-compliance for the same reasons, and identify and eliminate in a timely manner the potential reasons for non-compliance.

The continuous improvement system was supported with an application for the management of non-compliance, recommendations and commendations, and corrective and preventive measures. Resolution of reports has become faster and more transparent following the transition to electronic technology. Everyone concerned by a report is notified by electronic mail about their task, and the reporting entity quickly receives relevant feedback for the solution of a problem or a proposal. All reports can be reviewed from a single place, which makes it easier to analyze and identify major deviations, and to introduce corrective measures. Another important advantage of the introduction of IT support is paperless work which will considerably cut the costs of the related administration, while speeding up the processes and improving effectiveness. The application also takes into account the differences in languages, which makes it easy to use at all Mercator Group companies. In the knowledge base, which is a constituent part of the application, we will collect examples of good practice. Such examples will be easy to find and to expand.

Internal controls

Different forms of internal controls are in place at Mercator: internal control, monitoring, internal audit, internal management system audits, accounting control, tax control, security control, occupational health and safety control, and fire safety control. This year, particular attention was devoted to the analysis of mutual relations between these forms of control, in order to reap the synergies among them and to coordinate their execution. The requirements were laid down in an organizational rule on internal control, and an Internal Control Leader Council has been appointed to coordinate the process of internal control execution. The Council will start its work in 2014.

Efficiency of implementation of the management systems requirements at Mercator Group companies is reviewed with internal audits that allow us to check the compliance of operations with the requirements of the legislation, introduced management systems, and internal rules of operation; in addition, we also take into account the guidelines provided by the management, and recommendations from external audits.

Internal controls are carried out each year and the findings are combined in systemic corrective measures which have the same relevance and are considered in the same way as the corrective measures recommended by external audits. Efficiency of the measures carried out is evaluated in follow-up audits.

In 2013, we launched the revision of the internal audit system. We took into account the rationalization of operations and the possibilities offered by information technologies. To this end, we developed a new version of the organizational rule on internal controls, which includes, in addition to the audits already in place, conducted by auditors and other internal control personnel, electronic internal control called *self-control*. Self-control shall be conducted by means of an electronic questionnaire to be filled out by the auditees.

In order to reap the synergies and coordinated action, we paid a lot of attention to the analysis of mutual relations between the established forms of internal control.

NEIGHBOUR NEWSFLASH

The right choices have led to lower costs and improved performance.

Financial report

Mercator

Management Responsibility Statement

The Company Management Board is responsible for preparation of the Annual Report for the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2013, and of the financial statements which, to the best knowledge of the Management Board, present truly and fairly the development and operating results of the Company and its financial position, including the description of significant risk types the Company or any other company included in the consolidation are exposed to as a whole.

The Management Board confirms to have consistently applied the appropriate accounting policies in compiling the financial statements and to have made the accounting estimates according to the principle of fair value, prudence and good management, and that the financial statements give a true and fair view of the Company's property and operating results for the year 2013.

The Management Board is also responsible for appropriate accounting, the adoption of adequate measures for protection of property and other assets, and confirms that the financial statements, together with notes, have been prepared on the basis of the going concern assumption and in line with the applicable legislation and the International Financial Reporting Standards as adopted by the EU.

The Company Management Board approves and confirms the Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for financial year 2013.

Ljubljana, April 25, 2014

Toni Balažič
President of the Management Board

Stanka Pejanović
Management Board Member

Drago Kavšek
Management Board Member

Igor Maroša
Management Board Member

MERCATOR GROUP FINANCIAL REPORT

Consolidated balance sheet

EUR thousand	Note	31/12/2013	31/12/2012 restated	1/1/2012 restated
ASSETS				
Non-current assets				
Property, plant and equipment	14	1,704,182	1,759,537	1,858,575
Investment property	16	2,791	3,194	3,450
Intangible assets	15	17,407	18,387	35,862
Deferred tax assets	19	17,530	17,219	12,651
Loans and deposits	22	32,284	34,559	48,592
Available-for-sale financial assets	17	820	1,069	2,628
		1,775,014	**1,833,965**	**1,961,758**
Current assets				
Inventories	20	264,798	267,711	309,941
Trade and other receivables	21	234,927	230,484	231,358
Current tax assets		256	6,462	4,062
Loans and deposits	22	10,325	16,174	8,204
Derivative financial instruments	18	16	1	158
Cash and cash equivalents	23	18,505	24,677	21,337
		528,827	**545,509**	**575,060**
Total assets		**2,303,841**	**2,379,474**	**2,536,818**
EQUITY	**24**			
Share capital		157,129	157,129	157,129
Share premium		198,872	198,872	198,872
Treasury shares		(3,235)	(3,235)	(3,235)
Revenue reserves		146,656	197,045	264,310
Fair value reserve		140,587	141,008	151,976
Retained loss		(63,887)	(54,362)	(18,955)
Profit (loss) for the year		18,695	(18,839)	(3,068)
Currency translation reserve		(80,623)	(78,819)	(60,275)
Total equity attributable to equity owners of the Company		**514,194**	**538,799**	**686,754**
Non-controlling interests		**100**	**126**	**193**
Total equity		**514,294**	**538,925**	**686,947**
LIABILITIES				
Non-current liabilities				
Trade and other payables	28	850	2,462	2,369
Financial liabilities	26	351,583	593,841	822,145
Deferred tax liabilities	19	37,455	33,618	41,514
Provisions	27	25,047	31,459	32,711
		414,935	**661,380**	**898,739**
Current liabilities				
Trade and other payables	28	686,507	672,858	583,982
Current tax liabilities		411	163	-
Financial liabilities	26	686,225	500,879	362,588
Derivative financial instruments	18	1,469	5,269	4,562
		1,374,612	**1,179,169**	**951,132**
Total liabilities		**1,789,547**	**1,840,549**	**1,849,871**
Total equity and liabilities		**2,303,841**	**2,379,474**	**2,536,818**

The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Consolidated income statement

EUR thousand	Note	2013	2012 restated
Revenue	9	2,765,868	2,873,186
Cost of goods sold and selling costs	11	(2,658,892)	(2,739,201)
Administrative expenses	11	(92,901)	(130,416)
Impairment of property, plant and equipment and intangible assets	11	(1,956)	(59,842)
Other income	10	23,854	20,214
Results from operating activities		**35,973**	**(36,059)**
Finance income	13	8,025	6,805
Finance expenses	13	(60,943)	(72,911)
Net finance expense		**(52,918)**	**(66,106)**
Profit (loss) before tax		**(16,945)**	**(102,165)**
Tax	19	16	5,659
Profit (loss) for the year		**(16,929)**	**(96,506)**
Profit (loss) for the year attributable to:			
Owners of the parent company		(16,904)	(96,441)
Non-controlling interests		(25)	(65)
Basic and diluted earnings (loss) per share (in EUR)	25	(4.5)	(25.9)

The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Consolidated statement of comprehensive income

EUR thousand	Note	2013	2012 restated
Profit (loss) for the year		**(16,929)**	**(96,506)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss		**(9,013)**	**(9,785)**
Net gains/losses recognized in revaluation surplus in relation to property	14	(883)	(16,437)
Liabilities for unused annual leave of employees		(4,956)	-
Other changes		(1,235)	-
Deferred tax on items that will not be reclassified subsequently to profit or loss	19	(1,939)	6,652
Items that may be reclassified subsequently to profit or loss		**1,311**	**(19,392)**
Foreign currency translation differences - foreign operations		(1,805)	(18,544)
Net gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets		12	610
Gains/losses recognized in revaluation surplus	24	(43)	(89)
Gains/losses transferred from revaluation surplus to profit or loss	24	55	699
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges (effective hedging)	24	3,731	(864)
Deferred tax on items that may be reclassified subsequently to profit or loss	19	(627)	(594)
Other comprehensive income for the year		**(7,702)**	**(29,177)**
Total comprehensive income for the year		**(24,631)**	**(125,683)**
Total comprehensive income for the year attributable to:			
Owners of the parent company		(24,605)	(125,616)
Non-controlling interests		(26)	(67)

The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Consolidated statement of changes in equity

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as at January 1, 2012		**157,129**	**198,872**	**(3,235)**	**264,310**	**192,209**	**10,294**	**(3,068)**	**(60,275)**	**756,236**	**221**	**756,457**
Effect of the changes in accounting policies and error	2(e)	-	-	-	-	(40,233)	(29,249)	-	-	(69,482)	(28)	(69,510)
Balance as at January 1, 2012, restated		**157,129**	**198,872**	**(3,235)**	**264,310**	**151,976**	**(18,955)**	**(3,068)**	**(60,275)**	**686,754**	**193**	**686,947**
Total comprehensive income for the year												
Net profit (loss) for the year		-	-	-	-	-	-	(96,441)	-	(96,441)	(65)	(96,506)
Other comprehensive income		-	-	-	-	(10,968)	337	-	(18,544)	(29,175)	(2)	(29,177)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(10,968)**	**337**	**(96,441)**	**(18,544)**	**(125,616)**	**(67)**	**(125,683)**
Transactions with owners of the parent company directly recognized in equity												
Contributions by and distributions to owners												
Dividends to equity holders*		-	-	-	-	-	(22,339)	-	-	(22,339)	-	(22,339)
Transfer of loss of the previous year to retained earnings (loss)	24	-	-	-	-	-	(3,068)	3,068	-	-	-	-
Distribution of revenue reserves pursuant to Management decision	24	-	-	-	(67,265)	-	(10,337)	77,602	-	-	-	-
Total transactions with owners of the parent company		**-**	**-**	**-**	**(67,265)**	**-**	**(35,744)**	**80,670**	**-**	**(22,339)**	**-**	**(22,339)**
Balance as at December 31, 2012, restated		**157,129**	**198,872**	**(3,235)**	**197,045**	**141,008**	**(54,362)**	**(18,839)**	**(78,819)**	**538,799**	**126**	**538,925**

* The amount of dividend payment differs from the amount specified in the resolution of the General Meeting of Shareholders because treasury shares were included in the calculation of the required amount for dividend payment.

The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Consolidated statement of changes in equity (continued)

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as at January 1, 2013, restated		**157,129**	**198,872**	**(3,235)**	**197,045**	**141,008**	**(54,362)**	**(18,839)**	**(78,819)**	**538,799**	**126**	**538,925**
Total comprehensive income for the year												
Profit (loss) for the year		-	-	-	-	-	-	(16,904)	-	(16,904)	(25)	(16,929)
Other comprehensive income		-	-	-	-	(421)	(5,476)	-	(1,804)	(7,701)	(1)	(7,702)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(421)**	**(5,476)**	**(16,904)**	**(1,804)**	**(24,605)**	**(26)**	**(24,631)**
Transactions with owners of the parent company directly recognized in equity												
Contributions by and distributions to owners												
Transfer of loss of the previous year to retained earnings	24	-	-	-	-	-	(18,839)	18,839	-	-	-	-
Distribution of revenue reserves pursuant to Management decision	24	-	-	-	(50,389)	-	14,790	35,599	-	-	-	-
Total transactions with owners of the parent company		**-**	**-**	**-**	**(50,389)**	**-**	**(4,049)**	**54,438**	**-**	**-**	**-**	**-**
Balance as at December 31, 2013		**157,129**	**198,872**	**(3,235)**	**146,656**	**140,587**	**(63,887)**	**18,695**	**(80,623)**	**514,194**	**100**	**514,294**

The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Consolidated statement of cash flows

EUR thousand	Note	2013	2012 restated
Cash flows from operating activities			
Profit (loss) for the year		**(16,929)**	**(96,506)**
Adjustments:			
Income tax expense	19	(16)	(5,659)
Depreciation of property, plant and equipment	14	68,622	70,355
Depreciation of investment property	16	131	140
Amortization of intangible assets	15	4,982	7,552
Impairment of goodwill	15	-	5,885
(Gains) losses upon disposal and impairment of property, plant and equipment and intangible assets	14, 15, 16	(819)	51,813
Change in provisions	27	(4,004)	9,881
Impairment and disposal of available-for-sale financial assets and dividends received	13	160	366
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost	8	-	(1,349)
Net foreign currency translation	13	2,879	9,363
Interest income	13	(3,979)	(3,374)
Interest expense	13	47,951	50,939
		98,978	**99,406**
Change in inventories		1,576	42,527
Change in trade and other receivables		1,763	(2,438)
Change in trade and other payables		5,153	78,391
		107,470	**217,886**
Interest paid	13	(47,951)	(50,939)
Income tax paid	19	(854)	(144)
Cash from operating activities		**58,665**	**166,803**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	8	-	(390)
Acquisition of property, plant and equipment and investment property	14, 16	(25,448)	(62,948)
Acquisition of intangible assets	15	(4,050)	(4,382)
Acquisitions of available-for-sale financial assets	17	-	(9)
Loans and bank deposits made		-	(839)
Proceeds from sale of property, plant and equipment and investment property	14, 16	9,487	7,292
Proceeds from sale of intangible assets	15	-	16
Proceeds from sale of available-for-sale financial assets	17	78	1,701
Interest received	13	3,979	3,374
Dividends received	13	11	113
Loans and deposits repayments received		8,124	6,908
Net cash used in investing activities		**(7,819)**	**(49,164)**
Cash flows from financing activities			
Repayment of non-current borrowings	26	(29,040)	(257,124)

Increase in non-current borrowings	26	-	28,218
(Repayment) increase in current borrowings	26	(27,872)	137,876
Dividends paid		(11)	(22,163)
Net cash from (used in) financing activities		**(56,923)**	**(113,193)**
Net increase (decrease) in cash and cash equivalents		**(6,077)**	**4,446**
Cash and cash equivalents at beginning of the year		24,677	21,337
Effect of exchange rate fluctuations on cash and cash equivalents		(95)	(1,106)
Cash and cash equivalents as at the end of the year	23	**18,505**	**24,677**

*Repaiyments in relation to current borrowings are offset, as two issues of commercial notes were issued and repaid in 2013.

The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Notes to consolidated financial statements

1. Reporting company

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The consolidated financial statements of the Mercator Group as at and for year ended December 31, 2013 comprise the company Mercator, d.d., and its subsidiaries (together referred to as the "Group"). The Group's core and predominant activity is retail and wholesale of fast-moving consumer good and home products; to a lesser extent, the Group’s activities include also sales of sports and textile products and food industry.

2. Basis of preparation

(a) Statement of compliance

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and in compliance with the provisions of the Slovenian Companies Act.
Consolidated financial statements were approved by the Company Management Board on March 24, 2014.

(b) Basis of measurement

Consolidated financial statements have been prepared on the historical cost basis, except for the items listed below:

- derivative financial instruments measured at fair value;
- available-for-sale financial assets at fair value;
- land valued according to the revaluation model.

Methods used for fair values measurement are described in Note 5.

The Management Board was granted waivers for financial covenants.

(c) Functional and presentation currency

The consolidated financial statements attached herewith are presented in EUR, i.e. in the functional currency of the company Poslovni sistem Mercator, d.d. All financial information figures presented in EUR are rounded to one thousand units.

(d) Use of estimates and judgments

Preparation of financial statements in compliance with the IFRS requires the company management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

The estimates and assumptions are reviewed regularly. Adjustments of accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information on significant assessments regarding uncertainty and critical judgments, which were prepared by the management in the process of accounting policies execution and which affect the amounts in the financial statement the most, is given below.

(i) Goodwill

Each year, impairment test is conducted by the Group concurrently with the preparation of financial statements. Upon acquisition, goodwill was allocated to groups of cash-generating units represented by clusters of comparable entities such as Mercator centers, hypermarkets, supermarkets, and smaller units. Recoverable amount of the cash-generating unit is specified based on the calculations of value in use, or fair value less the selling costs. Calculations include projections of cash flows based on the business plans adopted by the Management Board for the following year, and on the expected operating results in the coming medium-term period, based on the assumptions and policies specified in the medium-term business plan for each company and therefore the Mercator Group as a whole. The Management Board has prepared projections based on the business performance record (history) and expectations with regard to development of the market. The discount rate applied is based on market rates adjusted to reflect the specific risks related to the business units.

(ii) Property, plant and equipment

The Group measures the land using the revaluation model, as described in Note 3(f)(i). The estimated useful life of property, plant and equipment is disclosed in Note 3(f)(iv).

(iii) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets, the Group, pursuant to IAS 23 Borrowing Costs (2007), capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Capitalization of interest expense is performed for major investments whose construction and preparation for use lasts more than 6 months. In 2013, no investment meets the above criteria for capitalization of borrowing expenses.

(iv) Available-for-sale financial assets

The Group's long-term financial investments into equity of other companies, classified as available-for-sale financial assets, also include such assets that could not be appraised at fair value. Shares of these companies are not listed on the stock exchange. Fair values of these assets cannot be reliably measured; therefore, they are valued at historical cost less impairment.

(v) Trade and other receivables

Allowances for receivables are based on pending legal proceedings and experience from previous periods. The estimate is based on the assumption that receivables will be paid in the amount recognized.

Receivables with quality insurance (backed by security) are excluded from the revaluation calculation. Adjustments of short-term trade receivables and receivables from Pika card transactions are created according to the age of receivables and according to the possibility of receiving payment (individually). Thus, the value of short-term trade receivables and relevant default interest is adjusted by 50%, if the receivable is overdue by 61 to 74 days; 75%, if the receivable is overdue by 75 to 89 days; and by 100%, if the receivable is overdue by 90 days or more. Short-term receivables from Pika card holders are adjusted by 100%, if the receivables are overdue by 90 days or more.

Disputed receivables (lawsuit, bankruptcy, compulsory composition) are adjusted by 100%.

Adjustments to other receivables are created individually.

(vi) Inventories

Carrying amounts of inventories do not materially exceed their realizable value. Value adjustments of inventories are based on previous years' experience.

General rule (grocery and appliances programs inventories):

- inventories acquired a year before the current year are adjusted by 50% of their cost;
- inventories acquired two years or more before the current year are adjusted by 80% of their cost;

Exceptions:

- inventories in the Modiana and Intersport business units are adjusted only when older than two years, namely by 50% of their cost;

Inventories adjustments based on fashion features are not carried out.

The accounting estimate was changed in 2013. The effect is disclosed within the framework of Note 2(e).

(vii) Provisions

Carrying amounts of provisions are measured as the present value of the expenditures expected to be required for the settlement of liabilities. Estimates are given by experts, or the values are based on original documentation. The outcome and the date of resolution of legal proceedings which were the basis for recognition of provisions are uncertain. However, the Group does not expect any events in the future that would significantly influence the accounting estimates.

Provisions for termination and jubilee benefits refer to estimated payments of termination benefits upon retirement and jubilee benefits as a result of long service, as at the balance sheet date, discounted to present value. These liabilities have been created for expected payments. The expected growth of salaries from the day of the calculation until the day of retirement of an individual employee and staff turnover were also considered in the calculation. Salary growth consists of career promotion and the related wage inflation. To calculate the present value of provisions, a discount rate was used that is equal to the market yield on highly rated euro-denominated corporate bonds (see note 3(j) (i)).
The Group does not expect any events in the future that would significantly influence the accounting estimates.

(viii) Deferred tax

Deferred income taxes are calculated on temporary differences on the basis of the balance sheet liability method using the tax rate applicable in the next financial year. If the tax rate changes, the deferred tax assets and liabilities will change accordingly.

The Mercator Group companies recognize deferred tax assets for transfer of unused tax losses and unused tax credit to the following period only in cases when it is likely that future taxable income is available against which the unused tax losses and unused tax credits can be charged. The basis for estimate is Mercator Group's medium-term business plan.

The Group does not expect any events in the future that would significantly influence the accounting estimates.

(e) Change in accounting policies and estimate, adjustment of error and adjustment of financial statements

Change in accounting policies and error adjustment

(i) Introduction

In 2013, the Group changed the accounting policy for accounting treatment of value of buildings by implementing the cost model.

The company Mercator, d.d., has changed the method of valuation of investments in subsidiaries from fair value to measuring at cost.

The value of rentals paid in advance was adjusted, as contractually agreed-upon obligations for rental payment for units C&C Getro exceed the benefits Mercator - H, d.o.o., can expect from operations of those retail units in the future.

Cheques with a maturity of over 90 days and certain rentals paid in advance in Serbia have been reclassified within the balance sheet for comparability with the balances as at 31 December 2013.

(ii) Change in accounting policy and error adjustment

On January 1, 2013, the Group changed its accounting policy for valuation of buildings; namely, the revaluation model was replaced with the cost model. The change of accounting policy was applied retrospectively; therefore, the effects of this change, as presented in the tables below, refer to the data from January 1, 2012 on. The change in accounting policy is due to instable real estate market and to revaluation effects arising from it, which may materially affect the Group's financial statements, but are not significantly related to the Group's actual operations. Therefore, the management of the controlling company decided that the cost model was more appropriate for the Group's financial statements and that it reflected its operations more realistically.

Due to the change in the valuation of investments in subsidiaries it was necessary to eliminate deferred tax assets and liabilities in the consolidated financial statements.

For the estimate of future benefits from cash-generating units C&C Getro, the discounted cash flow method was used. The projections of future operations are based on realization of operations in 2013 and the plan for business units for 2014. The increase in revenue is considered for the future periods, which arises from the Company's future expectations regarding sales revitalization and, consequently, improved purchase and sales conditions. Nominal rate for increase in revenues from 2015 on is 3.0%. A 1% annual indexation of current rentals was taken into account. In line with contractual provisions, the investment maintenance is entirely charged to the lessor. The observed projection period is limited with the lease contract effectiveness, i.e. until 2025. The discount rate applied for appraisal amounts to 9.0%.

The findings showed that contractually agreed-upon obligations for rental payment exceed the benefits Mercator - H, d.o.o., can expect from operations of those retail units in the future, due to which the value of rentals paid in advance was adjusted. Since these findings refer to the financial year of 2011, the value of rentals paid in advance was adjusted as at January, 1 2012 in line with IAS 8.

The effect of changes in accounting policies and adjustment on the balance sheet as at January 1, 2012 and December 31, 2012

EUR thousand	1/1/2012, as previously reported	Effect of change in accounting policy of valuation of buildings	Effect of change in accounting policy of measuring investments in subsidiaries	Value adjustment for rents paid in advance	Reclassification of cheques over 90 days and rents paid in advance	Restated balances as at 1/1/2012
TOTAL ASSETS	**2,613,659**	**(47,443)**	**(123)**	**(29,275)**	**-**	**2,536,818**
Non-current assets	**2,026,555**	**(47,443)**	**(123)**	**(29,275)**	**12,044**	**1,961,758**
Property, plant and equipment	1,906,018	(47,443)	-	-	-	1,858,575
- buildings	1,112,074	(47,443)	-	-	-	1,064,631
Deferred tax assets	12,774	-	(123)	-	-	12,651
Loans and deposits	65,823	-	-	(29,275)	12,044	48,592
Current assets	**587,104**	**-**	**-**	**-**	**(12,044)**	**575,060**
Trade and other receivables	243,402	-	-	-	(12,044)	231,358
Loans and deposits	2,001	-	-	-	6,203	8,204
Cash and cash equivalents	27,540	-	-	-	(6,203)	21,337
TOTAL LIABILITIES AND EQUITY	**2,613,659**	**(47,443)**	**(123)**	**(29,275)**	**-**	**2,536,818**
Equity	**756,457**	**(40,225)**	**(10)**	**(29,275)**	**-**	**686,947**
Fair value reserve	192,209	(40,223)	(10)	-	-	151,976
Retained earnings	10,294	-	-	(29,249)	-	(18,955)
Non-controlling interests	221	(2)	-	(26)	-	193
Non-current liabilities	**906,070**	**(7,218)**	**(113)**	**-**	**-**	**898,739**
Deferred tax liabilities	48,845	(7,218)	(113)	-	-	41,514

EUR thousand	31/12/2012, as previously reported	Effect of change in accounting policy of valuation of buildings	Effect of change in accounting policy of measuring investments in subsidiaries	Value adjustment for rents paid in advance	Reclassification of cheques over 90 days and rents paid in advance	Restated balances as at 31/12/2012
TOTAL ASSETS	**2,522,820**	**(115,198)**	**(3,159)**	**(24,989)**	**-**	**2,379,474**
Non-current assets	**1,967,797**	**(115,198)**	**(3,159)**	**(24,989)**	**9,514**	**1,833,965**
Property, plant and equipment	1,874,735	(115,198)	-	-	-	1,759,537
- buildings	1,127,724	(115,198)	-	-	-	1,012,526
Deferred tax assets	20,378	-	(3,159)	-	-	17,219
Loans and deposits	50,034	-	-	(24,989)	9,514	34,559
Current assets	**555,023**	**-**	**-**	**-**	**(9,514)**	**545,509**
Trade and other receivables	239,998	-	-	-	(9,514)	230,484
Loans and deposits	2,839	-	-	-	13,335	16,174
Cash and cash equivalents	38,012	-	-	-	(13,335)	24,677
TOTAL LIABILITIES AND EQUITY	**2,522,820**	**(115,198)**	**(3,159)**	**(24,989)**	**-**	**2,379,474**
Equity	**663,249**	**(96,293)**	**(3,042)**	**(24,989)**	-	**538,925**
Fair value reserve	240,762	(96,712)	(3,042)	-	-	141,008
Retained earnings	(21,714)	(3,399)	-	(29,249)	-	(54,362)
Profit (loss) for the year	(26,953)	3,828	-	4,286	-	(18,839)
Non-controlling interests	162	(10)	-	(26)	-	126
Non-current liabilities	**680,402**	**(18,905)**	**(117)**	**-**	-	**661,380**
Deferred tax liabilities	52,640	(18,905)	(117)	-	-	33,618

The effect of changes in accounting policies and correction of an error on the income statement and other comprehensive income in 2012

Income statement

EUR thousand	2012, as previously reported	Effect of change in accounting policy of valuation of buildings	Effect of change in accounting policy of measuring investments in subsidiaries	Value adjustment for rents paid in advance	Restated balances for 2012
Cost of goods sold and selling costs	(2,745,203)	3,742	-	2,260	(2,739,201)
Other income	20,128	86	-	-	20,214
Results from operating activities	**(42,147)**	**3,828**	**-**	**2,260**	**(36,059)**
Finance income	4,779	-	-	2,026	6,805
Profit (loss) before tax	**(110,279)**	**3,828**	**-**	**4,286**	**(102,165)**
Tax	5,659	-	-	-	5,659
Profit (loss) for the year	**(104,620)**	**3,828**	**-**	**4,286**	**(96,506)**
Basic and diluted loss per share in EUR	(28.1)	1.0	-	1.2	(25.9)

Statement of other comprehensive income

EUR thousand	2012, as previously reported	Effect of change in accounting policy of valuation of buildings	Effect of change in accounting policy of measuring investments in subsidiaries	Value adjustment for rents paid in advance	Restated balances for 2012
Profit (loss) for the year	**(104,620)**	**3,828**	**-**	**4,286**	**(96,506)**
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss	**50,111**	**(59,896)**	**-**	**-**	**(9,785)**
Net gain/loss recognized in revaluation surplus in relation to property, plant and equipment	55,145	(71,582)	-	-	(16,437)
Deferred tax relating to items that will not be reclassified subsequently	(5,034)	11,686	-	-	6,652
Items that may be reclassified subsequently to profit or loss	**(16,360)**	**-**	**(3,032)**	**-**	**(19,392)**
Deferred tax relating to items that may be reclassified subsequently	2,438	-	(3,032)	-	(594)
Other comprehensive income for the year	**33,751**	**(59,896)**	**(3,032)**	**-**	**(29,177)**
Total comprehensive income for the year	**(70,869)**	**(56,068)**	**(3,032)**	**4,286**	**(125,683)**

The described changes were used retrospectively in line with IAS 8 *Accounting policies, changes in accounting estimates and errors*. This means that the initial balances of relevant equity components for 2012 and all other comparative amounts disclosed in previous periods were recalculated, as if the changed accounting policy had been used from the very beginning.

The change in accounting estimate of value adjustment for inventories and useful life of brand

(iii) Introduction

In 2013, the Mercator Group changed its accounting estimate with regard to the value adjustment of merchandise inventories in the Modiana and Intersport business units. The reason behind it is modified assortment of goods in business units that are less subject to changes in fashion, as a result of changed shopping habits of customers during economic crisis. Modiana and Intersport divisions have managed their inventories more actively, which has resulted in better inventory turnover and decreased need of value adjustments. Changed estimate of inventories value adjustment and of fashion features is also reasonable because of comparability with the competition on the market.

The previous rule for creation of adjustments in inventories was:

- inventories acquired a year before the current year are adjusted by 50% of their cost;
- inventories acquired two years or more before the current year are adjusted by 80% of their cost;

The new rule for creation of adjustments in inventories is the following:

- inventories acquired a year before the current year are not adjusted;
- inventories acquired two years or more before the current year are adjusted by 50 % of their cost.

Moreover, adjustments of the Modiana and Intersport inventories on the basis of their fashion features are no longer created.

In 2013, the Group has also changed the estimate of the useful life of the brand Roda in Serbia from 10 years to indefinitely.

(iv) Effect on financial statements

Changed estimate of the Modiana and Intersport inventories value adjustments resulted in decrease of the adjustment in 2013 by EUR 5,503 thousand.

Change in estimate of the useful life of the brand Roda resulted in a reduction of depreciation in 2013 for EUR 1,129 thousand.

3. Significant accounting policies

The accounting policies defined below have been applied consistently to all periods presented in these consolidated financial statements for all Group entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for based on the acquisition method as at the day of the combination, which equals the day of acquisition or when the Group gains control. Control is defined as the power to make decisions on financial and business policies of a company or a business entity in order to gain benefits from its activities. In order to assess its control, the Group takes into account the criteria of currently exercisable potential voting rights.

With regard to acquisitions, the Group measures or evaluates the goodwill as at the day of acquisition, as follows:

- at fair value of the transferred acquisition price; plus
- recognized value of any non-controlling interest in the acquired company (The non-controlling interest can be initially measured either at fair value or at proportional share in acquired assets and liabilities valuated as at the date of acquisition. The Group decides on the method upon each acquisition); plus
- fair value of existing shares in equity of the acquired company, if the business combination is carried out gradually; less
- net recognized value (usually fair value) of acquired assets and liabilities as at the day of the acquisition.

If the difference is negative, it is recognized as surplus (income) in the income statement.
The transferred acquisition does not include amounts of settlements regarding previously existing relations. These amounts are normally recognized in the income statement.
Acquisition costs, except for costs related to issue of equity or debt instruments related to the business combination, are recognized in the income statement as they are incurred.

Contingent liabilities regarding business combinations are recognized at fair value as at the day of acquisition. If a contingent liability is classified in equity it does not have to be evaluated again; the payment is recognized within equity. Subsequent changes in the contingent liability fair value are recognized in the income statement.

(ii) Subsidiaries

Subsidiaries are companies controlled by the Group. Controlling exists when the Group is able to decide on financial and operating policies of a company in order to obtain benefits from its operations. In assessing control, existence and effect of potential voting rights that are currently exercisable or exchangeable are taken into account. Financial statements of subsidiaries are included in consolidated financial statements from the date when the controlling begins to the date when it stops. The accounting policies of subsidiaries have been changed if necessary or aligned with the policies adopted by the Group.

(iii) Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions of shareholders who operate as owners; therefore, goodwill shall not be recognized. Changes in non-controlling interest arising from transactions that do not include loss of control are based on proportionate share of net assets of the subsidiary or on fair value of the non-controlling interest. If the purchase price for acquisition of non-controlling interest differs from its carrying amount, the difference is recognized in equity.

(iv) Loss of control

After loss of control, the Group derecognizes assets and liabilities of the subsidiary, non-controlling interest, and derecognizes other components of equity that pertain to the subsidiary. Any surpluses or deficits resulting from loss of control are recognized in the income statement. If the Group retains a share in the previously controlled subsidiary, such share shall be valued at fair value as at the day of loss of control and the difference shall be recognized in the income statement. Subsequently, such share is recognized in equity as investment in an associate (at equity method) or as available-for-sale financial assets, depending on the extent of retained influence.

(v) Transactions excluded from consolidation

Balances, revenues and expenses, gains and losses arising from intra-group transactions, are eliminated from the consolidated financial statements. Unrealized losses are eliminated in the same way as gains, provided that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions expressed in a foreign currency are translated into the relevant functional currency at the exchange rate applicable on the date of transaction. Cash and liabilities denominated in a foreign currency as at the balance sheet date are converted into functional currency at then applicable exchange rate. Positive or negative foreign exchange differences are differences between amortized cost in the functional currency at the beginning of the period, which is adjusted by the amount of effective interest and payments during the period, as well as amortized cost in foreign currency converted at the exchange rate at the end of the period. Non-cash assets and liabilities expressed in a foreign currency and measured at fair value are converted in the functional currency at the exchange rate on the date when the amount of fair value is determined. Currency translation differences are recognized in income statement, except for differences arising on re-translation of equity instruments classified as available-for-sale financial assets (except for the case of impairment when all currency translation differences recognized in other comprehensive income shall be re-classified to income statement), for non-financial liabilities designated as hedges (if such hedges are effective), or for cash flow hedges (if such hedges are effective) which are recognized directly in equity.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates effective as at the reporting date. Revenue and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at average exchange rates.

Foreign exchange differences arising from translation are recognized directly in other comprehensive income and are recognized in translation reserve within equity. From the day of transition to the IFRS, these changes shall be recognized in the translation reserve. Upon a partial or full disposal of a foreign operation, the relevant amount in the currency translation reserve (FCTR) is transferred to profit or loss.

In case of a subsidiary that is not fully owned, a pro rata share of currency translation reserve is allocated to non-controlling interest. When a company abroad (foreign operation) is disposed of in a way that it is no longer controlled and that significant influence or joint control no longer exist, corresponding accrued amount in the currency translation reserve is transferred to profit or loss, or re-classified as revenue or expense resulting from the disposal. If the Group which only disposes of a part of its stake in a subsidiary that includes a foreign company, and still maintains control, an appropriate pro rata share of accumulated amount is allocated to non-controlling interests.

(c) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity and debt securities, trade and other receivables, and loans given.

Initially, the Group recognizes loans and receivables and deposits on the day of their occurrence. Other financial assets (including assets estimated at fair value through profit or loss) are initially recognized on the exchange date or when the Group becomes a party under contractual provisions regarding the instrument.

The Group derecognizes financial assets when contractual rights to cash flows from this asset are discontinued or when the rights to contractual cash flows from the financial asset are transferred on the basis of a transaction in which all risks and benefits from the ownership of financial asset are transferred. Any share in the transferred financial asset that is created or transferred by the Group is recognized as individual asset or liability.

Financial assets and liabilities are offset and the net amount is disclosed in the balance sheet, if and only if the Group has a legal right to settle the net amount or to realize the asset and at the same time settle the liability.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. At initial recognition, loans and receivables are disclosed at fair value increased by direct costs of transaction. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, decreased by loss due to impairment. Loans and receivables include cash and cash equivalents, loans to other companies and bank deposits, trade and other receivables, and long-term deposits for rent payment. Long-term deposits for rent payment are considered in terms of content (financing lessors) and represent long-term financial receivables. They are discounted with market or contractual discount rates. Discount rate represents the basis for accounting of financial revenues in the entire period for which the rent was paid.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into the above categories. Available-for-sale financial assets include investments into shares and interests in companies. After the initial recognition, these investments are measured at fair value, increased by the transaction cost, also taking into account the changes in fair value. Impairment losses and foreign exchange differences on available-for-sale equity instruments are recognized in other comprehensive income and disclosed in equity or in fair value reserve. At derecognition of investment, the cumulative gains or losses are transferred to profit or loss. Available-for-sale financial assets also include equity securities.

(ii) Non-derivative financial liabilities

Initially, the Group recognizes issued debt securities and subordinate debt as at the date of their occurrence. All other financial liabilities are initially recognized on the trade date when the Group becomes the contractual party in relation to the instrument.

The Group derecognizes financial liabilities in case the obligations stipulated in the contract have been fulfilled, annulled or time-barred.

Financial assets are offset and the amount is recognized in the balance sheet, if and only if the Group has the official enforceable right to offset recognized amounts and intends to pay net amount or it is legally entitled to offset amounts and has the intention to pay net amount or realize the asset and at the same time settle the liability.

The Group recognizes non-derivative financial instruments as other financial liabilities. Such financial liabilities are initially carried at fair value increased by the costs that are directly attributable to the transaction. After the initial recognition, financial liabilities are measured at amortized cost using the effective interest method.
Other financial liabilities comprise loans and operating and other liabilities.

(iii) Derivatives

The Group uses derivative financial instruments for hedging against currency exchange and interest rate risks.

Upon the inception of the hedge, the Group keeps formal documents about the risk hedge effectiveness (ratio) and the purpose of the company's risk management and about the strategy of the hedge project, as well as the methods used in estimating the effectiveness of this hedge ratio. The Group estimates the hedge with conventional method and at its inception, when highly successful hedge is expected to reach the offset changes of fair value or cash flows which are attributed to the hedge, and when actual results of each hedge reach 80 - 125 percent. With cash flow hedges, the expected business/transaction that is the subject of hedging must be highly probable and exposed to cash flow changes which could ultimately affect the profit or loss in a decisive manner.

Derivatives are initially recognized at fair value; attributable transaction costs are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value, while the corresponding changes are considered as described below.

Cash flow hedges

When a derivative is designated as hedging in case of exposure to changeability of cash flows that may be attributed to an individual risk related to recognized asset, liability or very probable forecasted transactions, which can affect the profit or loss, the successful portion of changes in fair value of derivative is recognized in other comprehensive income for the period and disclosed in risk hedging reserve (equity item). Ineffective portion of changes in the fair value of derivative is recognized directly in the income statement.

If the hedged item is a non-financial asset, the amount is transferred to the carrying amount of such asset upon its initial recognition. In other cases, the amount recognized in other comprehensive income is transferred to profit or loss for the same period in which the hedged item affects the profit or loss. As a rule, a hedge shall no longer be accounted for by the Group if a hedging instrument no longer meets the criteria for hedge accounting, if it is disposed, waived, or used, or if the company cancels the designation. In case the forecasted transaction cannot be expected anymore, the amount in other comprehensive income shall be recognized directly in profit or loss.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and sight deposits with original maturity below 3 months.

(e) Share capital

Ordinary shares

Ordinary shares are an integral part of share capital. Additional costs directly attributable to issuing of ordinary shares and share options are disclosed as decrease in equity, net of effects on the equity.

Repurchase of own shares (treasury shares)

When share capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a change in equity. Repurchased shares are classified as treasury shares and are deducted from equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to capital reserves.

(f) Property, plant and equipment

(i) Reporting and measurement

Property, plant and equipment are measured using the cost model, except for land for which the revaluation model is used. They are carried at cost less accumulated depreciation and any accumulated impairment losses.

The cost includes costs that are directly attributable to the acquisition of assets. Borrowing cost regarding acquisition or construction of relevant property, plant, or equipment are capitalized if they are related to the acquisition of a major asset and if construction or preparation for use lasts over 6 months. In 2013, the Group did not carry out any investments that would meet the described criteria. Costs of property, plant and equipment manufactured within the Group include the costs of material, direct labor costs, and other costs that can be directly attributable to the asset's preparation for its intended use, costs of decomposition and removal of property, plant and equipment and reconstruction of the site where the item of assets was located, as well as capitalized borrowing costs.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal of an item of property, plant and equipment with the net value recognized in other income/expenses in the income statement. When revalued assets are sold or depreciated, an appropriate amount included in the fair value reserve is transferred to retained earnings.

For revaluation of land, the Group uses the revaluation model. The fair values reported are based on periodical, but not less than three-year appraisals by an external independent appraiser. Fair value of land shall be estimated in compliance with the International Valuation Standards (IVS 2013) and Slovenian business and financial standard No. 2 – valuation/appraisal of value of property rights, (OG RS 106/13, 18/12(/2013). To appraise the market value, the possibilities and suitability of all three methods are always examined considering the use of property and availability of information. These three methods are income method (discounted cash flow method), comparable sales (method of direct comparability of sales or transactions), and historical cost (the cost method). In valuation of land, the method of comparable sales and cost method are used. If the carrying amount of the asset is increased due to revaluation, the increase must be recognized directly in equity as revaluation surplus. The increase must be recognized in profit or loss (income statement), if it eliminates a revaluation decrease of the same asset, which had previously been recognized in profit or loss. If the carrying amount of assets is decreased as a result of revaluation, then the decrease must be recognized in profit or loss. Decrease is charged directly to equity under the revaluation surplus item, up to the amount of credit in the revaluation surplus for the same asset. When an asset is disposed of, the fair value reserve for such asset is transferred directly to retained earnings.

a) Property fair value estimation

In line with the Accounting Rules, the Group periodically, at least every three years, reviews the fair values of its land. The appraisal was last carried out as at October 31, 2012 by a certified appraiser pursuant to the International Valuation Standards and in relation to the International Financial Reporting Standards.

b) Assessment of useful lives of property, plant and equipment

At Mercator Group, property, plant and equipment are depreciated by the straight line depreciation method, using the depreciation rates that reflect estimated useful lives of different assets at each Mercator Group company. Useful life and remaining value of property, plant and equipment is appraised annually by an internal committee of experts or external independent certified appraisers based on the events that indicate the need forchange in depreciation and impairment testing..

(ii) Reclassification to investment property

The Group can transfer real estate used by the owner under investment property. Investment property is appraised using the cost model; therefore, the transfer is carried out at cost. Only independent buildings entirely rented out are classified as investment property. If only a part of a building is leased, it is not classified as an investment property, as it cannot be sold separately, and because the other important part of the facility is being for performance of in-house service activity or production of goods.

(iii) Subsequent costs

The cost of replacing a part of a piece of property, plant and equipment is recognized in the carrying amount of the asset, if it is likely that the future economic benefits relating to a part of that asset will flow to the Group and its fair value can be measured reliably. The carrying amount of the replaced part shall be derecognized. All other costs (e.g. regular maintenance) are recognized in profit or loss as expenses, as soon as they are incurred.

(iv) Depreciation

Depreciation is calculated on a straight-line basis, taking into account the useful life of each individual asset. Leased assets in the form of finance lease are depreciated by taking into account the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not subject to depreciation.

The estimated useful lives for current and comparable periods are as follows:

	2013	2012
Buildings	20-50 years	20-50 years
Plant and equipment	2-18 years	2-18 years

Useful lives and residual values are again reviewed on the reporting date.

(g) Intangible assets

(i) Goodwill

Goodwill generated upon acquisition of subsidiaries is recognized under intangible assets.

(ii) Other intangible assets

Other intangible assets acquired by the Group and with limited useful lives are measured at cost, less accumulated amortization and accumulated impairment losses.

(iii) Subsequent costs

Subsequent costs in relation to intangible assets are capitalized only in cases when they increase future economic benefits arising from an asset to which the costs relate. All other costs, including internally generated brands, are recognized in profit or loss as expenses, as soon as they are incurred.

(iv) Amortization

Depreciation is calculated on a straight-line basis, taking into account useful lives of intangible assets. Amortization begins when an asset is available for use. The estimated useful lives for the current and comparable periods are as follows:

	2013	2012
Brands/labels	indefinite	indefinite
Software and licenses	5-10 years	5-10 years

Brands are tested for impairment on an annual basis (regardless of existence of impairment indicator).

(h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

Only independent buildings entirely rented out are classified as investment property. If only a part of a building is leased, it is not classified as an investment property, as it cannot be sold separately, and because the other important part of the facility is being for performance of in-house service activity or production of goods (e. g. a hypermarket in a shopping center). Investment property is measured using the cost model. Depreciation is calculated using the straight-line method, so the purchase value of assets is divided in their respective remaining values throughout the estimated useful life, which is 30 to 33 years for the current and comparable year.

When the use of property changes so that it has to be reclassified under property, plant and equipment, the reals estate is transferred at cost.

(i) Assets leased

Leases in terms of which the Group assumes all substantial risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is posted in an amount equal to the lower of either fair value or the present value of the sum of minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are considered operating leases. Assets in operating lease are not posted in the Group's balance sheet.

(j) Inventories

Inventories are carried at the lower of historical cost and net realizable value.

Methods of accounting for the cost of inventories and related expenses:

- FIFO method for merchandise,
- method of average purchase prices (the cost) for raw materials and packaging; cost of inventory includes purchase value, cost of production, transformation, and other costs incurred in bringing them to the current location and in the current condition; with both finished products and work in progress, the costs also include the relevant part of indirect production cost upon normal use of means of production.

Net realizable value is equal to the estimated selling price in the ordinary course of business, less the estimated costs of completion and sales.
The estimation of net realizable value of inventory is conducted at least once a year, upon the

preparation of the Group's annual financial statements.

Write-offs and partial write-offs of damaged, expired and useless inventories are regularly performed during the year on specific items. At the end of the year, inventories are impaired as at December 31 by groups of related or connected items depending on their age or obsolescence. They are impaired on the basis of previous years' experience.

(k) Impairment of assets

(i) Non-derivative financial assets

For each financial asset that is not recognized at its fair value through profit or loss, an assessment is made on the reporting date to determine whether there is objective evidence of the impairment of an asset. Financial asset is deemed impaired, if there is objective evidence indicating that after the initial recognition of the asset, there was, for one or a number of events, a decrease of expected future cash flows from this asset which can be reliably measured.

Objective evidence of financial assets impairment (including equity securities) can be the following: non-fulfilment or breach by a debtor; restructuring of an amount owed to the Group subject to the Group's consent; indications of bankruptcy of a debtor; deteriorated solvency of borrowers or securities issuers in the Group and economic conditions that correlate with the disappearance of an active market for such security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost can also be an objective evidence of impairment. The Group's equity securities are impaired, if the stock market price of a security is continuously below its acquisition price for at least 6 months, or if the stock market price of the investment is more than 20% lower than its acquisition price.

Loans and receivables

The Group assesses the evidence of impairment for loans and receivables at individual and collective (grouped) level. All significant receivables are individually measured for specific impairment. All individual significant loans and receivables found not to be specifically impaired are collectively assessed for any impairment that has been incurred, but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics, excluding receivables with quality security

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether actual losses arising from current economic and credit conditions can be greater or smaller than suggested by historical trends.

Impairment loss in connection with the financial asset carried at amortized cost is calculated as difference between the carrying amount of that asset and expected cash flows, including the expected future cash flow from insurance, discounted at historical effective interest rate. Losses are recognized in profit or loss and disclosed in the account of allowance for loans and receivables. Interest on the impaired asset continues to be recognized. When subsequent events (e.g. repayment by a debtor) cause the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by transferring the loss disclosed in the fair value reserve to profit or loss. The amount of accumulated loss that is reclassified from equity to profit or loss is the difference between the cost and the current fair value, less any impairment loss recognized previously in profit or loss.

Impairment loss recognized in the income statement for the investment in an equity instrument, classified as available-for-sale, cannot be reversed trough profit or loss. Subsequent recovery in fair value of impaired available-for-sale equity security is recognized in the other comprehensive income for the period.

(ii) Non-financial assets

On each reporting date, the Group reviews the residual carrying amount of its non-financial assets, inventories and deferred tax assets in order to establish the existence of any signs of impairment. If such signs exist, the recoverable amount of the asset is estimated. Impairment of goodwill and intangible assets that have indefinite useful lives and are not yet available for use is estimated on each reporting date. The impairment of a cash-generating unit is recogni7ed when its carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit). For the purpose of goodwill impairment testing, the cash-generating units (CGUs) that goodwill is allocated to, are subject to a special testing (i.e. segment ceiling test); CGUs to which goodwill has been allocated are aggregated, so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, is allocated to cash-generating units or groups of units that are expected to benefit from synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. The Group's assets are reasonably and consistently allocated to individual CGUs. Their impairment is tested within the scope of testing for impairment of those CGUs to which a relevant Group asset is allocated.
Impairment is disclosed in the income statement. Impairment loss recognized in respect of cash-generating units is allocated first to reduce the carrying amount of the goodwill allocated to the unit (or group of units), and then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

Impairment loss in respect of goodwill is not reversed. In relation to other assets, the Group evaluates and determines impairment losses in the previous periods at the end of reporting period and establishes whether the loss has decreased or no longer exists. Loss due to impairment is reversed in case there has been a change in assessments, on the basis of which the Group defines the recoverable amount of an asset. Impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in respect of the asset in prior years.

(l) Employee benefits

(i) Other long-term employee benefits – retirement benefits and jubilee premium provisions

In the balance sheet, the Group recognized long-term provisions deriving from future liabilities to employees for long service awards, calculated in compliance with the collective labor agreement for this industry, and the mandatory retirement benefits as stipulated by the relevant act. The changes in provisions for termination and jubilee benefits are recognized in the income statement. The provisions are determined based on actuarial calculations that are verified annually. Actuarial gains or losses result from changed facts that affect the actuarial calculation (e.g. change in legislation), or changes in actuarial assumptions.

The calculation is prepared by considering the cost of retirement benefit for each employee under the collective labor agreement and the cost of all expected jubilee premiums for employees with permanent employment contracts, as at December 31, 2013. The calculations also include actual legally adopted provisions regarding retirement conditions, expected increase in salaries in the industry, estimated employee fluctuation, and a suitable discount rate that allows calculation of the present value of all future expected payments in connection with retirement benefits and jubilee premiums. All parameters are adjusted to the specifics of legislation in individual countries in which legal entities of the Mercator Group are located.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Group is demonstrably committed to either terminate employment before the normal retirement date, or to offer payment of termination benefits to encourage voluntary redundancy, namely, as the result of an existing detailed formal plan for employment termination, and when the Group does not have a realistic possibility of withdrawal. Termination benefits for voluntary redundancies are recognized as an expense, if the Group has made an offer that would promote voluntary redundancy, if it is probable that the offer will be accepted and if the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, the Group discounts them to their present value.

(iii) Short-term employee benefits

Liabilities for short-term earnings of employees are measured without discounting and are recorded under expenses when the work of an employee related to a certain short-term earning is carried out.

A liability is recognized in the amount expected to be paid as short-term receipts payable within 12 months after the expiry period for the service provided, or as profit split program, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and if the obligation can be estimated reliably.

(m) Provisions

A provision is recognized when the Group has legal or constructive obligations as a result of a past event that may be reliably measured and when it is probable that an outflow of economic benefits will be required to settle the liability. The Group determines the provisions by discounting the expected future cash flows at a pre-tax discount rate reflecting the existing estimates of the time value of cash and, if needed, the risks specific to a liability.

(i) Onerous contracts

A provision for costs arising from onerous contracts is recognized when the unavoidable costs of fulfilling contractual obligation exceed the benefits the Group expects to obtain from those contracts. The provisions are measured at the present value of the lower of the expected costs of terminating the contract and the expected costs of continuing the contractual relation. Before a provision is established, the Group discloses any potential losses from impairment of the assets associated with such contract.

(ii) Restructuring

A provision for restructuring costs is recognized when the Group has approved a detailed formal restructuring plan and has either commenced to exercise it or it has been announced publicly. The item does not include future operating costs.

(n) Revenue

(i) Revenue from sales of goods, products and materials

Revenue from sales of goods, products and material is recognized at fair value of the received repayment or a relevant receivable, decreased by repayments, rebates for further sale and quantity discounts. Revenue is recognized when all relevant risks and benefits from ownership of assets have been transferred to the buyer, when certainty of recovery of consideration, the associated costs and possibility of return of goods, products and material, exist, when the Group stops with further decision-making on quantities sold and when the amount of revenue can be measured reliably.

Transfer of risks and benefits depends on separate provisions of the purchase contract. In case of wholesale, transfer is usually carried out when the goods have been delivered to the buyer's store, but in the event of some international deliveries transfer is carried out when the goods have been loaded on a means of transport.

(ii) Customer loyalty program

The Group issues credit and debit cards Pika to its customers for collecting bonus points at purchases. Bonus periods last six months. The first annual bonus period lasts from February 1 to July 31, the second bonus period from August 1 to January 31 of the following year. During the bonus period, customers collect bonus points. Depending on the amount of purchases and consequently the number of collected points, they can earn a 3 to 6-percent discount. During the year, the Group allocates potential discounts on the basis of collected points, whereas revenue from unrealized bonus points is allocated based on experience from previous bonus periods. Despite the fact that the second bonus period ends on January 31 of the following year, the Group in this way ensures that recorded revenues match expenditures that were necessary for their realization.

(iii) Revenue from services rendered

Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is estimated by the review of the work carried out.

(iv) Rental income

Rental income is recognized in profit or loss on a straight-line basis over the term of the lease. Any related discounts and benefits are recognized as an integral part of the total rental income.

(o) Government grants

Initially, all government grants are recognized as deferred revenue in the financial statements where an acceptable assurance exists that the

Group will receive the grants and fulfil the conditions relating to them. Government grants, received for covering of costs, are recognized consistently as revenue in the periods when the relevant costs are incurred. Government grants related to assets are disclosed in the income statement consistently, under other operating revenue during the useful life of an individual asset.

(p) Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease discounts and benefits received are recognized as an integral part of the total lease expense.
Payments made under financial leases are recognized in profit or loss on a straight-line basis over the term of the lease. Any related discounts and benefits received are recognized as an integral part of the total lease expense.

Minimum lease payments are allocated between the finance expenses and reduction of the outstanding liability. Financial expenses are allocated to periods of the lease term, in order to achieve an effective interest rate on the remaining balance of the liability in each period.

Determining whether an arrangement includes a lease
At inception of an arrangement, the Group determines whether the arrangement represents or includes a lease. The arrangement is deemed to include a lease, if the following criteria are met:

- a specific asset is the subject of a lease, if the fulfilment of the arrangement depends on the use of that specified asset; and
- the arrangement conveys the right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such arrangement to lease payments and to other elements, based on their relative fair values. If the Group concludes that payments cannot be divided reliably, the asset and liability from finance lease are recognized at an amount equal to the fair value of the asset defined as the lease subject. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized by using the Group's incremental borrowing rate of interest.

(q) Finance income and expenses

Financial income comprises interest on investments (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, gains on revaluation of fair value of interest in an acquired company that the Group had held in the acquired company before the acquisition, and gains on hedging instruments that are recognized in the income statement. Interest income is recognized as it arises, using the effective interest method. Dividend income are recognized in the income statement as at the day when the shareholder's right to payment is exercised; for companies listed on the stock market, this is, as a rule, the day when the right to current dividend ceases to be related to the share.

Financial expenses comprise costs of borrowings, unwinding of the discount on provisions and contingencies, impairment losses and losses from disposal of available-for-sale financial assets, dividend on preferred shares reported in liabilities, losses on hedging instruments recognized in profit or loss, reclassification of amounts previously recognized as other comprehensive income.
Borrowing costs that do not pertain directly to acquisition, construction, or production of an asset under construction are recognized in the income statement using the effective interest method.

Gains and losses from translation between currencies are recognized at net value as financial revenue or expenses.

(r) Corporate income tax

Income tax on income or loss for the financial year comprises current and deferred tax. Income tax is recognized in the income statement, except to the extent that it relates to items disclosed directly in equity, in which case it is recognized in equity or in other comprehensive income.

(i) Current tax
Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous business years.

(ii) Deferred tax
Deferred tax is determined using the balance sheet liability method, taking into account temporary differences between the carrying amounts of

assets and liabilities used for the purpose of financial and tax reporting. The following temporary differences are not considered:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit,
- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future,
- taxable temporary differences upon initial recognition of goodwill.

Deferred tax liabilities are recognized in the amount expected to be paid upon reversal of temporary differences, based on the laws that have been enacted or substantively enacted as at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

As a rule, deferred tax assets are recognized to the extent it is probable that future taxable profit will be available against which a deferred tax asset can be used in the future. Deferred tax assets are decreased by the amount for which it is no longer probable that tax relief associated with the asset can be utilized in the future.

(s) Net earnings per share

The Group calculates basic earnings per share by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Since the Group does not have any dilutive potential ordinary shares (e.g. preference shares or convertible bonds) diluted earnings per share equals the basic earnings per share.

4. Use of new and revised international financial reporting standards (IFRS)

Standards and interpretation effective for the reporting period

In the current period, the following standards, amendments to the existing standards and interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU apply:

- **IFRS 13 'Fair value measurement'**, adopted by the EU on December 11, 2012 (effective for the annual periods starting on or after January 1, 2013),
- **Amendments to IFRS 1 'First-time adoption of IFRS'** - *Severe hyperinflation and removal of fixed dates for first-time adopters*, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013)
- **Amendments to IFRS 1 First-time adoption of IFRS –** *Government loans*, adopted by the EU on March 4, 2013 (applicable to the annual periods starting on or after January 1, 2013),
- **Amendments to IFRS 7 'Financial instruments: Disclosures'** - *Offsetting financial assets and financial Liabilities*, adopted by the EU on December 13, 2012 (applicable to the annual periods starting on January 1, 2013 or later).
- **Amendments to IAS 1 'Presentation of financial statements'** – *Presentation of items of other comprehensive income*, adopted by the EU on June 5, 2012 (applicable to the annual periods starting on July 1, 2012 or later),
- **Amendments to IAS 12 'Income taxes'** - *Deferred tax: Recovery of underlying asset*, adopted by the EU on December 11, 2012 (applicable to the annual periods starting on January 1, 2013 or later),
- **Amendment to IAS 19 'Employee Benefits'** - *Improvements to the accounting for post-employment benefits*, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after January 1, 2013),
- **Amendments to various standards – 'Improvements to IFRSs (2009-2011)'**, resulting from the annual project for improvement of IFRSs (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on March 27, 2013 (the amendments will need to be applied for annual periods beginning on or after January 1, 2013),
- **IFRIC 20 'Stripping costs in the production phase of a surface mine'**, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013),

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements, the following standards, amendments of the existing standards and interpretations issued by IASB and adopted by the EU were published but not yet effective:

- **IFRS 10 'Consolidated financial statements'**, adopted by the EU on December 11, 2012 (applicable to the annual periods starting on or after January 1, 2014),
- **IFRS 11 'Joint arrangements'**, adopted by the EU on December 11, 2012 (applicable to the annual periods starting on or after January 1, 2014),
- **IFRS 12 'Disclosure of interests in other entities'**, adopted by the EU on December 11, 2012 (applicable to the annual periods starting on or after January 1, 2014),
- **IAS 27 (revised in 2011) 'Separate financial statements'**, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014),
- **IAS 28 (revised in 2011) 'Investments in associates and joint ventures'**, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014),
- **Amendments to IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements'** and **IFRS 12 'Disclosure of interests in other entities'** - *Transition Guidance*, adopted by the EU on April 4, 2013 (effective for annual periods beginning on or after January 1, 2014),
- **Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities'** and **IAS 27 (revised in 2011) 'Separate financial statements'** – *Investment entities*, adopted by the EU on November 20, 2013 (effective for annual periods beginning on or after January 1, 2014),
- **Amendments to IAS 32 'Financial instruments: Presentation'** - *Offsetting financial assets and financial liabilities*, adopted by the EU on December 13, 2012 (effective for annual periods starting on or after January 1, 2014),
- **Amendments to IAS 36 'Impairment of assets'** - *Recoverable amount disclosures for non-financial assets*, adopted by the EU on December 19, 2013 (effective for annual periods starting on or after January 1, 2014),
- **Amendments to IAS 39 'Financial Instruments: Recognition and measurement'** - *Novation of derivatives and continuation of hedge accounting,* adopted by the EU on December 19, 2013 (effective for annual periods starting on or after January 1, 2014),

Standards and interpretations issued by IASB but not yet adopted by the EU

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at February 17, 2014 (the effective dates indicated below apply for entire IFRS):

- **IFRS 9 'Financial Instruments' and further amendments** (effective date not yet determined),
- **Amendments to IAS 19 'Employee Benefits'** – Employee contributions to defined benefit plans (effective for periods starting on or after July 1, 2014),
- **Amendments to various standards – 'Improvements to IFRSs (2010-2012)'**, resulting from the annual project for improvement of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IFRS 16, IAS 24 and IAS 38) primarily with a view to remove inconsistencies and to clarify wording (the amendments will need to be applied for annual periods beginning on or after July 1, 2014),
- **Amendments to various standards 'Improvements to IFRSs (2011-2013)'**, resulting from the annual project for improvement of IFRSs (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to remove inconsistencies and to clarify wording (the amendments will need to be applied for annual periods beginning on or after July 1, 2014).
- **IFRIC 21 'Levies'** (effective for annual periods beginning on or after January 1, 2013).

The Group anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.
At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted yet by the EU, is still unregulated.

According to the group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: 'Financial Instruments: Recognition and measurement'** would not significantly impact the financial statements, if applied as at the balance sheet date.

5. Fair value measurement

The Group determined fair value of individual groups of assets for the needs of measuring or reporting in compliance with the methods described below. Where additional interpretations relating to assumptions for measurement of fair value are needed, they are stated in the breakdowns of individual items of assets or liabilities of the Group.

(a) Property, plant and equipment

Fair value of property, plant and equipment from business combinations equals their market value at which a willing buyer and a willing seller would trade the property as at the day of the appraisal of value in a transaction between non-associated and independent parties after reasonable marketing, with both parties taking part in the trade being informed, prudent, and without force or coercion. Description of the determination of the real estate fair value is available in Note 3 (e) Property, plant and equipment.

(b) Intangible assets

The fair value of patents and trademarks acquired through business combinations is based on estimated discounted royalty payments which will no longer be necessary thanks to the ownership of a patent or trademark. The fair value of other intangible assets is based on the current value of expected future cash flows projected to arise from use and eventual sale of such assets.

(c) Investment property

The fair values in business or strategic combinations are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

If the current prices in an active market cannot be determined, the property investment value is measured based on the aggregate value of cash flows expected to be received from renting out the property. Yield reflecting specific risks is included in the calculation of the property value based on discounted net cash flows on annual basis.
Where appropriate, the property appraisal should be based on consideration of the following: the type of tenants currently residing in or responsible for meeting lease commitments or likely to become its tenants after the real estate is rented out, and overall picture of their credit rating; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining life of the investment property. When in reviewing or renewing the lease contract it is expected that subsequent increase in rent will occur due to restoring its original condition, it is deemed that all notices, and when appropriate counter-notices, have been served validly and on time.

(d) Inventories

The fair value of inventories acquired in business combinations is determined based on their estimated selling price in ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin considering the work required to complete and sell the inventories.

(e) Investments in in equity and debt securities

The fair value of financial assets and liabilities at fair value through profit or loss, and available-for-sale financial assets in business or strategic combinations is determined by reference to their quoted bid price as at the reporting date, or if not available, by using one of valuation methods. Valuation methods which can be employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

(f) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, in business combinations is estimated as the present value of future cash flows, discounted at the market rate of interest as at the reporting date.

(g) Derivatives

The fair value of future contracts is based on their listed market price as at the reporting date, if available. If a listed market price is not available, then fair value is estimated as the difference between the contractual forward price and the current forward price considering the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on maturity of each contract and using market interest rates for a similar instrument as at the measurement date.

(h) Non-derivative financial liabilities

The fair value of bonds for the disclosure purposes is calculated based on the most recently available market value of bonds in the stock market, prior to the reporting date. Fair values of other non-derivative financial liabilities are not determined, as their carrying amount represents a reasonable approximation of fair value.

6. Tax policy

(a) Slovenia

Tax statements (financial statements for tax authorities) of the company Poslovni sistem Mercator, d.d., and the companies of the Mercator Group in Slovenia, are prepared in accordance with International Financial Reporting Standards and the Corporate Income Tax Act.

In 2013, the tax rate was lowered to 17%.

Pursuant to the Corporate Income Tax Act, a company's tax base is the profit as the surplus of revenues over expenses, where the basic criteria for recognition in a tax statement are still the revenues and expenses as shown in the income statement, defined pursuant to the legislation or accounting standards.
When calculating corporate income tax, the following tax relieves can be exercised:

- relief for investments in research and development,
- relief for employment of disabled people of 50% or 70% of the disabled‘s salaries
- relief for carrying out practical training within professional training,
- relief for voluntary supplementary pension insurance,
- relief for donations,
- relief for investments in equipment and intangible assets of 40%,
- relief for employment of unemployed under 26 or over 55.

In 2013, the companies recognized and reversed deferred income tax related to the following items:

- differences between operating and tax depreciation and amortization,
- differences in allowances for receivables,
- differences in value of provisions,
- tax losses,
- revaluation of goodwill,
- revaluation of derivatives,
- fixed assets the value of which does not exceed EUR 500 and the useful life of which is longer than one year,
- revaluation of available-for-sale financial assets,
- impairment of investment into equity of subsidiaries.

Each company has to provide documentation on transfer prices; general documentation may be common to a group of related entities as a whole.

(b) Serbia

Tax statements of the company Mercator - S, d.o.o. are prepared in compliance with International Financial Reporting Standards and the relevant Corporate Income Tax Act (‘Zakon o porezu na dobit pravnih lica’).

Corporate income tax rate is at 15%.

When calculating corporate income tax, the following tax relieves can be exercised:

- relief for newly employed with open-end employment contract,
- investment relief of 20% of invested value (but nor more than 33% of accounted for tax),
- relief for employment of disabled people in the amount of their proportional participation in total number of employees.

In 2013, the company recognized and reversed deferred income taxes in relation to the following:

- differences between operating and tax depreciation and amortization,
- differences in inventories adjustments,

- differences in value of provisions,
- revaluation of property, plant and equipment to a higher value,
- tax losses,
- accounted for, outstanding government revenue.

(c) Croatia

Tax statements of the company Mercator - H, d.o.o. are prepared in compliance with International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit').

Taxable base is the profit calculated according to the accounting principles, from which tax recognized costs are subtracted, or to which non-recognized costs are added. The company may also decrease its tax base by the amount of revenues from dividends or participation in profit of other companies, and by depreciation that was not recognized as expense in previous periods.

Corporate income tax rate is at 20 %.

When calculating income tax, the following tax relieves can be exercised:
- investment relief for promoting investments (under terms stated in the relevant act);
- investment relief for taxpayers in areas under special government protection.

In 2013, the company recognized and reversed deferred taxes arising from revaluation to a higher value of fixed assets.

(d) Bosnia and Herzegovina

Tax statements of the companies Mercator - BH, d.o.o. and M - BL d.o.o. are prepared in compliance with International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit').

Corporate income tax rate is at 10 %.

In the assessment of corporate income tax, companies in Bosnia and Herzegovina may exercise the following tax reliefs:
- investment relief for investments in production on the territory of Bosnia and Herzegovina (taxpayers investing at least BAM 20 million for 5 years in succession);
- relief for exports;
- relief for employment of disabled people.

In 2013, the Mercator Group entities in Bosnia and Herzegovina disclosed and reversed deferred taxes related to:
- differences between operating and tax depreciation and amortization,
- revaluation of property, plant and equipment to a higher value,
- tax loss.

(e) Montenegro

Tax statements of the company Mercator - CG, d.o.o. are prepared in compliance with International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Porez na dobit pravnih lica').

Corporate income tax rate is at 9 %.

When calculating corporate income tax, the following tax relieves can be exercised:
- relief for newly employed who are registered with the Employment Service,
- relief for newly established companies carrying out production activities in economically underdeveloped municipalities.

In 2013, the company Mercator - CG d.o.o. recognized and reversed deferred income tax due to differences between business and tax deductible depreciation.

(f) Bulgaria

Tax statements of the company Mercator - B, e.o.o.d., are prepared in compliance with International Financial Reporting Standards and the relevant Corporate Income Tax Act ("Law on Corporate income taxation").

Corporate income tax rate is at 10 %.

When calculating corporate income tax, the following tax relieves can be exercised:
- relief for employment of disabled people;
- relief for investments in poorly developed areas (under terms stated in the relevant act);
- relief for new employments (under terms stated in the relevant act).

In 2013, the company Mercator - B, e.o.o.d., did not post deferred tax assets or liabilities.

(g) Albania

Tax statements of the company Mercator - A, sh.p.k., are prepared in compliance with International Financial Reporting Standards and the relevant Corporate Income Tax Act ("Tax on Income").

Corporate income tax rate is at 20 %.

In 2013, Mercator - A, sh.p.k., did not post deferred tax assets or liabilities.

7. Business segments

For the requirements of reporting by business segments, the Mercator Group defined business segments by the countries where the Group carries out its activities**.** Operating results of a segment are regularly reviewed by a manager who adopts decision in order to provide basis for adoption of decisions on resources that need to be allocated to certain segment, and who evaluates the performance of operations. .
In 2013, the Mercator Group operated in seven countries, while it terminated its activities in Bulgaria and Albania.

- Slovenia, the location of the parent company, which is also the largest business unit of the Group. Fields of operation in Slovenia include the following: trade (retail and wholesale), food processing, and other non-trade activities;
- Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria and Albania. Operations in these countries comprise trading. At the end of 2013, the Group interrupted its activities in Bulgaria and Albania.

Market prices are used for selling goods, products and services between the segments.

	Slovenia		Serbia		Croatia		Herzegovina		Montenegro		Bulgaria		Albania		Total	
EUR thousand	2013	2012 restated	2013	2012 restated	2013	2012 restated	2013	2012 restated	2013	2012 restated	2013	2012	2013	2012	2013	2012 restated
Total segment revenues	**1,590,614**	**1,644,530**	**564,550**	**561,000**	**341,830**	**382,366**	**189,576**	**194,230**	**105,497**	**104,915**	**2,003**	**9,310**	**150**	**4,298**	**2,794,220**	**2,900,649**
Inter-segment revenues	27,497	26,063	280	113	433	937	44	177	331	129	(233)	41	-	3	28,352	27,463
Depreciation and amortisation	(40,547)	(41,095)	(12,639)	(13,020)	(13,575)	(15,625)	(4,931)	(5,047)	(1,741)	(1,656)	(267)	(945)	(35)	(659)	(73,735)	(78,047)
Impairment of property, plant and equipment and intagible assets	(844)	(12,164)	(520)	(854)	(520)	(36,971)	(72)	(1,235)	-	-	-	(5,207)	-	(3,411)	(1,956)	(59,842)
Total segment results from operating activities	**37,433**	**28,218**	**14,110**	**13,094**	**(20,209)**	**(52,666)**	**2,960**	**(289)**	**(230)**	**(24)**	**1,685**	**(17,616)**	**224**	**(6,776)**	**35,973**	**(36,059)**
Interest income	3,861	4,002	451	534	177	175	2,013	1,441	829	587	8	1	-	-	7,339	6,740
Interest expense	(33,137)	(36,464)	(5,449)	(4,634)	(9,234)	(9,145)	(2,449)	(2,354)	(583)	(437)	(275)	(913)	(184)	(359)	(51,311)	(54,305)
Income tax	61	6,294	(485)	(804)	-	421	367	(204)	73	(69)	-	21	-	-	16	5,659
Assets	1,354,745	1,390,153	412,184	414,773	410,313	432,675	163,587	167,685	60,502	58,863	745	5,708	651	2,177	2,402,727	2,472,034
Liabilities	1,209,225	1,200,896	257,159	263,470	295,924	310,405	87,865	94,487	29,645	26,465	591	27,790	8,024	9,596	1,888,433	1,933,109
Capital expenditure	17,006	42,563	6,923	17,829	2,185	2,373	746	3,369	2,636	974	2	212	-	10	29,498	67,330

Reconciliation of the segment revenue, operating profit or loss, assets and liabilities, and other material items

Revenues

EUR thousand	2013	2012
Total segment revenue	2,794,220	2,900,649
Elimination of inter-segment revenue	(28,352)	(27,463)
Consolidated revenue	**2,765,868**	**2,873,186**

Results from operating activities

EUR thousand	2013	2012 restated
Total reportable segments results from operating activities	35,973	(36,059)
Elimination of inter-segment profits	-	-
Consolidated results from operating activities	**35,973**	**(36,059)**

Assets

EUR thousand	2013	2012 restated
Total assets for reportable segments	2,402,727	2,472,034
Inter-segment elimination	(98,886)	(92,560)
Consolidated total assets	**2,303,841**	**2,379,474**

Liabilities

EUR thousand	2013	2012 restated
Total liabilities for reportable segments	1,888,433	1,933,109
Inter-segment elimination	(98,886)	(92,560)
Consolidated total liabilities	**1,789,547**	**1,840,549**

Other material items in 2013

EUR thousand	Segments	Inter-segment eliminations	Consolidated totals
Interest income	7,339	(3,360)	3,979
Interest expense	(51,311)	3,360	(47,951)
Amortization/ depreciation	(73,735)	-	(73,735)
Impairment of property, plant and equipment and intangible assets	(1,956)	-	(1,956)
Income tax	16	-	16
Investments in fixed assets	29,498	-	29,498

Other material items in 2012

EUR thousand	Segments	Inter-segment elimination	Consolidated totals
Interest income	6,740	(3,366)	3,374
Interest expense	(54,305)	3,366	(50,939)
Amortization/ depreciation	(78,047)	-	(78,047)
Impairment of property, plant and equipment and intangible assets	(59,842)	-	(59,842)
Income tax	5,659	-	5,659
Investments in fixed assets	67,330	-	67,330

Revenues from any individual customer do not reach 10% of total sales revenues of the Group.

As at December 31, 2013, the Mercator Group included the following companies (figures in EUR thousand are based on audited reporting packages by companies reporting to the parent company):

SLOVENIA

Poslovni sistem Mercator, d.d.	
Slovenia	
Equity	577,787
Financial liabilities	738,949
Profit (loss) for the year	-35,599
Revenue	1,464,319
Number of employees	10,162

Intersport ISI, d.o.o.	**100.0%**
Slovenia	
Equity	16,374
Financial liabilities	6,164
Profit (loss) for the year	1,261
Revenue	51,039
Number of employees	351

Modiana, d.o.o.	**100.0%**
Slovenia	
Equity	1,303
Financial liabilities	9,072
Profit (loss) for the year	-3,586
Revenue	39,576
Number of employees	467

M Energija, d.o.o.	**100.0%**
Slovenia	
Equity	3,125
Financial liabilities	6,094
Profit (loss) for the year	-1,918
Revenue	27,984
Number of employees	9

Mercator IP, d.o.o.	**100.0%**
Slovenia	
Equity	3,049
Financial liabilities	2
Profit (loss) for the year	757
Revenue	12,052
Number of employees	418

Mercator - Emba, d.d.	**100.0%**
Slovenia	
Equity	6,900
Financial liabilities	9,200
Profit (loss) for the year	1,165
Revenue	22,139
Number of employees	115

M - Nepremičnine, d.o.o.*	**100.0%**
Slovenia	
Equity	6,138
Financial liabilities	0
Profit (loss) for the year	48
Revenue	414
Number of employees	0

Mercator - Optima, d.o.o.	**100.0%**
Slovenia	
Equity	676
Financial liabilities	0
Profit (loss) for the year	-122
Revenue	15
Number of employees	0

SERBIA

Mercator - S, d.o.o.	**100.0%**
Serbia	
Equity	197,737
Financial liabilities	105,204
Profit (loss) for the year	4,898
Revenue	562,296
Number of employees	4,754

CROATIA

Mercator - H, d.o.o.	**99.9%**
Croatia	
Equity	110,491
Financial liabilities	163,060
Profit (loss) for the year	-26,482
Revenue	334,810
Number of employees	3,381

BOSNIA AND HERZEGOVINA

Mercator - BH, d.o.o.	**100.0%**
Bosnia and Herzegovina	
Equity	37,233
Financial liabilities	45,077
Profit (loss) for the year	1,335
Revenue	145,992
Number of employees	1,620

M - BL, d.o.o.	**100.0%**
Bosnia and Herzegovina	
Equity	38,489
Financial liabilities	13,950
Profit (loss) for the year	1,267
Revenue	41,571
Number of employees	389

* The company was deleted from commercial register on January 22, 2014.
** The company does not conduct business operations.

MONTENEGRO

Mercator - CG, d.o.o. Montenegro	100.0%
Equity	30,857
Financial liabilities	8,500
Profit (loss) for the year	17
Revenue	105,497
Number of employees	1,244

BULGARIA

Mercator - B, e.o.o.d. Bulgaria	100.0%
Equity	154
Financial liabilities	0
Profit (loss) for the year	1,412
Revenue	2,003
Number of employees	11

ALBANIA

Mercator - A, sh.p.k. Albania	100.0%
Equity	(7,373)
Financial liabilities	7,655
Profit (loss) for the year	0
Revenue	150
Number of employees	-

The consolidated financial statements also include the Macedonian companies Mercator Makedonija, d.o.o.e.l., and Investment Internacional, d.o.o.e.l., which do not carry out the business activity.

8. Business combinations and reorganization of the Group

In 2013, the Group did not carry out any business combinations.

Slovenia
In 2013, the company M- Tehnika d.d. was merged with the parent company Poslovni sistem Mercator, d.d., while Mercator - Optima, d.o.o., was liquidated.

Croatia
In 2013, the companies Mercator centar tehnike, d.o.o., Intersport H, d.o.o., and Modiana, d.o.o., Croatia were merged with the company Mercator-H, d.o.o.

Serbia
In 2013, the companies Intersport S-ISI, d.o.o., and Modiana, d.o.o., Serbia were merged with the company Mercator-S, d.o.o.

Bosnia and Herzegovina
In 2013, the companies Intersport BH, d.o.o., in Modiana, d.o.o., Bosnia in Herzegovina were merged with the company Mercator-BH, d.o.o.

9. Revenues

Breakdown of revenue by categories:

EUR thousand	2013	2012
Sales of goods	2,626,631	2,716,910
Sales of services	131,301	140,065
Sales of products	16,565	24,989
Sales of materials	561	520
Expenses for discounts granted	(9,190)	(9,298)
Total	**2,765,868**	**2,873,186**

Sales of goods are also reduced by the amount of discounts to customers - Pika card holders.

10. Other income

EUR thousand	2013	2012 restated
Profit from sales of property, plant and equipment	2,896	1,842
Reversal of real estate impairment	1	375
Revenue from reversal and utilization of provisions	7,555	7,622
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost	-	1,349
Other operating revenue	13,402	9,026
Total	**23,854**	**20,214**

Gains from disposal of property, plant and equipment, pertain to the disposal of non-core assets in Slovenia, amounting to EUR 1,584 thousand, and to the sale of non-core assets in other markets in the amount of EUR 1,312 thousand.

Revenue from reversal and utilization of provisions refers to the reversal of provisions for legal claims in the amount of EUR 3,068 thousand; use of assigned assets for disability contributions in the amount of EUR 2,602 thousand, reversal of provision for termination and jubilee benefits in the amount of EUR 1,800 thousand; and other revenue from reversal of provisions in the amount of EUR 85 thousand.

The remaining part of the Group's other operating revenue includes indemnities based on insurance premiums and other indemnities in the amount of EUR 4,568 thousand; income from reversal of referral for withdraw from the Bulgarian and Albanian market in the amount of EUR 3,616 thousand; income from bonuses for employing of disabled people in the amount of EUR 879 thousand; and other operating revenue in the amount of EUR 4,339 thousand.

11. Expenses by nature

EUR thousand	2013	2012 restated
Depreciation of property, plant and equipment	68,622	70,355
Amortization of intangible assets	4,982	7,552
Depreciation of investment property	131	140
Labor costs	284,518	297,052
Costs of material	74,814	77,630
Costs of services excl. rents	154,520	166,721
Rental/lease costs	56,398	56,238
Cost of provisions	888	5,021
Other costs	15,219	14,710
Impairment of property, equipment, and intangible assets	1,956	59,842
Loss from disposal of real estate	123	73
Change in the value of inventories	165	(298)
Other operating expenses	1,343	11,138
Cost of goods sold	2,090,070	2,163,285
Total cost of goods sold, selling costs and administrative expenses	**2,753,749**	**2,929,459**

Costs of goods sold and selling costs in the amount of EUR 2,658,892 thousand (2012: EUR 2,739,201 thousand) include production costs in the amount of EUR 23,689 thousand (2012: EUR 30,484 thousand); selling costs in the amount of EUR 543,790 thousand (2012: EUR 534,294 thousand); historical cost of goods sold in the amount of EUR 2,090,070 thousand (2012: EUR 2,163,285 thousand); and other operating expenses in the amount of EUR 1,343 thousand (2012: EUR 11,138 thousand).

Provisions in the amount of EUR 888 thousand were created in connection with legal actions and termination and jubilee benefits.

Impairment of property, equipment and intangible assets comprises impairment of assets in the amount of EUR 1,129 thousand, assets write-offs of EUR 817 thousand and deficits of fixed assets in the amount of EUR 10 thousand.

Other operating expenses refer to penalties and damages in the amount of EUR 1,343 thousand.

In 2013, the Group's discloses the costs of audit in the amount of EUR 198 thousand (2012: EUR 325 thousand). Besides the financial statements audit the auditors did not provide any other services for the Group.

The cost of goods sold is reduced by rebates beyond accounts/invoices and received discounts. It is increased by revaluation of inventories and write-downs of damaged, expired and obsolete inventory and deficits.

12. Labor costs

EUR thousand	2013	2012
Salaries	210,146	217,846
Pension insurance costs	19,169	19,178
Health insurance costs	16,080	16,895
Termination benefits	1,510	2,335
Other labor costs	37,613	40,798
Total	**284,518**	**297,052**
Number of employees as at December 31	22,922	23,920

In Slovenia, EUR 1,412 thousand of severance payments was paid out at the companies Mercator, d.d., Modiana, d.o.o., and Mercator-Optima, d.o.o. In other markets, severance payments totaled EUR 98 thousand.

Other labor costs include reimbursement of meal allowances, commute allowances, annual leave allowances, and other labor costs.

Average number of employees in the Group during the year calculated based on hours worked amounts to 22,770 (2012: 22,239).

13. Finance income and expenses

Recognized in the income statement

EUR thousand	2013	2012 restated
Interest income	3,979	3,374
Gains on disposal of available-for-sale financial assets	10	280
Dividend income	11	113
Other finance income	4,025	3,038
Finance income	**8,025**	**6,805**
Interest expense	(47,951)	(50,939)
Losses on disposal and impairment of available-for-sale financial assets	(181)	(759)
Impairment of trade and other receivables	(7,277)	(11,198)
Net operating foreign currency translation differences	(680)	(3,043)
Net finance foreign currency translation differences	(2,199)	(6,320)
Other finance expense	(2,655)	(652)
Finance expenses	**(60,943)**	**(72,911)**
Net finance expense recognized in the income statement	**(52,918)**	**(66,106)**

Other finance income includes reversal of impairment of paid in advance rents for units Getro in Croatia in the amount of EUR 2,358 thousand (2012: EUR 2,026 thousand).

Recognized in other comprehensive income (net)

EUR thousand	2013	2012
Foreign currency translation differences – foreign operations	(1,805)	(18,544)
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	3,097	(898)
Net gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets	(19)	3,514
Finance (expense) income recognized directly in comprehensive income	**1,311**	**(15,928)**
Attributable to:		
Parent company shareholders	1,312	(15,928)
Non-controlling interest	(1)	-
Finance (expense) income recognized in comprehensive income		
Recognized in:		
Fair value reserve	3,116	2,616
Currency translation reserve	(1,804)	(18,544)
Non-controlling interest	(1)	-
Total	**1,311**	**(15,928)**

14. Property, plant, and equipment

EUR thousand	Note	Land	Buildings	Production equipment	Office and other equipment	Construction in progress	Total
Balance at 1 January, 2012							
Cost		600,477	1,836,001	264,057	175,867	39,096	2,915,498
Accumulated depreciation		-	(723,927)	(171,948)	(113,605)	-	(1,009,480)
Carrying amount		**600,477**	**1,112,074**	**92,109**	**62,262**	**39,096**	**1,906,018**
Change in accounting policy		-	(47,443)	-	-	-	(47,443)
Balance at 1 January, 2012 restated		**600,477**	**1,064,631**	**92,109**	**62,262**	**39,096**	**1,858,575**
Year ended 31 December, 2012							
Opening carrying amount		**600,477**	**1,064,631**	**92,109**	**62,262**	**39,096**	**1,858,575**
Effect of movements in exchange rates		(5,391)	(19,688)	(1,884)	(862)	(485)	(28,310)
Acquisitions through business combinations	8	1,245	3,212	97	88	-	4,642
Additions		7,942	295	540	1,427	52,739	62,943
Transfers		-	23,876	18,028	12,679	(54,047)	536
Disposals		(1,650)	(1,901)	(472)	(588)	(872)	(5,483)
Depreciation charge	11	-	(41,656)	(15,602)	(13,097)	-	(70,355)
Impairment		(43,622)	(7,473)	-	-	-	(51,095)
Write-offs		-	(8,770)	(1,725)	-	(1,421)	(11,916)
Closing carrying amount		**559,001**	**1,012,526**	**91,091**	**61,909**	**35,010**	**1,759,537**
Balance at 31 December, 2012 restated							
Cost		559,001	1,482,386	267,305	178,188	35,010	2,521,890
Accumulated depreciation		-	(469,860)	(176,214)	(116,279)	-	(762,353)
Carrying amount		**559,001**	**1,012,526**	**91,091**	**61,909**	**35,010**	**1,759,537**
Year ended 31 December, 2013							
Opening carrying amount		**559,001**	**1,012,526**	**91,091**	**61,909**	**35,010**	**1,759,537**
Effect of movements in exchange rates		(1,341)	(2,005)	(290)	(131)	(16)	(3,783)
Additions		1,041	59	112	940	22,648	24,800
Transfers*		189	21,321	16,757	84	(38,351)	-
Disposals		(2,135)	(241)	(2,901)	(517)	-	(5,794)
Depreciation charge	11	-	(40,731)	(15,893)	(11,998)	-	(68,622)
Impairment and write-offs		-	(97)	(1,131)	(217)	(511)	(1,956)
Closing carrying amount		**556,755**	**990,832**	**87,745**	**50,070**	**18,780**	**1,704,182**
Balance at 31 December, 2013							
Cost		556,755	1,501,423	273,535	174,871	18,780	2,525,364
Accumulated depreciation		-	(510,591)	(185,790)	(124,801)	-	(821,182)
Carrying amount		**556,755**	**990,832**	**87,745**	**50,070**	**18,780**	**1,704,182**

*Transfers comprise mostly transfers between groups. Advance payments are included in property, plant and equipment being acquired in the amount of EUR 285 thousand.

Investments in property, plant and equipment, disclosed among Additionsin the amount of EUR 24,800 thousand, refer to:

EUR thousand	2013
Purchase of property, plant and equipment (new facilities)	8,698
Refurbishment of existing retail and wholesale units	12,481
Other	3,621
Total	**24,800**

Disposals of property, plant and equipment in the amount of EUR 5.794 thousand regard the disposal of non-core assets. Proceeds from disposal amounted to EUR 8,037 thousand; gains from disposal amounted to EUR 2,366 thousand; losses from disposal amounted to EUR 123 thousand.

As at December 31, 2013, property plant and equipment were tested for impairment; the impairment signs were identified only for the following assets. In 2013, impairments and write-downs of property, plant and equipment totaled EUR 1,956 thousand (2012: EUR 63.011 thousand) and comprise impairment of buildings and write-downs in equipment in entities M-Energija, d.o.o., Mercator-H, d.o.o., in Mercator-S, d.o.o.

Depreciation of property, plant and equipment in the amount of EUR 68,622 thousand is included among costs of goods sold in the amount of EUR 1,107 thousand, among the selling and marketing costs in the amount of EUR 62,183 thousand, and among the administrative expenses in the amount of EUR 5,332 thousand.

In the event of disclosure of land at the historical cost, the amounts would be as follows:

EUR thousand	2013	2012
Cost	413,585	412,303

Property, plant and equipment leased

Carrying amount of property, plant and equipment held under financial leases amounts to EUR 258,569 thousand (2012: EUR 266,447 thousand) and refers to land and buildings.

Collaterals

As at December 31, 2013, the Group had EUR 7,493 thousand of pledged property.

Contractual commitments regarding property, plant and equipment, which as at the balance sheet date are not disclosed yet in the financial statements, are presented in Note 31 (Capital commitments).

15. Intangible assets

EUR thousand	Note	Goodwill	Trademarks, material rights and licenses	Total
As at January 1, 2012				
Cost		6,776	61,979	68,755
Accumulated depreciation and impairment		-	(32,893)	(32,893)
Carrying amount		**6,776**	**29,086**	**35,862**
Year ended December 31, 2012				
Opening carrying amount		**6,776**	**29,086**	**35,862**
Effect of foreign exchange differences		(4)	(1,427)	(1,431)
Increase through business combinations		-	4	4
Investment		-	4,382	4,382
Disposals		-	(16)	(16)
Impairment		(5,885)	(6,977)	(12,862)
Amortization	11	-	(7,552)	(7,552)
Closing carrying amount		**887**	**17,500**	**18,387**
As at December 31, 2012				
Cost		887	52,026	52,913
Accumulated depreciation and impairment		-	(34,526)	(34,526)
Carrying amount		**887**	**17,500**	**18,387**
Year ended December 31, 2013				
Opening carrying amount		**887**	**17,500**	**18,387**
Effect of foreign exchange differences		(8)	(40)	(48)
Investment		-	4,050	4,050
Amortization	11	-	(4,982)	(4,982)
Closing carrying amount		**879**	**16,528**	**17,407**
As at December 31, 2013				
Cost		879	55,819	56,698
Accumulated depreciation and impairment		-	(39,291)	(39,291)
Carrying amount		**879**	**16,528**	**17,407**

As at December 31, 2013, intangible assets being acquired amount to EUR 51 thousand.

Intangible assets as at December 31, 2013 include rights, patents, licenses, trademarks and investments into software in amount of EUR 16,528 thousand (2012: EUR 17,500 thousand) and goodwill in the amount of EUR 879 thousand (2012: EUR 887 thousand).

The trademark value as at December 31, 2013 amounts to EUR 3,910 thousand and refers to the trademark Roda in Serbia. The estimated useful life of the trademark was changed in 2013 to unlimited; as at December 31, 2013, it was tested for potential impairment, but no signs of impairment were identified.

In 2013, the Group did not carry out any impairment of intangible assets (2012: EUR 12,862 thousand).

Goodwill in the amount of EUR 879 thousand, generated in the previous years, arises from the acquisition of companies Presoflex, d.o.o., Era Tornado, d.o.o, and Trgohit, d.o.o., in Croatia.

Amortization of intangible assets in the amount of EUR 4,982 thousand is included among production costs in the amount of EUR 25 thousand, the selling costs in the amount of EUR 998 thousand and among the administrative expenses in the amount of EUR 3,959 thousand.

Goodwill impairment testing

Goodwill, which refers to the acquisition of the companies Presoflex, d.o.o., Era Tornado, d.o.o, and Trgohit, d.o.o. in Croatia in the amount of EUR 879 thousand, was allocated to cash-generating units of the Group, defined according to the store format, and tested for impairment on December 31, 2013. In 2013, the goodwill was not impaired.

Allocation and changes in goodwill are presented in the table below:

EUR thousand	31/12/2012	Exchange rate differences	Impairment in 2013	31/12/2013
Hypermarkets	-	-	-	-
Supermarkets	887	(8)	-	879
Markets	-	-	-	-
Other stores	-	-	-	-
Total	**887**	**(8)**	**-**	**879**

Upon acquisition of companies družb Presoflex, d.o.o., Era Tornado, d.o.o, and Trgohit, d.o.o., goodwill was created, the value of which was allocated to the acquired cash-generating units. For the purpose of financial reporting, the test for impairment of goodwill was carried out, based on the estimate of value in use of the acquired cash-generating units which is prepared in line with international accounting standards (IFRS 3, IAS 27, IAS 32, IAS 36 and IAS 39). For valuation of cash-generating units, the discounted cash flow method was used. The projections of future operations are based on realization of operations in 2013 and the plan for business units for 2014. The increase in revenue is considered for the future periods, which arises from the Company's future expectations regarding sales revitalization and, consequently, improved purchase and sales conditions. Nominal rate of increase in revenue in the projection amounts to 2%.

The quantity of required investments is annually estimated on the basis of necessary annual investments per m2 of sales surface assumed for such type of stores. The remaining value is calculated on the basis of gross cash flow as infinite series function, taking into account 1% increase rate. The discount rate used for this valuation is 9.0%.

It was established that the recoverable amount of cash-generating units exceeds their carrying amount, including the goodwill; therefore, goodwill was not impaired.

16. Investment property

EUR thousand	2013	2012
As at January 1	**3,194**	**3,450**
Investment	648	5
Transfer from property, plant, and equipment	-	5
Disposals	(920)	(126)
Depreciation	(131)	(140)
As at December 31	**2,791**	**3,194**
Closing value		
Cost	6,244	6,855
Revaluation adjustment	(3,453)	(3,661)
Carrying amount	**2,791**	**3,194**

As at December 31, 2013, estimated fair value of investment property, which was determined by independent certified appraiser of real estate, totals EUR 7,806 thousand (2012: EUR 8,685 thousand) and falls within Level 2 of the fair value hierarchy. The investment property is not pledged.

The following amounts were recognized in the income statement with regard to investment property:

EUR thousand	2013	2012
Rental income	169	223
Direct expenses arising from investment property generating rental income	(252)	(216)
Total	**(83)**	**7**

Depreciation of investment property in the amount of EUR 131 thousand was entirely included among the cost of sales.

In 2013, the Group received EUR 1,450 thousand from sales of investment property, on the basis of which it generated EUR 530 thousand of profit.

As at December 31, 2013, financial liabilities are not mortgaged with investment property.

17. Available-for-sale financial assets

EUR thousand	2013	2012
As at January 1	**1,069**	**2,628**
Increase upon business combinations	-	2
Acquisitions of shares and interests	-	9
Adjustment to market value	(162)	(149)
Disposals	(87)	(1,421)
As at December 31	**820**	**1,069**

The Group's available-for-sale financial assets include also assets that could not be valued at fair value; thus, these assets are measured at historical costs. Shares of these companies are not listed on the stock exchange.

EUR thousand	2013	2012
Available-for-sale financial assets measured at cost	622	731
Available-for-sale financial assets measured at fair value	198	338
Total investments in shares and interests	**820**	**1,069**

Available-for-sale financial assets are not pledged.

Revaluation to fair value for available-for-sale financial assets in recognized in equity.
Impairment of available-for-sale financial asset has been recognized in profit and loss.

18. Derivative financial instruments

EUR thousand	2013	2012
Assets		
Interest rate cap contracts	16	1
Liabilities		
Interest rate swap contracts	(1,469)	(5,269)

The nominal amount of loans hedged against interest rate risk as at December 31, 2013 amounted to EUR 400,000 thousand, with the Group having interest rate swaps contracts worth EUR 175,000 thousand (contractual interest rates varied between 2.127% and 2.521%) and interest rate caps contracts in total amount of EUR 225,000 thousand with a strike rate between 2.50% and 3.50%. Most of derivatives were concluded in 2011, for a period of three years; in 2013, we concluded additional interest rate caps in the amount of EUR 50,000 thousand also for a three-year period. As at 31 December 2013, the relevant variable interest rate, i.e. the 6-month EURIBOR stood at 0.389%. Derivative financial instruments are concluded with the purpose of cash flow hedging.

Change in fair value of the hedging instrument was recognized in other comprehensive income in the amount of EUR 3,731 thousand. Ineffectiveness with cash flow hedging was not material thus it was not recognized in the income statement.

As at December 31, 2013, the Group does not have any derivatives intended for fair value hedge.

Other than interest rate swaps and interest rate caps, as at December 31, 2013 and at December 31, 2012 the Mercator Group did not hold any other contracts with third parties that would represent derivatives.

19. Taxes

Taxes recognized in profit or loss

EUR thousand	2013	2012
Current tax expense	854	144
Deferred tax	(870)	(5,803)
Tax	**(16)**	**(5,659)**

In 2013 income tax liability of the companies in the Mercator Group amounts to EUR 854 thousand.

According to IAS 12 current tax and deferred tax are recognized as revenue or expense and are included in profit or loss. If tax relates to items recognized in equity, deferred tax is also recognized directly in equity.

Tax recognized in other comprehensive income

EUR thousand	2013		
	Value before tax	**Tax**	**Value after tax**
Net gains/losses recognized in revaluation surplus in relation to property	(883)	(1,939)	(2,822)
Gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets	(43)	16	(27)
Gains/losses transferred from revaluation surplus to profit or loss in relation to available-for-sale financial assets	55	(9)	46
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	3,731	(634)	3,097
Foreign currency translation differences - foreign operations	(1,805)	-	(1,805)
Liabilities for unused annual leave of employees	(4,956)	-	(4,956)
Other changes	(1,235)	-	(1,235)
Other comprehensive income	**(5,136)**	**(2,566)**	**(7,702)**

Change in fair value of investments into equity of subsidiaries includes deferred taxes related to revaluation adjustments to these investments.

EUR thousand	2012 restated		
	Value before tax	**Tax**	**Value after tax**
Net gains/losses recognized in revaluation surplus in relation to property	(16,437)	6,652	(9,785)
Gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets	(89)	20	(69)
Gains/losses transferred from revaluation surplus to profit or loss in relation to available-for-sale financial assets	699	(166)	533
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	(864)	(34)	(898)
Foreign currency translation differences - foreign operations	(18,544)	-	(18,544)
Other changes	-	(414)	(414)
Other comprehensive income	**(35,235)**	**6,058**	**(29,177)**

Reconciliation to effective tax rate

EUR thousand	2013	2012 restated
Profit (loss) for the year	(16,929)	(96,506)
Tax	(402)	(5,659)
Profit before income tax	(16,945)	(102,165)
Tax calculated at 17% (18%) tax rate	(2,881)	(18,390)
Tax on income that increases the tax base	365	411
Tax on income that decreases the tax base	(1,425)	(599)
Tax of non-deductible expenses	6,675	1,688
Effect of current losses for which deferred tax was not recognized	-	12,379
Tax relief	(2,750)	(110)
Effect of different tax rates and other	-	(1,038)
Total income tax expense	**(16)**	**(5,659)**
Effective tax rate	**-**	**-**

Deferred taxes are calculated based on temporary differences under the liability method, by applying the tax rate effective in individual countries of the Mercator Group's operations.

The movement in the deferred tax balances is as follows:

EUR thousand	2013	2012
At beginning of year – net deferred tax assets (liabilities)	**(16,399)**	**(36,071)**
Change in accounting policies	-	7,208
At beginning of year – net deferred tax assets (liabilities), restated	**(16,399)**	**(28,363)**
Effect of exchange rates movements	122	430
Acquired in a business combination	-	(307)
Recognized in profit or loss	870	5,803
Recognized in other comprehensive income	(2,566)	6,058
Recognized in liabilities	(1,952)	479
At end of year – net deferred tax assets (liabilities)	**(19,925)**	**(16,399)**

The deferred tax assets and liabilities are attributable to the following items:

Deferred tax liabilities

EUR thousand	Revaluation of property, plant and equipment	Revaluation adjustments to available-for-sale financial assets and derivative financial instruments	Depreciation of property, plant and equipment under EUR 500	Difference between tax recognized and business depreciation	Total
As at January 1, 2012	**47,842**	**-**	**863**	**140**	**48,845**
Change in accounting policy	(7,218)	(113)	-	-	(7,331)
As at January 1, 2012 (restated)	**40,624**	**(113)**	**863**	**140**	**41,514**
Effect of exchange rates movements	(283)	-	-	(25)	(308)
Acquired in a business combination	335	-	-	-	335
Transfers among items	(510)	-	-	510	-
Recognized in profit or loss	(144)	-	(272)	444	28
Recognized in other comprehensive income	(6,652)	1	-	414	(6,237)
Recognized in deferred tax assets	(1,234)	-	-	-	(1,234)
Recognized in liabilities	(592)	113	-	-	(479)
As at December 31, 2012 (restated)	**31,543**	**1**	**591**	**1,483**	**33,618**
Effect of exchange rates movements	(123)	-	-	(2)	(125)
Recognized in profit or loss	(11)	-	(5)	86	70
Recognized in other comprehensive income	1,980	1	-	(41)	1,940
Recognized in liabilities	1,952	-	-	-	1,952
As at December 31, 2013	**35,341**	**2**	**586**	**1,526**	**37,455**

Deferred tax assets

EUR thousand	Provisions not recognized for tax purposes	Impairment of trade receivables	Temporary difference due to change in accounting policies	Tax loss	Impairment of inventory	Differences between tax recognized and business depreciation	Change in fair value of available-for-sale financial assets and derivatives	Other	Total
As at January 1, 2012	**2,496**	**1,762**	**2,937**	**-**	**306**	**2,408**	**1,988**	**877**	**12,774**
Change in accounting policy	-	-	-	-	-	-	-	(123)	(123)
As at January 1, 2012 (restated)	**2,496**	**1,762**	**2,937**	**-**	**306**	**2,408**	**1,988**	**754**	**12,651**
Reversal of temporary difference due to change in accounting policies	-	-	(2,937)	2,937	-	-	-	-	-
Effect of exchange rates movements	-	1	-	-	-	(1)	122	-	122
Acquired in a business combination	-	-	-	-	-	28	-	-	28
Transfers among items	-	-	-	779	-	-	-	(779)	-
Recognized in profit or loss	1,007	70	-	557	(242)	(69)	(211)	4,719	5,831
Recognized in deferred tax liabilities	-	-	-	(1,234)	-	-	-	-	(1,234)
Recognized in other comprehensive income	-	-	-		-	-	(179)		(179)
As at December 31, 2012 (restated)	**3,503**	**1,833**	**-**	**3,039**	**64**	**2,366**	**1,720**	**4,694**	**17,219**
Effect of exchange rates movements	-	(1)	-	(2)	(1)	1	-	-	(3)
Transfers among items	55	-	-	-	(58)	(7)	(373)	383	-
Recognized in profit or loss	(1,667)	517	-	36	4	308	18	1,724	940
Recognized in other comprehensive income	9	-	-		-	-	(635)		(626)
As at December 31, 2013	**1,900**	**2,349**	**-**	**3,073**	**9**	**2,668**	**730**	**6,801**	**17,530**

As at December 31, 2013, the Group holds unrecognized deferred assets from tax losses in the amount of EUR 18,025 thousand (2012: EUR 17,328 thousand). These pertain especially to tax losses of the companies Mercator - H, d.o.o., Modiana, d.o.o., and M - Energija, d.o.o. As the Group does not expect sufficient taxable profit in the future, such receivables were not recognized.

In 2013 companies of Mercator Group have recognized deferred tax liabilities as well as deferred tax assets. Deferred tax liabilities charged to the income statement decrease tax bases of individual companies of the Group in 2013, whereas the deferred tax assets increase them.

Deferred tax assets not recognized through profit or loss, pertaining to the impairment of equity investment into subsidiary Mercator - H, d.o.o., amounted to EUR 7,769 thousand. These deferred tax assets were not recognized because the parent company does not intend to dispose of the said subsidiary in the foreseeable future.

Deferred tax assets and liabilities are not offset in the balance sheet.

20. Inventories

EUR thousand	2013	2012
Merchandise	272,685	285,458
Material	5,113	4,943
Work-in-progress	35	18
Finished good	1,113	1,374
Less: revaluation adjustment of inventories	(14,148)	(24,082)
Total	**264,798**	**267,711**

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress, and finished products as at December 31, 2013 amounted to EUR 264,798 thousand, which is 1.1% less than at the beginning of the year. The decrease in inventory is mostly a result of proactive policy of working capital management.

The carrying amount of inventories does not exceed their net realizable value. Inventories were not pledged for debt.

Changed estimate of the Modiana and Intersport inventories value adjustments in profit or loss resulted in decrease of the adjustment in 2013 by EUR 5,503 thousand.

21. Trade and other receivables

EUR thousand	2013	2012 restated
Trade and other receivables	216,388	215,170
Deferred costs	7,328	7,434
Accrued revenues	11,211	7,880
Total trade and other receivables	**234,927**	**230,484**

Trade and other receivables increased by EUR 4,443 thousand.

As at December 31, 2013 Mercator Group does not have any trade and other receivables from associated parties.

Deferred costs in 2013 amount to EUR 7,328 thousand, which is EUR 106 thousand less than in the year before, mostly due to decrease of accrued or deferred banking costs for the syndicated loan.

Uncharged revenue pertains to anticipated and included rebates and compensations.

Carrying amounts of all trade and other receivables are in materially relevant sums consistent with their respective fair values. Receivables are measured at amortized cost.

The amount of impairment of receivables as at December 31, 2013 amounted to EUR 46,050 thousand (2012: EUR 39,078 thousand). Movements of the provision for impairment of trade receivables are presented in Note 29 (Financial instruments).

Trade and other receivables are not used for collateralization of the Group's liabilities. Collateralization of receivables is presented in Note 29 (Financial instruments).

22. Loans and deposits

EUR thousand	2013	2012 restated
Deposits for rent payment	29,256	30,634
Cheques over 90 days and loans to companies	11,900	17,810
Deposits in banks	1,453	2,289
Total loans and deposits	**42,609**	**50,733**

Deposits for rent payment relate to long-term paid in advance rents for trade facilities abroad and are charged with interests. They are insured by mortgages on trade facilities. Loans granted to other companies mostly pertain to short-term loans to companies that have built or are still building trade facilities; these loans are secured by a mortgage on the property being developed.

Average interest rate for deposits amounts to 4,74%.

23. Cash and cash equivalents

EUR thousand	2013	2012 restated
Cash at the bank	1,124	8,430
Cash on hand	17,381	16,247
Total cash and cash equivalents	**18,505**	**24,677**

Cash on hand in the amount of EUR 17,381 thousand includes cash in transit (daily proceeds of retail units) and cash in hand.

24. Equity

Share capital
Share capital of the company Mercator, d.d., amounts to EUR 157,128,514.53. It is divided into 3,765,361 ordinary, registered, non-par value shares.

Conditional capital increase
General Meeting of Shareholders of Poslovni sistem Mercator, d.d., can adopt a resolution on conditional capital increase on the basis of provisions stated in Article 46 of the Company's Articles of Association; such possibility has not been realized so far.

Treasury shares
As at December 31, 2013 the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares in the amount of EUR 3,235 thousand (2012: 42,192 treasury shares; EUR 3,235 thousand).

Reserves

Reserves consist of the share premium, revenue reserves, fair value reserve and currency translation reserve. None of those types of reserves can be used for the payment of dividends or other participations in profit.

Share premium amounts to EUR 198,872 thousand as at December 31, 2013. It includes the excess over nominal value of paid-up shares and surplus that was created as the difference between purchase and sales values of disposed treasury shares.

Revenue reserves, amounting to EUR 146,656 thousand as at December 31, 2013, include legal reserves, reserves for treasury shares, and other revenue reserves.

As at December 31, 2013, the Group holds legal reserves in the amount of EUR 13,389 thousand. Share premium and legal reserves can be used in surplus amount to increase the share capital from company assets, and for covering the net loss of the business year, or to cover the carried forward net loss, if revenue reserves are not used simultaneously to pay dividends to the shareholders.

As at December 31, 2013, the company Mercator, d.d., held 42,192 treasury shares in the amount of EUR 3,235 thousand. The reserve for treasury shares is reported among other revenue reserves.

Other revenue reserves as at December 31, 2013 amount to EUR 130,032 thousand. They include reallocated residuals of retained earnings from previous years. They can be used for any purpose, except for the amount of the reserve for treasury shares within other revenue reserves.

Currency translation reserve, amounting to EUR -80,623 thousand as at December 31, 2013, has decreased by EUR 1,804 thousand in 2013, which is related to a decrease due to currency translation differences that occurred upon the integration of financial statements of foreign subsidiaries into the consolidated financial statements.

Fair value reserve which amounts to EUR 140,587 thousand as at December 31, 2013, includes the revaluation reserve of land as measured by the revaluation model, changes to the fair value of available-for-sale financial assets, and changes to the value of effective cash flow hedges.

Fair value reserve is shown below:

EUR thousand	**2013**	**2012 restated**
Real property fair value reserve	143,170	146,698
Fair value reserve for available-for-sale financial assets	52	42
Hedging reserve	(2,635)	(5,732)
Total fair value reserve	**140,587**	**141,008**

Dividends

In 2013, the General Meeting did not decide on dividends payments, due to the disclosed loss of the company Mercator, d.d., in 2012.

Due to negative results in 2013, dividend payment is not planned for 2014.

Other comprehensive income

	Fair value reserve							
EUR thousand	Real property fair value reserve	Fair value reserve for available-for-sale financial assets	Hedging reserve	Retained net profit or loss	Currency translation reserve	Total other comprehensive income attributable to owners of the parent company	Non-controlling interests	Total other comprehensive income
2013								
Net gains/losses recognized in revaluation surplus in relation to property	(883)					(883)	-	(883)
Disposal and depreciation of revalued property	(3,215)	-	-	3,215	-	-	-	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	-	-	3,731	-	-	3,731	-	3,731
Gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets	-	(43)	-	-	-	(43)	-	(43)
Gains/losses transferred from revaluation surplus to profit or loss in relation to available-for-sale financial assets	-	55	-	-	-	55	-	55
Liabilities for unused annual leave of employees	-	-	-	(4,956)	-	(4,956)	-	(4,956)
Other changes	-	-	-	(1,235)	-	(1,235)	-	(1,235)
Deferred tax	571	(3)	(634)	(2,500)	-	(2,566)	-	(2,566)
Foreign currency translation differences - foreign operations	-	-	-	-	(1,804)	(1,804)	(1)	(1,805)
Total other comprehensive income	**(3,527)**	**9**	**3,097**	**(5,476)**	**(1,804)**	**(7,701)**	**(1)**	**(7,702)**
2012								
Net gains/losses recognized in revaluation surplus in relation to property	(16,437)	-	-	-	-	(16,437)	-	(16,437)
Disposal and depreciation of revalued property	(461)	-	-	461	-	-	-	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	-	-	(864)	-	-	(864)	-	(864)
Gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets	-	(89)	-	-	-	(89)	-	(89)
Gains/losses transferred from revaluation surplus to profit or loss in relation to available-for-sale financial assets	-	699	-	-	-	699	-	699
Deferred tax	6,347	(128)	(34)	(125)	-	6,060	(2)	6,058
Foreign currency translation differences - foreign operations	-	-	-	-	(18,544)	(18,544)	-	(18,544)
Total other comprehensive income	**(10,551)**	**482**	**(898)**	**337**	**(18,544)**	**(29,175)**	**(2)**	**(29,177)**

25. Loss per share

Basic earnings (loss) per share are calculated by dividing the net profit (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of treasury shares.

	2013	2012 restated
Profit attributable to the owners of the parent company (EUR thousand)	(16,904)	(96,441)
Weighted average number of ordinary shares	3,723,169	3,723,169
Basic net loss per share in EUR	**(4.5)**	**(25.9)**

	2013	2012
Issued ordinary shares as at January 1	3,765,361	3,765,361
Effect of treasury shares	(42,192)	(42,192)
Weighted average number of ordinary shares at December 31	**3,723,169**	**3,723,169**

Since the Group does not have any preference shares or convertible bonds, diluted net loss per share is the same as basic net loss per share.

26. Borrowings and other financial liabilities

EUR thousand	2013	2012
Non-current financial liabilities		
Bank borrowings	209,152	410,598
Finance lease	142,431	183,243
Total	**351,583**	**593,841**
Current financial liabilities		
Bank borrowings	208,625	220,144
Borrowings from other companies	-	19,739
Current portion of finance lease liabilities	50,754	25,159
Current portion of bank borrowings	426,846	235,837
Total	**686,225**	**500,879**
Total financial liabilities	**1,037,808**	**1,094,720**

Companies of the Mercator Group and Bank lenders have signed a agreement on financial restructuring of the Group (an agreement to refinance the financial liabilities of the Mercator Group until March 31, 2020. On April 25, 2014, Mercator acquired signed commitments of all necessary lending banks of the Mercator Group for the implementation of proposed financial restructuring of the Mercator Group in accordance with detailed legal and commercial terms, that are now agreed with such lenders. On the basis of this agreement, all the necessary steps for the completion of financial restructuring will be carried out and liquidity risk will significantly decrease as the agreement stipulates that the repayment plan will be adjusted to Mercator's actual cash flow in the years ahead. Also the payment of interest will be adapted to Mercator's cash flow, since a part of the interest will be paid on a regular basis, and the rest at maturity. In the process of restructuring also contingent interest have been agreed, that will be paid only in certain cases (eg. at the payment of dividends). Banks that have joined the financial restructuring of the Mercator Group will also be able to register mortgages on real estate as collateral.

As at December 31, 2013 the company had EUR 7,493 thousand of pledged real property. Loans collateralized by a mortgage amounted to EUR 3,444 thousand as at December 31, 2013.

Effective interest rates as at the cut-off date of balance sheet:

	2013	2012
Bank borrowings	3.97%	3.93%
Other borrowings	2.64%	2.70%

Floating interest rates are mostly interest rates related to EURIBOR. Average 6-month EURIBOR was lower in 2013 than in the year before by 0.49 percentage point.

Fixed interest rates are mostly related to borrowings from domestic banks, with fixed nominal interest rate. Financial liabilities are hedged with the use of derivative financial instruments, i.e. by interest rate swaps and caps.

Financial covenants

Financial covenants are uniform for all financial liabilities and they are represented by three indicators: ratio between net financial liabilities and equity (financial leverage indicator); ratio between gross cash flow from operating activities and net interest expense (interest coverage ratio); and amount of Group equity.

The Management Board obtained before the end of the financial year appropriate waivers to these covenants.

Finance lease

Finance lease liabilities - minimum lease payments:

EUR thousand	Future minimum lease payments 2013	Interest 2013	Present value of minimum lease payments 2013	Future minimum lease payments 2012	Interest 2012	Present value of minimum lease payments 2012
Less than one year	55,235	4,481	50,754	30,761	5,602	25,159
Between one and five years	77,033	9,598	67,435	111,484	12,856	98,628
More than five years	80,048	5,052	74,996	91,219	6,604	84,615
Total	**212,316**	**19,131**	**193,185**	**233,464**	**25,062**	**208,402**

Mercator Group has also employed finance lease as a method of financing its major trade facilities in Slovenia and Croatia, and some land in Slovenia. Finance leases are signed for periods of 5 to 20 years; the last such lease is to expire in 2026.

Carrying amounts of all financial liabilities approximate their fair values. The share of non-current financial liabilities in total financial liabilities as at December 31, 2013 amounted to 34% (54% as at December 31, 2012).

27. Provisions

EUR thousand	Restitution claims	Restructuring provisions	Legal claims	Retirement benefits and jubilee premiums provisions	Other provisions	Total
As at January 1, 2013	**371**	**745**	**12,125**	**18,016**	**202**	**31,459**
Establishment	-	-	751	294	2,506	3,551
Utilization	(157)	(603)	(237)	(1,393)	(2,602)	(4,992)
Reversal	-	(47)	(3,068)	(1,800)	(38)	(4,953)
Effect of exchange rates movements	-	-	(8)	(10)	-	(18)
As at December 31, 2013	**214**	**95**	**9,563**	**15,107**	**68**	**25,047**

Compared to the end of 2012, total provisions are lower by EUR 6,412 thousand.

Total increase of EUR 3,551 thousand includes newly recognized provisions, reported in operating costs, in the amount of EUR 3,394 thousand, of which EUR 2,506 thousand is to be debited to labor costs (provisions for improvement of working conditions for employees with disabilities), and EUR 888 thousand is to be debited to long-term provisions and revaluation adjustments upon regular annual assessment of provisions created in previous years in the amount of EUR 157 thousand to be debited of revenue.

Provisions debiting the liabilities decreased by EUR 2,390 thousand; provisions crediting other operating income decreased by EUR 7,555 thousand; currency translation differences amount to EUR -18 thousand. Net effect on the income statement amounted to EUR 4,004 thousand.

Provisions for restitution claims
Restitution claims as at December 31, 2013 amount to EUR 214 thousand. Compared to the year before, this liability is lower by EUR 157 thousand. Restitution beneficiaries were paid liabilities in the total amount of EUR 157 thousand.

Restructuring provisions
As at December 31, 2013 provisions for reorganization expenses amount to EUR 95 thousand, which is EUR 650 thousand less than last year. Long-term provision was decreased by payments in the amount of EUR 603 thousand.

Legal claims
In 2013 provisions for legal claims were decreased by EUR 2,562 thousand. Based on received legal claims and legal opinion, the Group recognized additional provisions in the total amount of EUR 751 thousand in 2013. Following the completion of legal proceedings decided in favor of Mercator, provisions in the amount of EUR 3,068 thousand were reversed, and EUR 237 thousand of liabilities were paid to plaintiffs. Decrease of EUR 8 thousand pertains to currency translation differences.

Retirement benefits and jubilee premiums provisions
Retirement benefits and jubilee premiums provisions were calculated under the following assumptions:

- according to IAS 19 provisions are calculated only for permanent employees;
- the liability arises under the condition of normal retirement, assuming that the employees will opt for pension when they fulfil the condition by reaching pensionable age;
- jubilee premiums are paid under the assumption that the liability arises upon the expiry of a 10, 20, 30 or 40-year employment. The employees who joined the company for instance in 2013 are entitled to all jubilee premiums in the following 40 years, under the assumption that by then they do not reach the age when they can exercise the right to retire when reaching pensionable age. In this case there is no liability to pay premiums which would according to projection have been paid later;
- the average gross salary in the country in the past three months is considered as the monthly gross salary. The employees receiving less than the average gross salary receive the premium calculated based on the average gross salary, while other employees receiving a salary higher than the industry average, receive the premium calculated based on this higher salary;
- the basis for the payment of jubilee premiums is the base salary from the first tariff class under the Collective Agreement for the Commerce Sector, which is EUR 460;
- the increase in the retirement benefits and jubilee premiums from the Decree on the Level of Work-Related Expenses and Other Expenses Not Included in the Tax Base is 1% per year;
- the discount rate applied in the calculations represents the risk-free rate of return (Republic of Slovenia bond);
- employee fluctuation of 3.5%.

As at December 31, 2013, the value of provisions for retirement benefits and jubilee premiums amounted to EUR 15,107 thousand. Compared to the year before, provisions are lower by EUR 2,909 thousand. In 2013, additional provisions of EUR 294 thousand were recognized, and payment of retirement benefits, severance pays, and jubilee bonuses have been debited to provisions in the total amount of EUR 1,393 thousand. The difference is included in other operating revenue for the current year. According to amended IAS 19, actuarial gains/losses from retirement benefits should be recognized in other comprehensive income in the amount of EUR 1,218 thousand, but were due to immateriality disclosed in profit or loss.

Other provisions
Compared to the year 2012, other provisions are lower by EUR 134 thousand. The differences pertain to provisions for improvement of working conditions of persons with disabilities at the companies Mercator, d.d., Mercator IP, d.o.o., Intersport, d.o.o., and Modiana, d.o.o. In 2013, they were increased by EUR 2,506 thousand. They were drawn and reversed pursuant to relevant legislation in the amount of EUR 2,602 thousand, to cover the labor costs of persons with disabilities, labor costs of employees helping the persons with disabilities, and depreciation to property, plant and equipment related to the work of persons with disabilities.

28. Trade and other payables

EUR thousand	2013	2012
Trade payables	601,260	588,491
Payables to employees	20,301	21,246
Social security and other taxes	13,861	14,720
Other payables	5,510	3,756
Accrued costs	30,428	31,638
Deferred revenues	15,997	15,469
Total	**687,357**	**675,320**
Trade and other payables include:		
Non-current/long-term payables	850	2,462
Current/short-term payables	686,507	672,858

Accrued costs pertain to accrued interest paid on borrowings, rebates granted but not accounted for, and compensations/reimbursements, and cost of unutilized annual leaves and other accrued costs.

Deferred revenue includes particularly deferred revenue for claiming the discounts related to Pika bonus points.

Trade payables in 2013 are higher by EUR 12,037 thousand, which is mostly the result of the managing policy regarding trade payables and current financial liabilities.

As at December 31, 2013, Mercator Group does not have any liabilities towards the members of the Supervisory Board, while liabilities towards Management Board members and other employees include recognized undisbursed compensation for December 2013

29. Financial instruments

Financial risk management

(a) Risk overview

The Group is monitoring and controlling different types of financial risks to which its operations are exposed:

- credit risk,
- liquidity risk,
- market risk.

Market risk management involves managing the interest rate and currency risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

This note presents the information on the Group's exposure to the risks listed above, as well as the goals, policies, and processes for measurement and management thereof and the Group's equity.

(b) Risk management policy

Active risk management at the Mercator Group pursues the objective of timely recognition and response to potential threats by developing appropriate measures to hedge against identified risks or to reduce risk exposure. The parent company manages interest rate, currency and liquidity risks centrally for the entire Group, whereas credit risks are managed as a rule by subsidiaries. Risk management measures are incorporated into daily operations at all companies of the Mercator Group.

Risk management activities at Mercator Group are the responsibility of the dedicated Risk Management Council. The council is managing a systematic risk management process which is laid down in the Rules of Procedure for Risk Management. Since the risks are monitored and managed from the aspect of several professional fields, Risk Management Committees, covering three main fields of risks, were founded to provide support to the Risk Management Council. Risk management is a central corporate function managed and coordinated by the company Mercator, d.d.

Mercator Group manages financial risks in the framework of adopted policy centrally at the parent company level which enters into interest rate swap contracts at market terms (arm's length principle) based on specific policies for managing specific risks.

Risks occurring in the process of compilation and development of financial statements are managed by employment of clear and concise accounting practices and their strict implementation; efficient organization of the accounting function; and regular internal and external audits and reviews of internal controls, business processes, and operations.

Pursuant to the Companies Act, audit of financial statements is mandatory for the Mercator Group. The purpose of the audit is to increase the level of trust among the users of financial information. The auditor applies appropriate audit procedures and methods to review the financial statements and passes an opinion as to whether they are compiled in compliance with the appropriate framework of financial reporting in all relevant aspects.

Internal audit has been in operation at the Mercator Group as an independent support function since 2000. The basic function of internal audit is perpetual development and monitoring of the internal control systems from the aspect of management, or hedging, of all sorts of operating and other risks to which the Group is exposed.

Quality performance of the supervisory function by the Supervisory Board of the company Mercator, d.d., is also supported by the Audit Committee which, among other duties, is in charge of supervising the operation of the risk management system, internal audit and the internal control system, and takes part in specifying the major auditing areas and proposals for selection of the independent third-party auditor for the Group companies.

At Mercator Group, we are constantly studying and analyzing the existing and potential new risks, and implementing measures to manage, or hedge them.

Risk management process includes risk identification, sensitivity analysis, determination of threshold for key risks, taking measures to control risks and the implementation of these in the everyday decision-making in individual areas.

Estimates of exposure to individual risk types are prepared according to the probability and an assessment of damages in case of certain events. Exposure to risks is assessed based on sensitivity analysis which identifies by how much the gross cash flow from operating activities (EBITDA) at the level of the Group or a particular company would drop in case of occurrence of a particular event taken as the basis for risk analysis. Probability is calculated based on analysis of data on past events, and expectations on the frequency of individual events in the year ahead. The analysis includes different effects and factors adjusted to particular types of risk.

Risks that cannot be quantified are assessed qualitatively. Estimated key risks, that exceed 1% of gross cash flow from operating activities (EBITDA) of the Group or individual company, and for them no measures have been taken so far or they are not hedged in a manner that the risk would be entirely controlled, are most closely monitored and managed with measures, that either minimize the damage at the occurrence of an event, or reduce the level of likelihood of occurrence of an event, thus mitigating the risk to an acceptable level. Implementation of the measures adopted for managing the key risks is reviewed by a special internal audit, and reported to the Audit Committee on a quarterly basis.

Similarly as in the recent years, Mercator Group performance in 2013 was considerably affected by aggravated conditions in global financial markets, which bore a negative impact on the entire economic environment both globally and in the markets of Mercator operations. This was reflected in a notable drop in retail demand, as well as in the persistence of the trend of uncertainty with regard to financial risks which were not common in the period before the crisis. In such harsh and uncertain environment, it was crucial for Mercator Group to carefully manage the risks that it faces in its business operations.

Credit risk

Credit risk is the risk that the Group will suffer financial loss if a party to an agreement defers a payment and later does not settle its obligations in full or not at all. Credit risk arises mainly from receivables to wholesale customers and receivables from Pika card.

Group's exposure to credit risk is particularly dependent on the characteristics of individual customers. However, Mercator Group's exposure to customers is highly dispersed. In accordance with the adopted policy for each new customer, an analysis of its creditworthiness is performed before the Group offers its standard payment terms. The analysis of the Group's credit rating includes external ratings and assessments, if they exist. Limits on purchases, which represent the maximum amount of open positions, are determined for each customer individually. Group's business with customers who do not meet the benchmark credit rating shall take place only on the basis of advance payments or subject to appropriate payment insurance.

The carrying amounts of financial assets (receivables and loans) represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

EUR thousand	2013	2012 restated
Trade and other receivables	234,927	230,484
Non-current deposits for rent payment	29,256	30,634
Checks over 90 days and loans to companies	11,900	17,810
Deposits in banks	1,453	2,289
Total	**277,536**	**281,217**

Trade receivables predominantly derive from wholesale of goods, material, and services, and sale of goods to individuals, Pika card holders. Both wholesale and retail customers are dispersed; hence, there is no major exposure to an individual customer. The Group is also constantly monitoring customer payment defaults and checks the rating of external customers and Pika card holders.

Measures prepared in case of a considerable increase in risk include above all obtaining appropriate security, introduction of more strict control of customers in default, more active collecting procedures, and, if required, establishment of an expert rating department that would evaluate and monitor credit risk systematically.

Maximum exposure to credit risk for trade receivables and loans at the reporting date by geographic region was as follows:

EUR thousand	2013	2012 restated
Slovenia	168,053	146,271
Foreign markets	109,483	134,946
Total	**277,536**	**281,217**

Maximum exposure to credit risk for trade receivables and loans at the reporting date by type of customer was as follows:

EUR thousand	2013	2012 restated
Retail customers	79,067	84,462
Wholesale customers	110,822	104,588
Receivables from employees and the government	26,499	26,120
Deferred costs	7,328	7,434
Accrued revenues	11,211	7,880
Loans and deposits	42,609	50,733
Total	**277,536**	**281,217**

In the category of retail partners the Group included receivables from individuals related to purchases in company retail units with Pika card; the category of wholesale and other partners includes all receivables from sale of goods, material, and services, to legal/corporate entities, and receivables from employees and government bodies.

Insurance for receivables and loans (in gross amounts, without the impairment of receivables):

EUR thousand	2013	2012 restated
Trade receivables	235,939	228,128
Secured receivables	70,917	68,569
Unsecured receivables	165,022	159,559
Other receivables and loans	87,647	92,167
Total	**323,586**	**320,295**

Trade receivables are secured with bank guarantees, paid collaterals, cash deposits, prime mortgages, and liabilities to these customers. Among other receivables, the Group reports receivables from banks, credit card issuers, government, employees, as well as deferred costs and accrued expenses.

Revenues from any individual customer do not reach 10% of total revenues of the Group.

Impairment of receivables
Ageing of trade receivables and loans at the reporting date:

EUR thousand	Gross value 2013	Impairment 2013	Gross value 2012 restated	Impairment 2012
Not past due	230,819	-	221,788	-
Past due 0-60 days	33,507	19	43,477	774
Past due 61-74 days	3,378	240	5,845	1,145
Past due 75-89 days	1,680	202	4,193	1,462
More than 90 days	54,202	45,589	44,992	35,697
Total	**323,586**	**46,050**	**320,295**	**39,078**

Increase in receivables overdue by more than 90 days is a result of increased occurrence of delinquency (late payments). In 2013, activities for obtaining prime payment protection insurance were additionally intensified.

Changes in revaluation adjustment to receivables and loans:

EUR thousand	2013	2012
As at January 1	**39,078**	**36,270**
Effect of exchange rate movements	(145)	(507)
Impairment loss recognized during the year	13,831	13,749
Receivable write-off	(1,442)	(7,883)
Decrease of allowance for impairment during the year	(5,272)	(2,551)
As at December 31	**46,050**	**39,078**

The quality of receivables and loans is rated based on the policies specified by the Risk Management Council. Credit risk is monitored by classifying the trade receivables based on their characteristics.

Guarantees
Parent company is providing guarantees to its subsidiaries for borrowings from banks, in the amount of EUR 449,219 thousand.

Liquidity risk

Liquidity risk is the risk that the Group will in the course of its business activities encounter difficulties in settlement of its current liabilities which are settled in cash or with other financial assets. The Group ensures its liquidity so that it always has ample liquid assets to meet its obligations in due time, both in normal as well as challenging circumstances, without the occurrence of unacceptable losses or decline in the Group's reputation. In 2013, Mercator underwent financial restructuring, resulting in an uncertainty regarding the refinancing of past due liabilities until the adoption of the final restructuring agreement.
In 2013, the Group started actively managing liquidity risk in the scope of the established centralized cash management. The centralized cash management represents a system based on:

- specifically defined methodology of cash flow planning based on which every company from the Mercator Group makes weekly plans of the daily cash flow for 3 months in advance, which is reflected in the weekly updated short-term consolidated liquidity plan of the Mercator Group;
- standardized daily reporting systems about the cash flow generated on the previous day and the drafting of analyses of deviations from the cash flow plan;
- centralized alignment at various decision-making levels, meaning that an appropriate amount of cash is always available at the company to repay its liabilities;
- efficient working capital management encompassing monthly monitoring of companies' management of inventories, trade receivables and payables.

As at December 31, 2013 Mercator Group had access to the following liquidity lines:

EUR thousand	2013
Cash and cash equivalents	18,505
Bank deposits	1,453
Standby revolving credit lines	8,814
Total	**28,772**

On April 25, 2014, Mercator acquired signed commitments of all necessary lending banks of the Mercator Group for the implementation of proposed financial restructuring of the Mercator Group in accordance with detailed legal and commercial terms, that are now agreed with such lenders. On the basis of this agreement, liquidity risk will significantly decrease as the agreement stipulates that the repayment plan will be adjusted to Mercator's actual cash flow in the years ahead.

Following is an overview of the contractual maturity of liabilities and estimated interest expenses. Future contractual principal and interest maturity is shown based on the balance of loan contracts as at December 31, 2013 and is not based on consideration of subsequently agreed-upon reprogram of loans with maturity in 2020.

2013			**Up to 6 months**		**6 to 12 months**		**1-3 years**		**3-5 years**		**Over 5 years**	
EUR thousand	**Carrying amount**	**Contractual cash flow**	**Redemption**	**Interest**	**Redemption**	**Interest**	**Redemption**	**Interest**	**Redemption**	**Interest**	**Redemption**	**Interest**
Non-derivative financial liabilities												
Bank borrowings	844,623	873,220	567,545	13,236	67,926	5,098	188,360	9,193	8,558	931	12,234	139
Finance lease	193,185	212,316	18,777	2,276	31,977	2,205	40,808	5,492	26,627	4,106	74,996	5,052
Trade and other payables and current tax liabilities	687,768	687,768	686,918	-	-	-	850	-	-	-	-	-
Total	**1,725,576**	**1,773,304**	**1,273,240**	**15,512**	**99,903**	**7,303**	**230,018**	**14,685**	**35,185**	**5,037**	**87,230**	**5,191**

2012			**Up to 6 months**		**6 to 12 months**		**1-3 years**		**3-5 years**		**Over 5 years**	
EUR thousand	**Carrying amount**	**Contractual cash flow**	**Redemption**	**Interest**	**Redemption**	**Interest**	**Redemption**	**Interest**	**Redemption**	**Interest**	**Redemption**	**Interest**
Non-derivative financial liabilities												
Bank borrowings	866,579	911,569	284,155	15,111	171,826	9,698	338,883	17,067	66,528	2,825	5,187	289
Borrowings from other companies	19,739	20,173	19,734	434	5	-	-	-	-	-	-	-
Finance lease	208,402	233,464	7,596	2,857	17,563	2,745	60,514	7,849	38,114	5,007	84,615	6,604
Trade and other payables and current tax liabilities	675,483	675,483	673,021	-	-	-	2,462	-	-	-	-	-
Total	**1,770,203**	**1,840,689**	**984,506**	**18,402**	**189,394**	**12,443**	**401,859**	**24,916**	**104,642**	**7,832**	**89,802**	**6,893**

Market risks

Market risk is risk that is common to the entire class of assets and liabilities. Market risk is deemed to exist when there is probability that the value of investments or financial assets in a certain period of time will decrease due to changes in economic environment or other events affecting the market.

The Group uses derivative financial instruments to hedge interest rate risk exposure. In these activities the Group employs hedge accounting.

Interest rate risk

Interest rate risk of the Group derives from financial liabilities. Financial liabilities expose the Group to cash flow interest rate risk.

The Group is exposed to interest rate risk as its liabilities and assets include such liabilities and assets that are sensitive to changes in interest rates, which means that some of the financial liabilities are linked to the variable interest rate EURIBOR. EURIBOR is changing on a daily basis, as it is subject to market fluctuations; this can lead to increased finance expenses for the Group. Consequently, the Group is managing and controlling the increase of finance expenses in an appropriate centralized manner. Group policy is to have at least 50% of financial liabilities that finance non-current assets hedged, and at least 25% of all financial liabilities hedged.

Exposure

The following table presents the Group's exposure to interest rate risk:

	December 31, 2013		December 31, 2012 restated	
EUR thousand	Weighted average interest rate	Carrying amount	Weighted average interest rate	Carrying amount
Fixed rate instruments				
Financial assets	4.74	42,609	4.74	45,859
Financial liabilities	5.72	(134,781)	5.69	(158,845)
Total		**(92,172)**		**(112,986)**
Financial instruments at variable interest rate				
Financial assets	-	-	-	4,874
Financial liabilities	3.37	(903,027)	3.33	(935,875)
Total		**(903,027)**		**(931,001)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not hold any fixed rate financial instruments at fair value through profit or loss, nor derivative financial instruments designated as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

	Profit (loss)		Equity	
EUR thousand	**100 bp increase**	**100 bp decrease or decrease to 0%**	**100 bp increase**	**100 bp decrease**
2013				
Variable rate instruments	(9,030)	3,038	-	-
Interest rate swaps and caps	1,750	(681)	717	(183)
Cash flow sensitivity (net)	**(7,280)**	**2,357**	**717**	**(183)**
2012				
Variable rate instruments	(9,310)	2,564	-	-
Interest rate swaps and caps	1,750	(560)	1,316	(1,467)
Cash flow sensitivity (net)	**(7,560)**	**2,004**	**1,316**	**(1,467)**

Currency risk

Mercator's operations in an international environment necessarily involve exposure to currency risk. Mercator Group is facing currency risk in the markets of Serbia and Croatia; exposure to risk has somewhat increased on these two markets according to estimate.

In case of an increase in exposure to this type of risk, the Group has prepared a general policy of risk management that involves the following two steps:

- constant monitoring of macroeconomic background against which the movement of a particular exchange rate is taking place, and the related macroeconomic aspects and trends,
- adapting the operations based on the general trends and expectations, towards lesser exposure to currency risk.

In case of increased risk, the Group will decide with regard to implementation of any further measures based on the estimated level of exposure; needless to say, such measure will only be implemented following a thorough analysis and with consideration of the 'cost-benefit' principle. The type of measure will depend on its appropriateness or viability, the nature of exposure, planned Group operations, and anticipated economic effects. There are no effective instruments to hedge currency risk on the markets of Mercator’s activities; therefore, the Group is currently primarily using so-called natural hedging or matching.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

December 31, 2013

EUR thousand	EUR	HRK	RSD	BAM	BGN	ALL
Trade and other receivables	168,053	30,450	68,785	10,088	15	145
Available-for-sale financial assets	778	38	-	4	-	-
Cash and cash equivalents	6,520	1,456	9,189	1,237	80	23
Financial liabilities	(979,739)	(25,618)	(3,611)	(25,959)	-	(2,881)
Trade and other payables	(397,993)	(113,489)	(145,282)	(29,973)	(323)	(297)
Balance sheet exposure	**(1,202,381)**	**(107,163)**	**(70,919)**	**(44,603)**	**(228)**	**(3,010)**
Estimated sales	1,663,402	327,889	547,687	190,544	-	-
Estimated purchasing	(1,226,089)	(251,269)	(447,733)	(151,286)	-	-
Estimated transaction exposure	**437,313**	**76,620**	**99,954**	**39,258**	**-**	**-**
Forward exchange contracts	-	-	-	-	-	-
Net exposure	**(765,068)**	**(30,543)**	**29,035**	**(5,345)**	**(228)**	**(3,010)**

* EUR is the functional currency and it does not represent the exposure to currency risk; HRK (Croatian kuna), RSD (Serbian dinar), BAM (Bosnian convertible mark), BGN (Bulgarian lev), ALL (Albanian lek).

Mercator Group does not hold any derivative financial instruments for currency risk hedging (forward exchange contracts) as at December 31, 2013 and at December 31, 2012.

December 31, 2012 (restated)

EUR thousand	EUR*	HRK	RSD	BAM	BGN	ALL
Trade and other receivables	165,481	31,238	72,408	11,021	320	749
Available-for-sale financial assets	1,018	47	-	4	-	-
Cash and cash equivalents	13,834	2,878	5,395	1,397	402	772
Financial liabilities	(1,038,535)	(26,611)	(1,723)	(27,851)	-	-
Trade and other payables	(365,072)	(113,583)	(148,096)	(36,738)	(10,042)	(1,788)
Balance sheet exposure	**(1,223,274)**	**(106,031)**	**(72,017)**	**(52,168)**	**(9,320)**	**(268)**
Estimated sales	1,753,023	388,295	556,706	202,502	-	-
Estimated purchasing	(1,337,031)	(322,285)	(487,006)	(176,096)	-	-
Estimated transaction exposure	**415,993**	**66,010**	**69,700**	**26,406**	**-**	**-**
Forward exchange contracts	-	-	-	-	-	-
Net exposure	**(807,281)**	**(40,021)**	**(2,317)**	**(25,761)**	**(9,320)**	**(268)**

* EUR is the functional currency and it does not represent the exposure to currency risk; HRK (Croatian kuna), RSD (Serbian dinar), BAM (Bosnian convertible mark), BGN (Bulgarian lev), ALL (Albanian lek).

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
Units per EUR	**2013**	**2012**	**2013**	**2012**
HRK	7.579	7.522	7.627	7.558
RSD	112.944	112.996	114.140	113.390
BAM, BGN	1.956	1.956	1.956	1.956
ALL	140.331	139.275	140.700	139.830

Sensitivity analysis

A change in the exchange rate of local currencies against the Euro at December 31 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

EUR thousand	Change in exchange rate	(Estimated) transaction exposure Profit (loss)		Balance sheet exposure (restated) Profit (loss)	
2013					
HRK	**-+5%**	4,033	(3,649)	(5,640)	5,103
RSD	**-+10%**	11,106	(9,087)	(7,880)	6,447
BAM	**-+5%**	2,066	(1,869)	(2,348)	2,124
2012					
HRK	**-+5%**	3,474	(3,143)	(5,581)	5,049
RSD	**-+10%**	7,744	(6,336)	(8,002)	6,547
BAM, BGN	**-+5%**	1,390	(1,257)	(2,746)	2,484
ALL	**-+5%**	-	-	(14)	13

Capital management

Policy of the Group is oriented to achieving adequate amount of capital so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Management Board therefore monitors on an ongoing basis the return on capital and capital structure.

The capital structure of the Group is represented by ratio between equity and net financial debt. As at reporting date, the said ratio was as follows:

EUR thousand	2013	2012 restated
Financial liabilities and liabilities for derivative financial instruments	1,039,277	1,099,989
Less:		
Loans and deposits	42,609	50,733
Available-for-sale financial assets	820	1,069
Derivative financial instruments	16	1
Cash and cash equivalents	18,505	24,677
Net financial debt	**977,327**	**1,023,509**
Equity	**514,294**	**538,925**
Ratio between equity and net financial debt	1:1.9	1:1.9

As at December 31, 2013 the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares (2012: 42,192 treasury shares).

Accounting for derivative financial instruments

The Group has signed several agreements on interest rate swaps and interest rate caps, exclusively for the purposes of hedging; all criteria relevant to such purposes are met. The instruments employed are intended for cash flow hedging and are highly effective in managing the cash flows related to Group's borrowings.

Upon completion of a transaction, Mercator Group documents the relation between derivative financial instruments and hedged items, as well as the risk management goal and strategy for effecting various hedging transactions. This process also includes relating all derivative financial instruments to the portfolio of borrowings, or to particular borrowings.

The Group also documents every estimate it makes, both upon the completion of a transaction, as well as later, with regard to the effectiveness of derivative financial instruments employed for hedging, in managing the cash flow from borrowings.

The Group employs derivative financial instruments for hedging purposes and recognizes them initially at fair value. If the cash flow hedge is effective, the changes in fair value are recognized directly in equity; otherwise, they are recognized in the profit or loss for the current period. The method for recognizing the profit or loss related to these instruments does not depend on the form of the hedged item.

Mercator Group manages financial risks in the framework of adopted policy centrally at the parent company level which enters into interest rate swap contracts at market terms (arm's length principle) based on specific policies for managing specific risks.

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and their impact on profit or loss.

2013

EUR thousand	Carrying amount	Contractual cash flow	1 year or less	1-2 years	2-5 years	Over 5 years
Interest rate swaps and caps:						
Assets	16	16	-	-	16	-
Liabilities	(1,469)	(1,430)	(1,430)	-	-	-

2012

EUR thousand	Carrying amount	Contractual cash flow	1 year or less	1-2 years	2-5 years	Over 5 years
Interest rate swaps and caps:						
Assets	1	1	-	-	1	-
Liabilities	(5,269)	(5,792)	(3,679)	(2,113)	-	-

Fair values

Fair values of assets and liabilities and carrying amounts as shown in the balance sheet:

	December 31, 2013		December 31, 2012 restated	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial instruments	(1,453)	(1,453)	(5,268)	(5,268)
Trade and other receivables	234,927	234,927	230,484	230,484
Current tax assets	256	256	6,462	6,462
Loans and deposits	42,609	41,622	50,733	50,030
Available-for-sale financial assets	820	820	1,069	1,069
Cash and cash equivalents	18,505	18,505	24,677	24,677
Fixed rate bank borrowings	(134,781)	(131,659)	(158,845)	(156,732)
Floating rate bank borrowings	(709,842)	(709,842)	(707,734)	(707,734)
Borrowings from other companies	-	-	(19,739)	(19,739)
Finance lease	(193,185)	(193,185)	(208,402)	(208,402)
Trade and other payables	(687,357)	(687,357)	(675,320)	(675,320)

Fair values of non-derivative financial liabilities are not determined, as the carrying amount represents a reasonable approximation of fair value.

Fair value of loans (granted) and borrowings is calculated based on discounted cash flow of the principal and interest. A 5% p.a. rate is considered as the discount rate for both years.

Fair value of derivative financial instruments was calculated as the present value of estimated future cash flows. Calculation of the fair value changes of each instrument is assessed on a semi-annual basis and recognized in the income statement when the hedged transaction affects the income statement.

Fair value hierarchy

Based on the calculation of their fair value, financial instruments are divided into two levels:

- Level 1: quoted (stock) prices for assets or liabilities;
- Level 2: assets or liabilities not included within Level 1, the value of which is determined directly or indirectly based on comparable market data.

2013

EUR thousand	**Level 1**	**Level 2**	**Total**
Available-for-sale financial assets	198	-	198
Derivative financial instruments - assets	-	16	16
Derivative financial instruments - liabilities	-	(1,469)	(1,469)

2012

EUR thousand	**Level 1**	**Level 2**	**Total**
Available-for-sale financial assets	338	-	338
Derivative financial instruments - assets	-	1	1
Derivative financial instruments - liabilities	-	(5,269)	(5,269)

Available-for-sale financial assets also include investments valued at historical cost in the amount of EUR 622 thousand.

30. Operating leases

Minimum lease payments pertaining to operating lease (Group as the lessee) are as follows:

EUR thousand	**2013**	**2012**
Less than one year	48,746	48,136
Between one and five years	188,334	187,368
More than five years	273,266	307,437
Total	**510,346**	**542,941**

Rents are mostly agreed upon in fixed terms, i.e. their amount does not depend on the revenue generated in leased stores.

31. Capital commitments

Capital expenditures (investment into property, plant and equipment) agreed upon and specified in contracts and agreements, which were not yet recognized in the balance sheet as at the balance sheet cut-off date:

EUR thousand	**2013**	**2012**
Property, plant and equipment	2,016	2,732

32. Contingencies

Group contingencies also include guarantees provided in the amount of EUR 16,250 thousand (2012: EUR 6,270 thousand).

Tax authorities may, in the period of five or ten years after the tax return date, review the operations of the companies in the Group, which may result in additional taxation, including the liability of default interest payment and penalty related to corporate income tax or other taxes and duties.

33. Related-party transactions

The company Mercator, d.d., does not have a controlling owner or shareholder. Companies of the Pivovarna Laško Group are the largest shareholder, holding 23.34% of the total equity.

Related parties of the Group are its management personnel. Included in the management personnel are members of Management Boards and Supervisory Boards in the companies of Mercator Group.

As at the end of the year, managerial staff held 36 shares of the company Mercator, d.d., which represents 0.001% of total equity.

In 2013, the Group paid out the following compensation in gross amounts to Management Board members and Supervisory Board members of Group companies:

EUR thousand	2013		2012	
	Amount	Number of recipients	Amount	Number of recipients
Members of Management Boards of companies in Mercator Group	1,772	17	2,092	32
- basic salaries	1,605	17	1,941	32
- other employment benefits	167	17	151	32
Members of the Supervisory Board of the Mercator Group companies	187	11	207	16
Total	**1,959**	**28**	**2,299**	**48**

Members of Supervisory Boards at Mercator Group subsidiaries do not receive any compensation for their work; therefore the disclosed amounts refer solely to the parent company.

Gross payments to Management Board and Supervisory Board members of companies in Mercator Group represent 0.7% of total employee benefit expenses (2012: 0.8%).

Gross payments to Mercator, d.d., Management Board in 2013:

EUR thousand	First and last name	Total payments	Gross payment	Base salary	Performance bonuses	Other payments
President of the Management Board	Toni Balažič	182	165	165	-	17
Member of the Management Board	Drago Kavšek	161	145	145	-	16
Member of the Management Board	Igor Maroša	162	145	145	-	17
Member of the Management Board	Stanka Pejanović	164	144	144	-	20
		669	**599**	**599**	-	**70**

Gross payments to Management Board and Supervisory Board members in 2013 represent 0.49% of total labor costs at the company Mercator, d.d. (2012: 0.65%).

Gross compensation paid to members of managerial and supervisory bodies at the parent company in 2013 are reported in the following two tables (disclosure pursuant to Article 294 of the Companies Act):

in EUR	Participation in profit	Options	Performance bonuses	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income	TOTAL
MANAGEMENT BOARD	-	-	-	**2,541**	**11,126**	-	**56,515**	**70,182**
Toni Balažič	-	-	-	840	94	-	15,897	16,831
Drago Kavšek	-	-	-	810	94	-	15,301	16,205
Igor Maroša	-	-	-	891	94	-	15,664	16,649
Stanka Pejanović	-	-	-	-	10,844	-	9,653	20,497

in EUR	GROSS PAYMENT	Payment for performance of duties	Session attendance fees	OTHER PAYMENTS	Participation in profit	Options	Other rewards	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income
SUPERVISORY BOARD	**187,410**	**165,000**	**21,563**	**847**	-	-	-	-	**847**	-	-
Lahovnik Matej	33,707	30,000	3,613	94	-	-	-	-	94	-	-
Valand Ivan	21,069	18,000	2,975	94	-	-	-	-	94	-	-
Galić Boris	20,617	18,000	2,523	94	-	-	-	-	94	-	-
Podlesnik Zdenko	20,435	18,000	2,341	94	-	-	-	-	94	-	-
Rozman Rok	20,434	18,000	2,340	94	-	-	-	-	94	-	-
Zevnik Marjeta	20,159	18,000	2,065	94	-	-	-	-	94	-	-
Širec Mateja	17,382	15,000	2,350	32	-	-	-	-	32	-	-
Brank Bojan	10,176	9,000	1,082	94	-	-	-	-	94	-	-
Stojanovič Vesna	10,126	9,000	1,032	94	-	-	-	-	94	-	-
Leban Sandi	9,726	9,000	726	-	-	-	-	-	-	-	-
Tatić Veljko	3,579	3,000	516	63	-	-	-	-	63	-	-

in EUR	GROSS PAYMENT	Payment for performance of duties	Session attendance fees	OTHER PAYMENTS	Participation in profit	Options	Other rewards	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income
AUDIT COMMITTEE	**50,820**	**42,000**	**8,820**	-	-	-	-	-	-	-	-
Zevnik Marjeta	18,161	15,000	3,161	-	-	-	-	-	-	-	-
Rozman Rok	11,047	9,000	2,047	-	-	-	-	-	-	-	-
Igličar Aleksander	10,806	9,000	1,806	-	-	-	-	-	-	-	-
Slapničar Sergeja	10,806	9,000	1,806	-	-	-	-	-	-	-	-

in EUR	GROSS PAYMENT	Payment for performance of duties	Session attendance fees	OTHER PAYMENTS	Participation in profit	Options	Other rewards	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income
HUMAN RESOURCE COMMITTEE	**65,713**	**60,000**	**5,713**	-	-	-	-	-	-	-	-
Rozman Rok	16,424	15,000	1,424	-	-	-	-	-	-	-	-
Podlesnik Zdenko	9,927	9,000	927	-	-	-	-	-	-	-	-
Lahovnik Matej	9,774	9,000	774	-	-	-	-	-	-	-	-
Zevnik Marjeta	9,774	9,000	774	-	-	-	-	-	-	-	-
Galić Boris	9,659	9,000	659	-	-	-	-	-	-	-	-
Širec Mateja	8,540	7,500	1,040	-	-	-	-	-	-	-	-
Stojanovič Vesna	1,500	1,500	-	-	-	-	-	-	-	-	-
Valand Ivan	115	-	115	-	-	-	-	-	-	-	-

In 2013 no member of managerial and supervisory bodies of Mercator, d.d. received any payments for performance of tasks in subsidiary companies (disclosure pursuant to Article 294 of the Companies Act).

34. Events After the Balance Sheet Date

On January 1, 2014 the activity of Modiana, d.o.o., Slovenia, was transferred to Mercator, d.d. The company's acquisition is planned for the second half of 2014.

Mercator - Optima, d.o.o., was stricken from the Companies Register on January 22, 2014, whereby it was successfully liquidated.

Companies of the Mercator Group and Bank lenders have signed a agreement on financial restructuring of the Group (an agreement to refinance the financial liabilities of the Mercator Group until March 31, 2020. On April 25, 2014, Mercator acquired signed commitments of all necessary lending banks of the Mercator Group for the implementation of proposed financial restructuring of the Mercator Group in accordance with detailed legal and commercial terms, that are now agreed with such lenders. On the basis of this agreement, all the necessary steps for the completion of financial restructuring will be carried out and liquidity risk will significantly decrease as the agreement stipulates that the repayment plan will be adjusted to Mercator's actual cash flow in the years ahead. Also the payment of interest will be adapted to Mercator's cash flow, since a part of the interest will be paid on a regular basis, and the rest at maturity. In the process of restructuring also contingent interest have been agreed, that will be paid only in certain cases (eg. at the payment of dividends). Banks that have joined the financial restructuring of the Mercator Group will also be able to register mortgages on real estate as collateral.

Independent Auditor's Report

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INDEPENDENT AUDITORS REPORT
to the owners of Poslovni sistem Mercator, d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Mercator group, which comprise the balance sheet as at 31.12.2013, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Mercator group as of 31.12.2013, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Maruša Tratnjek
Certified auditor

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Yuri Sidorovich
President of the Board

Ljubljana, 25 April 2014

FOR TRANSLATION PURPOSES ONLY- ORIGINAL PREVAILS

FINANCIAL REPORT OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

Balance sheet

EUR thousand	Note	31/12/2013	31/12/2012 restated	1/1/2012 restated
ASSETS				
Non-current assets				
Property, plant and equipment	14	935,671	955,377	978,736
Investment property	16	2,791	3,194	3,450
Intangible assets	15	9,289	9,570	10,513
Deferred tax assets	20	16,003	16,041	11,471
Trade and other receivables	22	-	-	-
Loans and deposits	23	354	268	870
Investment into equity of subsidiaries	17	485,179	512,334	572,197
Available-for-sale financial assets	18	720	928	2,399
		1,450,007	**1,497,712**	**1,579,636**
Current assets				
Inventories	21	110,447	84,225	136,003
Trade and other receivables	22	154,814	138,532	163,118
Current tax assets		24	4,962	2,167
Loans and deposits	23	13,282	54,206	34,575
Derivative financial instruments	19	16	1	158
Cash and cash equivalents	24	6,018	11,611	10,068
		284,601	**293,537**	**346,089**
Total assets		**1,734,608**	**1,791,249**	**1,925,725**
EQUITY	25			
Share capital		157,129	157,129	157,129
Share premium		198,872	198,872	198,872
Treasury shares		(3,235)	(3,235)	(3,235)
Revenue reserves		121,595	171,984	239,249
Fair value reserve		103,426	100,273	105,677
Retained earnings		-	-	13,246
Profit (loss) for the year		-	-	15,574
		577,787	**625,023**	**726,512**
LIABILITIES				
Non-current liabilities				
Trade and other payables	29	1,006	1,682	2,022
Borrowings and other financial liabilities	27	242,007	436,941	628,686
Deferred tax liabilities	20	26,980	27,104	35,423
Provisions	28	25,136	44,101	26,926
		295,129	**509,828**	**693,057**
Current liabilities				
Trade and other payables	29	363,281	324,650	306,686
Current tax liabilities		-	-	-
Borrowings and other financial liabilities	27	496,942	326,479	194,908
Derivative financial instruments	19	1,469	5,269	4,562
		861,692	**656,398**	**506,156**
Total liabilities		**1,156,821**	**1,166,226**	**1,199,213**
Total equity and liabilities		**1,734,608**	**1,791,249**	**1,925,725**

Income statement

EUR thousand	Note	2013	2012 restated
Revenue	9	1,464,319	1,425,391
Cost of goods sold and selling costs	11	(1,393,824)	(1,326,879)
Administrative expenses	11	(42,883)	(80,495)
Impairment of property, plant and equipment and intangible assets	11	-	(9,780)
Other income	10	24,628	13,646
Results from operating activities		**52,240**	**21,883**
Finance income	13	5,991	8,318
Finance expenses	13	(94,348)	(111,218)
Net finance expense		**(88,357)**	**(102,900)**
Profit (loss) before tax		**(36,117)**	**(81,017)**
Tax	20	518	6,272
Profit (loss) for the year		**(35,599)**	**(74,745)**
Basic and diluted earnings (loss) per share (in EUR)	26	(9.6)	(20.1)

* Due to the transfer of a part of operating activities to the company M - Tehnika, d.d., in 2012, the income statements are not fully comparable between the periods. Performance analysis should only be based on consolidated income statement which represents the performance of the Mercator Group as a uniform business entity.

Statement of comprehensive income

EUR thousand	Note	2013	2012 restated
Profit (loss) for the year		**(35,599)**	**(74,745)**
Other comprehensive income			
Items subsequently not reclassified to profit or loss		**(14,942)**	**(5,246)**
Revaluation of property	14	-	(11,044)
Liabilities for unused annual leave of employees		(3,035)	-
Losses on merger of subsidiaries		(11,907)	-
Corporate income tax on items subsequently not reclassified to profit or loss		-	5,798
Items that may be reclassified subsequently to profit or loss		**3,305**	**841**
Net gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets	18	5	579
Gains/losses recognized in revaluation surplus	18	(50)	(120)
Gains/losses transferred from revaluation surplus to profit or loss	18	55	699
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges (successful hedging)	19	3,731	(864)
Corporate income tax on items that may be reclassified subsequently to profit or loss	20	(431)	1,126
Other comprehensive income for the year		**(11,637)**	**(4,405)**
Total comprehensive income for the year		**(47,236)**	**(79,150)**

Statement of changes in equity

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the year	Total equity
Balance as at January 1, 2012		**157,129**	**198,872**	**(3,235)**	**239,249**	**190,650**	**13,246**	**15,574**	**811,485**
Effect of the changes in accounting policies						**(84,973)**			
Balance as at January 1, 2012 restated		**157,129**	**198,872**	**(3,235)**	**239,249**	**105,677**	**13,246**	**15,574**	**726,512**
Total comprehensive income for the year									
Profit (loss) for the year		-	-	-	-	-	-	(74,745)	(74,745)
Other comprehensive income		-	-	-	-	(5,404)	999	-	(4,405)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(5,404)**	**999**	**(74,745)**	**(79,150)**
Transactions with owners of the parent company directly recognized in equity									
Contributions by and distributions to owners									
Dividends to equity holders*		-	-	-	-	-	(22,339)	-	(22,339)
Total transactions with owners of the parent company		**-**	**-**	**-**	**-**	**-**	**(22,339)**	**-**	**(22,339)**
Transfer of profit of the previous year to retained earnings	25	-	-	-	-	-	15,574	(15,574)	-
Distribution of revenue reserves pursuant to Management decision	25	-	-	-	(67,265)		(7,480)	74,745	-
Balance as at December 31, 2012		**157,129**	**198,872**	**(3,235)**	**171,984**	**100,273**	**-**	**-**	**625,023**

* The amount of dividend payment differs from the amount specified in the resolution of the General Meeting of Shareholders because treasury shares were included in the calculation of the required amount for dividend payment.

Statement of changes in equity (continued)

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the year	Total equity
Balance as at January 1, 2013		**157,129**	**198,872**	**(3,235)**	**171,984**	**100,273**	**-**	**-**	**625,023**
Total comprehensive income for the year									
Profit (loss) for the year		-	-	-	-	-	-	(35,599)	(35,599)
Other comprehensive income		-	-	-	-	3,153	(14,790)	-	(11,637)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**3,153**	**(14,790)**	**(35,599)**	**(47,236)**
Transactions with owners of the parent company directly recognized in equity									
Contributions by and distributions to owners									
Dividends to equity holders		-	-	-	-	-	-	-	-
Distribution of revenue reserves pursuant to Management decision	25	-	-	-	(50,389)		14,790	35,599	-
Balance as at December 31, 2013		**157,129**	**198,872**	**(3,235)**	**121,595**	**103,426**	**-**	**-**	**577,787**

Proposal on the allocation of distributable profit

Distributable profit for 2013 consists of the following:

(in EUR)	2013	2012 restated
Profit (loss) for the year	(35,599,369.98)	(74,746,079.15)
Retained earnings	(14,790,059.72)	7,480,740.59
Loss for the year and retained earnings covered from other revenue reserves	50,389,429.70	67,265,338.56
Distributable profit for the year	-	-

The company covered loss for the year and retained earnings from other revenue reserves.

Statement of cash flows

EUR thousand	Note	2013	2012
Cash flows from operating activities			
Profit (loss) for the year		**(36,117)**	**(81,017)**
Adjustments:			
Depreciation of property, plant and equipment	14	33,285	33,182
Depreciation of investment property	16	131	140
Amortization of intangible assets	15	3,662	3,733
Impairment of goodwill	15	-	691
(Gains) losses upon disposal and impairment of property, plant and equipment and intangible assets	10,11	(1,480)	8,498
Change in provisions	28	(17,362)	19,666
Loss on investments in equity of subsidiaries		56,167	66,058
(Gains) losses on disposal of available-for-sale financial assets		158	480
Dividends received and impairment losses on available-for-sale financial assets		(992)	(1,401)
Interest income	13	(4,299)	(5,155)
Interest expense	13	32,552	36,041
		65,705	**80,916**
Change in inventories	21	(6,582)	52,074
Change in trade and other receivables		21,801	22,049
Change in trade and other payables		(319)	13,206
Interest paid	13	(32,552)	(36,041)
Income tax paid	20	-	
Cash from operating activities		**48,053**	**132,204**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations		(44,937)	(27,075)
Acquisition of property, plant and equipment and investment property	14,16	(12,576)	(34,728)
Acquisition of intangible assets	15	(3,340)	(3,485)
Acquisitions of available-for-sale financial assets	18	-	(5)
Loans and bank deposits made		(42,839)	(77,135)
Proceeds from sale of subsidiary		72	19,117
Proceeds from sale of property, plant and equipment and investment property	14,16	5,884	9,570
Proceeds from sale of intangible assets	15	-	16
Proceeds from sale of available-for-sale financial assets	18	78	1,608
Interest received	13	4,299	5,155
Dividends received	13	992	1,371
Loans and deposits repayments received		62,561	58,113
Net cash used in investing activities		**(29,806)**	**(47,478)**
Cash flows from financing activities			
Repayment of non-current borrowings		(19,287)	(107,825)
Increase in non-current borrowings		4,363	27,459
(Repayment) increase in current borrowings	27	(8,905)	19,346
Dividends paid		(11)	(22,163)

Net cash used in financing activities		**(23,840)**	**(83,183)**
Net increase (decrease) in cash and cash equivalents		**(5,593)**	**1,543**
Cash and cash equivalents at beginning of the year		11,611	10,068
Cash and cash equivalents as at the end of the year	24	**6,018**	**11,611**

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