

BUSINESS PLAN OF THE MERCATOR GROUP AND THE COMPANY POSLOVNI SISTEM MERCATOR, d.d., FOR THE YEAR 2016



Ljubljana, February 2016

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EXECUTIVE SUMMARY

Mercator Group revenue in 2016 is planned at EUR 2.6 billion. A key objective still remains improving of profitability and planned improved net profit is estimated to reach EUR 55.3 million in 2016.

Improvement of economic activity

Improvement of economic situation with positive economic growth seen in 2015 will continue in following years. Positive GDP growth is expected in all markets where Mercator operates. GDP growth is expected to positively influence domestic consumption. Moreover, decrease in unemployment rate and improvement of consumer expectations will lead to the anticipated positive growth of private spending.

Planned revenue exceeds the 2015 estimate

For 2016, Mercator Group is planning to generate revenue of EUR 2.6 billion, which is somewhat more than in 2015. On all markets of Mercator's operation, except for Croatia, growth in revenue is planned for 2016. In Slovenia, Serbia and Montenegro sales growth is planned mostly as a result of opening of new sales units, in Bosnia and Herzegovina increase in rental income is planned. A drop of revenue is planned for Croatian market mostly due to closure of the remaining retail units market program in the first half of 2015.

Notable improvement of performance over the same period last year

Mercator Group has laid down ambitious, yet achievable goals for 2016. Creating synergistic effects and withdrawal from underperforming markets have had a positive effect on performance, which is reflected in improved financial performance in 2015. The performance improvement trend started in 2015 will continue in the year ahead and results of Mercator Group will be comparable with the most successful retail companies in Europe. Mercator Group's net profit in 2016 will amount to EUR 55.3 million.

EUR 34 million allocated for investment in 2016

In 2016, Mercator Group will allocate EUR 34 million for investment. Majority of the investment will be allocated for refurbishment of existing stores, majority of them in Slovenian and Serbia. Growth of new sales area is limited and predominantly leasing the sales area would be preferred way.

Monetization process continues

We continue the project of Mercator real property monetization; however, the effects of this project have not been included in the 2016 plan. If the monetization project is completed, the proceeds will be allocated to cover the costs and taxes, and the rest will be used for debt repayment.

Our marketing activities will be focused on the benefits offered to our customers

In defining and executing our marketing activities, we shall maintain our focus on the consumers in the coming period, offering the best value for their money by providing the best choice of well-priced products. Quality offer of fresh products, competitive pricing, the most widespread store network, and the broadest offer of Slovenian products are a permanent feature, a standard expected by Mercator customers. Particular attention is paid to appearance of our stores. We introduce new technologies and services that allow faster shopping, leaving our customers with more of their valuable time and thus improving shopping experience.

INTRODUCTION

MERCATOR GROUP PROFILE AND ORGANIZATION

Mercator Group Profile

Mercator Group is one of the largest business entities and corporate groups in Slovenia. With its subsidiaries, it is also present in the countries of South-eastern Europe. It consists mainly of trade companies, as well as two manufacturing companies. Eleven of the companies comprising the Group are headquartered in Slovenia, while seven more subsidiaries operate in the other markets of South-eastern Europe. Poslovni sistem Mercator, d.d., headquartered in Slovenia, is the parent company of the Group.

Poslovni sistem Mercator, d.d.	
Telephone	+3861 560 10 00
E-address	info@mercator.si
Website	www.mercatorgroup.si
Headquarter	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT number	45884595
Company share capital as at November 30, 2015	EUR 254,175,051.39
Number of shares issued and paid-out as at November 30, 2015	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Mercator Group composition

In 2016 Mercator Group will consist of following companies:

MERCATOR OPERATIONS SLOVENIA		MERCATOR REAL ESTATE	
POSLOVNI SISTEM MERCATOR, D.D., SLOVENIA		Mercator - H, d.o.o., Croatia	(99.7%)
Mercator IP, d.o.o., Slovenia	(100,0 %)	Mercator - BH, d.o.o., Bosnia and Herzegovina	(100.0%)
		M - BL, d.o.o., Bosnia and Herzegovina	(100.0%)**
		Investment Internacional, d.o.o.e.l., Macedoni	(100.0%)***
		Platinum-A, d.o.o., Slovenia	(100.0%)***
		Platinum-B, d.o.o., Slovenia	(100.0%)***
		Platinum-C, d.o.o., Slovenia	(100.0%)***
		Platinum-D, d.o.o., Slovenia	(100.0%)***
		Platinum-E, d.o.o., Slovenia	(100.0%)***
		Platinum-F, d.o.o., Slovenia	(100.0%)***
MERCATOR OPERATIONS FOREIGN MARKETS			
Mercator - S, d.o.o., Serbia	(100.0%)		
Mercator - CG, d.o.o., Montenegro	(100.0%)		
Mercator Makedonija, d.o.o.e.l., Macedonia	(100.0%)***		
OTHER OPERATING ACTIVITIES			
Mercator - Emba, d.d., Slovenia	(100.0 %)		
M - Energija, d.o.o., Slovenia	(100.0 %)		
Intersport ISI, d.o.o., Slovenia	(100.0 %)		
Intersport H, d.o.o., Croatia	(100.0 %)*		
Intersport S, d.o.o., Serbia	(100.0 %)*		
Intersport BH, d.o.o., Bosnia and Herzegovina	(100.0 %)*		

* The company will start its business operations in the first half of 2016.

** The company was merged with the company Mercator - BH, d.o.o., as at the end of 2015.

*** The company does not conduct business operations.

Other Organizations

The company Poslovni sistem Mercator, d.d., is the founder of the Mercator Humanitarian Foundation whose purpose is to provide 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. In the wake of Serbia and Montenegro, also Mercator - BH, d.o.o., and M - BL, d.o.o., established two Solidarity Foundations. The purpose of these organizations is to provide solidarity aid to employees in social or economic distress.

MERCATOR GROUP BUSINESS STRATEGY

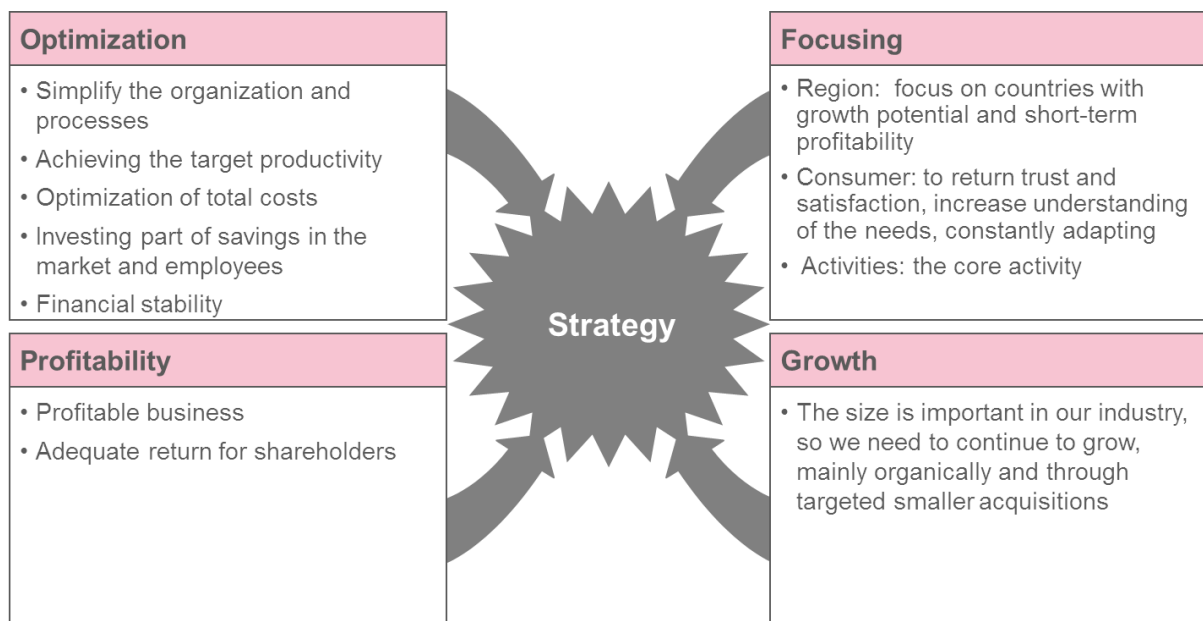
Vision

Mercator will be the largest, the most successful and the most efficient retailer in Slovenia, Serbia and Montenegro.

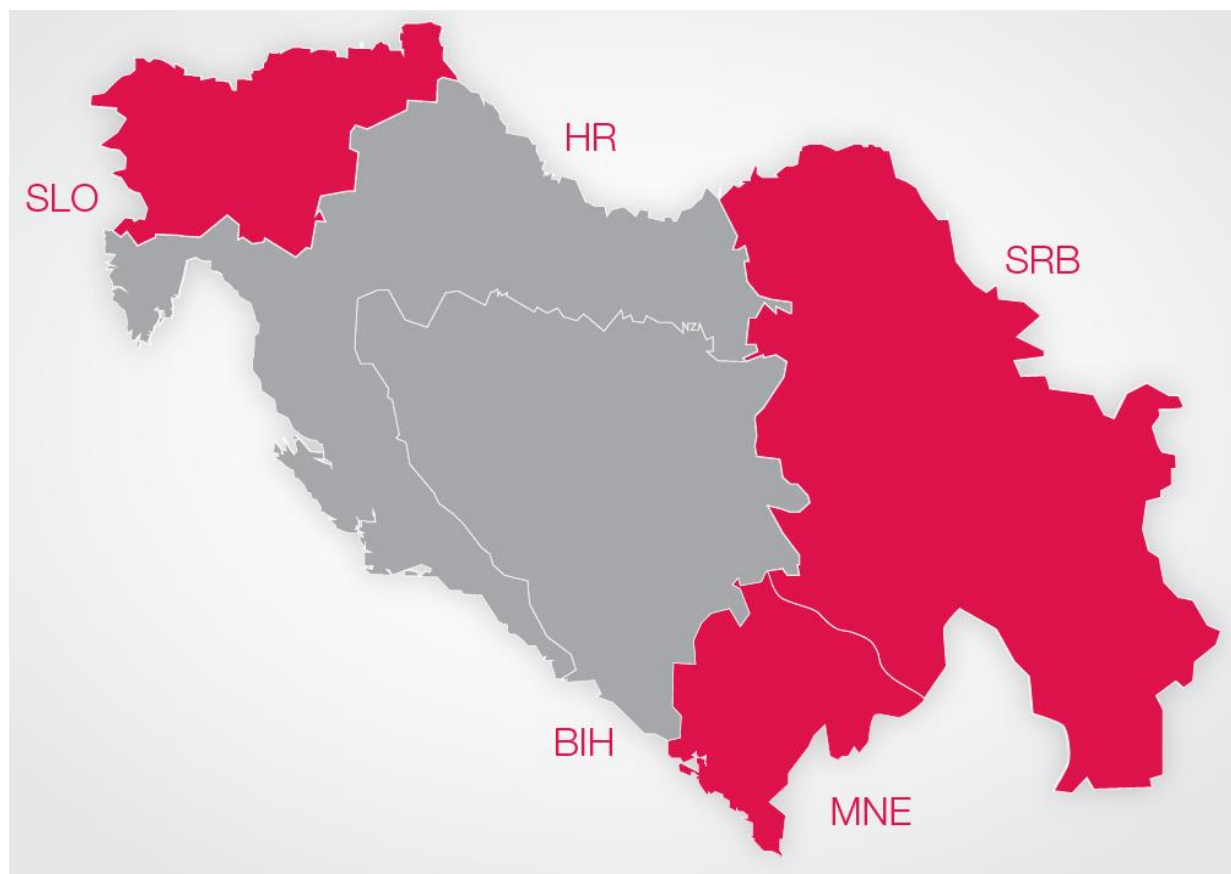
Mission

- A satisfied customer recognizes us as the best retailer.
- Motivated employees are our key competitive advantage.
- Mercator is striving to win the confidence of all stakeholders.

Strategy



MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN 2016



Slovenia

- 56.2% of revenue
- EUR 31.5 mn investment

Serbia

- 35.7% of revenue
- EUR 14.7 mn investment

Montenegro

- 4.8% of revenue
- EUR 2.7 mn investment

Croatia

- 2.3% of revenue
- EUR 5.0 mn investment

Bosnia and Herzegovina

- 1.0% of revenue
- EUR 0.2 mn investment

BUSINESS REPORT

EXPECTED ECONOMIC CONDITIONS AND COMPETITION IN MERCATOR GROUP MARKETS IN 2016

Economic conditions in the markets of Mercator operations in 2016¹

Economy in the euro zone and the European Union as a whole has been in recovery for three years. Moderate recovery is expected to continue next year, despite the more difficult conditions in the global economy. Owing to decreasing oil prices, adjustment oriented policies and relatively weak euro, economic recovery in this year is robust and seen in all member states; however, it remains slow. Positive effects are weakening and new challenges are appearing, such as the slowdown in the emerging market economies and in the global trade, as well as the persistent geopolitical tension. Despite the challenges in the year 2016 and 2017, growth is expected to continue as a result of other factors such as more hiring supporting leading to higher real disposable income, better borrowing terms, progress in financial deleveraging, and higher investment. In some countries, positive effects of structural reforms will also contribute to growth. In the euro zone, real GDP is forecast to grow by 1.6% in 2015, by 1.8% in 2016, and by 1.9% in 2017. In the EU as a whole, real GDP is expected to rise by 1.9% in this year, by 2.0% in 2016, and 2.1% in 2017.

Economy in the member states is recovering. Domestic demand is increasing and the same applies to economic activity in the years ahead. Private spending is rising due to low inflation rate. Investments are expected to increase due to somewhat higher disposable household income, higher corporate profits, and favourable borrowing terms.

SLOVENIA

GDP in Slovenia rose by 2.7% in 2015, and it is forecasted to grow by 2.3 in 2016. Exports will remain the main driver of growth, in addition to higher domestic demand. The latter will result from recovery in the labour market and higher personal income. Household saving, currently at a record level, is expected to decrease. Public finance will improve due to better macroeconomic outlook. Inflation rate in 2015 is negative at -0.4%, especially due to lower oil prices. In 2016, inflation rate is expected at 0.8%; in 2017, it is expected at 1.4%. Unemployment rate continues to drop. In 2015 it is at 9.4% and it is expected to decrease to 9.2% in 2016 and to 8.7% in 2017. Thus, all key indicators point to further economic recovery.

SERBIA

Serbian economy is slowly bouncing back from the recession. GDP is forecast to grow 1.5% in 2016. Public and private spending will be positive in 2016 as well. Inflation rate, estimated at 2.7% this year, will further increase to 4.0% in 2016; in 2017, it is forecast at 3.8%. Unemployment remains one of Serbia's largest problems. In 2015, it is at 17.7%, and it is not expected to change in 2016. Unemployment is only anticipated to drop in 2017, to 16.6%. Despite solid progress in 2015, sovereign debt remains high and it is expected to exceed 80.0% of GDP by 2017.

CROATIA

After six years of recession Croatia's economic growth was positive in 2015. GDP growth is at 0.5% this year, and the forecast for 2016 is at 1.0%. Unemployment remains high at 16.2% in this year. The rate is expected to decline to 15.6% in 2016, pointing to further economic recovery in the country. Negative inflation rate in 2015 at -0.9% indicates that the economy has not entirely bounced back from the recession, at least regarding the consumer prices. For 2016, inflation rate is expected at 0.9%.

¹ Economic conditions are commented based on the following data sources: IMAD (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), EC (European Commission), national central banks of respective countries, and the Standard&Poor's rating agency.

BOSNIA AND HERZEGOVINA

Economic growth in Bosnia and Herzegovina in 2015 is at 2.3%, and the forecast for 2016 is 3.1%. Inflation rate is at 0.6% this year, and in 2016 it is anticipated to increase slightly, to 1.1%. Unemployment rate remains very high at 27.1%. In 2016, it is expected to slip to 26.4%. Public spending is 3.5% and it is expected to increase in 2016, to 5.4%.

MONTENEGRO

GDP growth in Montenegro is at 4.7% in 2015. For 2016, it is forecast at 3.5%. Both private and public spending are increasing. Unemployment is at 17.7% in this year, and it is expected to decrease only slightly in 2016, to 17.1%. Inflation rate in 2015 is positive at 1.6%; in 2016 it is forecast at 2.3%. Growth in the years to come will largely be fuelled by investment in construction, tourism, and energy infrastructure.

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

In 2016, we are expecting an improvement in economic conditions in **Slovenia** as the gross domestic product is forecast to grow, household consumption is expected to increase and unemployment is expected to decrease.

Similar trends can be expected in **Serbia** and **Montenegro**. Both GDP and private spending are expected to increase, while unemployment will remain high.

Although consumer confidence has improved in all markets in 2015, more than 75% still believe their country is in a recession and they do not expect any improvement in 2016 (over 70%).²

In **Slovenia**, we have seen some improvement in consumer confidence. According to the survey conducted by the Statistical Office of the Republic of Slovenia, October 2015³ consumer confidence indicator was up 2 percentage points year-on-year, and 11 percentage points above the average for the year before. Consumers in Slovenia are more optimistic regarding the unemployment rate and improvement of financial position of their households. Expectations regarding the economic condition were somewhat more pessimistic. Regarding saving, they were the same as in October last year. Nevertheless, the consumer will keep their changed shopping behaviour. As much as 64%¹ of consumers will save by opting for cheaper brands, by saving on clothes, and by saving on out-of-home entertainment.

In the markets of **Serbia** and **Montenegro**, consumer confidence has also improved.⁴ Consumption will not change considerably as consumers will continue to shop rationally. As much as 72% will save by opting for cheaper brands, and by saving on clothes and out-of-home entertainment. Improvement in consumption is expected. The consumers are rational and price-sensitive. They tend to plan their shopping and avoid major shopping sessions. They shop less and more frequently, with lower value of each shopping cart.

² Nielsen: Consumer Confidence Index, Q3 2015, Slovenia

³ Consumer survey, Slovenia, October 2015 – final data, SORS

⁴ Nielsen: Consumer Confidence Index, Q3 2015, Serbia

SALES AND MARKETING

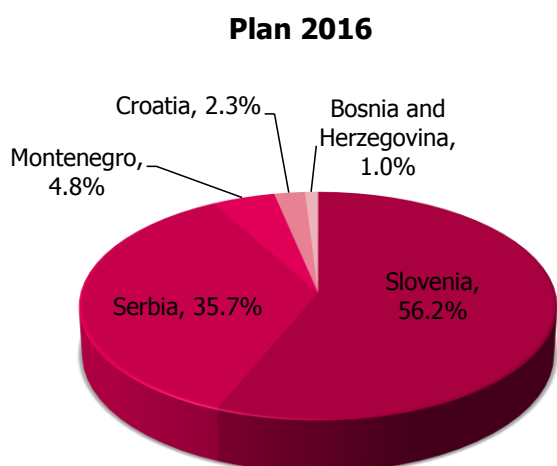
Sales

Economy in the EU member states is recovering. Domestic demand is rising and economic activity is forecast to increase in the years ahead. Inflation rate is low and private spending is growing. Investments are expected to increase due to somewhat higher disposable household income, higher corporate profits, and favourable borrowing terms.

Slovenia saw positive economic growth in 2015. For 2016 is estimated lower growth but still positive which will be mostly generated by exports, higher domestic demand and higher personal income. Positive economic growth is also forecast for 2016 in other countries of Mercator's presence, however major problem still remains high unemployment rate on all markets.

In 2016, Mercator Group **revenue** is planned at **EUR 2.6 billion**. On all markets of Mercator's operation, except for Croatia, growth in revenue is planned for 2016. In Slovenia, Serbia and Montenegro sales growth is planned mostly as a result of opening of new sales units, in Bosnia and Herzegovina increase in rental income is planned. A drop of revenue is planned for Croatian market mostly due to closure of the remaining retail units market program in the first half of 2015.

MERCATOR GROUP REVENUE BY GEOGRAPHICAL SEGMENTS:



Store formats, retail network development and category management

STORE FORMATS

As in 2015, reshaping and refurbishment of the existing retail network will be one of defining aspects of the year 2016 as well. The goal of these efforts is to adapt the sales units to customer expectations (new concepts, adjustment of offer, new layouts, business optimization etc.). We are looking to offer our customers a shopping environment with modern design in as many locations as possible, and to provide a broad and rich offer of products for everyday consumption, as we remain true to our slogan "Mercator: my best neighbour". On the other hand, we are also looking to optimize our operating revenue.

In 2016, we shall focus on refurbishment of major stores – **hypermarkets and supermarkets**. After refurbishment, these will offer the latest and the best in offer and service. New program mix appearance and concept will stress our fundamental policy towards the consumers: to be the best provider of fresh and local produce, with the best choice of products: to offer the best value for money with many pricing benefits and rewards; to allow the best service; and above all, to be the most local retailer in Slovenia – i.e. to be the best neighbour to our customers.



We shall also continue to refurbish our **neighbourhood stores**, i.e. smaller stores, based on the so-called Neighbour (Sosed) concept. Here, Mercator continues its tradition of coming closer to its customers in their local environment. We are looking to offer a modern shopping environment with a select range of products and produce with continued focus on the home-made, local, and fresh.



RETAIL NETWORK DEVELOPMENT

In 2016, Mercator Group will further pursue its current real estate management strategy, which means that leasing real property will still be preferred to acquisition or construction of our own, and that priority will be given to refurbishment of the existing stores. We are planning to open three new shopping centres in Slovenia in late 2016, and several market stores are scheduled for opening in Serbia throughout the year. We are also planning to expand the Intersport retail network both in Slovenia and abroad (Croatia, Serbia, and

Montenegro). Investment activities will also include the project of building a modern logistics and distribution centre in Ljubljana.

In 2016, we shall continue to divest our non-operating assets, the project of Mercator real property monetization, and activities to update Mercator's shopping centres, in particular in terms of the program mix.

CATEGORY MANAGEMENT AND PROCUREMENT

In 2016, we shall continue to actively support and promote Slovenian and local offer at Mercator stores. As to date, the focus will be on fresh meat raised in Slovenia, local fruit and vegetables, and local dairy products. In addition, we shall further promote the offer of local growers and producers. We shall continue to educate our sales staff in fresh meat departments where we will guarantee meat quality, excellent service, and a convenient offer. In the bread and pastry department, we shall continue our efforts to improve the quality of service by offering a varied range of fresh products, with friendly expert staff. The offer of fruit and vegetables will be based on promotion of local produce, as well as on the quality of fruit and vegetables, and on introduction of proven market trends (e.g. expansion of offer in the bulk organic produce departments).

In 2015, we completed the revision of the material operations processes. This will allow us to establish new, modern infrastructure and use it to more easily and much more efficiently manage the range of retail units, and to make the work of employees at retail units easier. At the same time, we will provide the most sought-after and best-selling products, while remaining mindful of the locally specific aspects of the various Slovenian regions. We will be more efficient in our promotional activities. We shall introduce new features and maintain a neat and customer-friendly sales area.

Marketing

Our key activities will be focused on the benefits offered to our customers:

We are a neighbour in the local environment in which we are active.

We offer the best fresh and local offer.

We are focused on the consumer as we offer the best value for their money with the best choice of well priced products.

We offer our customers the best service.

WE ARE A NEIGHBOUR IN THE LOCAL ENVIRONMENT IN WHICH WE ARE ACTIVE.

With over 500 stores across Slovenia, we are a retailer that is closest to the consumers. Our **neighbourhood stores** are particularly important for daily shopping as they offer consumers proximity and convenience. Therefore, we are looking to be even more involved and embedded in the environment in which we operate. Mercator has always been a part of life in nearly every Slovenian town or village. Therefore, we pay a lot of attention to socially responsible activities in local environment, thus establishing an even stronger bond with them.



WE OFFER THE BEST FRESH AND LOCAL OFFER.

In particular with fresh products and produce, the customers find it important to buy local. Therefore, we offer the best selection of genuine local Slovenian products, and our offer is constantly expanded and updated. We work to preserve tradition. Our active and genuine cooperation with Slovenian farmers and producers is aimed at preserving the Slovenian rural environment and offering possibilities for survival of smaller growers as well. This in turn contributes to the economy and preservation of jobs. Genuine local produce and products are specially labelled on the shelves so they are easier to find for the customers.

In our offer, the customer can find in particular a broad and seasonally adjusted offer of Slovenian fruit and vegetables, and many varieties of genuine milk and dairy products made of 100% Slovenian milk. In addition, all meat in regular offer at our butcher's departments is sourced 100% from Slovenian suppliers and growers. Some types of Pekarna Grosuplje bread, only available at Mercator, are inspired by the traditional Slovenian bread-making heritage. Moreover, this bread is made of exclusively Slovenian wheat.

WE ARE FOCUSED ON THE CONSUMER AS WE OFFER THE BEST VALUE FOR THEIR MONEY WITH THE BEST CHOICE OF WELL-PRICED PRODUCTS.

We are constantly adapting to customer needs and demand, but we also create new opportunities and services that make everyday shopping easier for our customers. Convenience, rationality, and quality are important factors affecting the consumers' choices. Our key policy is to **focus on satisfying the needs of modern consumers and to offer well-priced shopping**. Key target tasks are therefore geared towards **improving Mercator's pricing perception** and **making the offer more appealing** in order to retain the existing customers and to attract new ones.

We wish to make sure that our basket of products represents the best value to our customer, both in terms of pricing and quality. Therefore, we are constantly adapting our marketing mix and we hold regular campaigns that include favourable shopping, as well as discounts or savings.

We reward the loyalty of our customers with the **unique Pika customer loyalty system** which has been warmly welcomed by the customers. Pika card affords



the customers a number of benefits when shopping in Mercator's sales network and at partner companies. We will continue to expand the network of Pika system partners, thus making our offer even more appealing. Complementary offer and special benefits offered by partner companies only to Pika card users certainly represent added value of the Pika card.

Advantages of the Pika Card customer loyalty system are now known to virtually every household in Slovenia. The customers can win and use their loyalty points for nearly 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 in the web store, we will continue to allow the functionality of online payment for alimentary products and technical consumer goods using the Pika Card. Therefore, we shall continue to develop and upgrade the unique Pika customer loyalty system.

Future projects in the Pika Card system will therefore be focused on the development and implementation of new functionality for the users and on delivering an offer that is even better adapted to our consumers and customized.

We extend the quality and scope of offer with our private label line. Mercator was the first Slovenian retailer to offer private label products which have been received very well by the consumers. Introduction of private labels allows some control over the supply chain and targeted management in such way that allows offering the customers the best quality products at reasonable prices. Mercator will continue to successfully build its distinction and recognition with its private label products as these are only available in Mercator's retail network. At the same time, offer of a varied range of products for all occasions and in all price segments will allow the best choice at any time, for any occasion.



WE OFFER OUR CUSTOMERS THE BEST SERVICE.

Quality offer of fresh produce, competitive pricing, the most widespread store network, and the broadest offer of Slovenian products are a permanent feature, a standard Mercator customers have come to expect. In addition to the pleasant shopping environment and excellent trade service, they also expect new features that cannot be seen elsewhere. Therefore, we do our best every day to afford our customers the best shopping experience at all our stores. We are looking to create a pleasant atmosphere at our stores with friendly and helpful service. This way, we show our customers we appreciate their visit. We seek to offer the most and to turn their stroll through the aisles into pure shopping pleasure. We pay particular attention to the appearance of our stores. We introduce new technologies and services that allow faster shopping, leaving our customers with more of their valuable time.

EMPLOYEES

Employees are at the core of our operations as they are the key to customer satisfaction and thereby to the attainment of Mercator's business goals. Our activities in human resource management will involve the following:

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

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

Making sure the right people are in the right places

Hiring and recruitment are based on standard HRM processes required for timely provision of adequate human resources. At the regional level, action plans will be developed to recruit scarce (excess-demand) human resources (butchers, cooks, bakers etc.).

Care for development

We are aware that knowledge is the prime generator of development. Therefore, particular attention will be paid to it despite the harsh conditions. Our educational activities will be focused on development and execution of induction programs for newly hired employees and on development of internal training and education with emphasis on expert training which, paired with selling skills, lead to a better service for our customers. In addition to in-house training, we will also encourage enrolment of our employees in quality third-party training and education, thus allowing the influx of fresh expert knowledge. We will continue to develop, expand, and upgrade our network of internal instructors. E-learning can save time and money for the company. Therefore, we will promote e-seminars and encourage electronic learning.

Development of mission and vision and their fulfilment depends on each employee and especially on the leaders. Therefore, we shall continue to pay particular attention to leadership development, caring for the development of our leaders at all levels through key competencies.

Motivation and rewards

Motivated employees are a prerequisite for successful and committed work. Payment is an important source of motivation. If our business results allow, we shall revise the salary system and introduce changes in the method of assigning the variable share of the salary. Non-cash forms of rewards will include contests in which the best individuals or groups will be voted. Also motivating further work will be the *team-building* workshops and employee meetings which traditionally take place each year. We shall develop a culture of praises and feedback.

Connecting our employees

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

KEY FINANCIAL OBJECTIVES

REVENUE

In 2016, Mercator Group **revenue** is planned at **EUR 2.6 billion**. Revenue will increase on all markets of Mercator's operation, except for Croatia. In Slovenia, Serbia and Montenegro sales growth is planned mostly as a result of opening of new sales units, in Bosnia and Herzegovina increase in rental income is planned. A drop of revenue is planned in Croatia, mostly due to closure of the remaining retail units market program in the first half of 2015.

INDEBTEDNESS

As at the end of 2016, Mercator Group **net financial debt** is planned at **EUR 799 million**. Cash flow generated by the Mercator Group in 2016, will be primarily used to decrease net financial debt and repayment of financial liabilities maturing in 2016. In 2016, Mercator Group will continue to observe the covenants arising from the financial restructuring agreements, and well as those from other financial arrangements. We started the Mercator real property monetization project in mid-2015. However, the effects of this project were not included in the 2016 plan. If the monetization project is completed, the proceeds will be allocated to cover the costs and taxes, and the rest will be used for debt repayment.

WORKING CAPITAL

In 2016 in area of inventory management, Mercator Group plans improvements in organizing responsibilities in purchasing area and responsibilities for inventories, as well as optimization of inventories on a category and store level.

With regard to receivables, activities will take place to improve the structure of receivables and to lower unpaid receivables, focusing on receivables from wholesale customers.

Decrease of trade payables is planned.

CAPEX

In 2016, Mercator Group will allocate **EUR 34 million** for **investment**. Majority of the investment will be allocated for renovation of existing stores. The majority of investment will be conducted in Slovenian and Serbian market, where is also planned the largest increase of new shopping area and increasing volume of renovated area. Of this amount, 58.2% will be invested in Slovenia, and 41.8% is to be invested internationally.

Investment into expansion of retail area will represent 27.6% of total investment in 2016; refurbishments and investment maintenance of existing units will account for 44.7%; 4.6% will be invested in logistics; 22.6% will be invested in IT; and the remaining 0.5% will be invested in non-trade activities.