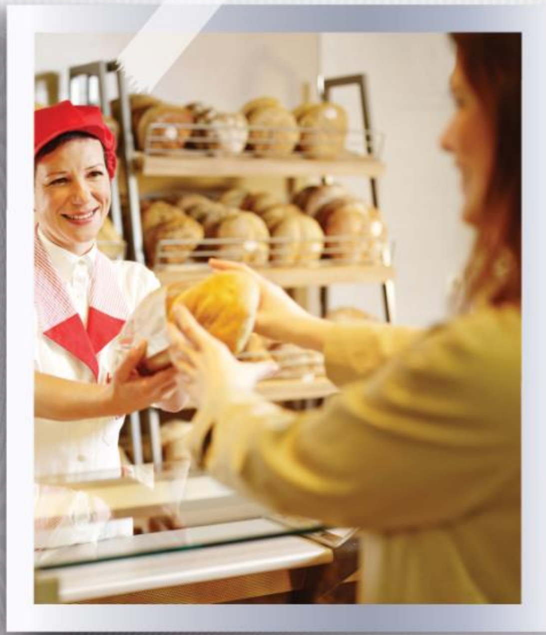
ANNUAL REPORT 2014

Mercator

The Best Neighbour already for 65 years



We devote our full attention to our customers. At Mercator, we do our best to provide a quality shopping experience for every customer.

It is good to know where the best comes from. Therefore, we work with local growers and offer our customers fresh local produce every day.

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Introduction

Challenges abounded for us in 2014. By carefully thinking out and carrying out our activities, we succeeded in improving our performance indicators and stabilizing our position in our key markets.

REPORT BY THE PRESIDENT OF THE MANAGEMENT BOARD

2014 – a year of tradition, a year of changes

The year 2014 will go down in Mercator's history as a major milestone in its corporate history. In the year when we celebrated the company's venerable 65th anniversary and nostalgically honoured its achievements resulting from effort, courage, and ideas of the past generation, we also turned a new page and started to write the story of the Best Neighbour's future.

In 2014, Mercator Group revenue amounted to EUR 2.65 billion, which is 4.1% less than in 2013. In 2014, we continued to implement our measures for restructuring of non-core activities. We pursued the plan of optimizing the number of employees and exceeded the planned cost optimization, closing down of some underperforming units of the M Tehnika and Modiana program, and divestment of hospitality services to a third-party. Additionaly, the drop in revenue is also a result of the transfer of retail units in the markets of Croatia and Bosnia and Herzegovina to Konzum, higher revenue was generated in Serbia due to transfer of retail units of Idea to Mercator.

Financial restructuring resulted in additional expenses that had a negative effect on Mercator Group results, especially in the first quarter of 2014. Impairment of intangible assets, being part of the consolidation process, also negatively affected the operating results, along with other integration expenses. Independently of the integration process, Mercator Group reappraised its real property held in respective markets, which also resulted in a decrease of its value and brought further negative effect on the results for the fiscal year.

The year of financial stabilization

After over a year and a half of exacting negotiations and searching for a mutually satisfactory solution with 57 creditor banks from 9 different jurisdictions, Mercator Group successfully completed in 2014 one of the most complex and challenging processes of long-term financial restructuring in this part of Europe. It took place in a period of harsh economic conditions and extensive revitalization measures in both the domestic and in international banking systems, simultaneously with the restructuring of business and sales processes within the Mercator Group.

Following a delay, the debt restructuring process was successfully completed in June 2014. From a long-term aspect, the completion of the restructuring process brought financial stability for Mercator, and an opportunity for further pursuit of business restructuring activities. At the same time, the agreement was a sign of confidence in the company and its efforts to improve its operations and performance, and recognition by the financial and the broad business community. This in turn fuelled the motivation for new achievements.

Positive effects of Mercator's financial restructuring process are not restricted to the Mercator Group, however. With its complexity and extent, the process that involved over 150 legal and financial experts and which generated over 20 thousand pages of documentation, represents one of the most important development stages in financial restructuring process management in our region. It introduced new knowledge and experience to our business environment, which will have a profound effect on future management of both the banking sector and the broad business and economic environment in our region in the long run.

The year of ownership stabilization

2014 was also the year when the ownership structure of Mercator, d.d., was finally stabilized, following numerous attempts to sell the company, which had had negative effects for its operations in the past. In the second half of the year, the companies Agrokor, d.d., and Agrokor Investments B.V. acquired the majority interest of 88.10% of the company Poslovni sistem Mercator, d.d. This was certainly an important step in the consolidation of the retail industry in the area of our operations, resulting in the formation of the largest retail chain in the region, of which Mercator is a part. Through synergistic effects and management of the development potential of the newly created corporate group, this change will certainly have a notable effect on further development of retail in the region and allow long-term creation of new value for both the customers and the employees, business partners, and other Mercator stakeholders.

Thus, the second half of 2014 saw intensive processes of Mercator Group integration into the Agrokor Group, and activities related to consolidation in individual markets where both Mercator and Agrokor retail units are present.

The year of business stabilization

By pursuing the business restructuring strategy in place at the Mercator Group for the last two years, the company Mercator, d.d., successfully stopped in 2014 the negative performance trends of several years and improved its performance indicators. By consistent and continuous marketing activities, Mercator Group successfully stabilized the position in its key markets in 2014.

Improved assortment management, the broadest choice of locally sourced products, and the highest quality and variety of the fresh program, Mercator Group increased the number of both customers and transaction at its stores in 2014.

The year 2014 was also a year when major marketing novelties and changes in Mercator's domestic market were introduced. Bold and profound changes introduced in pricing policy in Slovenia have led to a notable improvement of our price competitiveness in our key market. Strategic development of our brand which was extended in 2014 with 306 new products, allowed us to offer our customers an even wider range of quality products at competitive prices. Thus, Mercator saw in 2014 the best pricing perception among the customers in recent years, which is of utmost importance in a period of pronouncedly rational consumer behaviour.

Despite the first positive indicators pointing to a gradual economic recovery of the markets of our operation, the environment remains very challenging. High level of competitiveness and harsh economic conditions which have led to considerable changes in consumer behaviour, have also affected our performance. These changes point to the fact that we will continue to operate in a highly challenging business environment that will require further performance improvement activities from the Mercator Group.

Maintaining the responsibility of the best neighbour

Despite the harsh economic conditions in all markets of Mercator's operations, change in ownership, and challenging financial and business restructuring processes, Mercator Group remained faithful in 2014 to its commitment of being the best neighbour, which is also pursued with a responsible attitude towards the natural and social environment in which it operates.

In 2014, we carried on our activities in the field of corporate social responsibility, supporting over 1,500 projects, organizations, or individuals in the markets of our operations. Focusing on the consumer, we provided quality offer and conducted numerous activities for ensuring the safety of the products at our stores. As one of the major employer, we continued our efforts to create and maintain a pleasant working environment for our employees, to build a family-friendly company, and to foster the development of our employees by training and education. We also maintain our care for natural environment by observing the energy management trends, intensively refurbishing our retail units, establishing advanced energy management projects, optimizing our logistics processes, and working with local suppliers.

In 65 years of its cooperation with a wide variety of initiatives, development activities and projects, Mercator Group has contributed notably to the development of the environment in which it operates. As the best neighbour, we will keep and advance our responsibility to the environment in which we operate in the future.

Creating a new Mercator

Mercator Group entered the year 2015 different: financially stable, with a more stable ownership structure, and the initial positive steps towards improved operations. As a part of the largest retail group in the Central and South-eastern Europe, we are focused on our core activity and our three key markets: Slovenia, Serbia, and Montenegro. Our goal for 2015 is to considerably improve our profitability. We plan to attain this through growth in the market and improvement of our productivity and efficiency.

There are challenging steps ahead of us, which we have to take on our way to the transformation into a more competitive retailer. In 2014, we proved that with cooperation, optimism, good will, and hard work we can complete even the most arduous tasks. Thus, we continue our path with bold determination and commitment, as we responsibly create a new era of Mercator.

I thank everyone whose work has contributed to Mercator's development throughout its 65 years, and everyone who has confidence in Mercator and believes in its future. We will continue to do our very best to be your best neighbour.

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

Ljubljana, March 6, 2015

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 2014 by a Supervisory Board which met at eleven regular and six correspondence sessions in the course of the year.

The composition of Mercator, d.d., Supervisory Board was changed notably in 2014 as all Supervisory Board members representing capital filed their statements of resignation and the Shareholders Assembly of Mercator, d.d., appointed new members.

Bojan Brank resigned as Mercator, d.d., Supervisory Board member as of June 27, 2014. On August 4, 2014, other Supervisory Board members, Matej Lahovnik, Rok Rozman, Boris Galić, Zdenko Podlesnik, and Marjeta Zevnik, submitted their statements of resignation and resigned as of August 28, 2014.

At the 20th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on August 29, 2014, the following Supervisory Board members representing the interests of capital were appointed, as proposed by the majority shareholder Agrokor, d.d.: Damir Kuštrak, Ante Todorić, Ivan Crnjac, Matej Lahovnik, Darko Knez, and Ivica Mudrinić. Along with the three existing worker representatives in the Supervisory Board – Vesna Stojanović, Veljko Tatić, and Ivan Valand. The newly elected Supervisory Board members appointed immediately after the Shareholders Assembly referred to above, at their first and founding session, Ante Todorić as the Supervisory Board chairman and Matej Lahovnik as Deputy Chairman.

Hence, the Supervisory Board has included the following members since August 29, 2014: Ante Todorić (Supervisory Board Chairman), Matej Lahovnik (Deputy Chairman), Damir Kuštrak, Ivan Crnjac, Darko Knez, and Ivica Mudrinić as shareholder representatives; and Ivan Valand, Vesna Stojanović, and Veljko Tatić as worker representatives.

Major Supervisory Board resolutions

The Supervisory Board consisting of Matej Lahovnik, Rok Rozman, Bojan Brank, Boris Galić, Zdenko Podlesnik, Marjeta Zevnik, Vesna Stojanović, Veljko Tatić, and Ivan Valand met at seven regular and four correspondence sessions in 2014.

The Supervisory Board with the above line-up, in office until August 28, 2014, addressed the following issues and adopted the following major resolutions:

- the Supervisory Board discussed and adopted the Annual Report for the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2013, and confirmed the wording of the Supervisory Board Report on the 2013 Annual Report audit;
- the Supervisory Board was presented the results of the company Mercator, d.d., and the Mercator Group for the period 1-3, 2014, and for the period 1-6, 2014;
- the Supervisory Board was kept up to date with the progress of negotiations on the refinancing of Mercator Group debt and the progress of sale of the majority stake in the company Mercator, d.d.;
- the Supervisory Board approved the disposal of the 100-percent shareholding in the company Mercator - A, sh.p.k.;
- the Supervisory Board agreed that the company Mercator - S, d.o.o., signs the Restructuring Framework Agreement with some of the other financial institutions that would also sign the restructuring of the financial liabilities of the company Mercator- S, d.o.o. The Supervisory Board also agreed that other Mercator Group companies sign the Restructuring Framework Agreement on the restructuring of their financial liabilities;
- the Supervisory Board adopted the reports on the merger of the company Modiana, d.o.o., and the company M - Nepremičnine, d.o.o., to the company Mercator, d.d.;

- 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 2014;
- the Supervisory Board confirmed the Report on the Fulfilment of Commitments in the proceedings regarding alleged cartel conduct based on the decision of the Competition Protection Office of the Republic of Slovenia;
- the Supervisory Board was informed about the activities of Mercator's withdrawal from the market of Bulgaria;
- the Supervisory Board confirmed the signing of the documentation on the completion of financial restructuring, agreed with the signing of the loan agreement and the related agreements by the company Mercator - S, d.o.o., as a part of Mercator Group financial restructuring, and received information about the changes and amendments to the existing Mercator Group loan agreement documentation which completed the financial restructuring process of Mercator Group as an independent business entity;
- the Supervisory Board was informed about the completion of sale of the majority interest in Mercator, d.d., and was presented the report on current operations and performance of the company Mercator, d.d., and the Mercator Group.

The Supervisory Board, which as of August 29, 2014, includes Ante Todorić, Matej Lahovnik, Damir Kuštrak, Ivan Crnjac, Darko Knez, Ivica Mudrinić, Ivan Valand, Vesna Stojanović, and Veljko Tatić, met at four regular and two correspondence sessions in 2014.

The Supervisory Board with the above membership addressed the following issues and adopted the following major resolutions:

- the Supervisory Board agreed with the integration of Mercator and Agrokor operations in Croatia, Bosnia and Herzegovina, and Serbia;
- the Supervisory Board appointed a new Audit Committee;
- with regard to the fulfilment of the commitments by the company Agrokor, d.d, as specified in section 15.1 of the Share Acquisition Agreement for the shares of Poslovni sistem Mercator, d.d., the Supervisory Board appointed Darko Knez a member of the steering committee which thus includes Nenad Filipović, independent expert and chairman, and the members: president of the Management Board of Poslovni sistem Mercator, d.d., Toni Balažič; Supervisory Board member of Poslovni sistem Mercator, d.d., Darko Knez; and works council representative of company Poslovni sistem Mercator, d.d., Vesna Stojanović;
- the Supervisory Board approved the signing of agreements on the purchase of investments into foreign property, plant, and equipment, to be signed as a part of the integration of Mercator and Agrokor operations in Croatia, Bosnia and Herzegovina, and Serbia, by the subsidiaries Mercator - H, d.o.o., Mercator - BH, d.o.o., M - BL, d.o.o., and Mercator - S, d.o.o.;
- the Supervisory Board discussed and adopted resolutions regarding the signing of the agreements required to complete the process of financial restructuring of Mercator, d.d., and the Mercator Group – joint scenario;
- the Supervisory Board approved the long-term lease of Mercator stores in Croatia and Serbia;
- the Supervisory Board confirmed the Report on the Fulfilment of Commitments regarding the proceedings for alleged violation of dominant position in the market, as specified in the decision by the Competition Protection Office of the Republic of Slovenia dated June 26, 2009, for the period January 1, 2009 to July 1, 2014;
- based on the authorization provided with the adopted Shareholders Assembly resolution on the increase of share capital by new in-kind and cash contributions, dated October 21, 2014, the 1st Paragraph of Article 12 of the Articles of Association of Poslovni sistem Mercator, d.d., which specified the company share capital, was amended;
- the Supervisory Board was presented the Business Report for the company Mercator, d.d., and the Mercator Group for the period 1-9, 2014;
- the Supervisory Board was presented a financial benchmark (comparative study of competition) for the alimentary and FMCG trade industry for 2013;
- the Supervisory Board approved the Business Plan of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2015.

Activities of the Audit Committee

The Audit Committee, comprising chairwoman Marjeta Zevnik (Supervisory Board member), and three members: Rok Rozman (Supervisory Board member), and Sergeja Slapničar and Aleksander Igličar (both independent experts in accounting and auditing), held four meetings in 2014: on February 14, 2014; March 28, 2014; May 19, 2014; and August 25, 2014. At these meetings, the Audit Committee addressed the following major issues:

- the Audit Committee confirmed the 2014 annual plan for the internal audit department;
- the Audit Committee discussed the internal audit methodology and provided recommendations for the improvement thereof;
- the Audit Committee discussed and commented on the Annual Report of the company Mercator, d.d., and the Mercator Group for the year 2013;
- 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 for the year 2013, and discussed this report and findings 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 2014 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 1-3 2014, and 1-6 2014;
- the Audit Committee supervised the work of Internal Audit in the period 1-7 2014, and submitted proposals for improvements.

On September 18, 2014, a new Audit Committee was appointed, including: Ivan Crnjac, chairman (Supervisory Board member); Damir Kuštrak, member (Supervisory Board member); and Sergeja Slapničar, member (independent expert on accounting and auditing). The Audit Committee with the new members held two meetings in 2014: on November 13, 2014, and December 9, 2014. At these meetings, the Audit Committee addressed the following major issues:

- the Audit Committee examined and proposed suggestions for improvement of the Business Report of the company Mercator, d.d., and the Mercator Group for the period 1-9 2014;
- the Audit Committee confirmed the Rules and Regulations on Mercator Group Internal Audit;
- 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 2014;
- the Audit Committee discussed the Mercator Group Business Plan for the year 2015 and provided recommendations for the plan's improvement;
- 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 2013;
- the Audit Committee supervised the work of Internal Audit in the period 8-11 2014, and submitted proposals for improvements.

Semiannual and Annual Report for 2014

The Supervisory Board examined the non-audited Semi-annual Business Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for the period 1-6 2014 at their session held on August 26, 2014. The company announced its non-audited semiannual report pursuant to the relevant legislation and the Rules and Regulations of the Ljubljana Stock Exchange.

At its regular meeting held on April 21, 2015 the Supervisory Board discussed the audited non-consolidated and consolidated Annual Report for the year 2014, audited by the auditing company Deloitte revizija, d.o.o., Ljubljana. The Annual Report had previously been discussed on the same day 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 March 6, 2015, the auditing company issued unqualified opinions 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 2014, and confirmed it unanimously at the meeting held on April 21, 2015.

In 2014, Mercator Group generated net loss in the amount of EUR 44.5 million.

In 2014, the company Poslovni sistem Mercator, d.d., ran a net loss of EUR 95,110,864.03. Retained earnings were also negative, amounting to EUR 24,913,126.00 as at December 31, 2014. The company covered the loss and the negative retained earnings from revenue reserves in the amount of EUR 104,970,349.23, and by debiting the sums based on elimination of general revaluation adjustment to equity in the amount of EUR 15,053,641.69.

As at December 31, 2014, 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.

Ante Todorić
Supervisory Board Chairman

Ljubljana, April 21, 2015

2014 HIGHLIGHTS BY MARKETS

MERCATOR GROUP

Revenue	EUR 2,654 mn
Number of employees	22,643
Number of retail units	1,548
Gross area of retail units	1,088,016

CROATIA

Revenue	EUR 250 mn
Number of employees	1,207
Number of retail units	96
Gross area of retail units	91,581

SLOVENIA

Revenue	EUR 1,520 mn
Number of employees	11,101
Number of retail units	879
Gross area of retail units	570,223

BOSNIA AND HERZEGOVINA

Revenue	EUR 154 mn
Number of employees	216
Number of retail units	23
Gross area of retail units	8,646

SERBIA

Revenue	EUR 621 mn
Number of employees	8,880
Number of retail units	454
Gross area of retail units	374,657

MONTENEGRO

Revenue	EUR 109 mn
Number of employees	1,239
Number of retail units	92
Gross area of retail units	40,724

OPERATION AND PERFORMANCE HIGHLIGHTS

Summary of Mercator Group operations in the period 2009-2014

	2009	2010	2011 prilagojeno	2012 prilagojeno	2013	2014	Index 2014/2013
INCOME STATEMENT							
Revenue (in EUR 000)	2,643,315	2,781,604	2,870,971	2,873,186	2,765,868	2,653,735	95.9
Results from operating activities (in EUR 000)	71,842	94,505	76,841	-36,059	35,973	12,381	34.4
Profit (loss) before income tax (in EUR 000)	25,196	40,344	19,940	-102,165	-16,945	-48,595	286.8
Profit (loss) for the year (in EUR 000)	21,119	30,387	12,489	-96,506	-16,929	-44,547	263.1
Gross cash flow from operating activites (EBITDA) (in EUR 000)	167,296	170,087	158,146	111,091	109,709	100,428	91.5
Gross cash flow from operating activites before rental expenses (EBITDAR) (in EUR 000)	190,619	204,846	202,330	167,328	166,107	158,387	95.4
BALANCE SHEET							
Total assets (in EUR 000)	2,476,348	2,586,759	2,613,659	2,379,475	2,303,841	2,237,373	97.1
Equity (in EUR 000)	805,390	776,704	756,457	538,926	514,294	621,677	120.9
Net financial debt (in EUR 000)	986,966	949,081	1,091,145	1,023,509	977,326	785,975	80.4
INVESTMENT ACTIVITIES							
Capital expenditure (in EUR 000)	157,353	116,394	119,715	67,330	29,499	85,722	290.6
Long-term financial investments (in EUR 000)	1,801	0	2,248	9	0	0	-
EMPLOYEES							
Number of employees as at the end of the period	21,404	23,482	24,266	23,920	22,922	22,643	98.8
Number of employees based on hours worked	20,266	21,632	22,602	22,769	22,239	20,803	93.5
FINANCIAL INDICATORS							
Productivity (in EUR 000)	130.4	128.6	127.0	126.2	124.4	127.6	102.6
Value added per employee per hours worked (in EUR 000)	22.0	21.4	22.5	20.4	20.3	20.7	102.2
Return on sales	0.8%	1.1%	0.4%	-3.4%	-0.6%	-1.7%	274.3
Return on equity	2.6%	3.9%	2.4%	-13.9%	-3.2%	-7.5%	238.5
Net financial debt / equity	1.23	1.19	1.44	1.90	1.90	1.26	66.5
Net financial debt / gross cash flow from operating activities (EBITDA)	5.90	5.58	6.90	9.21	8.91	7.83	87.9
Gross cash flow from operating activites (EBITDA) / revenue	6.3%	6.1%	5.5%	3.9%	4.0%	3.8%	95.4
Gross cash flow from operating activites before rental expenses (EBITDAR) / revenue	7.2%	7.4%	7.0%	5.8%	6.0%	6.0%	99.4
SHARE							
Market value per share as at the end of the period (in EUR)	153.2	157.7	147.0	114.0	82.0	72.0	87.8
Dividend per share (in EUR)	4.50	7.20	8.00	6.00	0.00	0.00	-
Earnings per share (in EUR)	5.7	8.2	3.3	-25.6	-4.5	-7.3	162.7
NUMBER OF COMPANIES IN THE GROUP							
Number of companies in the group as at the end of the period	23	26	26	36	17	12	70.6

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

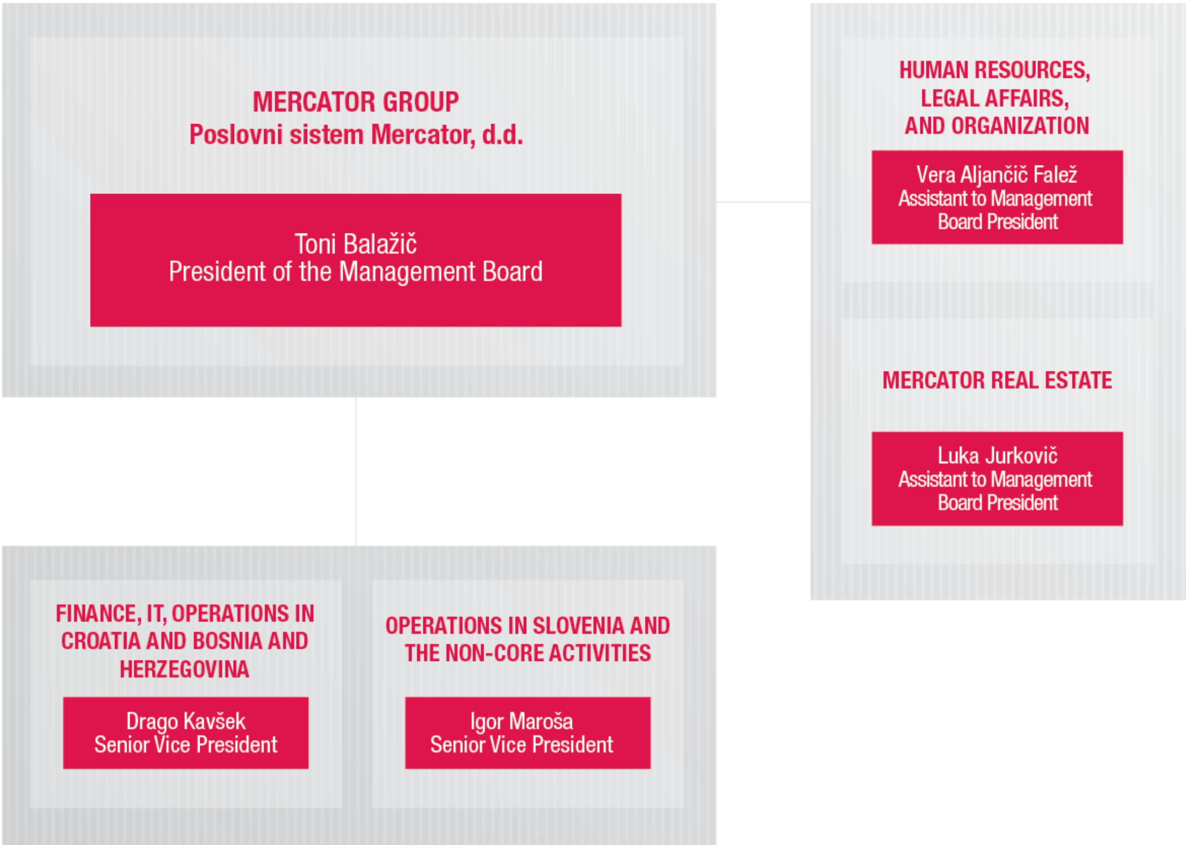
MERCATOR GROUP PROFILE AND ORGANIZATION

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 five are headquartered in Slovenia while 7 more subsidiaries operate in the other 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	+386 1 560 10 00
E-mail	info@mercator.si
Website	www.mercatorgroup.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, 2014	EUR 254,175,051.39
Number of shares issued and paid-up as at December 31, 2014	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Organization of the Mercator Group



On September 18, 2014, the Supervisory Board of Poslovni sistem Mercator, d.d., dismissed on no-fault basis, for other economic or business reasons, the Management Board president of the parent company of the Group, Toni Balažič, and Management Board members Drago Kavšek, Igor Maroša, and Stanka Pejanović. The Supervisory Board reappointed **Toni Balažič the Management Board president, and Drago Kavšek and Igor Maroša as Management Board members**. They started their five-year term on September 19, 2014. Following the change of the Mercator, d.d., Management Board Act, the Management Board president and members are in charge of the following fields, respectively:

- **Toni Balažič is responsible for the management of the Mercator Group and retail operations in Serbia and Montenegro;**
- **Drago Kavšek is in charge of finance, controlling, accounting and internal audit, IT and telecommunications, and coordination of the activities of subsidiaries Mercator - H, d.o.o., Mercator - BH, d.o.o., and M - BL, d.o.o.;**
- **Igor Maroša is in charge of management of retail operations in Slovenia and coordination of Mercator Group supplementary activities.**

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

The current composition of the Management Board and the fields covered by the Management Board along with assistants, are consistent with the changes that took place in 2014, especially the change in the ownership structure of the company Mercator, d.d., divestment of operations in the markets of Croatia and Bosnia and Herzegovina, and acquisition of Agrokor retail units in Serbia, as well as with the planned changes regarding the divestment of Mercator Group's supplementary activities.

Mercator Group composition as at December 31, 2014

MERCATOR GROUP

MERCATOR OPERATIONS SLOVENIA

POSLOVNI SISTEM MERCATOR, D.D., SLOVENIA
- Mercator IP, d.o.o., Slovenia (100.0%)

OTHER OPERATING ACTIVITIES

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

MERCATOR REAL ESTATE

- Mercator - H, d.o.o., Croatia (99.7%)
- 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., Macedonia (100.0%)*

* The company does not conduct business operations.

Branch Offices
As at December 31, 2014 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. 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.

Due to the transfer of retail operations to Agrokor in the markets of Croatia and Bosnia and Herzegovina, the companies Mercator - H, d.o.o., Mercator - BH, d.o.o., and M - BL, d.o.o., are now categorized as real estate management companies. These companies will continue to engage in the activity of leasing out facilities and in the activities of Intersport and Modiana.

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 provide our customers a comprehensive offer that fits their needs and desires.

Pursuant to our strategy, Mercator carried out in 2014 a number of activities to divest its non-core operations. This will allow us to focus on fast-moving consumer goods retail in the future.

Fast-moving consumer goods

Following the takeover of Mercator by Agrokor, the process of consolidation was carried out in respective markets. As a result, Mercator's dense and extensive retail network is now present in Slovenia, Montenegro, and Serbia where it took over Agrokor units, while Mercator units were taken over by Agrokor in the markets of Croatia and Bosnia and Herzegovina. Mercator provides its consumers broad and quality offer of fast-moving consumer goods in order to meet all desires, tastes, and needs of the customers. We ensure broad coverage of the market with the neighbourhood store format. These stores represent nearly 75% of all our fast-moving consumer goods stores. The rest includes hypermarkets, supermarkets, comfort stores, mini stores, and wholesale units. 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 M Tehnika (technical consumer goods) stores offer products for home at favourable payment terms. The offer includes small and major home appliances and white goods, 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 fashion by renowned Slovenian and select international brands. Our offer is upgraded with body care products, perfumes, and other decorative cosmetic products by renowned brands, offered at the Beautique stores.

Sportswear and equipment

Our Intersport stores offer the latest sports apparel and equipment of renowned global brands, as well as exclusive brands. We also offer our customers expert services and advice.

Maxi

Mercator's offer at the Maxi department store fosters quality development of shopping culture and successfully satisfies the fastidious tastes of even the most demanding consumers. Offer at the Maxi department store is comprehensive and it includes apparel, cosmetics, footwear, fast-moving consumer goods, culinary service, and supplementary offer.

Mercator Real Estate

Real estate is a separate field at Mercator as the extent of our real property portfolio requires particular care and management, both, in terms of caring for the environment, energy efficiency and in terms of other permanent improvemets. 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 also provides its customers an additional offer of Maxen self-service petrol stations, M holidays tourist services, and M mobil mobile telephony services. Also active under the auspices of the Mercator Group are the manufacturing company Mercator - Emba, d.d., whose key activities involve coffee processing, production of instant beverages and hot chocolate, desert toppings, cereals, and packed dry fruit and nuts, and the manufacturing and service company Mercator - IP, d.o.o., operating according to the modern concept of employment of disabled persons to whom Mercator pays particular attention. Mercator's in-house bakery, the Grosuplje Bakery, attains the highest quality standards with its products, as witnessed by excellence awards won year after year.

KEY EVENTS

Changes in the composition of the Mercator Group

In 2014, several major changes in the Mercator Group composition took place, especially in the Slovenian market.

As of January 1, 2014, the operations of the company Modiana, d.o.o., Slovenia, were transferred to the company Mercator, d.d., while the operations of Modiana companies in Croatia, Serbia, and Bosnia and Herzegovina had been transferred to respective parent companies in 2013.
On January 22, 2014 the company Mercator - Optima, d.o.o., was struck from the court register. The company had operated in Slovenia and it was specialized on planning the stores and shopping centers. Pursuant to our strategy of focusing on our core activity, we wound up the company Mercator - Optima, d.o.o.
On July 1, 2014, the companies Modiana, d.o.o., Slovenia, and M - nepremičnine, d.o.o., were merged with the company Poslovni sistem Mercator, d.d.

In April 2014, Mercator Group completed its withdrawal from the market of Albania. The company Poslovni sistem Mercator, d.d., divested its entire capital investment in the company Mercator - A, sh.p.k.; on April 7, 2014 it was deleted as a partner in the said company.

Changes in the ownership structure of the company Poslovni sistem Mercator, d.d.

On June 27, 2014 the company Agrokor, d.d., became the majority shareholder of the company Poslovni sistem Mercator, d.d. Agrokor acquired 2,000,278 company shares accounting for 53.12% of Mercator, d.d., share capital. The stock was sold to Agrokor by some of Mercator's major former shareholders, including Pivovarna Union, d.d., Nova Ljubljanska banka, d.d., Pivovarna Laško, d.d., Nova KBM, d.d., Gorenjska banka, d.d., Prvi faktor - faktoring, d.o.o., Belgrade, Radenska, d.d., Banka Koper, d.d., Hypo Bank, d.d., NFD 1, d.o.o., Banka Celje, d.d., and NFD Holding, d.d. With this transaction, Mercator stabilized its ownership structure, which will allow it to intensify its focus on the core activity in the future.

In early July, Agrokor, d.d., also announced their takeover intent, followed by a takeover bid on July 31, 2014 to acquire the remaining company shares.

In early September 2014, Agrokor, d.d., acquired additional 1,040,319 shares of Mercator, d.d., for a total of 3,040,597 shares.

At the 21st extraordinary Shareholders Assembly of Poslovni sistem Mercator, d.d., convened upon request by the majority shareholder Agrokor, d.d., and having taken place on October 21, 2014, the resolution on the increase of share capital of the company Poslovni sistem Mercator, d.d., proposed by the shareholder Agrokor, d.d., was adopted. Company share capital was increased by an issue of 2,325,582 new dematerialized ordinary registered no par value shares on October 29, 2014. Pursuant to the Shareholders Assembly resolution, the newly issued shares were available for subscription to the company Agrokor Investments B.V., the Netherlands, by debt-to-equity swap (or conversion). Thus, the loan received in the amount of EUR 200 million was converted into equity. With the subscription of the new shares, the company Agrokor Investment B.V. acquired on October 30, 2014, a 38.18-percent share in the company Mercator, d.d. After the issue of new shares, the interest held by the company Agrokor, d.d., in the company Mercator, d.d., was diluted to 49.92%.

Changes in the corporate governance of the company Poslovni sistem Mercator, d.d.

Supervisory Board members representing shareholders filed their respective statements of resignation from the position of Mercator, d.d., Supervisory Board members. Bojan Brank resigned as of June 27, 2014, and other members – Matej Lahovnik, Rok Rozman, Boris Galić, Zdenko Podlesnik and Marjeta Zevnik filed on August 4, 2014, their statements of resignation from the position of Supervisory Board members, effective as of August 28, 2014.

At the 20th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on August 29, 2014, the following Supervisory Board members representing shareholders were appointed, as proposed by the majority shareholder Agrokor, d.d.: Damir Kuštrak, Ante Todorić, Ivan Crnjac, Matej Lahovnik, Darko Knez, and Ivica Mudrinić. The newly appointed Supervisory Board members, including the three worker representatives in the Supervisory Board – Vesna Stojanović, Veljko Tatić, and Ivan Valand – held their first, founding session immediately after the Shareholders Assembly session. The newly appointed Supervisory Board elected Ante Todorić as the Supervisory Board chairman, and Matej Lahovnik as deputy chairman.

At the 2nd session held on September 18, 2014, the Supervisory Board dismissed the Management Board president Toni Balažič and Management Board members Drago Kavšek, Igor Maroša, and Stanka Pejanović; and reappointed Toni Balažič as Management Board president, and Drago Kavšek and Igor Maroša as Management Board members. They commenced their five-year terms on September 19, 2014. Moreover, a new Audit Committee was appointed, including Sergeja Slapničar as independent expert, and Ivan Crnjac and Damir Kuštrak as Supervisory Board members of Mercator, d.d.

Under the terms of the contract of sale and purchase of shares of the company Mercator, d.d., in relation to compliance with the commitments by the company Agrokor, d.d., to employees, producers and other formal commitments , the company Mercator, d.d., established a steering committee for the period of 8 years. The Supervisory Board of the company Mercator, d.d., is responsible for the appointment of one of the members of the Supervisory Board as a member of steering committee. The Supervisory Board appointed Darko Knez a member of the steering committee. Thus, the committee includes: Nenad Filipović, independent expert and chairman; and members: Management Board President of Mercator, d.d.; Toni Balažič, Supervisory Board member of Mercator, d.d., Darko Knez; and chairwoman of the Works Council of Mercator, d.d., Vesna Stojanović.

Mercator Group financial management

On June 9, 2014, Mercator Group signed with all creditor banks and lessors comprehensive contract documentation for the Group's financial restructuring. Working with its creditors, Mercator took a big step towards a consolidated set of financing conditions and a basis for joint decision-making, with a consolidated set of documentation pursuant to the best international practice.

On June 24, 2014, following the initiative of the company Agrokor, d.d., an agreement was signed on the consent to the changes and amendments of the above mentioned financial documentation in the context of the proposed acquisition by the company Agrokor, d.d. The agreement was made effective subject to a certain conditions, including that the company Agrokor, d.d., approve and transfer to the company Poslovni sistem Mercator, d.d., a subordinated loan of EUR 200 million, which shall be used for early repayment of a part of Mercator Group's loans to the creditor banks, which is later converted to equity. The company Agrokor, d.d., transferred such subordinated loan on June 27, 2014, simultaneously with the acquisition of the majority block of shares of the company Poslovni sistem Mercator, d.d.

Pursuant to the resolution adopted at the 21st extraordinary Shareholders Assembly dated October 21, 2014, the loan in the amount of EUR 200 million was converted into equity of the company Mercator, d.d., by an issue of 2,325,582 new dematerialized ordinary registered no par value shares. Pursuant to the same Shareholders Assembly resolution, the pre-emptive right of the existing company shareholders to subscribe the new shares was omitted; the new shares were made available for subscription and payment to the company Agrokor Investments B.V., the Netherlands. Following the issue of new shares, the company Mercator, d.d., has a total of 6,090,943 shares, and its share capital has increased from EUR 157,128,514.53 by EUR 97,046,536.86, so that the total company share capital after the capital increase amounts to EUR 254,175,051.39.

Awards and consumer surveys

In the Trusted Brand survey conducted by the Reader's Digest magazine, Mercator was again ranked among the brands most trusted by consumers in 2014. Slovenian subscribers of the Reader's Digest magazine were asked to choose 40 most trustworthy brands – 20 global and 20 local. Mercator was again voted a top local brand as **the most trustworthy shopping center**. According to the survey, consumers highly appreciated tradition. This year, the readers also voted for the first time the **most trustworthy brands with regard to environmental protection**; Mercator ranked among the best in this regard.

At the 13th bread, pastry, and pasta competition, organized by the Chamber of Commerce and Industry of Slovenia, Pekarna Grosuplje won 12 gold medals for **the best bakery products of excellent quality**. All products that entered the competition received top ratings. The medals are the most coveted awards in the baking industry in Slovenia.

According to the **Qudal** survey conducted by the Swiss organization ICERTIAS (International Certification Association GmbH), **Mercator is the Slovenian leader in terms of quality in the category of retail chains**. The survey was conducted in March 2014 by means of a web survey among the Slovenian population. The survey measures exclusively the perception, experience, and opinion of the customers on who truly offers the absolutely highest level of quality in the market.

The company Poslovni sistem Mercator, d.d., has been a regular participant at the Best Annual Report contest, organized by the Finance daily paper, for a number of years. At the festive event on November 11, 2014, the company Mercator, d.d., received for the second consecutive year the award for the **best annual report in the segment of business analysis and planning among enterprises for the year 2013**. This year's award for business analysis and planning stands witness to our efforts to report our results and the circumstances that affected them in an accurate and transparent manner, which ranks us among the best companies in business reporting.

At the Slovenian communication conference in early November 2014, communicators presented their peer awards: five Prisms for the best communication cases. Mercator was among the winners, having received the **award in the category of comprehensive communication programs** for our campaign Doing Our Best Every Day ("Vsak dan damo vse od sebe"), celebrating the 65th anniversary of Mercator, d.d., operations.

Quality standard certified

The company Mercator, d.d., successfully completed the external audit of its environmental management system according to the ISO 14001 standard, which includes compliance with the relevant legislation, efficient use of resources, and prevention of pollution. **Mercator, d.d., is currently the only trade company in Slovenia, engaging in wholesale and retail of fast-moving consumer goods, to be awarded the ISO 14001 certificate.**

Major events following the end of period at hand

On February 25, 2015, the company Agrokor, d.d., acquired additional 581,395 shares of the issuer company Poslovni sistem Mercator, d.d. Thereby its share has increase from 49.92% to 59.47%. The company Agrokor Investments B.V., disposed of the same amount of shares, i.e. 581,395 shares. Thereby its share has decrease from 38.18% to 28.64%. Common share of companies Agrokor, d.d., and Agrokor Investments B.V., in the company Mercator, d.d., amounts to 88.10% and has not changed. Also 88.72% share of their voting rights stays unchanged.

Grosuplje Bakery received multiple awards for its quality products again in 2015.

According to the vote of the Baking Section at the Chamber of Agricultural and Food Companies with the Chamber of Commerce and Industry of Slovenia, taken for the 15th consecutive year in February 2015, Mercator's Grosuplje Bakery won 14 gold medals in the contest of **quality excellence in bread, pastry, and pasta**.

At the Nutrition Institute, the most innovative new alimentary products made in Slovenia were tested for the first time in February 2015. In the category of non-packed bakery products, the **spelt bread from the Grosuplje Bakery** was found to be **the most innovative product**.

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., shall also include 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 Ljubljana Stock Exchange website 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 2014 Annual Report. It is available on the company website at www.mercatorgroup.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 Code, with particular deviations explained below.

Relations with shareholders

Recommendation 4.2: Given the fact that major shareholders communicate their investment plans on their 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 official 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.

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 and this 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

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

Internal controls include policies and procedures put into place and conducted by the Mercator Group at all levels in order to control the risks related to financial reporting. The purpose of internal controls is to provide reliability of financial reporting and compliance with the applicable laws and other internal and external regulations. 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 rules and regulations 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.

Risks occurring in financial reporting are also managed and mitigated by the following:

- clear and concise accounting practices and their strict implementation;
- harmonized accounting policies throughout the entire Group;
- continuous improvement of organization of the accounting function at each company, as well as at the Mercator Group level;
- timely preparation, detailed treatment, and suitable concept in terms of contents and substance in statements relevant for business decision-making;
- comprehensive and extensive disclosures and explanations;
- regular internal and external audits and reviews of business processes and operations.

The above 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 20th 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

In addition to the Management Board, Supervisory Board, and independent auditor, internal audit is one of the pillars of corporate governance. 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 2014, internal audit conducted 11 regular and 4 extraordinary internal audits at 6 Mercator Group companies. The following major fields or processes were audited: risk management system; retail inventory management; C&C unit operations; transit; merchandise purchasing; sourcing of transport services in logistics; sourcing of services and material for maintenance, minor refurbishments, and investments.

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 **Say it out loud** (Povejmo), 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 2014, internal audit discussed 14 reports from different Mercator Group companies.

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 and 2013, respective annexes were signed to extend the cooperation to the years 2013 and 2014.

In 2011 and 2013, operation of internal controls was reviewed with regard to accounting of value-added tax, personal taxes, and corporate income tax. The tax authorities 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 and 2014, operation of internal controls was reviewed in the field of corporate income tax accounting. The tax authorities again found that the system of internal controls worked well. 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 authorities.

Composition of major holders of company securities as at December 31, 2014

	Major shareholders	Country	Number of shares	Share
1	Agrokor d.d.	Croatia	3,040,597	49.92%
2	Agrokor Investments B.V.	Netherlands	2,325,582	38.18%
3	Societe Generale - Splitska Banka d.d.	Croatia	398,273	6.54%
4	Hypo Alpe-Adria-Bank d.d	Croatia	173,464	2.85%
5	Galić Josip	Croatia	21,525	0.35%
6	Erste Group Bank AG	Austria	16,261	0.27%
7	Gustavia Balkan	Sweden	10,000	0.16%
8	Horvat Jože	Slovenia	1,304	0.02%
9	Banque Pictet and Cie SA	Switzerland	1,107	0.02%
10	Clearstream Banking SA	Luxembourg	953	0.02%
		Total	**5,989,066**	**98.33%**

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 three members. Its purpose is to diligently and responsibly pursue the goals laid out, in compliance with the 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. At the 2nd session held on September 18, 2014, the Supervisory Board on no-fault grounds, for other business and economic reasons dismissed the Management Board president Toni Balažič and Management Board members Drago Kavšek, Igor Maroša, and Stanka Pejanović; and reappointed at the same session Toni Balažič as Management Board president, and Drago Kavšek and Igor Maroša as Management Board members. They commenced their five-year terms on September 19, 2014. 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. Supervisory Board members appointed by the Shareholders Assembly, represent the interests of shareholders and the Supervisory Board members representing the workers and elected pursuant to the Worker Participation in Management Act by the company Works Council, represent the interests of all workers within the scope of powers and authority vested in 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.

Shareholders Assembly and shareholder rights

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, d.d., called SEOnet, at least 30 days 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.mercatorgroup.si.

On August 29, 2014, the 20th regular Shareholders Assembly took place with 70.11% of total shares with voting rights present. The Shareholders Assembly included the presentation of the 2013 Annual Report and the Supervisory Board's Report on the results of Annual Report review and audit for the fiscal year 2013; information on the offsetting of net loss; information on the compensation and rewards of the members of managerial and supervisory bodies; information on the Supervisory Board evaluation procedure; and granting discharge from liability to the Management Board and the Supervisory Board.

The Shareholders Assembly was informed of the resignations by the Supervisory Board members: Bojan Brank as of June 27, 2014; and Matej Lahovnik, Rok Rozman, Boris Galić, Zdenko Podlesnik, and Marjeta Zevnik as of August 28, 2014, and appointed upon proposal by the majority shareholder Agrokor, d.d., the following Supervisory Board members: Damir Kuštrak, Ante Todorić, Ivan Crnjac, Matej Lahovnik, Darko Knez, and Ivica Mudrinić.

The Shareholders Assembly appointed the auditing company Deloitte revizija, d.o.o., as the company auditor for 2014, and adopted the changes and amendments to Article 37 of the company Articles of Association, which regulates who may attend the Supervisory Board sessions.

Upon request by the majority shareholder Agrokor, d.d., 21st extraordinary general meeting of the company was held on October 21, 2014, when the shareholders adopted a resolution on the increase of share capital by new in-kind and cash contributions. Pursuant to the "220,000,000 Super Subordinated Loan Agreement" dated June 26, 2014, signed between the company Poslovni sistem Mercator, d.d., as the borrower and the companies Agrokor Investments B.V. and Agrokor, d.d., as the creditors, the company Agrokor Investments B.V. granted and provided to the company Poslovni sistem Mercator, d.d., a loan in the amount of EUR 200,000,000.00. Pursuant to the said agreement and based on the Shareholders Assembly resolution, the amount of loan, EUR 200,000,000.00 was converted into company share capital which now amounts to EUR 254,175,051.39, and it is divided into 6,090,943 ordinary registered no par value shares.

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
- coordination of trade operations in Serbia and Montenegro
- strategic marketing
- public relations
- human resources, legal affairs, and organization
- real estate management

Management Board in charge of finance, IT, and the markets of Croatia and Bosnia and Herzegovina – Drago Kavšek

Education:

- BA Economics

Fields of responsibility:

- finance, controlling, accounting, and internal audit
- IT and telecommunication
- coordination of activities of Mercator - H, d.o.o., Mercator - BH, d.o.o., and M - BL, d.o.o.
- management of other fields subject to authorization by the President of the Management Board

Management Board member in charge of retail operations in Slovenia and Mercator Group non-core activities – Igor Maroša

Education:

- MA business administration and organization, BA economics

Fields of responsibility:

- managing trade operations in Slovenia
- coordination of Mercator Group's non-core activities
- managing other fields subject to authorization by the President of the Management Board.

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

SUPERVISORY BOARD MEMBERS:

Supervisory Board Chairman – Ante Todorić

- Education: BA economics, MA finance
- Employment: Agrokor, d.d., executive vice president in charge of retail business segment

Supervisory Board Members Representing Shareholders

Matej Lahovnik, deputy chairman

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

Damir Kuštrak

- Education: BS construction engineer, MS agronomy
- Employment: Agrokor, d.d., executive vice president in charge of international markets

Ivan Crnjac

- Education: BA Economics
- Employment: Agrokor, d.d., Management Board member in charge of strategy and capital markets

Darko Knez

- Education: BS mechanical engineering and shipbuilding, MA economics
- Employment: Konzum, d.d., Management Board president

Ivica Mudrinić

- Education: BS electrical engineering
- Employment: chairman of the Association of Croatian Employers and the chairman of the Croatian National Board of Competitiveness

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.

A new Audit Committee was appointed in 2014. Previous Audit Committee, operating until September 18, 2014, included 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). The newly appointed Audit Committee includes independent expert Sergeja Slapničar and Mercator, d.d., Supervisory Board members Ivan Crnjac and Damir Kuštrak.

Management of subsidiaries

Mercator Group consists of the parent/controlling 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 a discount store can offer, 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 ownership 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 2014

FOCUS

In April 2014, Mercator Group completed its **withdrawal from the Albanian market**.

The companies **Modiana, d.o.o.**, and **M - nepremičnine, d.o.o.**, were successfully **merged with the company Mercator, d.d.**, on July 1, 2014.

At the end of 2014, we launched the **activities to divest our non-core operations**. Completion of these activities is planned for the first half of 2015.

At our retail units, we are focused on the offer of **local produce** and a varied offer of **seasonal and fresh products**.

In order to improve our pricing perception among the consumers, we carried out a widely recognized **campaign of cutting the regular prices for 10,000 products and introducing over 800 products for which we guarantee the lowest prices in the market**.

We carried out several campaigns for our customers, such as the **Crazy low prices, Weekend campaigns, and MAXX campaigns**, and we were the first in Slovenia to present the customers the **Crazy Friday** campaign.

In Slovenia, we developed **new activities** for our customers **related to the use of the Pika card customer benefit system**, also in cooperation with third-party business partners.

We started **sending direct mail with special offers** to all customers who agreed to receive such offers.

OPTIMIZATION

We completed the **optimization of our retail network** by closing down our non-profitable units and leasing out some of them. We have also closed down several non-performing units in Slovenia and abroad in the home product program (M Tehnika) and apparel (Modiana).

Activities to **optimize the number of employees, especially in administration (i.e. white-collar employees)**, took place in the markets subject to consolidation: Croatia, Bosnia and Herzegovina, and Serbia. These activities are carried on in 2015. They have already resulted in a **decrease of labour costs**.

At the end of 2014, we started to **simplify our organizational processes** in the markets and companies subject to consolidation in the process of Mercator, d.d., takeover by the company Agrokor, d.d.

Cost rationalization in 2014 led to **lower operating costs** than initially planned.

We carried on the process of **cutting energy costs, and continued to cut costs by making our operations increasingly paperless.**

We have successfully **completed the Mercator Group financial restructuring process**, improving our loan terms and conditions. The completion of the financial restructuring process is expected to better position the Mercator Group in terms of liquidity and optimization of operations.

We have revised and upgraded the risk management system towards faster identification of risks and improved response to them.

At Mercator, d.d., we carried out the **internal supplier assessment project** that involved business functions (internal customers) rating their satisfaction with other business functions that support their operations (internal suppliers). The goal of the project was to improve the communication and cooperation between the business functions, to optimize the business processes, and to eliminate by implementation of the identified beneficial recommendations the problems at the areas of transition between respective organizational units.

The **Working Capital Management** project included cutting our dead inventory and improving our working capital management.

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. **We have closed down the business units that were unprofitable**, both in the FMCG program and in the programs of non-core activities, especially textile (fashion) and home products. In the textile and fashion program, we carried out **several clearance sales to reduce the inventories from previous seasons** and to make room for a better offer mix in the future. Mercator retail units in Croatia **were leased out** to the company Konzum, d.d. Thus, we shall intensify our focus on the markets representing the most profitable part of the Mercator Group.
GROWTH	In 2014, we continued to actively **refurbish and update our neighbourhood stores** as a part of the **Mercator NEIGHBOUR** project, and to include departments for fast and simple shopping for freshly prepared food at these stores. Following the transfer of Agrokor's Idea units under Mercator's management, we **strengthened our position in the market of Serbia** and became the retailer with the highest market share. In the markets of Croatia and Bosnia and Herzegovina, Mercator remains in charge of the Intersport and Modiana programs, and continues to manage the real property owned by Mercator. **Capital increase of the parent company** Poslovni sistem Mercator, d.d., was also carried out, by means of a debt to equity conversion in the amount of EUR 200 million, which is a solid foundation for the increase of Mercator Group's investment potential.

Business Report

Years ago, we offered our customers between 30 and 40 different products. Today, our offer includes around 40 thousand products and the number of private label products is increasing as well.

SALES AND MARKETING

Sales

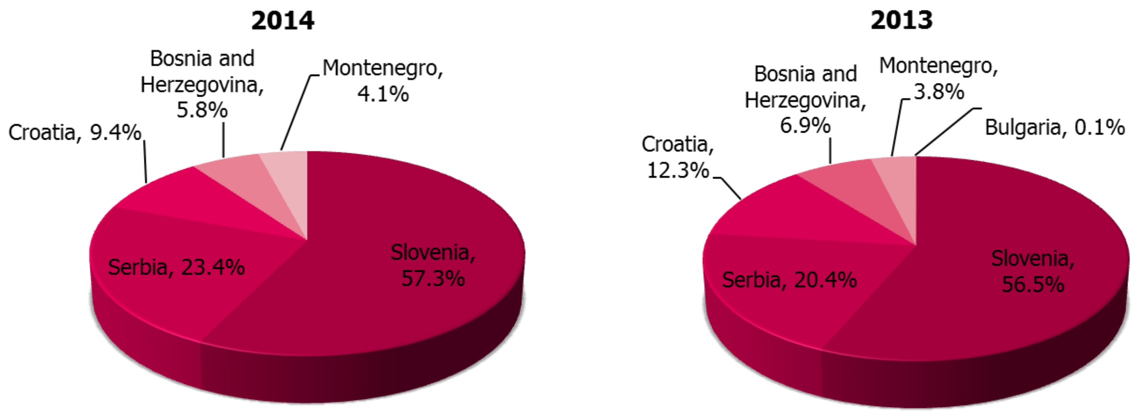
Following the economic crisis, signs of recovery can be seen in the European economies, although feeble and slow. Among Mercator markets, positive economic growth rate in 2014 was seen in Slovenia, Bosnia and Herzegovina, and Montenegro, while economic growth in Serbia and Croatia was negative. In Slovenia, unemployment rate remains rather high; however, optimism can be perceived among consumers regarding future economic development and the resulting improvement in the financial position of households. In all other markets, unemployment is still at record highs. In Serbia and Croatia, it is expected to increase even higher next year. As a result of harsh economic conditions, the consumers are not optimistic about their future; their shopping behaviour is rational; and their loyalty to retail chains and brands is diminishing.

In addition to the economic effects, Mercator Group revenue was also affected by consolidation in respective markets following the takeover of Mercator, d.d., by Agrokor, d.d., which took place in the last months of 2014.

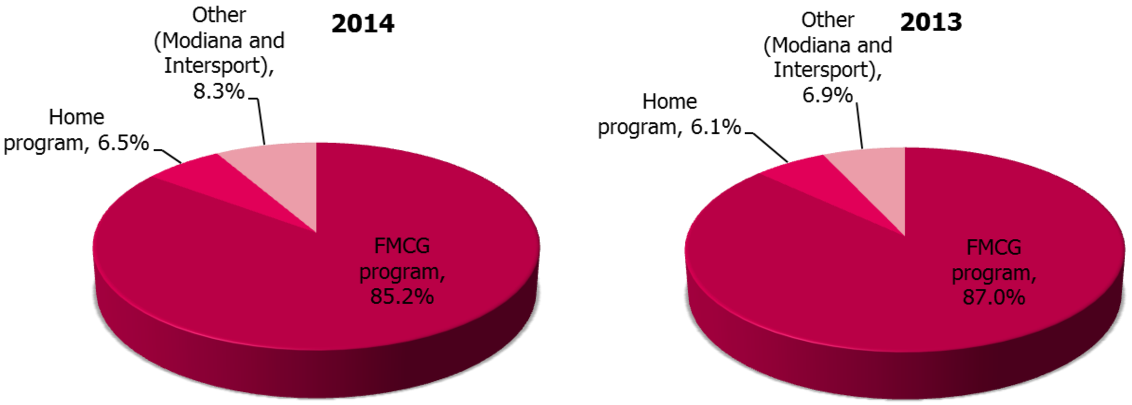
In 2014, Mercator Group's **revenue amounted to EUR 2,654 million**, which is **4.1% less than in the year before**.

In Slovenia, revenue decreased by 2.7%. Revenue increased considerably in Serbia (10.0%) and Montenegro (3.8%), while having decreased in Bosnia and Herzegovina (by 18.9%) and in Croatia (by 26.8%). Higher revenue in the market of Serbia is mostly a result of the transfer of Agrokor's Idea retail units to Mercator as a part of the consolidation by markets. Lower revenue in Croatia and Bosnia and Herzegovina, on the other hand, is a result of the transfer of Mercator retail units to Agrokor.

Mercator Group revenue by geographical segments:

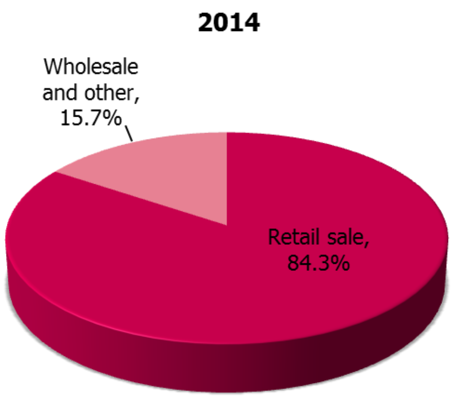


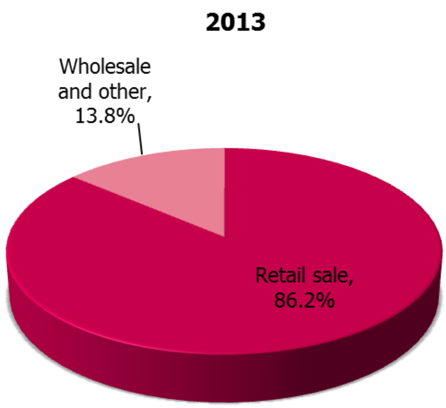
Mercator Group revenue from trade operations by programs:



In 2014, the majority of Mercator Group trade revenue resulted from sales of fast-moving consumer goods as they accounted for 85.2 percent of total revenue; revenue from other specialized programs amounted to 14.8 percent. Relative to the year before, Mercator Group saw the highest decreased of revenue in the sale of home products. In addition, revenue also decreased at the textile and fashion (Modiana) program. Lower revenue from sales mostly resulted from closing down of non-profitable or underperforming units within these two programs, mostly in Slovenia. In the fast-moving consumer goods program, our revenue rose by 1.8%, while sales in sports equipment (Intersport) rose by 2.4%.

Mercator Group revenue by type of sale:





In 2014, Mercator Group retail operations generated 84.3 percent of the Group's revenue from retail, while the remaining 15.7 percent was generated in wholesale and other activities. The share of wholesale in overall revenue thus increased by nearly 2 percentage points. The number of wholesale units is lower by seven relative to the end of last year; however, since most of them were closed down at the end of 2014, the effect of these units will only be manifest in 2015.

Store formats, customer segments, and category management

Consumer shopping behaviour has changed considerably in recent years as a result of different trends from the environment. This tends to increase the complexity of operations. Like most of the world's leading retailers, Mercator is seeking to adapt to these changes as much as possible by diversifying its store formats. They are intended to accommodate a variety of shopping needs, from major planned shopping sessions to minor daily, top-up, or occasional shopping for fast-moving consumer goods.

After years of expansion of large stores, **small box stores** are again coming to the forefront. Moreover, **redesign of the existing retail networks**, i.e. new concepts at existing locations, is increasingly important, along with **intensive development of e-commerce** in which conventional brick-and-mortar stores take the role of pick-up points for orders placed over the internet.

In 2014, we remained focused on the revision of Mercator's most important format **Mercator Neighbour** ("Mercator Sosed") according to the revised concept which puts to the forefront the adjustment to particular micro environments or to the local community and the target segments of customers and their shopping behaviour and needs.

Nine Mercator units have been refurbished according to the Neighbour concept in this year.

In 2014, several Mercator stores of other formats were also refurbished (supermarkets, hypermarkets, a convenience store). Throughout the year, thirteen Mercator supermarkets were refurbished.

The store at Kongresni trg in Ljubljana, a convenience store format, was refurbished in the first quarter of 2014. With an adapted product mix, the store offers quick and easy shopping for convenient products to customers who are in a hurry.

In August, Maxi bakery was launched as a part of the bread department in Maximarket, where fresh treats are made daily at the store.

As a response to the general market trends that put convenience of shopping first, we introduced the grab&go module in twelve stores with high customer frequency. The module offers convenient products intended for immediate consumption at a single place.



Composition of sales units as at December 31, 2014

COUNTRY	SLOVENIA	SERBIA			CROATIA		BOSNIA AND HERZEGOVINA	MONTENEGRO		MACEDONIA and ALBANIA*	MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Idea	Mercator	Getro	Mercator	Mercator	Roda	Intersport			
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	Number of units	Gross sales area	Net sales area
Hypermarkets	22	2	30	11	11	1	-	-	2	-	68	283,312	192,746
Supermarkets	62	-	24	19	19	2	3	-	10	-	120	164,683	108,323
Neighbour stores	390	-	79	155	155	13	2	-	76	-	715	302,303	182,421
Comfort stores	1	1	-	-	-	1	-	-	-	-	3	7,284	4,237
Mini stores	5	-	1	-	-	-	-	-	-	-	6	869	471
Cash & Carry / VELPRO	13	-	-	15	15	-	10	-	1	-	39	124,853	103,035
Restaurants	8	11	-	-	-	-	-	-	-	-	21	4,484	2,906
TOTAL FMCG program	**501**	**14**	**134**	**200**	**17**	**15**	**2**	**-**	**89**	**-**	**972**	**887,788**	**594,138**
Technical consumer goods	**50**	**14**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**65**	**87,866**	**56,725**
Clothing program and drugstores	**52**	**13**	**-**	**-**	**35**	**-**	**12**	**-**	**-**	**-**	**112**	**56,161**	**47,306**
Clothing program	43	7	-	-	35	-	8	-	-	-	93	53,805	45,258
Drugstores and perfumeries	9	6	-	-	-	-	4	-	-	-	19	2,356	2,048
Intersport	**34**	**11**	-	**-**	**28**	-	**9**	**2**	-	**-**	**84**	**52,563**	**40,222**
M holidays	**12**	**-**	-	**-**	**-**	-	**-**	**-**	-	**-**	**12**	**242**	**242**
Other	**3**	**-**	-	**-**	**-**	-	**-**	**-**	-	**-**	**3**	**374**	**335**
TOTAL specialised programs	**151**	**38**	**-**	**-**	**63**	**-**	**21**	**3**	**-**	**-**	**276**	**197,206**	**144,830**
TOTAL retail units under management	**652**	**52**	**134**	**200**	**80**	**15**	**23**	**3**	**89**	**-**	**1,248**	**1,084,994**	**738,969**
Franchise stores	**227**	**-**	**83**	**-**	**1**	**-**	**-**	**-**	**-**	**4**	**315**	**64,089**	**42,900**
TOTAL	**879**	**52**	**217**	**200**	**81**	**15**	**23**	**3**	**89**	**4**	**1,563**	**1,149,083**	**781,868**

* In the markets of Macedonia and Albania, Mercator is present with franchise stores of the Intersport format.

Store formats by country and store brands

	STORE FORMAT	STORE BRAND	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO
FMCG	Hypermarkets	Mercator					
		RODA					
		GETRO					
		iDEA					
	Supermarkets	Mercator					
		RODA					
		GETRO					
		iDEA					
	Neighbour, comfort and mini stores	Mercator					
		RODA					
		GETRO					
		iDEA					
	Cash&Carry	Mercator					
		RODA					
		GETRO					
	Franchise stores	Mercator					
		RODA					
Home products, textile and cosmetics, sportswear and other non-core activities	Home and furniture program	Mercator					
	Sports program	INTERSPORT					
	Clothing program	MODIANA					
	Drugstores and perfumeries	BEAUTIQUE					
	M holidays	HOLIDAYS					
	Maxen	MAXEN MAXIMALNA ENERGIJA					

Customer segments

The needs and desires of our customers are highly diverse. We learn about them by analyzing their shopping behaviour, either through market research or shopping data analysis. Our offer and the space where this offer is provided to the customers are adjusted in accordance with the resulting findings. Thus, every activity involves three dimensions: the customer, the offer, and the store (customer, product, and place).

In 2014, we carried on our efforts to adjust the offer to our customers as we introduced new functionality of the customer loyalty system, which allows a new way of redeeming the bonus points. Pika card holders can use their bonus points for a discount on a product or a service. Moreover, we have enhanced our Pika card communication protocol with a system at the check-out point, which has simplified and sped up the check-out process. This is an advantage to both the customers and cashiers.

Consistently with the integration of the retail network, the Pika card customer loyalty system has been integrated as well. In Croatia, the customer loyalty system was discontinued as Mercator stores became Konzum stores. Thus, the customer loyalty system in place in this market – the MultiPlusCard – was introduced. The payment function of the Pika card remains active.

In Serbia, the customer loyalty system is still functional at the Roda and Mercator banner units. In 2014, there were no changes to the system operation in Bosnia and Herzegovina or Montenegro.

Category management

In category management, we pursue the following goals: 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.

Marketing

Our marketing activities are focused on 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:

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

Neighbour stores are particularly important for the consumers and their daily shopping as they provide proximity and convenience. With over 500 stores across Slovenia, we are a retailer that is closest to the consumers. We are looking to upgrade our proximity by reinforcing our integration into local life. Local population all over Slovenia have always considered us a part of their lives for ages. Therefore, we pay particular attention to socially responsible activities in the local environments and to establishing close links and connections with the environment.

We are focused on fresh and local offer

In order to offer consumers a broad choice of local, Slovenian produce and products, our offer in the **Locally Grown** project is constantly being expanded and upgraded. Communication of this project involves stressing the preservation of the environment and importance of tradition as the key advantage, providing direct delivery to allow small growers to reach our shelves and aisles more easily, and caring about the development of the economy and preservation of jobs. The key goal of the project is to satisfy the needs and demand of our consumers.

In the "Locally Grown" marketplaces, our consumers can find broad seasonal offer of fruit and vegetables of Slovenian origin and access information about the growers using a mobile application and a QR code; our bakery uses 100% Slovenian wheat for its products; we are expanding the offer of milk and dairy products made of 100% Slovenian milk; communication of Mercator's butcher's department relies on emphasizing the competitive advantage that 100% all meat in our regular offer is raised in Slovenia. The offer was specially labelled for our consumers at our stores.

We focus on the consumers and provide well-priced shopping

In fast-moving consumer goods retail we are continuously monitor the consumer trends and adapt to the needs and demand of our customers. Convenience, rationality, and quality are important factors affecting the consumers' choices. Our **key policy is to focus on the consumers and to provide well-priced shopping**.

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

By continuously adapting the marketing mix and with powerful campaigns, Mercator is making sure that our basket of products represents the best value for our customers, both in terms of price and quality. Thus, we introduced a new activity in 2014 called Crazy Low Prices, which was warmly received by the customers.

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

Rewarding customer loyalty with the Pika card

Focusing on the consumer, we carried on the development of the **advantages of the Mercator Pika 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 deferral of payment and payment in up to 24 instalments at a zero interest rate. For the segment of customers keen on shopping in the web store, we will continue to allow the functionality of online payment for alimentary products and technical consumer goods using the Mercator Pika card.

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

Developing quality offer of private label line products

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

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

In 2014, Mercator Group continued to pursue the real property management strategy adopted in 2013, subject to the conditions prevalent in the domestic and international financial markets. Refurbishments of existing stores were the priority activity. Thus, we launched in Slovenia new refurbishment projects according to the Mercator Neighbour (Sosed) concept, tested and implemented in 2013, wherever the right conditions were met.

There was no own property development in 2014. Investment funds were mostly used for renovation and investment maintenance of the existing retail network.

In the second half of 2014, integration of business activities of Mercator and Agrokor trade companies in Croatia, Serbia, and Bosnia and Herzegovina took place. This involved transferring 162 fast-moving consumer goods stores in Croatia and Bosnia and Herzegovina to Agrokor Group, and 191 fast-moving consumer goods stores and 11 wholesale units in Serbia to Mercator Group. At these companies, sale or purchase of equipment and investments into foreign property plant and equipment, more precisely the finishing work or the leased premises.

In 2014, our goal was to divest as much non-operating assets as possible. In the second half of April, we listed 50 new units offered for sale.

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

Investment and Divestment

In 2014, Mercator Group capital expenditures amounted to EUR 85.7 million, of which EUR 58 million pertains to the acquisition of 202 retail stores and wholesale units from Agrokor's subsidiary Idea, d.o.o., in Serbia. Excluding this transaction, investment into property, plant, and equipment amounted to EUR 27.7 million, or 6% less than in the year before. As a result of the transfer of fast-moving consumer goods retail operations in Croatia and Bosnia and Herzegovina to Agrokor's subsidiaries Konzum, Mercator's investment activities in these markets were minimal. Of this amount, 19.9% was used for investments in Slovenia and 80.1% was used for investments in foreign markets.

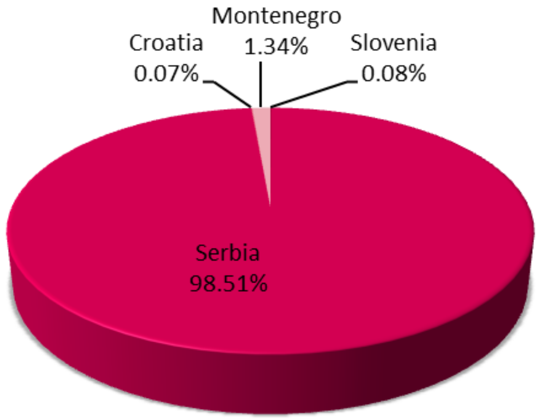
	Capital expenditure in 2014 (in EUR 000)	Structure (in %)
Slovenia	17,078	19.93%
Serbia	65,372	76.26%
Croatia	1,099	1.28%
Montenegro	1,450	1.69%
Bosnia and Herzegovina	723	0.84%
TOTAL	85,722	100.00%

Takeover of Idea retail stores and wholesale units in Serbia represents 67.7% of total investment; investment into expansion of retail capacity accounts for 3.1% of total investment; refurbishments of existing units accounts for 17.5%; remaining 11.7% was invested in logistics, IT, and non-trade activities.

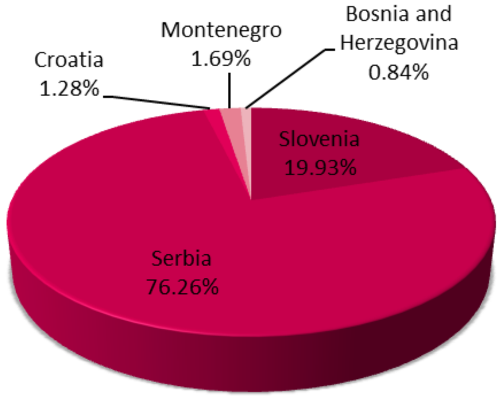
In 2014, Mercator Group acquired 210,453 square meters of new gross area – excluding the acquisition of Idea stores, newly acquired gross area amounts to 8,884 square meters – mostly in Serbia and Montenegro, of which 95% was acquired by operating lease, and the remaining 5% was acquired by refurbishment of existing facilities.

In 2014, Mercator Group divested property, plant, and equipment worth EUR 28,355 thousand, of which EUR 18,424 thousand pertains to the divestment of store equipment and investment into foreign property to Agrokor subsidiaries Konzum in Croatia and Bosnia and Herzegovina.

Share of newly launched facilities by markets:



Share of investments by markets:



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

	Gross area in square meters			
	Used for own operations	**Leased out - Konzum**	**Leased out – third parties**	**Total**
Owned retail area	627.109	110.220	219.578	956.907
Leased retail area	457.885	69.656	77.189	604.730
Total retail area	**1.084.994**	**179.876**	**296.767**	**1.561.637**
Owned warehouse capacity	138.801	0	575	139.376
Leased warehouse capacity	12.418	25.982	6.658	45.058
Total warehouse capacity	**151.219**	**25.982**	**7.233**	**184.434**
Owned commercial facilities	23.406	0	1.064	24.470
Leased commercial facilities	5.811	0	0	5.811
Total commercial facilities	**29.217**	**0**	**1.064**	**30.281**
GROSS AREA UNDER MANAGEMENT	**1.265.430**	**205.858**	**305.064**	**1.776.352**
- of which owned	789.316	110.220	221.217	1.120.753
- of which leased	476.114	95.638	83.847	655.599

SUMMARY OF RETAIL UNIT LAUNCHES BY MARKETS IN 2014

SLOVENIA

Area of new facilities: 172 m^2
Number of retail units: 2
Openings: Mini by Modiana MC Koper I; extension of Intersport in MC Jesenice

Refurbishments:
Number of retail units: 26
Openings**:** Market Kongresni trg; Supermarket Pesnica; Market Kolodvorska, Domžale; Market Lucija; Supermarket Litija, Ježa; Market Log pri Brezovici; Market Pristaniška, Koper; Hypermarket in MC Koper; Market Tržaška, Ljubljana; Market Medvoška, Medvode; Market Na Klancu, Kranj; Market Cigaletova, Ljubljana; Market Brezovica; Market Sežana; Supermarket Šempeter pri Novi Gorici; Pekarna in Hypermarket Maxi, Ljubljana; Market Cesta 24. Junija, Ljubljana; Market Zupančičeva jama, Ljubljana; Intersport Jesenice; Market TH Nova Gorica; Market Ceneta Štuparja, Ljubljana; Market Mozirje; Market Naselje Slavka Černeta, Kranjska Gora; Market Pokopališka in Ljubljana; fod facility Naklo; Market Trzin

CROATIA

Area of new facilities: 154 m^2
Number of retail units: 2
Openings: Mini by Modiana MC Čakovec; Modiana City Šibenik

SERBIA

Area of new facilities: 207,317 m^2
Number of retail units: 214, of which 12 Mercator units and 202 IDEA units
Openings:
Market Banovo Brdo, Belgrade; Supermarket Liman 4, Novi Sad; Santana Caffe bar, Zemun; Market Subotica; Tehnika Inđija; Supermarket Vidikovac, Belgrade; Tehnika Kanjiža; Supermarket Sajam, Branka Brajića, Novi Sad; Market Dimitrija Tucovića, Belgrade, Market Ćuprija; Market Milana Rakića, Belgrade; Santana Caffe bar 4, Belgrade, and IDEA units

MONTENEGRO

Area of new facilities: 2,810 m^2
Number of retail units: 7
Openings:
Market Rubeža, Nikšić; Market Podgorica 3, Podgorica; Market Stari aerodrom 2, Podgorica; Market City, Podgorica; Supermarket Rastoci, Nikšić; Market Donja Pruška, Bijelo Polje; Supermarket Kličevo, Nikšić

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN 2014[1]

Economic conditions in 2014

Economic recovery in Europe appears feeble relative to other developed economies and compared to recoveries following financial crises in the past, although the recovery was usually slow and fragile in those cases as well. Private investment is anticipated to bounce back gradually as a result of a more positive outlook regarding demand and convergence effects, although the vast unused capacity will initially pose an obstacle. Household consumption is expected to increase moderately in 2015 and 2016, fuelled by low prices of primary products and increase of disposable income, as well as the anticipated gradual improvement in the labour market. Public spending, too, is expected to contribute to growth. Considering the moderate improvement of the global trade, the contribution of net exports to GDP growth will most likely be minute.

Job creation remains moderate, and unemployment rates have only gradually descended from their historical highs.

In 2014, the trend of decreasing inflation rate persisted in member states as a result of lower prices of primary products and considerable economic slowdown. Gradual improvement of economic activity and wage increases are expected to drive up the inflation rate. Recent depreciation of the euro will have the same effect. Year-on-year inflation in the European Union is estimated at 0.6% in 2014 and forecast at 1.0% in 2015, and 1.6% in 2016. Inflation rate, measured with the HICP (harmonized index of consumer prices), is estimated at 0.5% in the euro zone in 2014, and forecast at 0.8% in 2015; in 2016, it is anticipated to rise to 1.5%.

Further decrease in public spending deficits is forecast for 2015 and 2016, which should be supported by stronger economic activity. Fiscal policy in 2015 is expected to be nearly neutral. The share of public debt in GDP is anticipated to peak in 2015 at 88.3% in the European Union and 94.8% in the euro zone.

Major risks still involve lower-than-expected economic growth as a result of geopolitical turmoil, fragility of the financial markets, and risks of incomplete structural reforms. Risks regarding the inflation forecasts remain balanced.

Six-month EURIBOR continued to decline in 2014, finishing the period at 0.171%. In 2014, EURIBOR averaged at 0.307%, which is 8.63% less than the 2013 average of 0.336%. At the end of the period at hand, the 6-month EURIBOR reached its lowest value, which gives rise to reasonable expectations that the trend of its decline will continue in early 2015.

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

SLOVENIA

Macroeconomic conditions

Economic growth in Slovenia exceeded that of the euro zone average in the first three quarters of 2014. Exports continued to rise, and paired with weaker imports growth the contribution of net exports to the GDP growth remained high as the current account surplus was increased to 5.7% of the GDP. The first signs of higher investment into manufacturing capacities appeared, following their improved utilization and better access to international financing sources. The turn in fiscal policy also contributed to the notable change in

[1] Economic conditions and competition are commented based on the following data sources: IMAD (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 of respective countries, IMF (International Monetary Fund), market research company Nielsen, and EC (European Commission).

economic dynamics. Drawing on EU funds, the fiscal policy stimulated the economy in the first three quarters of the year, as observed from the share of public investments which greatly exceeded the negative effect of lower overall government spending. Public infrastructural investment had a positive effect on construction activity despite the negative turn in the third quarter. The otherwise feeble growth in private spending and increased hiring among companies in the domestic markets spurred growth of most private services.

Economic growth is also reflected more strongly in the job market. Unemployment has decreased especially because of high transfer to employment status; this transfer was the highest in private services. Standing out among these are employment agencies which provided the highest contribution to the nearly one percent growth of overall employment in the third quarter. This, however, blurs the realistic image of employment by activities, particularly in manufacturing and construction. Following a labour market reform which made the conditions for temporary employment more stringent to some extent, the increase of employment through agencies is most likely the effect of the response by enterprises requiring flexible forms of employment. Simultaneously with the increase of employment, the average salary is increasing as well; however, its growth lags behind the growth of labour productivity. The decline of the inflation rate towards zero has increased, particularly in the third quarter, overall salaries in real terms, which in turn has increased the purchasing power of the population.

Economic recovery in the immediate international environment remains weak despite the expansive monetary policy of the European Central Bank (ECB). At the same time, conditions in the Russian economy are spiralling down, driven by sanctions and plummeting oil prices. Therefore, downward adjustments of economic growth for 2015 continued for most export markets at the end of 2014. Nevertheless, these estimates remain slightly better than the 2014 estimates which – with the improvement of the competitiveness of the Slovenian export sector – provides the basis for further growth of domestic economic activity.

Positive economic turns have not been reflected in domestic inflation. Measured with the HICP, average inflation in the last quarter of 2014, which was at 0%, was under strong pressure from the falling prices of raw materials. For the entire 2014, inflation rate averaged at 0.4%, which is an all-time low. In addition to overall inflation, the core inflation indicators were also below the euro zone average. The difference is mostly a result of higher decrease in purchasing power during the crisis, and conservative behaviour of domestic consumers who, for the most part, have not extended the real salary growth to their overall consumption. This is especially reflected in further decrease of prices of industrial products. Lower prices of input raw materials and lagging of salaries behind the productivity also point to absence of price and cost pressures at enterprises.

Government deficit in 2014 was high as a result of increasing burden of interest on debt and non-recurring effects related to capital increases in banks, and payments of old foreign currency deposits; however, income has increased considerably as well. According to the Ministry of Finance estimate from late December, the deficit was at 5.3% of the GDP; adjusting for the non-recurring effects and interest payments, the so-called primary deficit should only amount to 0.1% of the GDP. Government debt is expected to have climbed to 82.2% of the GDP by the end of 2014, partly as a result of pre-financing of 2015 bond repayments. The financing terms for Slovenian government have improved notably. Required yield on 10-year government bonds only amounted to 2.1% in December, which is 3.1 percentage points less than a year earlier.

Despite the fast economic recovery in 2014 and favourable medium-run outlook, Slovenian economic policy continues to face many challenges. The most important among them are the non-functioning of the credit channel, high unemployment, fiscal consolidation, and restructuring of the economy. These challenges can be partly tackled by responsible and well though-out ownership restructuring of the enterprises.

The most recent rating provided by S&P in December 2014 is A- with a stable outlook.

Effect of market situation on consumption

According to the national statistical office (SURS), consumer confidence in Slovenia in 2014 improved over the year before as consumer confidence indicator rose by 14 percentage points for the year. The annual increase of the consumer confidence indicator is a result of more optimistic consumer forecasts regarding the economic conditions in Slovenia, unemployment rate, financial position of their households, and the possibilities of saving in the next 12 months.[2]

[2] SURS, Consumer Confidence, Slovenia, December 2014

Nielsen data[3] also shows a notable improvement in consumer confidence in Slovenia in the third quarter of 2014 relative to the corresponding period of 2013; however, the index is still below the European average. The share of consumers who believe the country is in a recession has decreased, but it is still high (88%). The number of respondents who do not expect improvement in the coming year has decreased (to 70%). Consumer expectations are more positive; they are less worried about further reduction of wages or losing their jobs. Changes in the shopping behaviour seen since the onset of the crisis, have persisted: consumers shop more rationally, they plan their shopping, they prefer more inexpensive products, they are more responsive to special offers and promotions, and they buy more private label products. Their shopping is dispersed over several retailers. Instead of one major shopping session, they break it down into several smaller shopping trips, and they visit the discount retailers more often.

An improvement in economic conditions is estimated for 2014 with higher GDP (2.5-percent growth) and unemployment rate that has not increased. A slight increase in salaries is expected as well. After 2011, household consumption increased for the first time in 2014 (estimated growth of 0.7%).[4]

Competition

In addition to the conventional retailers (Mercator, Spar, Tuš), two discount retailers also have a considerable market share (Hofer, Lidl).

Retail industry is relatively stable and consolidated (top five players account for 85% of the market), and growth of discount store market shares has steadied. Due to increased consumer sensitivity to pricing, the trend of high pressure on prices may continue.

SERBIA

Macroeconomic conditions

According to European Commission estimates, real GDP growth in Serbia was negative at -1.0%. In 2015, real GDP growth relative to 2014 will be at zero. Inflation rate in 2014 was 2.2%; for 2015, it is forecast at 3.5%. Unemployment remains high at over 20.0%, and further increase to 21.6% is expected in the course of 2015. Increase of household consumption and public spending remains negative. The former was at -1.1% for 2014; for 2015, it is forecast to remain negative at -1.9%. Public spending growth was at -1.5% in 2014, and it is anticipated at -4.7% in 2015. Average exchange rate of the Serbian dinar in the period 1–12 2014 stood at RSD 117.57 per 1 EUR, while the average rate in the equivalent period of last year was RSD 113.14 per 1 EUR. The rating of the Republic of Serbia remains unchanged at BB– with negative outlook.

Effect of market situation on consumption

According to Nielsen data, consumer confidence in Serbia declined in the third quarter of 2014 relative to the corresponding period of 2013, and it remains below the European average. Consumers believe the country is still in recession (over 90%). The share of respondents who do not expect improvement in the coming year has increased (to over 75%). Security of their employment and the general economy are their prime concern. Nearly a third of consumers are left with no means to spend after covering their basic living expenses. The consumers have adapted their consumption to reduce household expenditure relative to the year before, most commonly 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 essentials, actively look for products included in special offers, and generally buy less.

Adverse economic conditions persist in 2014. Unemployment rate remains high at 20%. Publicly funded employee salaries and pensioner income are lower by around 10%. This has resulted in lower purchasing power and increased price sensitivity of the consumers.

[3] Nielsen: Consumer Confidence Index, Q3 2014, Slovenia

[4] IMAD: Winter Forecast of Economic Trends 2014, December 2014

Competition

In addition to the regional retailer (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 2014, DIS updated its facilities, making them more modern and luxurious. Univerexport took over the facilities of the retail chains Lurdy and Angropromet. Delhaize is intensively renaming their formats to Shop&Go. In early 2015, Lidl supermarket chain started the construction of a unit in Subotica. In the fourth quarter of 2014, Agrokor, d.d., became the majority shareholder of the company Mercator, d.d. Consolidation by markets which followed the takeover was carried out in Serbia in such way that the Idea units were transferred to the company Mercator - S, d.o.o.

CROATIA

Macroeconomic conditions

Economic growth was negative in Croatia in 2014, at -0.7%. The forecast for 2015 is slightly more optimistic at 0.2%, according to the European Commission. Inflation rate in 2014 was at 0.2%; in 2015 it is forecast at 0.6%. Unemployment rate increased in 2014 relative to 2013, reaching 17.7%. Forecast for 2015 does not involve any changes in this respect; the unemployment rate is expected to remain the same. Increase of public spending was negative at -2.5%; in 2015, it is expected to remain negative at -0.5%. Moreover, the growth of household consumption was also negative at -0.4%, and the forecast for 2015 is -0.2%. Average exchange rate of the Croatian kuna in 2014, stood at HRK 7.63 per 1 EUR, while the average rate in the year before was HRK 7.57 per 1 EUR. According to the S&P rating agency, Croatia's rating is BB with a stable outlook.

Effect of market situation on consumption

According to Nielsen data,[5] consumer confidence in Croatia was similar in the third quarter of 2014 to that in the equivalent period in 2013, remaining below the European average and among the lowest in Europe. The consumers believe the country is still in a recession (over 95%) and they do not expect any improvement in the coming year (just under 85% of respondents). Security of their employment and debts are their prime concern. Over a third of consumers are left with no means to spend after covering their basic living expenses. Nearly 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 before, most commonly by switching to lower-priced brands of food, and by reducing their budget spent on clothing, out-of-home entertainment, and telephone. Three most common manifestations of consumer response to the market situation: they only buy the essentials, actively look for products included in special offers, and generally buy less.

Competition

Croatia is the country with the highest number of retail chains in the entire South-eastern European region. 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 with their retail chains: Schwarz Group (Lidl and Kaufland), Rewe Group (Billa and Bipa), Interspar, dm – Drogerie Markt, and Metro as a wholesaler. Agrokor's takeover of Mercator in the fourth quarter of 2014 was followed by consolidation in respective markets. In Croatia, this involved closing down of some Mercator units, and transfer of other units to Agrokor, along with their re-branding to Konzum.

BOSNIA AND HERZEGOVINA

Macroeconomic conditions

GDP growth rate in Bosnia and Herzegovina was at 2.3% in 2014; for 2015, it is forecast at 2.8%. Inflation rate in 2014 was at 1.5%; in 2015 it is forecast at 1.6%. Unemployment remained extremely high in 2014 at 27.5%. In 2015, it is expected to decrease slightly to 27.1%. The exchange rate of the Bosnian mark is pegged to euro at KM 1.95583 per 1 EUR. Bosnia's rating is B with stable outlook.

Effect of market situation on consumption

Household consumption decreased 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-

[5] Nielsen: Consumer Confidence Index, Q3 2014, Serbia

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 (Konzum, and Tuš) and several smaller and larger local retailers (Bingo). Agrokor's takeover of Mercator in the fourth quarter of 2014 was followed by consolidation in respective markets. Like in Croatia, Mercator units were transferred to Agrokor in Bosnia and Herzegovina and renamed to Konzum.

MONTENEGRO

Macroeconomic conditions

Real economic growth in Montenegro amounted to 2.0% in 2014. The forecast for 2015 is 3.0% in real terms. Inflation rate in 2014 was at -0.2%; in 2015 it is forecast at 0.8%. Unemployment remained high in 2014, reaching 19.3%. It is gradually decreasing, according to data from previous years and European Commission forecasts. Montenegro is expected to complete the year 2015 with an unemployment rate of 18.6%. Public spending in 2014 was at 1.0%, and household consumption was at 1.1%. The official currency is the euro. Montenegro's rating remains unchanged at BB– with negative outlook.

Effect of market situation on consumption

Adverse economic conditions persisted in 2014. Unemployment rate remains high at 20%. Salaries declined relative to 2013, while retiree income has been unchanged for the last three years. The ration between average income to minimum shopping basket is very unfavourable. The customers are sensitive to pricing and they mostly shop for products in special offers, buying in bulk. Due to harsh economic conditions, the buyers are less and less loyal to both retail chains and brands.

Competition

A new company was launched in the first half of 2014 called "Domaća trgovina" (Local/domestic trade), which took over all Maxi units (previously of the international retailer Delhaize), and a part of the Albona units. In 2014, Mesopromet expanded their network by opening a large number of new facilities. Currently, they are the second largest retailer by number of stores in Montenegro. The company Hard Discount Laković is expanding to the north of Montenegro, as well as in the country's second largest city, Nikšić. Voli Trade also opened two new facilities in north Montenegro in 2014. Agrokor's acquisition of Mercator did not affect Mercator operations in Montenegro as Agrokor had not been present here prior to the takeover. Mercator remains the largest retailer by number of stores in this market.

2014 PERFORMANCE ANALYSIS

Compared to other advanced economies, Europe's recovery after the financial crisis is rather feeble. The outlook in terms of demand, higher private investment, lower prices of raw materials, and improved conditions in the labour market are anticipated for the years 2015 and 2016. Slovenia's economic growth in 2014 was higher than the average for the European countries. Economic growth was positively affected by higher exports, fiscal policy stimulus, and higher infrastructural investment. Montenegro and Bosnia and Herzegovina, too, saw positive economic growth; however, these markets remain troubled by high unemployment and the resulting lower perceived purchasing power of the population. Economic growth in Croatia and Serbia was negative, which was to a great extent a result of higher unemployment and negative growth of private and public spending. In all markets of Mercator's operations, consumers were evidently sensitive to pricing, and rational in their shopping decisions.

The year 2014 was a year of major changes for the Mercator Group, particularly in terms of ownership and financial restructuring. Agrokor, d.d., became the majority shareholder of Mercator, d.d., holding along with the company Agrokor Investments B.V. a total of 88.10% of Mercator shares as at December 31, 2014. Supervisory Board members representing shareholders at Mercator, d.d., filed their statements of resignations, and the Shareholders Assembly appointed new members. The Management Board has changed as well. It currently includes three members: Toni Balažič as the Management Board President and Drago Kavšek and Igor Maroša as Management Board members. In mid-2014, Mercator Group completed its financial restructuring, and in November, a capital increase was carried out at Mercator, d.d.

Following is a performance analysis for 2014 for the Mercator Group, the parent company Poslovni sistem Mercator, d.d., and respective markets of Mercator 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 Mercator Group: it is the controlling company that holds the ownership shares in Mercator 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 non-recurring write-offs and impairments that affected the accounting items in 2013 and 2014 were eliminated or adjusted for.

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.

2014

Mercator Group

Impairment of intangible non-current assets and land

Mercator Group income statement was affected the most by the impairment of land in Slovenia, Serbia, and Bosnia and Herzegovina, amounting to EUR 8,617 thousand; impairment of assets and goodwill in Croatia in the amount of EUR 7,307 thousand; and impairment of deposits for advance payments of Getro rents in Croatia in the amount of EUR 5,282 thousand.

Poslovni sistem Mercator, d.d.

Impairment of long-term financial investments and land

The effect of impairment of long-term financial investments on the income statement of the company Mercator, d.d., amounted to EUR 79,558 thousand; the effect of land impairment was at EUR 7,594 thousand.

MERCATOR GROUP OPERATIONS AND PERFORMANCE ANALYSIS

Revenue and productivity

Mercator Group revenue decreased by 4.1% in 2014 relative to the year before, reaching a total of EUR 2,653,735 thousand. In Slovenia, revenue declined by 2.7%. Relative decrease was the highest in the home product and textile/fashion program, following the closing down of several non-profitable or underperforming units of these two store formats in early 2014. The decrease in revenue is also a result of the changes in consumer behaviour due to the economic crisis, and harsher competition. Revenue in foreign markets was different from one country to the next; overall revenue in international markets declined by 5.8%. The decrease of revenue was the most pronounced in the markets of Croatia and Bosnia and Herzegovina, which is mostly the result of the transfer of Mercator retail units to Agrokor, and closing down of some non-profitable or underperforming units in the last months of 2014. In the markets of Serbia and Montenegro, Mercator revenue increased. The increase in Serbia is partly due to the transfer of Agrokor's Idea units to Mercator.

Productivity was improved by 2.6% relative to 2013, which is consistent with the decrease in the number of employees in the process of transfer of Mercator retail units to Agrokor in the markets of Croatia and Bosnia and Herzegovina, and transfer of Agrokor units to Mercator in the market of Serbia, and with closing down or optimization of the non-profitable or underperforming units in Slovenia.

Operating costs

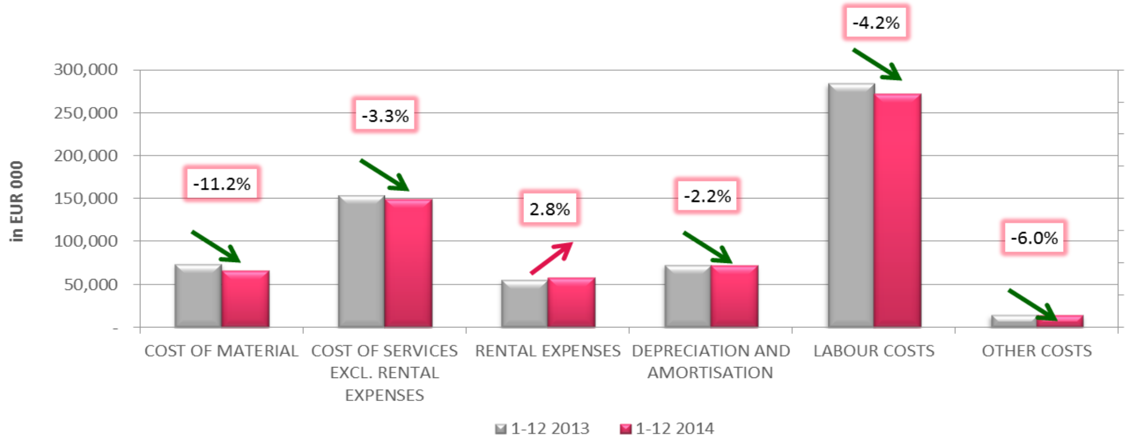
Total Mercator Group costs decreased by 3.0% relative to 2013.

Mercator Group cost of sales and selling and marketing costs, which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 2,570,480 thousand in 2014, which is 3.3% less than in 2013.
Administrative expenses in 2014 amounted to EUR 81,095 thousand, which is 12.7% lower than in year 2013.
In 2014 Mercator Group has generated higher costs related to revaluation of property and equipment and intangible assets, which amounted to EUR 16,249 thousand in 2014 and are 8.3-times higher than in year 2013.

Total costs, including the cost and impairments and receivable write-offs, amounted to EUR 2,667,823 thousand in 2014, which is EUR 85,936 thousand less than in the year before.

There was a major decrease in labour costs resulting from the decrease of the number of employees upon consolidation in the markets of Croatia and Bosnia and Herzegovina, from the transfer of operations of the company Modiana, d.o.o., Slovenia, to the company Mercator, d.d., from the optimization of employees in relation to this, and from the optimization of employees at other companies. From December 31, 2013, to the last day of 2014, the number of employees in the entire Mercator Group was cut by 279; over a quarter of the decrease pertains to employees in administration.
Material costs decreased by 11.2%. Costs of services excluding rents decreased by 3.3%, and depreciation and amortization costs decreased by 2.2%.

Costs of rents increased, especially due to higher share of leased area compared to the year before.



Results from operating activities

Mercator Group's result from operating activities in 2014 was positive at EUR 12,381 thousand. Relative to the year before, results from operating activities are lower, especially due to higher expenses related to impairment of real property, equipment, and intangible assets, and due to the fact that the decrease of revenue was higher than the decrease in costs.
Adjusting for the impairments of land, assets, and goodwill in Croatia, results from operating activities in 2014 would have amounted to EUR 28,304 thousand, or 21.3% less than in 2013.

Net finance expenses

Net finance expenses for 2014 amount to EUR 68,401 thousand, which is 8.9% more than in the year before, partly due to the discount on the sale (factoring) of Mercator Pika card receivables, and due to deferred restructuring costs. The largest share of finance expenses goes to interest expenses with EUR 38,693 thousand, which is EUR 9,257 thousand or 19.3% less than in the year before. Mercator Group finance expenses from currency translation differences amounted to EUR 10,704 thousand, which is 2.3 times more than in 2013.
Adjusting for the impairments of deposits for advance payments of Getro rents in Croatia, net finance expenses in 2014 would have amounted to EUR 63,118 thousand, or 0.5% less than in 2013.

Profit or loss for the year

Mercator Group ended the year 2014 with a net loss of EUR 44,547 thousand. Relative to the year before, the loss was higher by EUR 27,438 thousand. Contributing the most to the increase of net loss were the impairment of land in Slovenia, Serbia, and Bosnia and Herzegovina; impairment of assets and goodwill in Croatia; and impairment of deposits for early payments of Getro rents in Croatia, in the total amount of EUR 21,206 thousand, as well as the fact that the decrease in costs was lower than the decrease in revenue.
Adjusting for the said impairment losses, net loss for the 2014 fiscal year would have been lower, at EUR 23,341 thousand, which would have been EUR 6,412 thousand or 37.9% more than in 2013.

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 100,428 thousand in 2014, which is 8.5% less than the year before. Lower EBITDA is mainly a result of one-off costs related to the financial restructuring and other costs arising from the integration activities with the Agrokor Group.
Gross cash flow from operating activities before rental expenses (EBITDAR) was lower by 4.6% in 2014, amounting to EUR 158,387 thousand. EBITDAR margin remained the same as in the year before at 6.0%.

Assets

Mercator Group assets as at December 31, 2014, amounted to EUR 2,237,373 thousand, which is EUR 66,468 thousand less than at the end of 2013, mostly due to lower value of property, plant, and equipment.

Mercator Group's non-current assets as at December 31, 2014, amounted to EUR 1,687,592 thousand, which is EUR 87,422 thousand less than at the end of 2013. Property, plant, and equipment account for the highest share of non-current assets (95.9%); relative to the end of 2013, they are lower by EUR 85,343 thousand. The decrease in the value of property, plant, and equipment is largely the effect of the revaluation adjustments of land and divestment of equipment as a part of the consolidation in the markets of Croatia and Bosnia and Herzegovina.

Mercator Group current assets as at December 31, 2014, amounted to EUR 549,782 thousand, which is EUR 20,954 thousand more than at the end of 2013. The increase in the value of current assets is largely the effect of higher value of cash and cash equivalents, and increase in trade receivables resulting from the sale of inventories and equipment in the markets of Croatia and Bosnia and Herzegovina to Agrokor. The largest share thereof includes inventories (46.8%) and trade and other receivables (46.3%).

Equity and liabilities

Key changes in equity in 2014 pertain to the following: net loss of EUR -44,547 thousand; revaluation adjustment to property, plant, and equipment in the amount of EUR -32,334 thousand; other changes in value of property, plant, and equipment in the amount of EUR -10,004 thousand, recognition of provisions for severance packages in the amount of EUR -2,370 thousand; currency translation differences in the amount of EUR -8,593 thousand; change in fair value of risk hedging instruments in the amount of EUR 1,452 thousand; change in fair value of available-for-sale financial assets in the amount of EUR 360 thousand; deferred taxes in the amount of EUR 4,562 thousand; and other changes in the amount of EUR -1,143 thousand.

Mercator Group's borrowings and other financial liabilities as at December 31, 2014, amounted to EUR 849,638 thousand, which is EUR 188,170 thousand less than at the end of 2013. Decrease in borrowings and other financial liabilities is a result of the capital increase at Mercator, d.d., carried out by the company Agrokor Investments B.V., and the repayment of a part of the bank loan in the amount of EUR 200 million. Net financial debt of the Mercator Group as at December 31, 2014, amounts to EUR 785,975 thousand, which is 19.6% lower than the 2013 figure. Relative to 2012, we succeeded in cutting our net financial debt by EUR 247,048 thousand until the end of 2014.

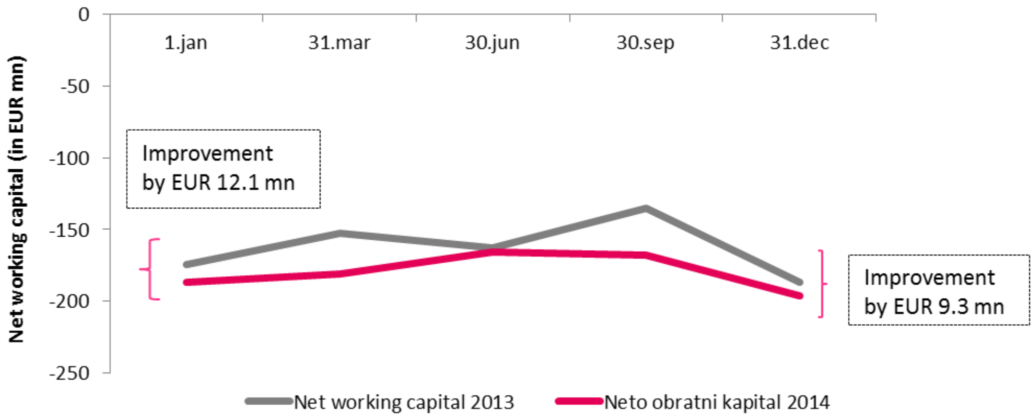
Trade and other payables as at December 31, 2014, amounted to EUR 714,423 thousand, which is EUR 27,064 thousand more than at the end of 2013. Increase in trade and other payables is a result of working capital optimization.

Provisions as at December 31, 2014, amounted to EUR 20,706 thousand, which is EUR 4,341 thousand less than as at the end of 2013, especially due to reversal of provisions for legal claims.

As at December 31, 2014, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounted to 88.1%, which is over 35 percentage points more than as at the end of 2013. This is a result of the increase of the share of non-current financial liabilities and decrease of the share of current financial liabilities, resulting from the completion of the financial restructuring process on the one hand, and decrease of the value of non-current assets especially due to the revaluation adjustments to land and divestment of equipment on the other hand.

Changes in working capital

In 2014, we carried on our working capital optimization policy. Relative to the end of 2013, the value of working capital was decreased as we succeeded in cutting the value of inventories and as the value of trade receivables and trade payables increased. Compared to the end of 2013, net working capital was cut by EUR 9,265 thousand, mostly due to the increase of trade payables.



PERFORMANCE ANALYSIS BY MARKETS

Slovenia

In Slovenia, initial positive effects of positive economic growth were seen in 2014. Export growth gained pace; investment into manufacturing capacity was higher as access to international financing sources was improved; and fiscal policy also had a positive effect on growth. Private spending growth was feeble, but business-to-business operations were stronger. Unemployment rate decreased and consumer confidence improved relative to the year before. The customers insisted on their shopping behaviour adopted since the onset of the economic crisis as they still shop rationally and seek special offers. Despite the favourable economic conditions, Mercator saw a decrease of revenue in the Slovenian market by 2.7% relative to the year before. The reason for the decrease is also a result of closing down of some non-profitable or underperforming units of the fast-moving consumer goods program, home product units, and textile/fashion units. The largest decrease was seen in the home product and textile/fashion programs; the decrease in fast-moving consumer goods units was lower. In the Intersport program, i.e. sports equipment and apparel, Mercator saw 4.5% growth in Slovenia.

In 2014, Mercator carried on its measures introduced as a part of the four-pillar strategy. We improved our working capital management, rationalized costs, and improved employee productivity. Numerous marketing activities were our response to the perceived desires and habits of our customers as we sought to improve their loyalty and satisfaction.

Parent company Poslovni sistem Mercator, d.d.

In addition to the financial statements released in 2013, the analysis of the company Mercator, d.d., also relies on the adjusted financial statements for 2013, as the company Modiana, d.o.o., was merged with Mercator, d.d., as of January 1, 2014. Thus, the financial statements for the 2014 fiscal year already include the operations of the company Mercator, d.d., along with the operations of the Modiana division. For 2013, we added the Modiana Division to obtain comparable data.

In 2014, the company Poslovni sistem Mercator, d.d., generated EUR 1,455,212 thousand of revenue. Compared to the year before, this is a decrease of 0.6%. If revenue of the Modiana division is also taken into account for the year 2013, company revenue in 2013 amounts to EUR 1,502,035 thousand and the decrease in revenue in 2014 over 2013 amounts to 3.1%.

The company Mercator, d.d., cost of sales and selling and marketing costs, which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,404,509 thousand in 2014, which is 0.8% higher than in 2013.
Administrative expenses in 2014 amounted to EUR 41,650 thousand, which is 40.9% lower than in year 2013.
In 2014 the company Mercator, d.d., has generated costs related to revaluation of property, plant and equipment and intangible assets, which amounted to EUR 7,594 thousand.

Total costs, including the cost and impairments and receivable write-offs, amounted to EUR 1,453,753 thousand in 2014, which is EUR 15,207 thousand or 1.1% more than in the year before.
Taking into account the Modiana division for 2013, total costs in 2014 are lower by 1.6%.

In 2014, the company Mercator, d.d., generated a loss of EUR 95,111 thousand. Such result is worse than the 2013 figure by EUR 59,511 thousand. Accounting for the Modiana division in 2013, the increase of loss in 2014 relative to 2013 is lower at EUR 55,925 thousand.
Adjusting for write-offs and impairments in 2014, the company Mercator, d.d., would have generated a lower loss in 2014, amounting to EUR 7,963 thousand, which is an improvement of 77.6% relative to the year 2013.

Gross cash flow from operating activities (EBITDA) amounted to EUR 55,412 thousand in 2014, which is 38.0% less than the EBITDA for the year before.
Accounting for the Modiana division in 2013, the decrease in EBITDA in 2014 relative to 2013 is lower at 36.3%.

Development of gross cash flow from operating activities before rental expenses (EBITDAR) was consistent with that of EBITDA. In 2014, it amounted to EUR 66.969 thousand, which is 34.0% less than the EBITDAR in 2013.
Accounting for the Modiana division in 2013, the decrease in EBITDAR in 2014 relative to 2013 is lower at 32.2%.

Serbia

Macroeconomic conditions in Serbia remain less than encouraging. Serbian economic growth in 2014 was negative. Unemployment rate remains high, and growth of both private and public spending remains negative. Relative to 2013, consumer confidence is lower and remains below the European average. Consumers remain rational and sensitive to pricing as they only shop for the essentials and refuse any major purchases. In the last months of 2014, consolidation took place as a part of the acquisition of Mercator, d.d., by Agrokor, d.d. This involved the transfer of Idea units to Mercator. Thus, 202 Agrokor's Idea units were leased out to Mercator - S, d.o.o. As a result, Mercator is now present in the market with retail units under the banners Roda, Mercator, and Idea. The company Mercator - S, d.o.o., remains in charge of Mercator's current operations in Serbia, and retail and wholesale operations taken over from Idea. The transfer of Idea to Mercator is the key lever of revenue growth in Serbia. Revenue in this market amounted to EUR 620,637 thousand in 2014, which is 10.0% more than in the year before. The company wrapped up the year 2014 with a profit of EUR 863 thousand.

Croatia

Economic growth was negative in Croatia as well. Unemployment rate increased, and growth of both public and private spending was negative. Consumer confidence in Croatia is among the lowest in Europe. Debt and job security are the top causes of concern. Consumers remain sensitive to pricing. They only shop for the essentials, generally buy less, and they look for products included in special offers or for the lowest price in the market. Croatian market, too, was the subject of consolidation. In the last months of 2014, Mercator units were transferred to Agrokor, resulting in loss of revenue for Mercator. In Croatia, 73 Mercator retail units were leased out to Konzum, d.d. Mercator remains present in the Croatian market where it is still in charge of the programs Intersport and Modiana, and management of real property owned by Mercator. Mercator revenue in the Croatian market amounted to EUR 249,831 thousand in 2014, which is 26.8% less than in the year before. The company Mercator - H, d.o.o., ended the 2014 fiscal year with a loss of EUR 33,134 thousand, which is roughly the same as in the previous year.

Croatia was Mercator's worst performing market among all markets of Mercator's presence or operations. Transfer of retail units to Agrokor is thus an opportunity to focus on operations in other, strategically more important markets, or on the operations of Intersport and Modiana and on real estate management in the Croatian market. Retail unit consolidation in Croatia also included optimization of white-collar employees (employees in administration), which is expected to result in a considerable decrease of labour costs and improvement of employee productivity.

Bosnia and Herzegovina

Unlike Serbia and Croatia, Bosnia and Herzegovina saw positive economic growth. Nevertheless, other macroeconomic indicators failed to follow suit in 2014. Unemployment rate remains at an all-time high, and the purchasing power is the lowest in the region. The consumers remain highly sensitive to pricing, only shopping for the essentials, actively looking for special offers, and generally buying less than before. The market of Bosnia and Herzegovina was consolidated as well. In the last months of 2014, 89 Mercator retail units were leased out to Konzum, d.o.o. In the market of Bosnia and Herzegovina, Mercator remains in charge of the programs Intersport and Modiana, and management of real property owned by Mercator. Revenue in Bosnia and Herzegovina amounted to EUR 153,656 thousand in 2014, which is 18.9% less than in 2013. The companies Mercator - BH, d.o.o., and M - BL, d.o.o., wrapped up the year with profit.

Montenegro

Economic growth in the market of Montenegro was positive, while other macroeconomic indicators failed to improve. Unemployment rate remains high, and employee salaries are lower than in the previous year. As a result of poor economic situation, customers are sensitive to pricing, less and less loyal to retail chains, and highly likely to look for special offers. Nevertheless, Mercator revenue in Montenegro increased in 2014. Revenue totalled at EUR 109,126 thousand, or 3.8% more than in the year before. Revenue growth mostly originated from the fast-moving consumer goods program, also from openings of new units. In other programs (home products and Intersport), Mercator's revenue decreased. The company wrapped up the year 2014 in the Montenegrin market with a profit of EUR 22 thousand. The takeover of Mercator, d.d., by Agrokor, d.d., did not affect Mercator's position in the market of Montenegro.

Main indicators by markets

in EUR 000, except of shares	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro	Mercator Group
Revenue	1,520,485	620,637	249,831	153,656	109,126	2,653,735
Share Group revenue	57.3%	23.4%	9.4%	5.8%	4.1%	100.0%
Gross cash flow from operating activities (EBITDA)	62,547	27,091	628	8,306	1,856	100,428
EBITDA / revenue	4.1%	4.4%	0.3%	5.4%	1.7%	3.8%
Gross cash flow from operating activities before rental expenses (EBITDAR)	74,428	46,469	13,849	16,294	7,347	158,387
EBITDAR / revenue	4.9%	7.5%	5.5%	10.6%	6.7%	6.0%

Operations and performance plans for 2015

According to the forecasts, recovery of the European economy is expected to remain slow in 2015, and the markets of Mercator operations will be no exceptions in this respect. Positive economic growth is expected in Slovenia, Montenegro, and Bosnia and Herzegovina; in the latter, the improvement growth will be only slight. After seeing negative economic growth in 2014, Serbia and Croatia will see zero growth.

Household consumption in Slovenia will improve and unemployment rate will decrease. Consumer confidence is improving, but the changes in the consumer behaviour adopted since the onset of the economic crisis are likely to persist.

In other markets of Mercator's operations, unemployment rates are expected to remain extremely high. In Bosnia and Herzegovina and in Montenegro, unemployment rates are expected to start a slight decline; in Croatia, it is expected to remain unchanged; and it is anticipated to increase in Serbia. Low economic growth rates and high unemployment rates will exert a negative pressure on consumption in these markets as consumers remain pessimistic regarding the market situation.

Successfully completed financial restructuring, stable ownership structure, consolidation by markets, and divestment of Mercator Group non-core activities will contribute to improvement of performance in 2015.

Changes in sales by markets

Relative to the previous years, there will be a considerable change in the structure of sales by markets. Following the consolidation, the share of sales generated in Serbia will increase, while the share of revenue from Croatia and Bosnia and Herzegovina will decrease. The latter two markets, especially Croatia, have seen a negative trend in revenue in recent years – more so than other markets. Withdrawal from these two markets is therefore a good starting point for closer focus on the markets where Mercator sees greater development potential and enjoys higher market shares. In Croatia and Bosnia and Herzegovina, Mercator will continue to manage its Intersport and Modiana units, and lease out its real property.

Performance improvement in Serbia

Our sales are expected to increase in 2015 as a result of integration of Idea retail units into Mercator operations. This is a good foundation for improvement of profitability through efficient organization of support and logistics processes.

Integration by markets and reaping of synergistic effects

The integration process involves the Agrokor Group and the Mercator Group carrying out projects to generate synergistic effects that will positively affect both short-term and long-term Group performance. Integration activities are in progress in five key areas: activities for development of market position and perception; development of new organization and culture; investment; IT support; and operating expense optimization.
In international markets subject to consolidation, we will continue to rationalize the number of employees in administration (white-collar employees). The decrease in the number of employees was the highest in the markets of Croatia and Bosnia and Herzegovina; the highest increase was seen in Serbia. Moreover, activities to harmonize business and other processes, and exchange of best practices will be carried on.

Positive effects of financial restructuring

Completed financial restructuring brings many positive effects for the Mercator Group. These effects are expected to be evident already in the 2015 performance, as well as in the years to come: lower interest rates; improvement of supplier relations; improvement of maturity profile and liquidity; increase of investment potential; and more focus on Mercator Group's core activity.

Key projected economic indicators for year 2015

	Plan 1–12 2015	1–12 2014	Index Plan 1–12 2015/ 1–12 2014
Revenue (EUR thousand)	2,854,401	2,653,735	107.6
Results from operating activities (EUR thousand)	108,307	12,381	874.8
Profit / loss before income tax (EUR thousand)	68,477	(48,594)	-
Profit / loss for the financial year (EUR thousand)	59,652	(44,547)	-
Equity (EUR thousand)	756,161	621,677	121.6
Assets (EUR thousand)	2,334,708	2,237,373	104.4
Capital expenditure (EUR thousand)	99,540	85,711	116.1
Return on equity	9.1%	(7.5%)	-
Return on sales	2.1%	(1.7%)	-
Net financial debt / equity	1.01	1.26	79.5

RISK MANAGEMENT

In addition to the persistently adverse economic conditions in most markets of Mercator's operations, Mercator Group performance was also affected by implementation of several major projects. The most important among them were the following: change of the majority shareholder/owner of the parent company; parent company capital increase; consolidation in respective markets; and completion of financial restructuring of the entire Mercator Group. All this presents a positive platform for the Group's future operations; however, we are aware that these changes have introduced new risks that Mercator has not faced in previous years, or which were not as acute as they may be now. Therefore, it is all the more important to clearly define the newly identified risks, to identify the level of exposure, and to specify the activities to hedge or mitigate such exposure in the future.

Mercator Group's risk monitoring and management system

As at the end of 2014, the risk monitoring system was changed and a new risk register was introduced for the entire Mercator Group. Risks were broken down into five areas, and several risk categories were defined within each area:

Areas of risk		Risk categories
STRATEGIC RISKS	1	Corporate governance risks
	2	Competitiveness and customer satisfaction risks
	3	Risks related to development of offer of goods and services
	4	Sales channels development risks
FINANCIAL RISKS	1	Financial risks
OPERATIONAL RISKS	1	Operational risks in category management and procurement
	2	Operational risks in manufacturing
	3	Operational risks in supply chains
	4	Operational risks in retail
	5	Operational risks in wholesale
SUPPORT RISKS	1	Human resource risks
	2	Legal risks
	3	Property and equipment management risks
	4	IT risks
	5	Project risks
	6	Damage risks
COMPLIANCE RISKS	1	Accounting risks
	2	Tax risks
	3	Occupational health and safety risks
	4	Food safety risks
	5	Environmental risks

Based on the analysis of our business environment, past results, and plans and estimates for the future, we specified the risks perceived within each risk category.
With detailed analysis, we assessed the level of risk and, based on uniform criteria, whether the risk is a key risk or not. The criterion for classification of risks among key risks was the amount of gross cash flow from operating activities (EBITDA). Risks of a particular category are classified as key risks if the amount of the estimated value of such risks exceeds 3% of EBITDA of the company or the Mercator Group. Risks perceived within each category of risks are labelled as key risks if the estimated value of a risk exceeds 1% of the company or Mercator Group EBITDA.
The following is done for all key risks:

- we describe the activities conducted in the current year in order to manage the risk at hand;
- we describe the planned activities to manage this risk in the next year; and
- we specify whether exposure to this risk is expected to increase or decrease in the next year, relative to the year before.

Mercator Group is analyzing the risks for every individual company and the Group as a whole. If specific data is not available, an approximation is made at the Group level using the available data.

Key risk analysis for the Mercator Group

Analysis of all areas of risk for the Mercator Group has shown the highest exposure to strategic risks, followed by financial risks, support risks, compliance risks, and operational risks.

Analysis of key risk management has shown that Mercator Group's exposure is the highest in the category of financial risks, and slightly less in the risk categories of development of offer of goods and services, corporate governance risks, damage risks, competitiveness and customer satisfaction risks, and category management and procurement risks. Mercator Group's exposure to other risk categories is lower. In all risk categories we find that the company Mercator, d.d., has the highest exposure among all Mercator Group companies. The reason for this is that the company generates the major part of EBITDA of the entire Mercator Group.

A total of 288 risks were identified for the Mercator Group for the year 2015, of which 73 were categorized as key risks. Risk management approaches were specified for all key risks, and we made assessments as to whether the exposure to these risks will be lower, higher, or the same in 2015 relative to 2014.

Key risk analysis for the company Mercator, d.d.

Analysis of all areas of risk for the company Mercator, d.d., has shown the highest exposure to strategic risks, followed by support risks, financial risks, operational risks, and compliance risks.

Analysis of key risk management for the company Mercator, d.d., has shown similar results as the analysis for the Mercator Group. The company's exposure is the highest in financial risks, and somewhat lower in the following risks: operational risks pertaining to category management and procurement; damage risks; risks related to development of offer of goods and services; corporate governance risks; and operational risks in wholesale The company's exposure to other risk categories is lower.

A total of 157 risks were identified for the company Mercator, d.d., for the year 2015, of which 23 were categorized as key risks. Risk management approaches were specified for all key risks, and we made assessments as to whether the exposure to these risks will be lower, higher, or the same in 2015 relative to 2014.

Below we present an analysis of the risks to which we estimated that they are the most important for Mercator Group in terms of their impact on the Group's operating results and in terms of their management.

Review of key risks

Corporate governance risks

These are risks pertaining to the long-term development of Mercator Group companies, related to development and implementation of the Group strategy, stability of ownership, integration processes, governance of companies within the Group, compliance with the ethics code, flow of information, Group reputation, sustainability of operations etc.

Key risk	RISK OF CORRECT DEFINITION AND IMPLEMENTATION OF STRATEGY
Key risk description	Correctly drawn up and efficiently executed strategy is the foundation for successful operation of the company Mercator, d.d., and the entire Mercator Group. Considering the importance of quality strategic policies for the company Mercator, d.d., we believe an ill-defined or misunderstood strategy by all stakeholders could have a negative impact. The process of drawing up and implementing the strategy considers all current theoretical and practical aspects that include both the specific features of the trade or retail industry and the specifics of all markets in which the Mercator Group is conducting its business.
Risk management analysis for 2014	In 2014, the company Mercator, d.d., and the entire Mercator Group continued to pursue the developed strategy. Throughout the year 2014, several activities took place to rationalize and optimize the operations, with simultaneous increase in internal controls. In order to effectively manage the risks, the Management Board of the company Mercator, d.d., continued to pursue in 2014 the four strategic goals: optimization, profitability, focus, and growth. The company Mercator, d.d., communicated the accepted strategy and the activities for the attainment of the strategic goals to Mercator Group employees as soon as the strategy was adopted; over the years, the activities have been upgraded and enhanced.
Activities planned for 2015	We shall consistently monitor the execution of the strategy laid down, and seek to efficiently communicate the method of conducting the activities for attainment of the goals specified in the strategy.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Key risk	RISK OF LOSS OF REPUTATION
Key risk description	In addition to the actual effect on the assets of the company or the Group, negative information regarding the company Mercator, d.d., and the Mercator Group also affects their reputation. By pursuing a solidly planned communication with the public, providing financial support to numerous cultural and sports events and humanitarian campaigns, and by responsible conduct, the company Mercator, d.d., is seeking to build and maintain a positive image in its business environment.
Risk management analysis for 2014	The exposure of both the company Mercator, d.d., and the entire Group to the risk of loss of reputation was higher in 2014 than in the years before. This was mostly related to the activities regarding the change of the company ownership as Mercator was featured more frequently in the media. As a result, the probability of false interpretation of business events and distortion of facts was increased. To this end, even more attention was paid to transparent communication with all stakeholders.
Activities planned for 2015	We shall seek to maintain transparent communication about our business activities and events with the business community, customers, and other stakeholders.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Key risk	RISK OF INEFFICIENT SYSTEM OF GOVERNANCE AND ASSUMPTION OF RESPONSIBILITY
Key risk description	Changes in the ownership of the parent company may result in more profound changes in the system and structure of management or governance. It is expected from the management to perform their work in a responsible and honest manner with the diligence of a good manager performing their work to the benefit of the company, delivering stable return for the shareholders and taking into account the links of the company with all stakeholders and the company's effect on them.
Risk management analysis for 2014	In 2014, risks of inefficient system of governance or management and assumption of responsibility were perceived at the company Mercator, d.d., along with risks of replacement of some key employees, particularly in those markets where there has been a transfer of trade activities. The change in Mercator, d.d., ownership also involves adjustment of the strategy and a change in the corporate culture. Upon the onset of such changes, the rules of procedure for Mercator Group management and governance and the description of employee powers and authority were revised.
Activities planned for 2015	Consistently with the sound practice and applicable legislation, the Management Board of Mercator, d.d., shall continue to strive to perform its duties as responsible, honest, and diligent managers, and maintain the flow of information to support the attainment of the goals laid down by the company Mercator, d.d., and the Group.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Key risk	RISK OF FAILURE TO COMPLY WITH COVENANTS TO BANKS
Key risk description	A change in ownership structure of the company Mercator, d.d., resulted in additional risks at the Mercator Group. On the one hand, these are related to the tax aspect; on the other hand, they involve the covenants agreed upon with banks. Regarding the taxation aspect, this involves the risk regarding the transfer pricing rules. Moreover, the risk has also been identified in case of compliance with commitments on the uniform and fair distribution of synergies betwen the companies in the Agrokor Group and the Mercator Group.
Risk management analysis for 2014	In 2014, several project groups from Mercator and Agrokor held multiple meetings in order to coordinate their activities and to exchange sound practices, in order to optimize the processes and to foster positive performance for both Mercator and Agrokor. A special protocol regarding the respect of commitments towards banks was also signed and shall be reviewed at least once a year by an independent auditor.
Activities planned for 2015	In 2015, we shall regularly review all transactions with the Agrokor Group companies, compliance with the commitments of even distribution of synergistic effects, and other commitments laid down in the Agreement.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Key risk	RISK OF INTEGRATION OF ACQUIRED OPERATIONS
Key risk description	The purpose of the acquired operations into the Mercator Group is the pursuit of joint synergies, strategic interests, reduction in costs, and improvement of market position. Mercator's takeover by the company Agrokor, d.d., has resulted in consolidation in the markets in which both retailers, Mercator and Konzum, are present. The risks in such processes are varied. The consolidation may not result in desired strategic effects and it may not increase or not increase sufficiently shareholder value. One major risk related to the integration of transferred operations is the failure to comply with the covenants agreed upon with banks (consistent observance of the arm's length principle), by either Agrokor or Mercator.
Risk management analysis for 2014	The risk of integration of the transferred activities in the markets where both Mercator and Konzum are present we perceived in the second half of 2014 when the takeover of Mercator, d.d., by Agrokor, d.d., resulted in consolidation by respective markets. We employed project approach for takeover and integration of the transferred units. The project involves all key areas of the company Mercator, d.d., other companies of the Mercator and Agrokor Group, for which tasks were clearly defined regarding the measures to reap the synergies.
Activities planned for 2015	In 2015, we shall seek to maintain transparent communication about the progress of business activities with all business units and employees within the Mercator Group and Agrokor Group, and seek to ensure cooperation of employees in all markets in which Mercator Group's companies are present and other companies of Agrokor Group.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Competitiveness and customer satisfaction risks

These are risks related to what our customers will be like in the medium run. They pertain to the anticipation of customer requirements, their purchasing power, demographic trends etc.

Key risk	RISK OF A DECLINE IN MARKET SHARE RESULTING FROM NEW OPENINGS OF OUR COMPETITORS
Key risk description	Risk of a decline in market share resulting from new openings of our competitors is related to the decisions of our competitors. If our competition opens a large number of stores, this may lead to a decline in Mercator's market share.
Risk management analysis for 2014	In 2014, we monitored market share and net retail area of Mercator and its competitors on a monthly basis. We refurbished par of our existing stores and continuously looked for new potential locations.
Activities planned for 2015	In 2015, we shall continue to monitor on a monthly basis the market share and net retail area of Mercator and our competitors. Openings of new stores and refurbishments of existing ones will be consistent with the plan for 2015. We shall continue to look for new potential locations.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **LOWER**.

Risks related to development of offer of goods and services

These are risks related to what our supply sources and services will be like in the medium run. They pertain to the anticipated development of procurement channels, private labels, supplementary activities, offers on the purchasing side etc.

Key risk	**RISK OF POOR PRICE COMPETITIVENESS**
Key risk description	The risk of poor price competitiveness is the risk related to the pricing policy and the company's position or power on the procurement side. The risk may result in a loss of a part the revenue and thereby a part of the gross profit margin relative to the plan for these categories.
Risk management analysis for 2014	In 2014, we revised our pricing policy at fast moving consumer goods stores in Slovenia. Regularly, on a monthly basis, we analyze price perception of Mercator by the customers. New price lists were introduced in 2014 at retail units of the company Mercator - S, d.o.o. On the basis of the regularly conducted inventories of price competition, we implement corrective measures.
Activities planned for 2015	In 2015, we shall make our pricing policy even more subtle, seeking to analysis to the product level. We shall maintain regular periodical reviews and competitor price analyses and dynamically respond to them. We shall monitor the analyses of pricing perception among consumers on a monthly basis.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Key risk	**RISK OF SUB-OPTIMUM ASSORTMENT AND RETAIL AREA MANAGEMENT AT THE MICRO LEVEL**
Key risk description	The risk of sub-optimum assortment and retail area management at the micro level is related to assortment policy and implementation of specific assortments and planograms at retail units. In this respect, the size and location of a retail unit, and seasonal effects are extremely important aspects. Establishment of complete infrastructure for smooth assortment and retail area management is of strategic importance. The risk may result in a loss of a part of revenue and, as a result, profit margin.
Risk management analysis for 2014	In 2014, we managed our marketing mix with strategies and tactics development and implemented for particular categories, and by regular monitoring of a variety of performance indicators. Based on the identified shopping behaviour of consumers and monitoring of our competitors, we actively managed our assortment, both branded and private label. Another important step in the implementation of assortments and planograms was the revision of the material operations processes, which allow easier and more automated implementation and maintenance of both the assortment and the planograms. Moreover, they optimize the value of inventory in retail.
Activities planned for 2015	In 2015, we shall manage the assortments in compliance with the strategies and tactics laid down for individual categories. We shall actively monitor our competitors and both European and global trends. We shall carry on the project of material operation process revision and establish complete infrastructure for effective management and maintenance of assortments and planograms.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **LOWER**.

Key risk	RISK OF SUB-OPTIMUM MANAGEMENT OF SALES PROMOTION ACTIVITIES
Key risk description	The risk of sub-optimum management of sales promotion activities is the risk related to the efficiency of sales promotion activities and their implementation at retail units. The risk may result in a loss of a part of revenue and, as a result, profit margin, or loss of absolute margin as a result of excessive discounts or rebates to customers.
Risk management analysis for 2014	In 2014, numerous and varied activities were conducted with regard to key products and categories, as per the annual marketing plan. We regularly monitored the efficiency of our activities and measured the performance indicators for them. Employing direct comparison of activities and software tools, we regularly monitored the activities of our competitors, and adapted as necessary in terms of the choice of products, categories, prices, and the very mechanics of the sales promotion activities.
Activities planned for 2015	In 2015, we shall conduct our sales promotion activities as per the adopted marketing plan, based on which detailed quarterly action plans are developed. We shall analyze the efficiency of all activities and monitor our competitors. We shall seek to respond promptly and effectively. Integration into the Agrokor Group allows us to directly compare sound practices and efficiency of their implementation.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Financial risks

These are risks pertaining to management of finance. They involve credit, interest rate, currency, liquidity, inflation, price, and other similar risks.

Key risk	CREDIT RISK RELATED TO LEGAL PERSONS
Key risk description	Credit risk involving legal persons represents an assessment of the risk that receivables from legal persons resulting from deferred payment will only be settled partly or not at all.
Risk management analysis for 2014	We have established a uniform central system for managing the limits of individual customers. This allows us to regulate our exposure to individual customers based on their performance in terms of timely settlement of their liabilities, based on the credit ratings by third-party credit rating institutions, and based on the quality of insurance or security they provide. We have also defined stricter conditions for sale to customers who are late with their payments. The emphasis was on decreasing the overdue unpaid liabilities to Mercator. In 2014, the company Mercator - S, d.o.o., took over the wholesale operations from the company Idea, which increased the share of revenue exposed to credit risk.
Activities planned for 2015	In 2015, we shall consistently comply with the internal rules on credit risk management. We shall implement the customer credit limit management workflow. Wa shall transfer sound practices of the credit risk management system from the company Mercator, d.d., to the company Mercator - S, d.o.o.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Key risk	LIQUIDITY RISK
Key risk description	Liquidity risk presents assessment of the risk that at a certain moment, the company will not have enough liquid assets to settle its current liabilities
Risk management analysis for 2014	On June 9, 2014, the Mercator Group signed so-called independent restructuring of loans provided by creditor banks. As a result of the takeover of Mercator by Agrokor, an additional agreement to the financial restructuring was subsequently signed, which involved Agrokor providing EUR 200 million of capital funding used to repay the bank loans. Simultaneously, loan maturity was extended to June 2021. By signing of the restructuring agreement, Mercator's liquidity risk was considerably mitigated.
Activities planned for 2015	In 2015 we shall improve the processes of daily cash flow planning and working capital management both in the segment of credit risk management and in inventory and trade payables management, which in turn will allow us to provide adequate liquidity for the Mercator Group.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **LOWER**.

Key risk	CURRENCY RISK AT MERCATOR–S
Key risk description	Currency risk at Mercator - S, d.o.o., involves an assessment of the loss of economic benefit resulting from the changes in the EUR/RSD exchange rate.
Risk management analysis for 2014	The Serbian dinar (RSD) depreciated considerably in the course of 2014. In the first half of 2014, the rate was close to the opening rate for the year of RSD 114.76 per 1 EUR. In the second half of 2014, RSD started to depreciate and ended the year at RSD 120.96 per 1 EUR. Restructuring involved denominating a part of the loans in RSD. Thus, currency risk was decreased with regard to a small portion of our loans.
Activities planned for 2015	In 2015, 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. Based on the general trends and expectations, we shall seek to adapt our operations, as far as possible, in such way that it foreign currency risk is naturally hedged.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Operational risks in category management and procurement

All risks that may threaten category management and procurement.

Key risk	SUPPLIER FAILURE
Key risk description	Failure on the part of the suppliers to comply with their obligations result in delivery failures, which in turn affects our inventory management, results in deficiency of goods on the shelves in our retail units, higher goods distribution expenses due to additional transport from distribution centers to retail units, and direct loss of revenue which could have been generated had the goods been delivered on time.
Risk management analysis for 2014	In 2014, we examined the possibility of IT support for monitoring delivery failures and direct deliveries of suppliers to retail units; however, such support has not been implemented yet.
Activities planned for 2015	In 2015, we shall continue with regular monitoring of delivery failures, and seek to respond accordingly. For Mercator, d.d., we are planning implementation of IT support for monitoring of delivery failures and direct deliveries of suppliers to retail units.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Key risk	SEASONAL EFFECT
Key risk description	The risk based on the effect of bad weather on the seasonal products is related to efficient management of such categories. Increasingly unpredictable weather introduces higher probability of lower sales of certain products during their peak season which depends on nice sunny weather. In order to provide a varied in appealing offer, stores have to stock up for the summer season. However, bad weather increases the probability of low sales, which results in loss of revenue, high inventory, or low profit margin due to extraordinary discounts on retail prices. Sales of other seasonal products, which are linked to holidays, are not subjected to weather conditions.
Risk management analysis for 2014	We looked to reach agreements with the suppliers for additional discounts in case of additional price cuts or in case of return of goods following the end of season.
Activities planned for 2015	In 2015, we shall continue to carefully plan and order our seasonal products. We shall specify appropriate dates for the start of sale of seasonal products, as well as appropriate dates for the start of clearance sales.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Key risk	INCREASE OF TRADABLE COMMODITY PRICES
Key risk description	This is the risk of increase of prices of traded commodities, which is related to efficient management of those categories that may be subject to considerable effect from the commodity market.
Risk management analysis for 2014	We closely monitored the prices of raw materials on which the prices of our products are heavily dependent. Since commodity market changes affect the prices of all products in a category, loss of revenue and profit margin sadly cannot be recovered by the use of substitutes. One effective measure are forward contracts signed at the time when procurement price is at a low, assuming good knowledge of the trend of the prices in the category at hand.
Activities planned for 2015	In 2015, we will continue to monitor the commodity exchange prices for the raw materials that affect the prices of our products and categories. At Emba, d.o.o., purchases of raw coffee will be completed at outright prices.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Key risk	RISKS OF FAILURE TO ATTAIN THE PLANNED PROFIT MARGIN AND RETURNS ON SALES PROMOTION ACTIVITIES
Key risk description	Risks of failure to attain the planned profit margin and supplier returns are related to efficient management of the sales promotion activities, and provision of other services agreed upon contractually with the suppliers.
Risk management analysis for 2014	Planned and actual key performance indicators for the entire FMCG format and for particular categories were regularly monitored on a monthly basis. In case of any undesirable deviation, short-term and long-term measures for the improvement of all key performance indicators within each category or at the level of a particular product were adopted immediately.
Activities planned for 2015	In 2015, we shall seek to efficiently manage our regular and promotional retail prices. We shall seek to adopt corrective measures in case of failure to attain our goals. We shall monitor on a monthly basis the returns from sales promotion activities.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

Operational risks in wholesale

All risks that may threaten wholesale operations.

Key risk	**RECEIVABLES AND DISPUTED RECEIVABLES**
Key risk description	The purpose of trade receivables management is to mitigate the risk of repayment of all outstanding receivables.
Risk management analysis for 2014	In 2014, in the company Mercator, d.d., we conducted several important measures for improvement of managing of outstanding receivables and consequently lower the risk of default payments.
Activities planned for 2015	In 2015 we continued with implementation of activities to improve the management of outstanding receivables. Sound practices will be transfered from the company Mercator, d.d., to the company Mercator - S, d.o.o.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **LOWER**.

Key risk	**FAILURE OF THE REFRIGERATION SYSTEM AND ELECTRICAL WIRING**
Key risk description	In recent years, we have not sufficiently invested in renewal of the worn refrigeration equipment and electrical wiring at wholesale units. Thus, the risk related to the worn refrigeration equipment at all wholesale units was identified as the top operational risk, as a failure of the refrigeration system at such units may result in major material damage.
Risk management analysis for 2014	We monitored the operation of the refrigeration equipment, conducted daily reviews of the temperature regime, and regular periodical examinations by maintenance and inspection teams were conducted. Any failures on refrigeration equipment were communicated promptly, and correct operation of refrigeration and freezing equipment was checked in order to allow prompt recovery in case of any failure or damage.
Activities planned for 2015	In 2015, a trained maintenance team will again thoroughly examine the condition of the refrigeration equipment. We shall also commission an authorized control authority to inspect the piping and conduct pressure tests. We shall provide additional employee training for diligent refrigeration equipment maintenance. We shall replace the most badly worn refrigeration equipment with new equipment and provide urgent restoration of worn electrical wiring.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **HIGHER**.

IT risks

These are risks pertaining to IT support. They involve risks related to the use of IT systems and their daily support to business processes.

Key risk	FAILURE OF CENTRAL IT SYSTEMS
Key risk description	The risk is related to the failure of the central IT systems. Failures may occur for various reasons such as natural disasters, fires at the premises, failure of individual system components, failure in system or application software etc.
Risk management analysis for 2014	We launched an initiative within the company Mercator, d.d., to improve the efficiency of management of the changes to the central IT systems. Improvements are being implemented in several stages. We give top priority to optimization of resolution of requests for business application development in material operations. Optimization also takes place within other business fields and applications. We carried on activities to set up 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. We installed new air conditioning equipment in key system areas (data centers) located on Mercator, d.d., premises. The new equipment provides normal climate conditions for flawless operation of servers. We conducted a study for the project of further implementation of IT Service Management (ITSM) principles, and carried out activities with the contractor to develop the optimum solution concept; we have launched implementation of this project. The project will involve revision of processes and establishment of new tools for management of IT resources, changes, and problems related to the central IT systems. The project of replacing the main server infrastructure was launched. It includes replacement and upgrade of hardware. Key business applications like SAP and GOLD will be migrated to the new infrastructure.
Activities planned for 2015	In 2015, the following activities will be conducted: • completion of the project to replace the main server infrastructure, which will involve replacement and upgrade of the hardware to which the key business applications will be transferred. • further activities to set up the data center building blocks under the auspices of the IT equipment operation control systems (monitoring) will be carried out. • processes will be revised for management of the IT resources, changes, and problems related to central IT systems at Mercator, d.d. • IT solutions (applications) will be implemented to support these processes. • regular analysis of business information systems will be conducted to identify and resolve any problems related to the operation of the business IT system at Mercator, d.d. • establishment of advanced central records of business IT system servers which will include, in addition to the information on assets, the key infrastructural information regarding these assets at Mercator, d.d. • establishment of advanced central records of changes implemented on such assets at Mercator, d.d. • implementation of systemic approach to changes on the infrastructure and organization of work, and establishment of an environment for quality inter-sector communication to allow prompt response in cases of non-compliance or failures resulting from the adaptation of the Agrokor Group and its policies. • further regular maintenance activities on IT equipment.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Key risk	RISK OF INCORRECT DATA IN CENTRAL OR RETAIL SYSTEMS AS A RESULT OF A FAILURE IN THE PROCEDURES TRANSFERRING AND PROCESSING THE DATA, OR DUE TO A SYSTEM BREACH
Key risk description	The risk is mostly related to business loss resulting from changed (lower) downstream prices or embezzlement of funds from the company accounts.
Risk management analysis for 2014	Initiative for optimization of incident resolution has been set up for incidents occurring at the point of sale. User support department took over the first level of resolution of computer incidents from the key third-party service provider, thus establishing internal central records of incidents. We have developed environment for more advanced IT equipment error reporting, which allows structured reports of incidents in retail and more complex analysis of such errors. We conducted a study for the project of further implementation of IT Service Management (ITSM) principles, and we carried out activities with the contractor to develop the optimum solution concept; we have launched implementation of this project. The project will involve revision of the processes and implementation of new tools of identification and resolution of problems occurring in the field of data transfer and processing.
Activities planned for 2015	In 2015, we shall revise the problem handling process, which will involve identification of weaknesses in procedures by which the data on the sale of goods is managed. In addition, we shall introduce IT solutions to support this process. Regular analysis of the IT environment will be carried out in order to identify and resolve the problems related to the procedures in which data on sale of goods is managed.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Key risk	OPERATIONAL FAILURE OF A THIRD OF THE BUSINESS IT SYSTEM CLIENTS
Key risk description	The risk of operational failure of a third of the business IT system clients deals with the failure of key IT equipment that the users use to access an IT service. This category of equipment includes personal and portable computers on which client software is installed to allow the use of business applications, or independent clients for conducting individual business operations. Equipment failure may result from a number of reasons, such as the failure of system software that allows equipment operation, key electronic component failure, equipment breach, infection with a computer virus etc.
Risk management analysis for 2014	We conducted a study for the project of further implementation of IT Service Management (ITSM) principles, and carried out activities with the contractor to develop the optimum solution concept; we launched implementation of this project. The project will involve revision of processes and establishment of new tools for keeping records and monitoring the events on business IT system clients.
Activities planned for 2015	In 2015, we shall revise the process of keeping the records and monitoring the events on business IT system clients, and implement IT solutions to support these processes. We shall establish advanced records of business IT system clients which will include, in addition to the information on assets, the key infrastructural information regarding these assets.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Damage risks

These are risks pertaining to management of loss events. They involve risks related to the insurance of loss events (fire, earthquake, floods, burglary etc.).

Key risk	**EARTHQUAKE**
Key risk description	Earthquakes are among the most dangerous natural disasters. An earthquake may result in a major loss event that could threaten the existence or development of the company at a certain moment. Slovenia has been identified as an area of high seismic hazard with an average magnitude of 7 according to the European Macroseismic Scale. Earthquake magnitude level for Ljubljana and its broad environment is 8 or 9. Montenegro has the highest seismic hazard among the countries of Mercator's operations. Croatia, too, lies on a high seismic hazard area, while seismic activity in Serbia is not high.
Risk management analysis for 2014	In 2014, earthquake insurance was taken out based on cost (new replacement value), meaning that building depreciation is not taken into account in the damage estimate following a loss event.
Activities planned for 2015	Activities in 2015 will be geared towards the implementation of better control of seismic construction and thereby decrease of financial damage in case of a loss event.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Key risk	**FIRE**
Key risk description	This risk pertains of a fire spreading with its own power, destroying the owner's property. Its effects can be catastrophic. Insurance in case of a loss event only provides recovery of damages incurred on the insurance holder's property and it represents the financial construction of restoration following a loss event.
Risk management analysis for 2014	In 2014, we carried out all fire protection activities and took out fire protection insurance.
Activities planned for 2015	In 2015, we shall continue to carry out all fire protection activities. We shall seek to obtain fire insurance for our property.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **EQUAL**.

Environmental risks

These risks are related to the identified environment aspects. These aspects involve areas like use of raw materials and energy, emissions into air, emissions into water, waste management etc. They include risks related to inefficiently designed business processes, risks related to environment penalties, risks related to extraordinary conditions (fires, floods etc.) and risks related to negative public opinion regarding environment protection.

Key risk	**ELECTRICAL ENERGY**
Key risk description	Environment risk for the environment aspect of electric energy is related to inefficient use of electric energy due to suboptimal design of business processes and technologies employed.
Risk management analysis for 2014	In 2014, we reported on a monthly basis to the management and responsible departments on the environmental aspects (energy) for the entire Mercator Group. Quarterly notifications were sent to employees regarding efficient use of energy and adjusting the settings for the annual operating modes. By the end of August, all 51 facilities were connected and optimized within the Retail Care project. Optimization has resulted in a decrease of refrigeration equipment power consumption by approximately 13%. All 24 planned combined heat and power units were installed and launched. The pilot energy management project was completed as of September 1, 2014. Based on the pilot project, we have signed an agreement spanning several years on the implementation of energy management with a third-party partner. We completed the project of replacement of lighting in internal and external corporate visual identity objects on all 23 units.
Activities planned for 2015	In 2015, we shall continue to inform the employees on a quarterly basis about the efficient use of energy. We shall upgrade the existing energy accounting system with a more detailed targeted monitoring of energy consumption. Working with a third-party contractual partner, we shall carry out measures for efficient use of energy.
Assessment of exposure 2015/2014	Relative to 2014, we believe the risk in 2015 will be **LOWER**.

FINANCIAL MANAGEMENT

Stable Financial Operations

As at December 31, 2014, Mercator Group net financial debt amounted to EUR 785,975 thousand, which is 19.6 percent less than as at the end of 2013. The decrease is predominantly a result of the completed financial restructuring of the Mercator Group and capital increase of the company Mercator, d.d., by the company Agrokor Investments B.V., which involved the Group's deleveraging and improvement of the maturity profile of its debt.

in EUR thousand	Dec 31, 2014	Dec 31, 2013	Index Dec 31, 2014/ Dec 31, 2013
Non-current financial liabilities	806,640	351,583	229.4
Current financial liabilities	42,998	686,225	6.3
Derivative financial instruments (liabilities)	0	1,469	-
Financial liabilities including derivative financial instruments	**849,638**	**1,039,276**	**81.8**
Cash and cash equivalents	34,223	18,505	184.9
Derivative financial instruments (assets)	0	16	-
Available-for-sale financial assets	1,178	820	143.6
Loans and deposits	28,262	42,609	66.3
Financial assets	**63,663**	**61,950**	**102.8**
NET FINANCIAL DEBT	**785,975**	**977,326**	**80.4**

Financing costs

In the period 1–12, 2014, the 6-month EURIBOR averaged at 0.308%. At the end of the period, it was at no more than 0.171%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at 0.336%, this rate fell by 0.028 percentage point.

Debt to equity and financial liability ratio

As at December 31, 2014, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.26. The ratio is a quotient between equity which includes share capital as reported in financial statements, and net financial debt.

In 2014, Mercator Group succeeded in improving the composition of financial liabilities by maturity (maturity profile) by completing its financial restructuring. The share of long-term financial liabilities as at December 31, 2014, amounted to 94.9% (33.9% as at December 31, 2013).

Following the restructuring of the company Mercator, d.d., all financial liabilities of the company are variable and tied to the EURIBOR.

Available liquidity lines as at December 31, 2014

As at December 31, 2014, Mercator Group had access to the following liquidity lines:

in EUR thousand	Dec 31, 2014
Cash and cash equivalents	34,223
Standby revolving credit lines	41,144
Total	**75,367**

Security of bank loans

Restructuring of Mercator Group's financial liabilities included securing such liabilities with mortgages on Mercator's own real property, with financial investments into subsidiaries, receivables, inventories, and deposits in bank accounts.

Financial restructuring of the Mercator Group

On June 9, 2014 Mercator Group signed with all creditor banks and lessors comprehensive contract documentation on the Mercator Group financial restructuring. The last suspensive conditions for the effectiveness thereof were met as of June 17, 2014. In addition to other aspects, the financial restructuring aligned repayments with the Group's expected cash flow, improved liquidity, and secured a higher rate of investment into Mercator Group activities. Previously, the capital structure mostly involved bilateral credit lines. Working with its creditors, Mercator took a big step towards a consolidated set of financing conditions and a basis for joint decision-making, with a consolidated set of documentation pursuant to the best international practice.

On June 24, 2014, following the initiative of the company Agrokor, d.d., an agreement was signed on the consent to the changes and amendments of the financial documentation on the financial restructuring of the Mercator Group, dated June 9, 2014. The Agreement lays down the commercial terms for Mercator Group's financial restructuring in case of a takeover by the company Agrokor, d.d. The agreement was made effective subject to a number of conditions, including that the company Agrokor, d.d., approve and transfer to the company Poslovni sistem Mercator, d.d., a subordinated loan of EUR 200 million, which was used for early repayment of a part of Mercator Group's loans to the creditor banks. The company Agrokor, d.d., transferred such subordinated loan on June 27, 2014, simultaneously with the acquisition of the majority block of shares of the company Poslovni sistem Mercator, d.d. Furthermore, Agrokor, d.d., committed to vote, after the takeover procedure, in favour of the conversion of the said subordinated loan to Mercator equity, which will notably decrease the overall debt of the company Poslovni sistem Mercator, d.d.

Financial restructuring of debt and financial lease follows the repayment plan, extended until March 2020.

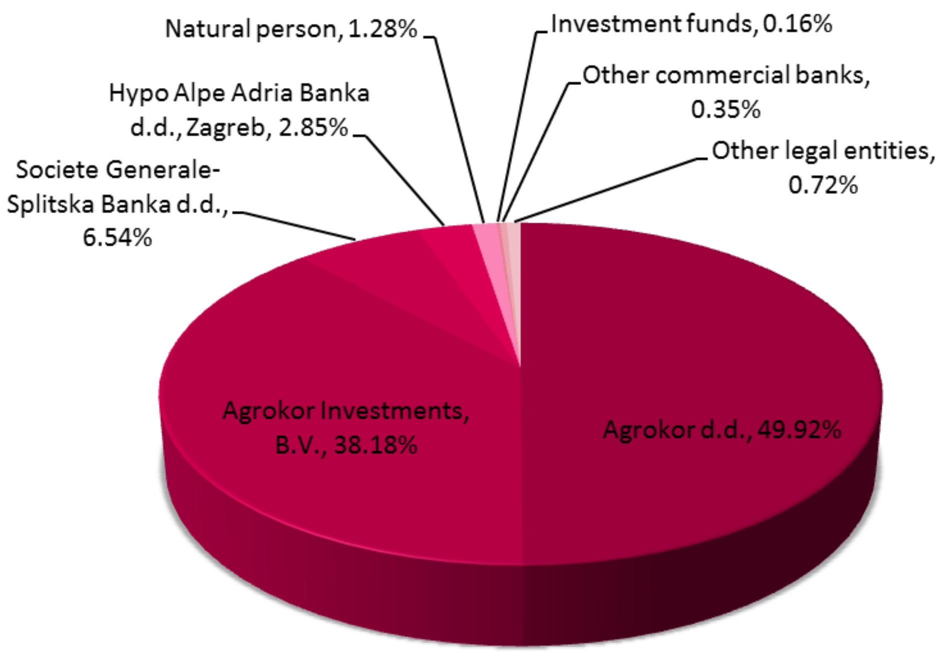
MERCATOR SHARE AND INVESTOR RELATIONS

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31, 2014

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljana Stock Exchange
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of treasury shares	42,192
Number of shareholders	2,659

Ownership structure of the company Poslovni sistem Mercator, d.d., as at December 31, 2014



Major Shareholders

As at December 31, 2014 the following ten largest shareholders held a combined share of **98.33%** of the company.

	Major Shareholders	Country	Number of shares	Share
1	Agrokor d.d.	Croatia	3,040,597	49.92%
2	Agrokor Investments B.V.	Netherlands	2,325,582	38.18%
3	Societe Generale - Splitska Banka d.d.	Croatia	398,273	6.54%
4	Hypo Alpe-Adria-Bank d.d	Croatia	173,464	2.85%
5	Galić Josip	Croatia	21,525	0.35%
6	Erste Group Bank AG	Austria	16,261	0.27%
7	Gustavia Balkan	Sweden	10,000	0.16%
8	Horvat Jože	Slovenia	1,304	0.02%
9	Banque Pictet and Cie SA	Switzerland	1,107	0.02%
10	Clearsteam Banking SA	Luxembourg	953	0.02%
		Total	**5,989,066**	**98.33%**

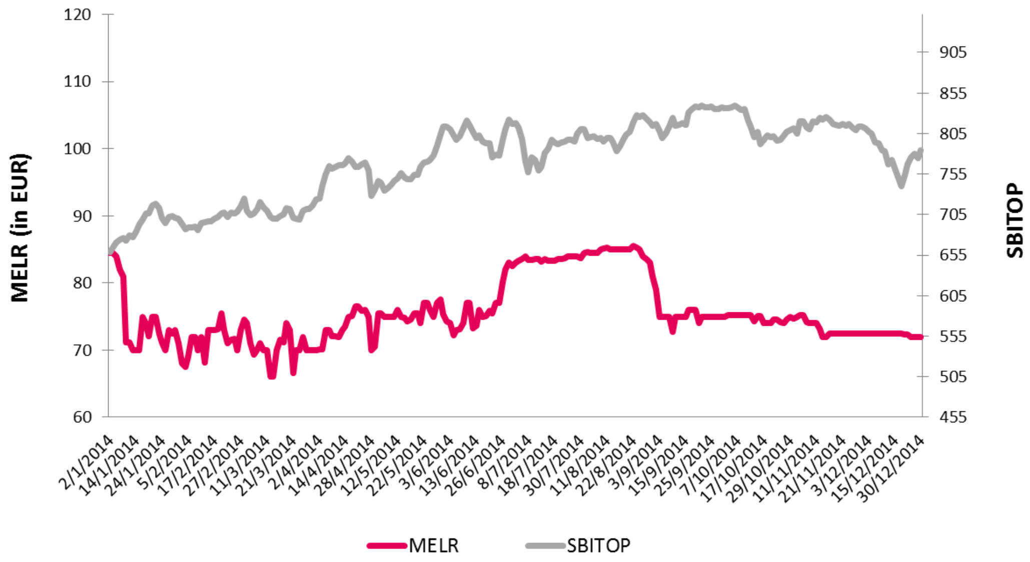
Shares held by Management and Supervisory Board Members as at December 31, 2014

	First and last name	Position	Number of shares	Share
	Management Board			
1	Toni Balažič	Management Board President	0	0.0000%
2	Drago Kavšek	Senior Vice President	0	0.0000%
3	Igor Maroša	Senior Vice President	0	0.0000%
		Total	**0**	**0.0000%**
	Supervisory Board			
1	Ante Todorić	Supervisory Board Chairman	0	0.0000%
2	Matej Lahovnik	Deputy Supervisory Board Chairman	0	0.0000%
3	Damir Kuštrak	Supervisory Board member	0	0.0000%
4	Ivan Crnjac	Supervisory Board member	0	0.0000%
5	Darko Knez	Supervisory Board member	0	0.0000%
6	Ivica Mudrinić	Supervisory Board member	0	0.0000%
7	Veljko Tatić	Supervisory Board member	0	0.0000%
8	Vesna Stojanović	Supervisory Board member	0	0.0000%
9	Ivan Valand	Supervisory Board member	0	0.0000%
		Total	**0**	**0.0000%**

Foreign shareholders

As at December 31, 2014, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.40%,** which is 72.15 percentage point more than at the end of 2013.

Movement of closing price per MELR share in the period 1–12 2014, compared to the movement of the SBITOP index



Key information for the shareholders

	Dec 31, 2014	Dec 31, 2013	Index Dec 31, 2014/ Dec 31, 2013
Number of shares entered into the court register	6,090,943	3,765,361	161.8
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	438,547,896	308,759,602	142.0
Market price per share (in EUR)	72.00	82.00	87.8
Share book value (in EUR)	105.67	155.19	68.1
Minimum close rate in the period (in EUR)	66.01	58.00	113.8
Maximum close rate in the period (in EUR)	85.50	140.05	61.0
Average close rate in the period (in EUR)	75.51	100.70	75.0
Net return on equity – ordinary shares (in EUR)	(15.7)	(9.6)	164.5
P/E ratio	(4.6)	(8.6)	53.4
Capital gain (in %)	(12.20)	(28.07)	43.4
Total yield (in %)	(12.20)	(28.07)	43.4

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

The company Mercator, d.d., generated negative result in 2014, because of this no dividend payment is planned for 2015.

Treasury shares

As at December 31, 2014, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1–12 2014, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

Acquisition of Mercator by Agrokor, d.d., and capital increase of the company Mercator, d.d.

On June 27, 2014, Agrokor, d.d., acquired 2,000,278 shares of the company Mercator, d.d., this acquiring a 53.12% share of the company's share capital. On the same day, the agreement on subordinated loan was effected, based on which Agrokor, d.d., transferred to the agent of Mercator, d.d., financial creditors an amount of EUR 202,802,104.58 crediting Mercator, d.d., for the purpose of early repayment of loans and accrued interest. In addition, an amount of EUR 17,197,895.42 was transferred to Mercator, d.d., account for liquidity purposes. At the end of October 2014, capital increase with in-kind contribution was carried out at Mercator, d.d., in the amount of EUR 200 million, by conversion of subordinated debt to equity. For the purpose of the capital increase, 2,325,582 new dematerialized ordinary registered no par value shares with notional value of EUR 41.73 were issued. Pre-emptive right of the existing company shareholders to subscribe the newly issued shares was omitted. New shares were offered for subscription and payment to the company Agrokor Investments B.V., the Netherlands, which acquired as of October 30, 2014, the newly issued shares representing a 38.18% shareholding in the company Mercator, d.d. Following the issue of the new shares, the number of Mercator, d.d., shares is 6,090,943.

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.mercatorgroup.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.

Changes in ownership structure after December 31, 2014

After the completion of the reported period, on February 25, 2015 the company Agrokor, d.d., acquired additional 581,395 shares of the issuer company Poslovni sistem Mercator, d.d., by concluding the purchase and sale contract of shares with the company Agrokor Investments B.V. Thereby, the share of the company Agrokor, d.d., in the company Mercator, d.d., has increase from 49.92% to 59.47%, and the share of the company Agrokor Investments B.V., in the company Mercator, d.d., has decreased from 38.18% to 28.64%. Common share of companies Agrokor, d.d., and Agrokor Investments B.V., in the company Mercator, d.d., amounts to 88.10% and has not changed. Also 88.72% share of their voting rights has stayed unchanged.

Sustainability Report

We are connected to the local environment. We are aware of the needs of our customers and other stakeholders, and we respond to them. For 65 years, we have been a loyal companion and the best neighbour.

As a responsible retailer, Mercator is committed to sustainable development. We are actively involved in our broader economic, social, and natural environment in every market of our presence. We remain focused on loyal customers to whom we offer a quality shopping experience in a neat and pleasant shopping environment. Our employees provide the first contact with the customers. Therefore, we are aware of the importance of the quality of work of each and every employee and we do our best to maintain motivation, satisfaction and a sense of responsibility with every single employee.

Our involvement in the broad environment contributes to the recognition of Mercator as a loyal companion and the best neighbour for 65 years.

RESPONSIBILITY TO CUSTOMERS

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

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

In 2014, our project **Locally Grown** included further establishment of the perception of Mercator as a retailer with the broadest choice of homemade, local products. With the project, we continue to offer Slovenian fruit and vegetables at as many as 110 marketplaces and corners in fruit and vegetable departments. Working with the growers, we are looking to increase the rate of Slovenian self-sufficiency. Responding to consumer expectations, new products are added to our offer. Within the project, major emphasis is placed on communication of our own bakery, the Grosuplje Bakery (Pekarna Grosuplje) that offers consumers innovative products made of 100% Slovenian wheat. In communication of the offer at our meat departments, or Mercator butcher shops, we stress the fact that all meat in our regular offer is raised 100% in Slovenia. As a part of the project, we also look to highlight the broad choice of milk and dairy products made of 100% Slovenian milk.

In order to make the preparation of typical traditional holiday meals easier for our consumers, we have prepared a special appendix to the flyer titled "Traditional Slovenian Offer at Mercator" for the New Year holiday season.

Customer satisfaction monitoring

Mercator has been continuously monitoring the satisfaction of its customers since 2003. The goal of the research is to obtain an estimate of customer satisfaction about particular elements of the service and offer at Mercator, both by markets and by sales programs, and to identify the possibilities for improvement of particular elements of service and offer in order to increase the level satisfaction among Mercator's customers.

After a decrease of the share of highly satisfied customers, satisfaction was stabilized in 2014 and remained unchanged. The share of highly satisfied customers was significantly increased in smaller stores.

Mystery shopper

We conduct research employing the mystery shopper methodology twice per year. The goal of the survey is to provide regular monitoring of the quality of service at Mercator stores. The results are used to improve the quality of service.

The survey includes evaluating the following aspects: attitude to customers, cleanliness and neatness of stores and employees, knowledge about the products, selling skills, product presentation, stocking, price labelling, waiting time, and Pika card.

Customer complaints

Received customer complaints are among the key sources of information based on which we seek to improve our offer and appearance of stores, and adjust our campaigns 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. We coordinate their resolution and provide 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.

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. From 2012 to 2015, we acquired modern refrigeration equipment and installed insulated door on the existing refrigeration equipment to reduce power consumption by more than 1%. These two measures, implemented at over 60 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%.

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.

In order to offer our consumers safe, compliant, and quality products, our activities in 2014 included the following:

- a total of 2,757 private label product samples were analyzed in our own laboratory and by third-party institutions;
- we conducted monitoring on 1,510 food samples from our open departments;
- we recorded 366 samples as a part of national monitoring;
- we carried out 572 regular and 28 extraordinary internal controls at our stores;
- we conducted a total of 747 hours of training and education on the HACCP internal control system, which included 201 responsible persons;
- we successfully completed the audit for marketing organic food under our Mercator private label, and obtained a new certificate for the sale of organic fruit and vegetables in bulk;
- with new upgrades to the withdrawal/recall system for non-compliant products, we additionally cut the reaction time from the receipt of information to the elimination of the product from our stores.

In addition to establishing and implementing our own work procedures at Mercator, we strictly comply with national and European legislation and we actively work with the Slovenian Chamber of Commerce and relevant Ministries in the development of new legislation or in making changes to the national and European legislation.

RESPONSIBILITY TO EMPLOYEES

In 2014, processes of restructuring and reorganization were in progress, aimed at the implementation of more efficient work processes, shrinking the scope of administration work, and cutting of labour costs. Especially in the second half, the focus was on the processes of integration of Mercator's companies in Croatia, Bosnia and Herzegovina, and Serbia with the companies of the Agrokor Group. As of January 1, 2014 the employees of the company Modiana, d.o.o., were transferred to the parent company; as of May 4, 2014, catering units, complete with employees, were transferred to third-party acquirers. As of March 31, 2014, we closed down the technical consumer goods units (Mercator Tehnika) in Croatia; some of the employees were transferred to the units of fast-moving consumer goods program within the company Mercator–H, d.o.o., while some were made redundant.

At Mercator IP, d.o.o., a number of changes have taken place regarding the activity and process organization. On February 1, 2014, we carried out a minor reorganization that brought the organizational structure of the company into line with the new business requirements.

New systematization and workplace evaluation were adopted in the first half of the year, as well as the revised method of basic salary calculation that involves a variable part of the salary also for administrative jobs and positions at the companies Mercator–S, d.o.o., Mercator–CG, d.o.o., Mercator–BH, d.o.o., and M–BL, d.o.o.

Working with the trade union organization PPDIVUT (*Independent Trade Union of Employees in Agriculture, Food and Tobacco Industry, Water Management, HoReCa, and Trade of Bosnia and Herzegovina*), the company Mercator–BH, d.o.o., adopted on June 1, 2014 an annex to the company collective labour agreement, and received commendation and statement of appreciation from the Independent trade union PPDIVUT Sarajevo as a social partner that contributes notably to the development of industrial democracy.

The second half of the year at the companies Mercator–H, d.o.o., Mercator–BH, d.o.o., and M–BL, d.o.o., was dedicated especially to integration processes into the company Konzum, d.o.o., including in the field of human resource management. Employees of the company Konzum, d.o.o., took part in all processes. Similar integration processes are also in place in Serbia where transfer of employees of the company Idea, d.o.o., to the company Mercator–S, d.o.o., started on October 1, 2014.

Regardless of the changes in the business environment (internal and external), Mercator Group complies with the norms laid down by the applicable legislation and restricts any forms of discrimination. We hereby declare that free assembly and association and collective bargaining are not restricted at Mercator Group companies, and that there is no child or forced labour at our companies.

Employees are at the heart of Mercator's operations. They bring a major contribution to customer satisfaction and to success of the pursuit of Mercator's business goals. In development and implementation of human resource management activities, the HRM strategy is pursuing the guidelines described below.

- **employees are our competitive edge**,
- **we are increasing efficiency in attainment of goals,**
- **strategic human resource management goals are changing** in compliance with the changes in external and internal labour market, consistently with the business policies of the management, regional needs, and characteristics and possibilities or operational implementation at the local level.

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

Hiring and recruitment

Employees by markets and categories

As at December 31, 2014, Mercator Group had 22,643 employees, of which 11,542 (51.0%) percent were employed in markets outside Slovenia. Relative to the end of 2013, total number of employees decrease by 1.2%.

Number of employees

MARKET	Number of employees as at December 31, 2014	Number of employees as at December 31, 2013	Index number of employees Dec 31, 2014/ Dec 31, 2013	Number of employees based on hours worked in the period Jan-Dec 2014
Slovenia	11,101	11,521	96.4	10,595
Serbia	8,880	4,754	186.8	5,145
Croatia	1,207	3,381	35.7	2,450
Bosnia and Herzegovina	216	2,009	10.8	1,474
Montenegro	1,239	1,244	99.6	1,136
Bulgaria	0	11	0.0	1
Albania	0	2	0.0	2
TOTAL	**22,643**	**22,922**	**98.8**	**20,803**

As at December 31, 2014, the largest number of employees (9,869 or 96.3%) on permanent employment contracts were employed at the company Mercator, d.d.; the largest number of employees with temporary (fixed-term) employment worked for the company Mercator - S, d.o.o. (2,852, or 32.1%).

Share of employees as at December 31, 2014, in relation to the type of contract (in %)

MARKET	Individual contract	Standard contract	Permanent employment contract	Temporary employment contract
Slovenia	0.6	99.4	96.1	3.9
Serbia	0.7	99.3	67.9	32.1
Croatia	0.6	99.4	95.9	4.1
Bosnia and Herzegovina	1.4	98.6	88.9	11.1
Montenegro	0.1	99.9	72.3	27.7
TOTAL	**0.6**	**99.4**	**83.7**	**16.3**

In 2014, the general composition of employees did not change considerably relative to 2013. Operational personnel, or shop assistants, remained the largest group of employees by field of work in 2014.

Seasonal employment, especially in the summer season, is characteristic of the companies Mercator - H, d.o.o., and Mercator - CG, d.o.o., which operate many units along the Adriatic coast. The company Mercator - CG, d.o.o., was involved in the project of subsidized employment of the young in seasonal activities in the period from June 1, 2014 to September 30, 2014. The company received subsidies in the amount of EUR 10,941 in this respect.

Employment of disabled persons

The largest number of disabled persons are employed at the company Poslovni sistem Mercator, d.d.; this company also has the highest average age of employees. A considerable number of disabled persons are also employed in Mercator IP, d.o.o., Mercator's social enterprise. Of a total of 391 employees, 199 (50.9%) are persons with a certified category of disability. Disabled persons are mostly employed in manufacturing and service activities, such as decoration, production of pastry, cosmetic, and textile. Adaptation of workplaces is approached with special care and consideration of individual's abilities and possibilities. We introduce ergonomic improvements to the working environment and thus improve safety, and contribute to development of efficiency and rational use of working hours.

Employees with disabilities on the last day of the year

MARKET	Employees with disabilities, year 2014	Employees with disabilities (in %), year 2014	Employees with disabilities (in %), year 2013
Slovenia	807	7.3	7.1
Serbia	99	1.1	1.5
Croatia	3	0.2	0.2
Bosnia and Herzegovina	2	0.9	1.0
Montenegro	1	0.1	0.2
TOTAL	**912**	**4.0**	**4.0**

In 2014, the company Mercator IP, d.o.o., actively approached the **service N** of vocational rehabilitation. The service N involves assessment of the attainment of work results by persons with disabilities, and it is based on a comparison of the attainment of work results to the results of employees in regular workplaces. The process of assessing the attainment of work results is conducted by specialists appointed by the Ministry of Labour, Family and Social Affairs. In case of a decline in work efficiency of employed persons with disabilities, the appointed specialists assess an individual and the assessment entitles the employer to a subsidy for the salary of the employee with disabilities from the Public Guarantee, Maintenance and Disability Fund of the Republic of Slovenia. In 2014, we conducted the N service for 14 employees with disabilities and all activities will be carried on in 2015. Consistently with the assessments, we expect salary subsidies for approximately 20 assessed employees in 2015, amounting to a total of EUR 28,500 of subsidy for the year. In 2014, we also successfully drawn the funds obtained in a public tender to allow training for 39 employees with disabilities. Subsidy was provided for 80% of the entire training cost.

External fluctuation

Optimization and integration processes had a profound effect on staffing and recruitment as well. This, external fluctuation at Mercator Group amounted to 14.3% in 2014. We hired 2,561 new employees, most of which in retail; there was hardly any hiring in administration. We terminated the employment of 3,643 employees.

External fluctuation in 2014

MARKET	Enters	Leaves	% of external fluctuations
Slovenia	725	1,149	9.4
Serbia	973	924	16.1
Croatia	230	851	23.6
Bosnia and Herzegovina	114	182	8.6
Montenegro	519	524	29.7
Bulgaria	0	11	100.0
Albania	0	2	100.0
TOTAL	**2,561**	**3,643**	**14.3**

At the companies Mercator - H, d.o.o., Mercator - BH, d.o.o, and M - BL, d.o.o., the second half of the year was mostly dedicated to processes of integration into the Agrokor Group companies, and this involved human resource management as well: preparing and transferring the human resource management data and documentation, transitional systematization of jobs and positions, meetings with employees and trade unions, employee training for work according to "new" standards etc. Agrokor employees took part in all of these processes. By December 31, 2014, 1,558 employees of the company Mercator - H, d.o.o., 1,379 employees of Mercator - BH, d.o.o., and 327 employees of M - BL, d.o.o., were transferred to Agrokor companies for a total of 3,264 employees. Similar integration processes are also in place in Serbia where transfer of employees of the company Idea, d.o.o., to the company Mercator - S, d.o.o., started on October 1, 2014. By December 31, 2014, a total of 4,087 employees from the company Idea, d.o.o., were transferred to the company Mercator - S, d.o.o.

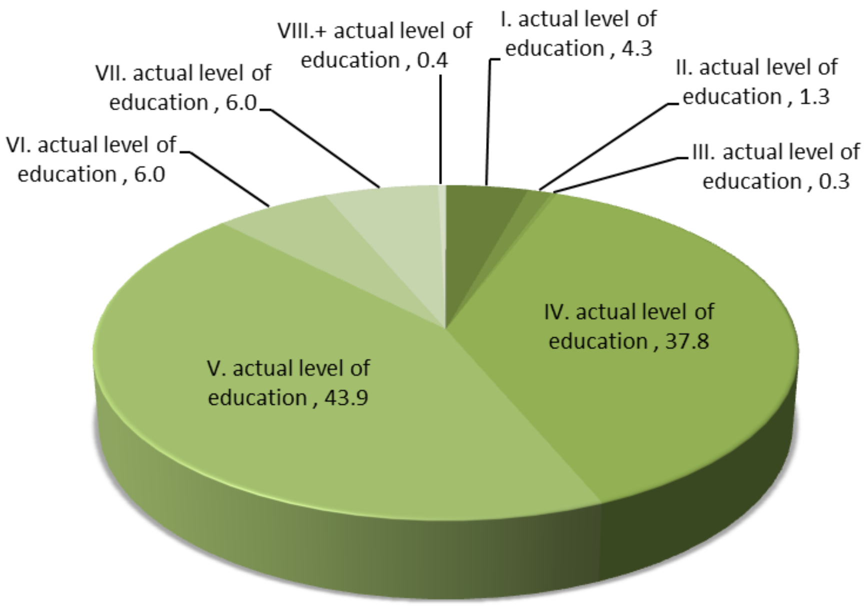
Pursuant to the decision by the competition protection agency, 46 retail units were divested in Croatia. Transfer of activities also included transfer of a total of 191 employees of Mercator - H, d.o.o., to new employers.

Care for employee development

Composition by education

The largest share of our employees have IV and V level of education (18,501 employees, or 81.7%), which reflects our core activity of retail. Average level of employee education is not changing considerably, since the workplaces and requirements related thereto are not changing notably either.

The actual level of education (% of employees) on December 31, 2014



Training and education

In the period at hand, Mercator Group held 155,473 hours of training and education that involved 37,242 participants in order to acquire new knowledge and skills. A total of EUR 446,980 was allocated for these activities.

YEAR	No of hours	No of participants	Funds allocated (in EUR)
2014	155,473	37,242	446,980
2013	153,724	35,424	294,364

In all markets, we are pursuing further the project to improve the selling skills, and we have in place a *coaching* system with the participation of our internal *coaches.* A series of workshops was held at the parent company and study materials were developed (manual, comic book, educational video featuring our employees) titled "We are the best bread and pastry vendor", and "We are the best fruit and vegetables vendor". In October, we launched the workshop "We are the best shop assistants and cashiers."

We have founded a Leadership Competence Centre and launched under its auspices a retail shop manager succession program, as we expect to see intensive retirement of our shop managers in the coming years. Select 68 candidates for potential successors will undergo training at the Retail Academy which involves 13 training days, combined with *coaching* and mentorship.

At the parent company, education was held for 3,200 retail employees as a part of the project Lowest Price Guaranteed. Education was repeated for 169 groups.

A total of 92 butchers took part in the training as a part of the Mercator butcher shop project. To make the work of the instructors and participants easier, we also upgraded the manual for the meat departments, titled "What does a good butcher need to know?" a total of 49 butchers took part in the tour of the meat processing facility Pik Vrbovec.

At the company Mercator - S, d.o.o., integration processes involved training of Mercator employees for work processes transferred from the company Idea, d.o.o., as good practice, and training of Idea employees on Mercator's work processes.

The company Mercator - BH, d.o.o., completed the "Quality Management Crash Course" which involved shop managers from the FMCG program and employees of the internal control. Moreover, the 3rd Trainer School and two-day training for internal auditors of the ISO 9001:2008 quality management system were completed.

At the company Mercator - BL, d.o.o., we organized training to improve the quality of selling/retail service for 166 store managers and shop assistants.

In retail of the company Intersport, d.o.o., we have established an internal instructor/trainer network to promote successful communication of the shop assistants and to establish better relations with the customers in the sales process.

Employees from the company Mercator - Emba, d.d., are being 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. Thirty-two employees took part in the workshop "Goal Setting" where they specified their private and professional goals, which will also be addressed at the annual interview. A workshop on Leadership and Employee Development was held for the leaders to allow quality preparation for the annual interviews.

In November 2014, our major retail units of the parent company were visited for the fourth time in a row by high school students from across Slovenia, who are in training for the vocation of a shop assistant. Ten high schools responded to the invitation by the development department, and we were visited by a total of 361 students.

Motivation and rewards

At the parent company, monthly evaluation of administration workers started in May. We held annual interviews with "top 100" managers at the companies Mercator–S, d.o.o., and Mercator–CG, d.o.o., as well as with all key employees.

In Slovenia, 13 employees received the Mercator Award which is the highest award presented to employees. At Mercator, d.d., 16 Best Bosses were selected for 2013. Cash rewards were presented to the top four, and twelve more were presented with award plaques. At Intersport ISI, d.o.o., 6 top employees in retail and the best employee in logistics are rewarded each month. Six best shop assistants were also rewarded at the company Mercator - CG, d.o.o. In the third quarter, quarterly awards to the best shop assistants working on service lines and to 3 stores with the biggest improvement of business results were presented for the first time at the company Mercator–S, d.o.o.

At the traditional 14th meeting of internal instructors of Mercator, d.d., taking place on May 14, 2014, the importance of knowledge, cooperation, and good mutual communication was emphasized.

In Slovenia, we held 23 *teambuilding* sessions in Vogel for a total of 368 participants. Three programs were held: *Strength Deployment Inventory* – SDI tools, Selling Skills Training, and Gold of the Desert Kings. Following the successful completion of the Lowest Price Guaranteed campaign, we held a *team building* session on Fruška Gora of 40 key employees from business functions, with creative workshops dealing with the topic of quality of service.

Connecting our employees

Mutual cooperation and aid

Mercator employs more female than male employees: 68.6% of employees are women and 31.4% are men. Compared to 2013, the percentage of men has increased (in the year before, the share of men was 27.8%).

Average age of employees is increasing. In 2014, average age of employees was 41.1 years, which is 0.2 years more than in the year before.

Management composition

	All employees	Management at all levels	All employees
Total	22,643	2,154	86
% of women	68.6	63.0	37.2
% of men	31.4	37.0	62.8
Average age (in years)	41.1	42.7	44.7

Management structure reflects the composition of employees.

In order to improve the cooperation and communication between respective business fields, the project of internal supplier assessment was carried out at the parent company. Thus, the business fields sought to identify the opportunities for improvement of joint work processes and mutual communication. As many as 305 proposals were provided for improvement of work between individual fields.

At the company Mercator–S, d.o.o., we conducted a survey among employees in administration in order to identify the opportunities for higher efficiency of work, better communication, and improvement of leader competencies.

At the company Mercator–CG, d.o.o., we launched the project "Together", in which the management visits retail units on Saturdays and works with the selling staff to find ideas and solutions for a better service and better performance of the units. We have also carried out the project "Everybody Retail" which involves administration employees helping out their colleagues in retail in the run up to the holidays.

Solidarity was also shown by administration employees at Mercator IP, d.o.o. who helped out their colleagues in production in December.

Intranet is a key internal communication tool. In 2014, we announced 245 internal notifications for employees at the parent company. We also published articles to celebrate the global Children's Day, World Mental Health

Day, International Day against Drug Abuse and Illicit Trafficking, World Aids Day, and the International Day of Persons with Disabilities.

As a part of the Family-Friendly Company project, particular attention is paid to newborn babies of our employees who are presented a Lumpi package. In the period at hand, 188 such packages were distributed.

In addition, as a part of the full Family-Friendly Company certificate, all parents of first-grade students and parents of children going to the kindergarten for the first time have been offered for several years an extra day of extraordinary paid leave, if their work process permits it. This year, the measure was used by 418 parents of which 281 accompanied their children to the first grade of elementary school and 143 accompanied them to kindergarten.

In Serbia, the Mercator Solidarity Foundation provided aid in the amount of EUR 49,318 thousand to 92 employees. Moreover, financial aid was raised for the employees who sustained damage due to flooding. In Montenegro, the Solidarity Foundation helped 29 employees by providing aid in the total value of EUR 7,800. In Slovenia, Mercator Humanitarian Foundation provided aid to 109 employees of Mercator, d.d., or Mercator IP, d.o.o., who were in need of help. We have paid out humanitarian aid in the total amount of EUR 60,520. We also granted 5 social scholarships for children of our employees, in the total amount of EUR 3,600.

At Mercator - BH, d.o.o., and M - BL, d.o.o., Employee Solidarity Funds were established, following the example of Serbia and Montenegro. At Mercator - BH, d.o.o., 19 employees who had suffered major damage to their property during the May floods received financial aid.

In all markets, we maintain a constructive dialogue in the meetings with representative trade unions, and with the Works Council representatives at the parent company.

Occupational health and safety

Numerous activities are in place aimed at improving the health and well-being of our employees. Sports and hiking/mountaineering societies have been founded within our companies. The "Health Promotion" project at the parent company offers many beneficial preventive activities such as mammography, reimbursement of costs for quitting smoking, education about varicose veins, school of healthy cuisine etc. Among other activities, 900 employees took part in the healthcare campaign Measurement of Arterial Circulatory System in 2014. We worked with the Academy of Fine Arts and Design to conduct an ergonomic analysis of the cashier workplace. Ergonomics team appointed to this end adopted policies for work in the field in 2015. E-seminar Gluten-free Life was developed, and numerous articles dealing with health issues were published.

In 2014, a total of 687 workplace accidents were recorded. Compared to 2013, the number of accidents is higher by 0.6%.

Accidents at work

	Year 2014		Year 2013	
MARKET	**No of accidents**	**% of accidents**	**Number of accidents**	**% of accidents**
Slovenia	298	2.7	275	2.4
Serbia	312	3.5	160	3.4
Croatia	39	3.2	70	2.1
Bosnia and Herzegovina	38	17.6	42	2.1
Montenegro	0	0.0	0	0.0
TOTAL	**687**	**3.0**	**547**	**2.4**

The rate of health-related absenteeism is calculated as the ratio between health-related absenteeism hours to total available work hours of all employees in a period. Total rate of illness-related absenteeism at Mercator Group in 2014 amounted to 5.8%, of which the same share, i.e. 2.9 percent, went to the burden of the Group companies and to the burden of Health Insurance Institutes. Total illness-related absenteeism rate was higher than in 2013 when it amounted to 5.5%.

The total level of health-related absenteeism

MARKET	Year 2014	Year 2013
Slovenia	6.2	6.0
Serbia	4.4	3.5
Croatia	6.8	6.3
Bosnia and Herzegovina	5.0	5.5
Montenegro	7.2	6.2
TOTAL	**5.8**	**5.5**

RESPONSIBILITY TO NATURAL ENVIRONMENT

Energy efficiency

The pace and purpose of exploitation of renewable and non-renewable natural resources are increasingly reducing the ability of our planet to restore the sources of energy on which our welfare and growth depend. Therefore, the company Mercator, d.d., is making every effort to preserve the natural resources and reduce the negative impact on the environment by embracing the principles of sustainability which include rational production and consumption.

The company Mercator, d.d., is a major consumer of power and fuel in Slovenia. In 2014, it used 276,924 MWh of power for its operations.

In the last seven years, Mercator has adopted a number of important documents and strategies on efficient use of energy and energy sourcing, as follows:

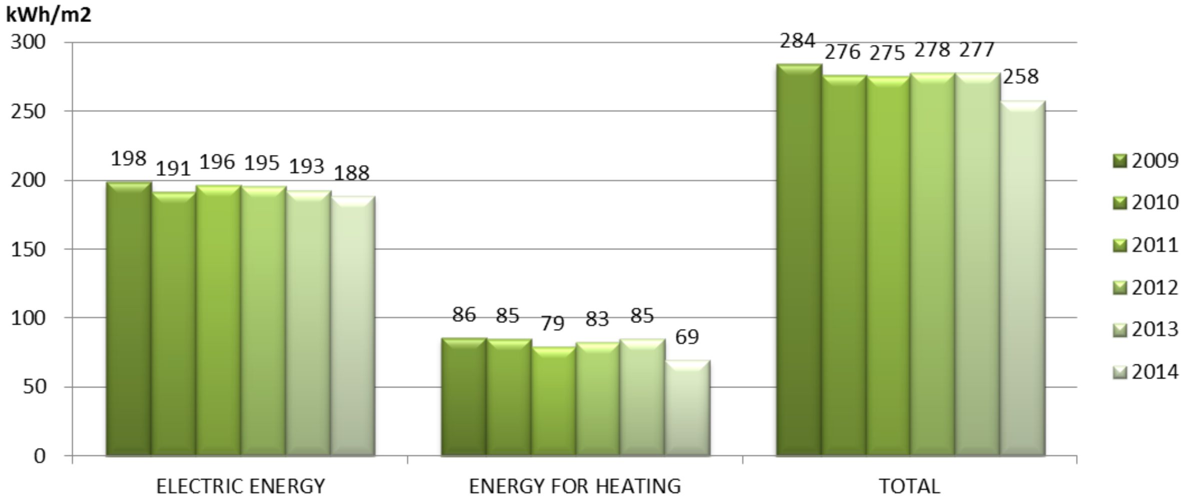
- central sourcing of energy for all facilities;
- adopted corporate energy and environmental policy;
- established environmental management system – ISO 14001 certificate;
- implementation of environmental projects;
- appointed "Sustainable Development Council".

Since 2009, adopted strategies involved over 60 projects in the field of efficient use of energy, especially in the following fields:

- organizational measures (manuals and instructions for employees, code, employee training, supervision of facility operation, equipment settings and optimization etc.),
- investment measures on existing facilities (closing of refrigeration chests/cabinets/counters, replacement of old lighting fixtures with LED lighting in the refrigeration equipment, in garages, and in indoor and outdoor and indoor lightboxes, installation of combined heat and power plants, refurbishment of boiler rooms etc.);
- investment measures in refurbishments and newly constructed units (closing the refrigeration chests/cabinets/counters, LED lighting in the building, in refrigeration equipment and in lightboxes, energy-efficient heating, ventilation, and air conditioning systems, heat pumps, central control system, natural ventilation, recovery of waste heat dissipated from refrigeration equipment, use of daylight etc.);
- IT system (establishing energy accounting, central control of buildings and refrigeration equipment, monthly environmental reports etc.).

The graph below displays the gradual decrease in the use of both electric energy and heat for the market program. Decrease in the use of energy is a result of the measures listed above.

Consumption of specific total final energy in the years 2009-2014



With all measures implemented since 2009, Mercator, d.d., has generated overall annual savings of over 12,200 thousand kW, or annual savings of more than EUR 1,500 thousand.

More than EUR 330 thousand of grants was obtained for the measures of efficient use of energy.

The company Mercator, d.d., has also received a number of awards for efficient use of energy, including the following:

- in 2004, the company received an award for innovative approach to planning of new shopping centers;
- in 2011, it received the international European Business Award for sustainability in 2011;
- in 2012, it received the prestigious award for Energy-efficient Large Enterprise, and award for Large Enterprise Energy Management.

Adopted "National Action Plan for Energy Efficiency for the Period 2008-2016" includes a 9-percent reduction in the final use of energy by 2016, which means savings of 1 percent per year. The ultimate goal is to attain the goals laid down by the European Union, i.e. reducing greenhouse gas emissions, increasing the use of renewable energy resources, and improving energy efficiency, all by 20%, by the year 2020.

By attaining these goals, which is possible in several ways, the company Mercator, d.d., would slash its annual energy costs by approximately EUR 200 thousand in comparison to 2008; these savings should be equal to or greater than our investments into efficient use and renewable energy. Since the price of electricity will surely grow faster than investment costs of improved energy efficiency, we believe that the financial effect will always be positive.

Waste and other environmental aspects

Management of environment aspects

Environmental aspects have been managed in a systematic manner at Mercator, d.d., since 2009, which is also confirmed by the certificate for the environmental management system in compliance with the requirements of the international standard ISO 14001:2004. Mercator is the only trade company in Slovenia engaging in wholesale or retail of fast-moving consumer goods to be awarded the ISO 14001 certificate.

Out of respect to the natural environment, Mercator, d.d., not only complies with the requirements of the environmental legislation, but also conducts a range of other activities to prevent or mitigated negative impact on the environment. In order to reduce environmental impact, we conducted various activities for managing the environment aspects in 2014.

Environmental risks

Environment risks are risks related to identified environmental aspects at the Mercator Group. These aspects involve areas like use of raw materials and energy, emissions into air, emissions into water, waste management etc.

They include risks related to inefficiently designed business processes, risks related to environment penalties, risks related to extraordinary conditions (fires, floods etc.) and risks related to negative public opinion regarding environment protection.

In order to efficiently manage the environmental aspects, we assessed our environmental risks. The greatest environmental risks identified for 2014 were risks related to electricity, heating, and waste management. The only critical risk identified pertained to inefficient use of electric energy due to suboptimal design of business processes and technologies employed.

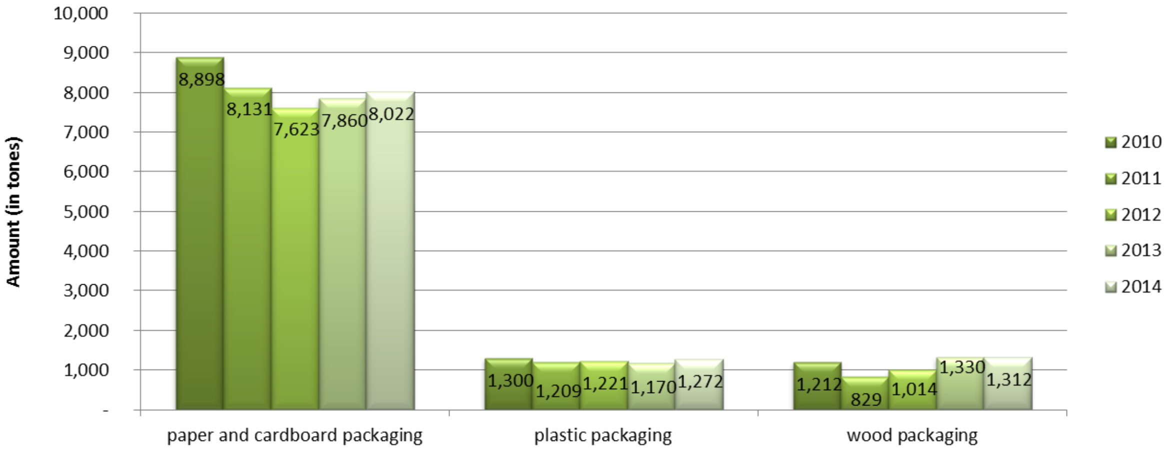
Nine resolutions were drawn up that included measures to reduce the effects of this critical environmental risks, of which 6 resolutions have been fully implemented.

Waste and raw materials

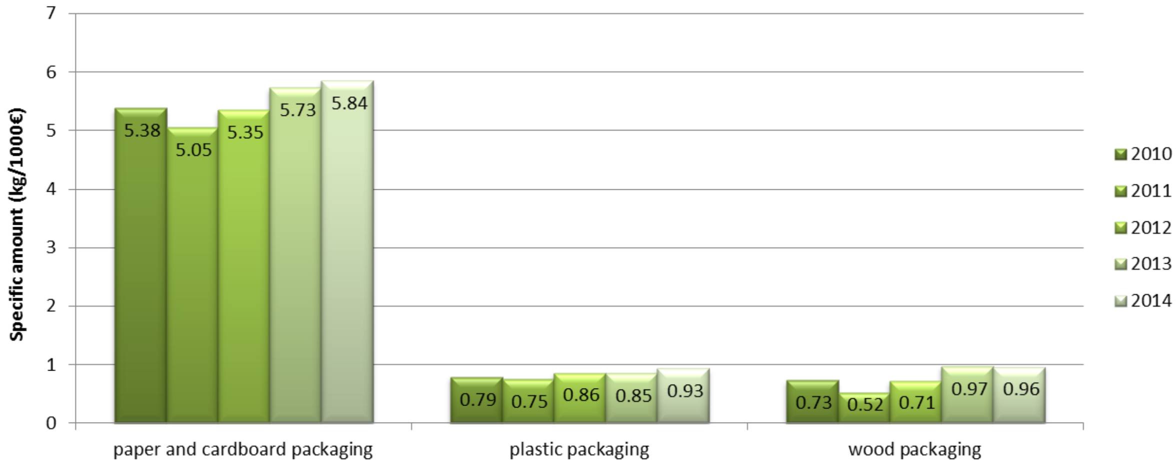
In order to rationalize the costs and to optimize the management of waste packaging, we joined as of January 1, 2014 the collective waste packaging management scheme Unirec. In order to be able to manage in an economical manner more than 10,000 tons of waste packaging accumulated annually at the company Mercator, d.d., we decided to set up 25 stationary screw presses with closed rolling containers with a capacity of 32 m^3 at our distribution centers and at retail stores. The presses allow fast and economical management of waste packaging while employing less labour power. The presses can reduce the volume of waste packaging by up to 10 times, which also reduces the required frequency of waste packaging collection and, in turn, reduces emissions into the atmosphere.

Information on the amounts, specific amounts, and types of waste packaging generated are presented in the graphs below for the period from 2010 to 2014. The amounts of waste packaging by years vary as a result of mergers of companies, changes in the shares of private label sales and own imports, and other factors. The largest share of waste packaging pertains to paper and cardboard packaging, plastic packaging, and wooden packaging. Glass and metal packaging and packaging with traces of hazardous substances represent a negligible share. Since the end of 2011, the latter is no longer generated at all at Mercator.

Packaging waste - the amount of



Packaging waste – specific amount



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 136 units and provided waste bins for small waste packaging, and thereby cut the mixed municipal waste handling costs by EUR 218 thousand per year.

In order to increase the amount of pre-sorted waste we collect, we upgraded our system of waste sorting for our employees at five office buildings.

Water and wastewater

Based on information from the public utility companies, we prepared the list of water meters in order to reduce the connected capacity of water meters for the consumption points of the company Mercator, d.d., and optimization of costs related to them.
We have complied with all requirements for obtaining the water course permit for direct use of water from the Ljubljansko polje aquifer, for generation of heat at the Zalog distribution center and at Maximarket. The permit was issued by the Slovenian Environment Agency (ARSO).

Emissions into atmosphere and substances harmful to health

We have installed environmentally friendlier refrigeration equipment at 20 newly constructed or refurbished facilities.
Compared to 2013, we improved our management of waste packaging and optimized the number of waste packaging collection trips, cutting it by 50%, which has resulted in lower emissions into the atmosphere.

Hazardous substances and preparations

In 2014, we inspected the shelves with chemicals (detergents, cosmetics, hazardous chemicals, biocides, plant protection products) at our stores to see whether all required and mandatory tabs and signs were provided. If any tabs or signs were missing, they were added.
Moreover, it was inspected whether required personal protection equipment was present at the stores, for the case of an accident. Personal protection equipment is specified in internal regulations.
Internal documents on handling of hazardous chemicals were updated.

Noise

We reduced noise emissions at 2 sites; at 1 site, compliance of the source of noise with limit values is still being examined.
A resolution was adopted on the measurement of noise emissions into the natural environment at 200 units of the company Mercator, d.d., each year.

States of emergency
Documents on removal, withdrawal, and recall of a product have been updated.

Compliance

Successful and efficient operation of the environmental management system can be attained by regularly inspecting and evaluating it. This allows us to identify the opportunities for improvements and their implementation.
We are regularly monitoring changes in relevant legislation on environment protection; 46 such changes were identified in 2014.

External audits

External audit of the environmental management system according to the ISO 14001 standard was carried out; 4 cases of non-compliance were identified, and 9 recommendations were issued.

Internal audits
Internal audit of the environmental management system according to the ISO 14001 standard was carried out; no major cases of non-compliance were identified.

Inspections
Environment Protection Inspectorates of the Republic of Slovenia conducted 6 inspections. In three of these, non-compliance was identified; however, no financial penalty was imposed in any of the cases.

Questions and complaints by interested public
We received 7 questions and complaints by interested public regarding environment protection, to which we responded accordingly.

Communication, promotion of awareness, education

A system of internal communication has been established with employees whose work has considerable environmental impact. Our commitment to protection of environment is also manifest in communication with our customers and other interested communities (or publics).

- We published articles on environmental topics in our company newsletter MojM, and provided information on the Intranet.
- We have updated the Environment Protection portal which is intended for all Mercator d.d., employees. It provides in a single place all environment protection information required by the employees for their work.
- In order to efficiently manage the environmental aspects, we have updated and standardized our internal environment documentation ("Technological Procedure for Open Packaging Management", "Technological Procedure for Waste Electric and Electronic Equipment Management", "Waste Management Plan", and relevant documents).
- A representative of the company Mercator, d.d., was appointed to the Sustainable Development Council founded by the Ministry of Agriculture and the Environment, as a representative of the Slovenian Chamber of Commerce.
- We have completed our cooperation in the four-year European project PLASTiCE – "Innovative value Chain development for sustainable plastics in Central Europe", the purpose of which was to identify and eliminate the restrictions preventing a faster and large-scale implementation of sustainable types of plastics in Central Europe. The PLASTiCE project included the life cycle assessment study for two Mercator's plastic shopping bags and one biodegradable bag. The study allows transparent evaluation of environmental impact throughout the life cycle of a plastic bag.

Sustainable logistics and supply chain organization

The basic mission of the field of Supply Chains at Mercator, d.d., remains efficient supply of goods, or merchandise, to delivery points, to our sales network, and to our external customers. In pursuing this mission, we use the logistics infrastructure – warehouses and means of transport. Adequate operation of both is inevitably related to the use of several fuels or energy sources, which in turn poses a burden for the environment.

Compared to the year before, energy and fuel consumption related to the operation of warehouse infrastructure did not change in 2014 as capacities of the warehouses used have not changed. What did change is the physical extent of trade goods/merchandise distribution relative to the year before, at an index of 105.8. In 2014 we fully integrated into our centralized trade goods distribution the supply with goods of our supplier Pivovarna Union.

As a result of higher physical extent of goods distribution in 2014, the use of transport capacity, and thereby the use of fuel, increased in the year. Number of transports rose at an index of 105.8, and the number of kilometers clocked up increased at an index of 104.8.

The increase in the number of kilometers covered by our transports lagged behind the increase of physical extent of goods distribution, which is a result of further operation of our standard processes of transport capacity optimization. In addition to optimization of the number of kilometers covered, we again recorded an improvement in the utilization of delivery and freight vehicles. Compared to the year before, utilization was improved by additional 0.6%.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Major sponsorships and donations

Donations and sponsorships

In 2014, Mercator Group continues to pursue the tradition of response to the needs of local environments in which we operate, in keeping with our slogan of the best neighbour. We supported over 1,500 different humanitarian, cultural, educational, and sports projects. Considering the current harsh social and economic situation in the country, our funds are primarily allocated to humanitarian projects.

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 in Celje, Maribor, and Trbovlje. Our project is pursued further and extended in 2014. Thus, volunteers of the Lions Clubs from Ljubljana, Celje, Maribor, Trbovlje, Velenje, Koper, Domžale, Brnik, and Slovenj Gradec, and the Cenacolo Community collect food for those in need of aid every evening from 19 stores across Slovenia.

A true neighbour will help in time of need

Mercator Immediately responded to the ice storm that hit most of Slovenia in early February of 2014 by donations and emergency deliveries. Moreover, we immediately responded to the harsh weather conditions in Serbia, Bosnia and Herzegovina, and Croatia by providing donations in the total amount of over EUR 60 thousand. In most of our stores, we worked with humanitarian organizations which are usually our choice in such activities, to install baskets to collect food and clothing. Food and clothing were also collected among administrative workers at the Mercator, d.d., office building.

We like to do good deeds

In April 2014, a pan-Slovenian donation activity "We Like to do Good Deeds" took place at 100 minor Mercator stores. Three hundred local societies and organizations from around Slovenia competed for a donation of a total of EUR 100 thousand. The winners were chosen in cooperation with our customers. After each check-out, the customers voted for their favourite organization to be awarded a donation of EUR 1,000 for a project of local importance. Over 1.1 million votes were cast in the course of the campaign. We are particularly glad to see strong bonds established between Mercator and individual local communities in the weeks of intensive cooperation. Customers, as well as organizations, societies, institutes etc., unanimously praised the activity in which we again proved ourselves as a neighbour who is attentive to the needs, wishes, and initiatives of loyal customers from the local environment in which we operate.

At the final event of the project We Like to do Good Deeds, we donated 300 packages of food and other essential products to the Red Cross of Slovenia.

It is world-class to support football societies

During the football World Cup, we sought to combine our project We Like to do Good Deeds with the football fever. In a campaign lasting from July 1 to 16, 2014, we presented EUR 3,000 to one football club from every inter-municipal football association that received the most votes by our customers. Thus, the campaign included providing aid in the total sum of EUR 27,000 to 9 local football clubs.

A good deed feels good

Working with Radio ognjišče, we collect on the 20th day of each month at one of our stores goods for eight families in social distress. In addition to several carts of collected goods, we also provide each family with a Mercator gift card. Thus, our customers have collected 166 carts of goods with this activity.

Slovenian breakfast

Early in the morning before the Day of Slovenian Food, November 21, we worked with Slovenian food companies Ljubljanske mlekarne, Mlinotest, Pekarna Grosuplje, Mlekarna Celeia, and Evrosad to distribute **4,500 packages with a Slovenian breakfast** among the commuters and passers-by in the underpass at the Ljubljana railway station. This is Mercator's contribution to the promotion of awareness of the importance of breakfast, as well as support to locally grown food.

Folk musicians and dancers helped us create a merry atmosphere in the cold early morning. Upon receiving the stylish package with an inscription, the rushing passers-by could not help but smile, while we made sure they start at least one day with the most important meal of the day – breakfast. Needless to say, we wish for our initiative to become a habit, sooner rather than later.

Humanitarian activities

In addition to aid to numerous societies and individuals, our humanitarian activities also included donations to the Friends of the Youth Association Moste Polje for families in social distress, the Palčica (Thumbelina) Safe house in Grosuplje, and the Safe House in Pilštanj.

Sports

In the field of sports, we sponsored the finals of the ski jumping world cup finals Planica 2014. We also pride on long-standing sponsorship cooperation with the Slovenian Olympic Committee, the Slovenian Ski Association, team handball club Celje Pivovarna Laško, team handball club Krim Mercator, football club Maribor, Basketball Club Maribor, wheelchair basketball team of the Ljubljana Region Society of Paraplegics, wheelchair table tennis player Mateja Pintar, stand-up paddle surfer Manca Notar, and whitewater kayaker Nejc Žnidaršič. This year, we again supported the mass "Hike along the Wire of Occupied Ljubljana", the Ljubljana Marathon, the Europa Donna Run, and the international bicycle race "Tour of Slovenia".

As of August 1, 2014, we are the **official sponsor of the Slovenian football team**. We will support the team in the qualifiers for the 2016 European Championship.

Culture

In 2014, we sponsored the Ptuj carnival, Golden subscription at Cankarjev dom, Ljubljana Festival, Borštnikovo srečanje (a theatre festival), Manager Concert, and the Tartini Festival.

Education

In education, we supported as a general sponsor the national competition in sales techniques which took place at the High School of Trade and Commerce in Maribor, and the competitions in logic, chemistry, IT, and biology, organized by the Association of Technical Culture of Slovenia. Under the auspices of the World Slovenian Congress, we supported the project of including Slovenian scientists from top universities in the world into the domestic environment, in order to promote the transfer of knowledge to the benefit of Slovenia. Moreover, we are the sponsor of the Slovenian Marketing Conference, Sales Summit, European Leadership Centre Conference, Slovenian Science Festival, Manager Congress, Portorož Business Conference, Commerce Conference, and the Bled Strategic Forum.

Competition protection and legal proceedings

In accordance with the global policy of the company Mercator, d.d., and its subsidiaries, the conduct of Mercator employees, representatives, and proxies, regardless of their location, shall comply with the relevant and binding legislation, rules, and regulations in all fields of work. A part of this commitment represents respecting the legislation on competition and trade regulations that serve the purpose of effective competition in the market both in Slovenia and abroad.

The company's core policy stipulates operations within the limits of valid legal regulations that are binding for the company. Competition legislation is a part of market legislation which directly regulates competition. Competition law lays down the rules that are of fundamental importance for the conduct of companies in the market. It defines market discipline which is mandatory for all market participants, by preventing any anti-competitive conduct (restriction or prevention of competition, unfair competition), and maintaining and promoting competition through basic factors: price, quality, and sales terms and conditions. The purpose of the competition law is to stimulate competition and free enterprise in order to improve the efficiency and provide the best prices for the consumers. The fundamental characteristic of the competition law is the mandatory and binding nature of the norms that either command or restrict certain conduct in order to provide free and effective competition and market discipline.

In order to ensure compliance with the policy referred to above, Mercator holds annual education courses on competition law and recent jurisprudence (case law) in the field.

In 2007, the Competition Protection Agency of the Republic of Slovenia instituted two proceedings against the company Mercator, d.d.:

- the proceedings to establish whether violation has occurred regarding the alleged abuse of the dominant position of the company Mercator, d.d., in the upstream market for fast-moving consumer goods, No. 306-178/207; and
- the proceedings to establish whether violation has occurred regarding the alleged concerted action in the upstream market between the companies Mercator, d.d., Spar Slovenija, d.o.o., and Engrotuš, d.o.o., No. 306-182/2007-2.

Both proceedings were completed by adoption of commitments that Mercator proposed to the Agency. The commitments were adopted for a period of 5 years and expired after the first half of 2014.

Other proceedings regarding alleged violations of competition law were not instituted against Mercator.

To maintain compliance of its operations in the business and broad social environment, Mercator adopted internal binding guidelines specifying the conduct to prevent corruption, conflict of interests, money laundering etc., and established a mechanism for identification of any disputable practices at the company.

RESPONSIBILITY TO SUPPLIERS

Creating and maintaining long-term partnership relations with suppliers is a key element in the corporate sustainable responsibility. Transparent transactions and joint efforts allow us to establish an environmentally friendly supply chain as we work with our suppliers.

Supplier commitments, monitoring and control

Mercator, d.d., signs annual contracts on supply of goods with the suppliers. General Terms and Conditions of the company Mercator, d.d., which define the terms and conditions of cooperation in supply of fast-moving consumer goods, are a constituent part of every such contract. By signing the contract, the suppliers confirm that they are fully aware of the General Terms and Conditions and that they fully agree with them.

A special section of the General Terms and Conditions is devoted to quality, safety, labelling, and traceability of goods. By signing a special statement, suppliers of fruit and vegetables commit to providing appropriate and safe products, while suppliers of other food products sign a written Statement of Product Safety, Quality, and Compliance for food and materials in contact with food.

Supplier control is carried out by the internal control and food safety department. Findings of our in-house control are supplemented with the data provided by national control of product safety and quality. In case of non-compliance, we work with the suppliers to implement corrective measures.

Assessment and selection of suppliers

Assessment of suppliers is aimed at providing constant quality, safety, and traceability of products in order to promote and foster the health of customers in compliance with the contractual provisions, relevant legislation, and Mercator's special requirements.

Assessment of current FMCG suppliers takes place once per year, before new procurement contracts are signed. The criterion according to which a supplier is evaluated depends on the clauses and provisions from the core annual contract; they are divided into two sets: commercial criteria and criteria of quality. Criteria of quality refer to any non-compliance in the process of supply of goods, and non-compliance of products.

Based on overall supplier assessment, we specify their suitability. Contracts are signed for the current year with suitable suppliers, while corrective measures and execution deadlines are agreed upon with others. No agreements are signed with inadequate suppliers, except for exceptional cases when they meet the quality criteria and no alternative sources are available.

Inclusion of suppliers into expansion of Slovenian and local offer for our customers

At Mercator, we work with domestic suppliers to offer our customers as much locally grown produce as possible. We are working with more than 100 local suppliers of fruit and vegetables, with all major cooperatives, and with small growers. The amounts purchased from all of the above are increasing.

100% Slovenian fruit and vegetables

In the "Locally Grown" campaign, we offer our customers fruit and vegetables of Slovenian origin.

Our flyers include the section "Locally Grown/From the Home Country" which regularly presents Slovenian growers and their produce. The buyers can obtain all information on these growers using their mobile devices by scanning the QR codes on the labels for each grower.

We were the first to support the operation of the cooperative Samooskrba Pomurje which employs the principles of self-help. They offer their members fair purchase and immediate payment. This is a special type of social enterprise which is an opportunity for all unemployed and all who see their future in growing fruit.

In cooperation with Slovenian farmers and small growers, we offered our customers 100% Slovenian winter stock. This included potatoes, fresh cabbage, onions, and garlic. Due to the abundant potato harvest, we only sold Slovenian potatoes in the third quarter.

Locally grown fresh meat

We continue our continuous purchase of fresh pork, beef, veal, and poultry raised in Slovenia from Slovenian top meat suppliers who are in turn supplied with fresh meat by more than 100 growers. All growers are carefully chosen and tested. 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 attainment of healthcare/medical standards and increasing the share of self-sufficiency.

100-percent Slovenian wheat

We are the only retailer to use Slovenian wheat only for the bread baked at our bakery. To this end, we supply our Grosuplje Bakery with 10,000 tons of Slovenian wheat each year.

100-percent 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 production and consumption of locally produced food. Thirteen Slovenian suppliers of milk and dairy products have committed to deliver selected milk and dairy products made of 100-percent Slovenian milk.

Inclusion of products by local suppliers allows cutting supply and transport routes and thus reduces carbon dioxide emissions.

RESPONSIBILITY TO QUALITY

By complying with the requirements of the international management systems, Mercator Group is ensuring transparency and international comparability of its operations. Respective management systems were connected into integrated management system, the basic requirements of which are met at all Mercator Group companies. The system is continuously updated and developed, as we pursue the principles of sustainable development with our operations and business decisions. Systemic monitoring of key indicators allows us to efficiently manage the processes, and to continuously improve and transfer good practices between Mercator Group companies.

Management of certified management systems

A total of **11 management systems** are currently certified at Mercator Group companies.

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

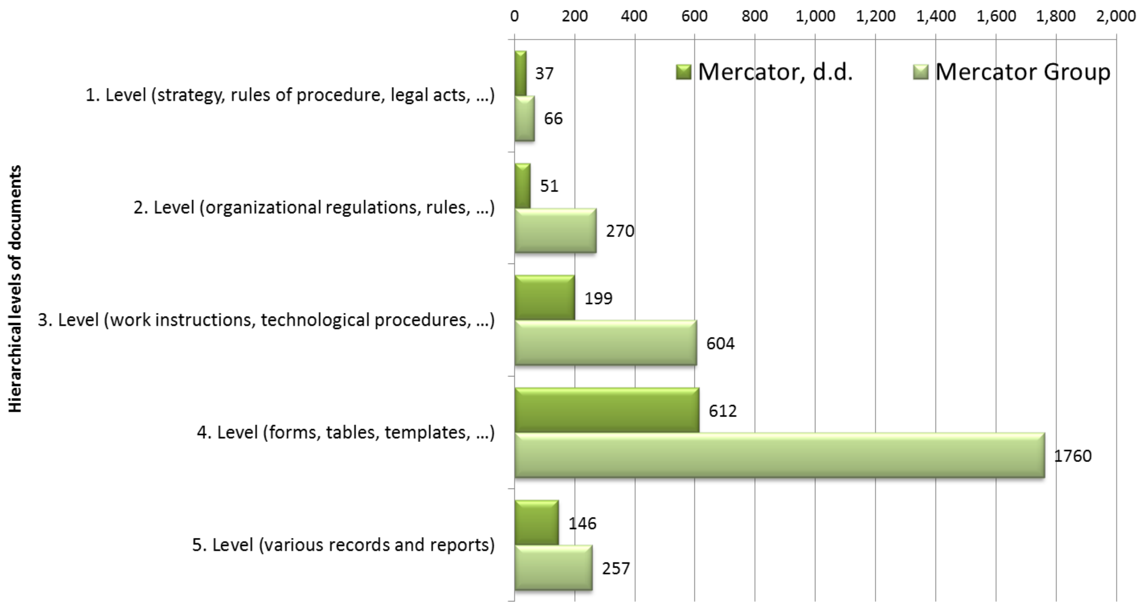
In January 2014, we terminated the Family-Friendly Company certificate at Modiana, d.o.o., because its operations were transferred to the company Mercator, d.d. In November 2014, we terminated the ISO 9001 standard at Mercator - BH, d.o.o., because their operations were transferred to the company Konzum BiH, d.o.o.

Document management – managing knowledge and information

Documents detailing the requirements or operating rules for the Mercator Group are managed using the Mercator Standards application that allows all employees easy access to the documents they need. Users may search for documents related to their role in a business process and propose recommendations and improvements, which in turn improves the flow of knowledge and information between the employees.

In 2014, the document and record management application was revised to bring the documents even closer to the employees. The new application is faster, allows electronic harmonization of documents, and features multi-language support.

Number of valid documents

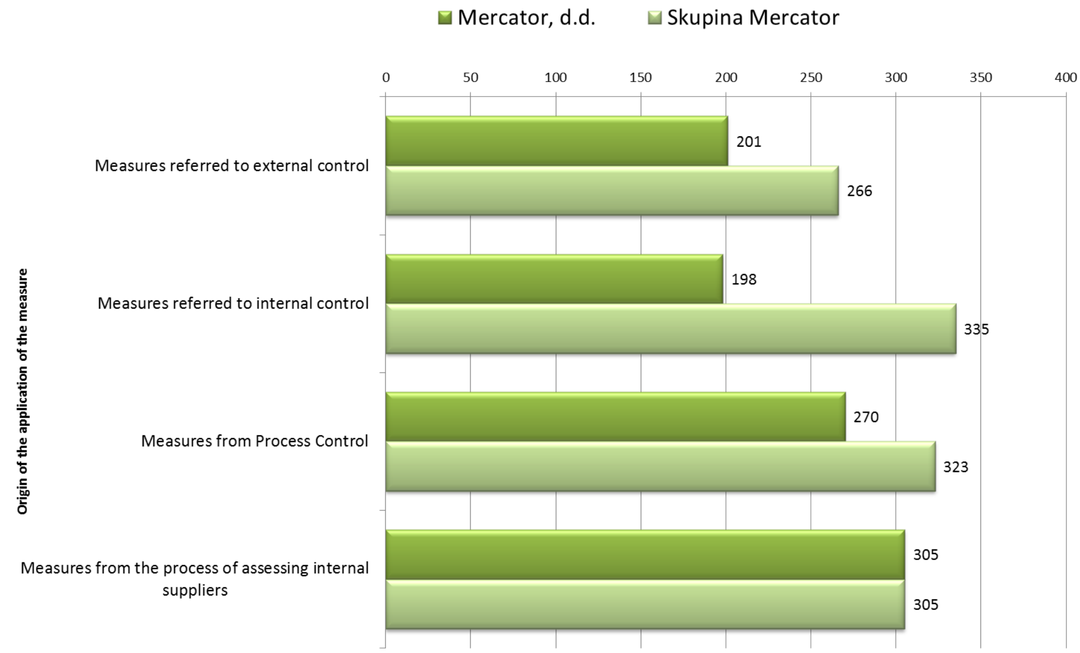


Valid documents are regularly revised: document owners have to revise the documents at least once per year, and the document contents are updated based on good practices and suggestions for changes. Leaders send out automatic notifications on a daily basis to inform about new documents at Mercator Group companies, and document owners receive notifications on documents with expired validity and which have to be reviewed and updated or for which validity has to be extended. Thus, we assure that the document ownership and contents are always up to date. Documents are monitored in several ways, most commonly by companies, functions, and hierarchy. Access counters provide information about the most commonly accessed documents.

Management of the continuous improvement system

Continuous improvement process is consistent with the adopted strategy, based on the findings of third-party control, internal control, customer and employee satisfaction analyses, councils and workgroups, and improvement proposals provided by the employees.

Number of triggered actions



Continuous improvement system received IT support last year, which provided faster and more transparent resolution of tasks. Everyone concerned by or involved in a task is notified by electronic mail, and the reporting entity quickly receives relevant feedback for the solution of a problem or a proposal. The application allows reviewing all logins at a single place, which allows easier analysis for identification of major deviations and corrective measures. Task resolution process was also sped up, efficiency was improved, and the costs and administration requirements were decreased. The application also takes into account the differences in languages, which makes it easy to use at all Mercator Group companies.

External and internal control of operations

External control authorities, such as inspection agencies and external auditors, regularly review the compliance with the requirements of certified management systems, currently applicable legislation, and internal rules. Based on any identified non-compliance and recommendations, corrective measures are introduced and their implementation is monitored.

Compliance of operations is also reviewed with various forms of internal control, such as internal audits, internal controls, monitoring, accounting control, tax control, security control, and occupational and fire safety control. Particular attention is 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. Findings of internal controls 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 or supervision.

One novel aspect in internal control is the revised system of internal audits for the quality management system at Mercator, d.d., which also takes into account the rationalization of operations, and the possibilities offered by information technology. Electronic form of internal audits was titled "Audit through surveys" and it is carried out in addition to the already established audits by the auditors.

Other forms of collecting improvement ideas

Many proposals for improvements are contributed by employees involved in particular processes, or they may be a result of the findings by experts and resolutions of any of the relevant councils (Risk Management Council, Management Systems Council, Management Review etc.).
In 2014, we launched the "Internal Supplier Assessment Project" that involved internal customers (business functions) rating their satisfaction with internal suppliers (other business functions that support their operations). The purpose of the assessment was to identify the critical elements, activities that may bottleneck the workflow in business processes and impair the quality of the work, thus increasing the operating costs and the level of dissatisfaction of internal suppliers and customers, and to collect ideas and initiatives for improvement in mutual cooperation that would improve the corporate culture and advance it to a higher level. The goal of the project was to improve the communication and cooperation between the business functions, to optimize the business processes, and to eliminate by implementation of the identified beneficial recommendations the problems at the areas of transition between respective organizational units. The method proved an effective tool for gathering useful improvement proposals as 305 improvement measures were introduced based on the findings.

Financial Report

Challenging processes of ownership change and financial restructuring had a profound effect on Mercator Group operations and performance. Despite the major changes, our performance was stable.

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 2014, 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 2014.

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 2014.

Ljubljana, March 6, 2015

Toni Balažič
President of the Management Board

Drago Kavšek
Management Board Member

Igor Maroša
Management Board Member

FINANCIAL REPORT OF THE MERCATOR GROUP

Consolidated balance sheet

EUR thousand	Note	31/12/2014	31/12/2013
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,618,839	1,704,182
Investment property	16	3,494	2,791
Intangible assets	15	16,764	17,407
Deferred tax assets	19	22,301	17,530
Loans and deposits	22	25,015	32,284
Available-for-sale financial assets	17	1,178	820
		1,687,591	**1,775,014**
Current assets			
Inventories	20	257,323	264,798
Trade and other receivables	21	254,286	234,927
Current tax assets		702	256
Loans and deposits	22	3,247	10,325
Derivative financial instruments	18	-	16
Cash and cash equivalents	23	34,224	18,505
		549,782	**528,827**
Total assets		**2,237,373**	**2,303,841**
EQUITY	**24**		
Share capital		254,175	157,129
Share premium		286,772	198,872
Treasury shares		(3,235)	(3,235)
Revenue reserves		41,686	146,656
Fair value reserve		115,411	140,587
Retained loss		(53,485)	(63,887)
Profit (loss) for the year		69,353	18,695
Currency translation reserve		(89,215)	(80,623)
Total equity attributable to equity owners of the Company		**621,462**	**514,194**
Non-controlling interests		**215**	**100**
Total equity		**621,677**	**514,294**
LIABILITIES			
Non-current liabilities			
Trade and other payables	28	6,765	850
Borrowings and other financial liabilities	26	806,640	351,583
Deferred tax liabilities	19	30,392	37,455
Provisions	27	20,706	25,047
		864,503	**414,935**
Current liabilities			
Trade and other payables	28	707,657	686,507
Current tax liabilities		538	411
Borrowings and other financial liabilities	26	42,998	686,225
Derivative financial instruments	18	-	1,469
		751,193	**1,374,612**
Total liabilities		**1,615,696**	**1,789,547**
Total equity and liabilities		**2,237,373**	**2,303,841**

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	2014	2013
Revenue	9	2,653,735	2,765,868
Cost of goods sold and selling costs	11	(2,570,480)	(2,658,892)
Administrative expenses	11	(81,095)	(92,901)
Impairment of property, plant and equipment and intangible assets	11	(16,249)	(1,956)
Other income	10	26,470	23,854
Results from operating activities		**12,381**	**35,973**
Finance income	13	3,489	8,025
Finance costs	13	(64,465)	(60,943)
Net finance expense		**(60,976)**	**(52,918)**
Loss before tax		**(48,595)**	**(16,945)**
Tax	19	4,048	16
Loss for the year		**(44,547)**	**(16,929)**
Profit (loss) for the year attributable to:			
Owners of the parent company		(44,453)	(16,904)
Non-controlling interests		(94)	(25)
Basic and diluted loss per share (in EUR)	25	(10.8)	(4.5)

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	2014	2013
Loss for the year		**(44,547)**	**(16,929)**
Other comprehensive income			
Items subsequently not reclassified to profit or loss		**(40,543)**	**(9,013)**
Net gains/loss recognized in revaluation surplus in relation to property, plant and equipment	14	(32,334)	(883)
Other changes in property, plant and equipment	14	(10,004)	-
Liabilities for unused annual leave of employees		-	(4,956)
Provisions for termination benefits		(2,370)	-
Other changes		(1,143)	(1,235)
Deferred tax for items subsequently not recognized in profit or loss	19	5,308	(1,939)
Items that may subsequently be reclassified to profit or loss		**(7,527)**	**1,311**
Foreign currency translation differences - foreign operations		(8,593)	(1,805)
Net gains recognized in revaluation surplus in relation to available-for-sale financial assets		360	12
Gains/loss recognized in revaluation surplus	24	360	(43)
Gains transferred from revaluation surplus to profit or loss	24	-	55
Net gains recognized in revaluation surplus in relation to cash flow hedges (successful hedging)	24	1,452	3,731
Deferred tax for items that may be reclassified subsequently to profit or loss	19	(746)	(627)
Other comprehensive income for the year		**(48,070)**	**(7,702)**
Total comprehensive income for the year		**(92,617)**	**(24,631)**
Total comprehensive income for the year attributable to:			
Owners of the parent company		(92,516)	(24,605)
Non-controlling interests		(101)	(26)

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, 2013		**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												
Net 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 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, 2014		**157,129**	**198,872**	**(3,235)**	**146,656**	**140,587**	**(63,887)**	**18,695**	**(80,623)**	**514,194**	**100**	**514,294**
Total comprehensive income for the year												
Loss for the year		-	-	-	-	-	-	(44,453)	-	(44,453)	(94)	(44,547)
Other comprehensive income		-	-	-	-	(25,158)	(14,313)	-	(8,592)	(48,063)	(7)	(48,070)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(25,158)**	**(14,313)**	**(44,453)**	**(8,592)**	**(92,516)**	**(101)**	**(92,617)**
Transactions with owners of the parent company directly recognized in equity												
Contributions by and distributions to owners												
Capital increase		97,046	102,954	-	-	-	-	-	-	200,000	-	200,000
Change in the stake in a subsidiary		-	-	-	-	(18)	(198)	-	-	(216)	216	-
Distribution of reserves pursuant to Management Board	24	-	(15,054)	-	(104,970)	-	24,913	95,111	-	-	-	-
Total transactions with owners of the parent company		97,046	87,900	-	(104,970)	(18)	24,715	95,111	-	199,784	216	200,000
Balance as at December 31, 2014		**254,175**	**286,772**	**(3,235)**	**41,686**	**115,411**	**(53,485)**	**69,353**	**(89,215)**	**621,462**	**215**	**621,677**

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

Consolidated cash flow statement

EUR thousand	Note	2014	2013
Cash flows from operating activities			
Loss for the year		**(44,547)**	**(16,929)**
Adjustments:			
Income tax expense	19	(4,048)	(16)
Depreciation of property, plant and equipment	14	67,615	68,622
Depreciation of investment property	16	118	131
Amortization of intangible assets	15	4,391	4,982
Impairment of goodwill	15	412	-
Impairment losses on property, plant, and equipment and intangible assets		15,837	1,956
(Gains) losses on disposal of property, plant and equipment		(5,810)	(2,775)
Change in provisions	27	(4,341)	(4,004)
Gains from disposal of subsidiaries	13	(189)	-
Dividends received, impairment losses and (gain) loss on sale of available-for-sale financial assets	13	126	160
Net foreign currency translation	13	6,422	2,879
Interest received	13	(2,514)	(3,979)
Interest paid	13	38,693	47,951
		72,165	**98,978**
Change in inventories		7,475	1,576
Change in trade and other receivables		(19,805)	1,763
Change in trade and other payables		24,000	5,153
		83,835	**107,470**
Interest paid	13	(38,693)	(47,951)
Income tax paid	19	(861)	(854)
Cash from operating activities		**44,281**	**58,665**
Cash flows from investing activities			
Acquisition of property, plant and equipment and investment property	14, 16	(80,741)	(25,448)
Acquisition of intangible assets	15	(4,981)	(4,050)
Proceeds from disposal of subsidiaries, net of cash disposals		550	-
Proceeds from sale of property, plant and equipment and investment property	14, 16	28,355	9,487
Proceeds from sale of available-for-sale financial assets	17	68	78
Interest received	13	2,514	3,979
Dividends received	13	29	11
Loans and deposits repayments received		14,347	8,124
Net cash used in investing activities		**(39,859)**	**(7,819)**
Cash flows from financing activities			
Repayment of non-current borrowings		(653,335)	(29,040)
Proceeds from non-current borrowings		841,877	-
Net repayment of current borrowings		(176,712)	(27,872)
Dividends paid		(3)	(11)
Net cash from (used in) financing activities		**11,827**	**(56,923)**

Net increase (decrease) in cash and cash equivalents		**16,249**	**(6,077)**
Cash and cash equivalents at beginning of the year		18,505	24,677
Effect of exchange rate fluctuations on cash and cash equivalents		(530)	(95)
Cash and cash equivalents as at the end of the year	23	**34,224**	**18,505**

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

Notes to the 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, 2014 comprise the company Mercator, d.d., and its subsidiaries (together referred to as the "Group"). The company Mercator, d.d., is a subsidiary of the company Agrokor, d.d.; therefore, the Mercator Group is consolidated within the Agrokor Group. The consolidated financial statements of the the Agrokor Group are available at the registered office Agrokor, d.d., Trg Dražena Petrovića 3, Zagreb, Croatia. The Mercator Group's core and predominant activity is retail and wholesale of fast-moving consumer goods 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 February 23, 2015.

(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.

(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, an 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 land using the revaluation model, as described in section 3(f)(i). The estimated useful life of property, plant and equipment is disclosed in section 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 2014 and 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 loss.

(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 assessed in assessing the impairment of receivables. Adjustments of short-term trade receivables and receivables from Pika card transactions are created according to the age of receivables and the possibility of their repayment (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

Inventories are measured at the lower of cost and net 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.

(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(l) (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 enacted or substantively enacted tax rate applicable in the tax year the temporary difference is expected to reverse. If the tax rate changes, the deferred tax assets and liabilities will change accordingly.

The Mercator Group companies recognize deferred tax assets for unused tax losses and unused tax credit only in cases when it is likely that future taxable income will be 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.

Management estimates of future profits are updated regularly and if forecast of profits change, the amount of recognised deferred tax assets may be affected.

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. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 (fair value, except where required otherwise by IFRS) 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 consideration transferred 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. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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-derivative 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 instruments

Non-derivative financial instruments 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.

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 recorded 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 interest rate risk.

Upon the inception of the hedge, the Group keeps formal documents about the risk hedging efficiency 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 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 defined 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 forecast purchases and sales of non-financial assets, 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). Unsuccessful 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 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 envisaged 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 comprise cash on hand and deposits with maturity of up to 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, which is measured using the revaluation model. Property, plant and equipment 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 2014 and 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 deconstruction 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 is estimated in compliance with the International Valuation Standards (IVS 2013) and Slovenian business and financial standard No. 2 – Valuation/appraisal of real estate (OG RS 106/13, 12/18/2013). 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 method of residual value 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 at the end of 2014 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 for revaluation of a particular asset.

(ii) Reclassification to investment property

The Group transfers real estate used by the owner to investment property, if it is held for rental or capital gain. 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:

	2014	2013
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

Amortization 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:

	2014	2013
Brands/labels	unlimited	unlimited
Software and licenses	5-10 years	5-10 years

Value of brands/labels is tested for impairment annually on the balance sheet date.

(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 reclassification is carried out based on its historical 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 weighted average purchase prices 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, except for receivables with quality insurance.

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 through 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 recognized 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, 2014. 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 returns, 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, losses from disposal and impairment 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 or other comprehensive income, 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 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 and their tax base. 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 the company controls the reversal and 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 the deferred tax asset can be utilized in the future.

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

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies, except for amendments to IFRS 10, which affected the accounting policies but not the financial statements of the Group.

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:

- **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, IAS 16, IAS 24 and IAS 38) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on 17 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 February 2015),
- **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, adopted by the EU on 18 December 2014 (the amendments will need to be applied for annual periods beginning on or after 1 January 2015),

- **Amendment to IAS 19 Employee Benefits** - Employee contributions to defined benefit plans, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **IFRIC 21 'Levies'**, adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 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 15 February 2015 (the effective dates indicated below apply for entire IFRS):

- **IFRS 9 'Financial instruments'** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 14 'Regulatory deferral accounts'** (effective for annual periods beginning on or after 1 January 2016),
- **IFRS 15 'Revenue from contracts with customers'** (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures'** – Sale or contribution of assets between an investor and its associate or joint venture (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 'Consolidated financial statements', IFRS 12 'Disclosure of interests in other entities'** and **IAS 28 'Investments in associates and joint ventures'**, – Investment entities: Applying the consolidation exception (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 'Joint arrangements',** – Accounting for acquisitions of Interests in joint operations (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 'Presentation of financial statements'** – Disclosure initiative (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets'** – Acceptable methods of depreciation and amortization (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture'** – Agriculture: Bearer plants (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 'Separate financial statements'** – Equity method in separate financial statements (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards – 'Improvements to IFRSs (2012-2014)'**, resulting from the annual project for improvement of IFRSs (IFRS 5, IFRS 7, IFRS 19 and IAS 34) 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 1 January 2016),

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 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 forward exchange 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.

Corporate income tax rate is at 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 2014, 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,
- unused tax breaks,

- revaluation of property, plant and equipment to a higher value,
- 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 2014, 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.

The company is obliged to prepare transfer pricing documentation.

(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 2014, the company posted deferred taxes arising from revaluation to a higher value of property, plant, and equipment.

The company is obliged to prepare transfer pricing documentation.

(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 2014, the companies disclosed deferred taxes in connection with:

- differences between operating and tax depreciation and amortization,
- tax loss,
- revaluation of property, plant and equipment to a higher value.

(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.

In 2014, the company recognized and reversed deferred income tax due to differences between business and tax deductible depreciation.

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 2014, the Mercator Group operated in five countries (companies in Bulgaria and Albania were disposed of in 2014):

- 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. Operations in these countries comprise trading.

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

	Slovenia		Serbia		Croatia		Bosnia and Herzegovina		Montenegro		Bulgaria		Albania		Total	
EUR thousand	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Total segment revenues	**1,542,556**	**1,590,614**	**620,906**	**564,550**	**250,067**	**341,830**	**155,411**	**189,576**	**109,463**	**105,497**	**-**	**2,003**	**18**	**150**	**2,678,421**	**2,794,220**
Inter-segment revenues	22,090	27,497	269	280	236	433	1,755	44	337	331	-	(233)	-	-	24,686	28,352
Depreciation and amortisation	(39,652)	(40,547)	(13,742)	(12,639)	(12,116)	(13,575)	(4,495)	(4,931)	(2,117)	(1,741)	-	(267)	-	(35)	(72,124)	(73,735)
Impairment of property, plant and equipment and intangible assets	(8,186)	(844)	(373)	(520)	(7,463)	(520)	(765)	(72)	(3)	-	-	-	-	-	(16,790)	(1,956)
Total segment results from operating activities	**15,245**	**37,433**	**13,034**	**14,110**	**(18,795)**	**(20,209)**	**3,103**	**2,960**	**(261)**	**(230)**	**13**	**1,685**	**41**	**224**	**12,381**	**35,973**
Interest income	4,448	3,861	583	451	98	177	1,515	2,013	661	829	0	8	-	-	7,306	7,339
Interest expense	(28,606)	(33,137)	(4,809)	(5,449)	(7,756)	(9,234)	(1,947)	(2,449)	(355)	(583)	-	(275)	(12)	(184)	(43,485)	(51,311)
Tax	4,635	61	(293)	(485)	-	-	(292)	367	(3)	73	-	-	-	-	4,048	16
Assets	1,312,280	1,354,745	518,091	412,184	366,814	410,313	128,325	163,587	56,854	60,502	-	745	-	651	2,382,365	2,402,727
Liabilities	1,014,729	1,209,225	378,958	257,159	291,173	295,924	49,765	87,865	26,063	29,645	-	591	-	8,024	1,760,688	1,888,433
Capital expenditure	17,078	17,006	65,373	6,923	1,100	2,185	720	746	1,451	2,636	-	2	-	-	85,722	29,498

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

Revenue

EUR thousand	2014	2013
Total segment revenue	2,678,421	2,794,220
Elimination of inter-segment revenue	(24,686)	(28,352)
Consolidated revenue	**2,653,735**	**2,765,868**

Results from operating activities

EUR thousand	2014	2013
Total reportable segments results from operating activities	12,381	35,973
Elimination of inter-segment profits	-	-
Consolidated results from operating activities	**12,381**	**35,973**

Assets

EUR thousand	2014	2013
Total assets for reportable segments	2,382,365	2,402,727
Inter-segment elimination	(144,992)	(98,886)
Consolidated total assets	**2,237,373**	**2,303,841**

Liabilities

EUR thousand	2014	2013
Total liabilities for reportable segments	1,760,688	1,888,433
Inter-segment elimination	(144,992)	(98,886)
Consolidated total liabilities	**1,615,696**	**1,789,547**

Other material items in 2014

EUR thousand	**Segments**	**Inter-segment eliminations**	**Consolidated totals**
Interest income	7,306	(4,792)	2,514
Interest expense	(43,485)	4,792	(38,693)
Amortization/depreciation	(72,124)	-	(72,124)
Impairment of property, plant and equipment and intangible assets	(16,249)	-	(16,249)
Income tax	4,048	-	4,048
Investments in fixed assets	85,722	-	85,722

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

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

As at December 31, 2014, 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	**639,201**
Financial liabilities	**597,234**
Profit (loss) for the year	**(95,111)**
Revenue	**1,455,212**
Number of employees	**10,247**

Intersport ISI, d.o.o. Slovenia	**100.0%**
Equity	**17,490**
Financial liabilities	**1,719**
Profit (loss) for the year	**1,182**
Revenue	**51,506**
Number of employees	**341**

Mercator - Emba, d.d. Slovenia	**100.0%**
Equity	**9,173**
Financial liabilities	**6,625**
Profit (loss) for the year	**2,284**
Revenue	**21,577**
Number of employees	**115**

M Energija, d.o.o. Slovenia	**100.0%**
Equity	**2,074**
Financial liabilities	**2,649**
Profit (loss) for the year	**(1,050)**
Revenue	**24,544**
Number of employees	**8**

Mercator IP, d.o.o. Slovenia	**100.0%**
Equity	**3,856**
Financial liabilities	**0**
Profit (loss) for the year	**1,173**
Revenue	**11,774**
Number of employees	**391**

SERBIA

Mercator - S, d.o.o. Serbia	**100.0%**
Equity	**181,930**
Financial liabilities	**115,795**
Profit (loss) for the year	**863**
Revenue	**620,906**
Number of employees	**8,879**

CROATIA

Mercator - H, d.o.o. Croatia	**99.7%**
Equity	**75,641**
Financial liabilities	**193,395**
Profit (loss) for the year	**(33,134)**
Revenue	**250,067**
Number of employees	**1,207**

BOSNIA AND HERZEGOVINA

Mercator - BH, d.o.o. Bosnia and Herzegovina	**100.0%**
Equity	**37,562**
Financial liabilities	**32,420**
Profit (loss) for the year	**380**
Revenue	**119,728**
Number of employees	**175**

M - BL, d.o.o. Bosnia and Herzegovina	**100.0%**
Equity	**40,998**
Financial liabilities	**5,384**
Profit (loss) for the year	**1,658**
Revenue	**35,683**
Number of employees	**40**

MONTENEGRO

Mercator - CG, d.o.o. Montenegro	**100.0%**
Equity	**30,791**
Financial liabilities	**3,882**
Profit (loss) for the year	**22**
Revenue	**109,463**
Number of employees	**1,239**

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

Slovenia
In 2014, the companies Modiana, d.o.o., in M Nepremičnine, d.o.o., were merged with the parent company Poslovni sistem Mercator, d.d.

Croatia
The trade activity of the grocery program of the company Mercator - H, d.o.o., was transferred in 2014 to the company Konzum, d.d., by transferring 75 of totally 121 business units, which then passed under operating lease. The remaining 46 Mercator units were, in line with the commitments of the Competition Protection Office, dismissed or sold off or leased out or the solution for discontinuation of operations is still in negotiation phase. Moreover, inventories and equipment were also sold to the company Konzum, d.d.; retail, logistics and employees were redeployed to the company. Mercator remains responsible for programmes Intersport and Modiana on the Croatian market, as well as the manager of real estate in its ownership.

Serbia
In 2014, the company Mercator-S, d.o.o., gradually over a period of several months took over the trade activity of the company Idea, d.o.o., by leasing 191 fast-moving consumer goods stores and 11 wholesale units and purchasing the equipment, investments in fixed assets and inventories. With this, the company increased its gross sales activity surface by 201,569 m^2. Eight Mercator brand units were dismissed, disposed of or leased out in line with the commitments of the Serbian Competition Protection Office. With the acquisition the Group acquired equipment at the carrying amount of EUR 58,016 thousand and inventory at the carrying amount of EUR 37,776 thousand. Mercator also employed 4087 new workers.

Bosnia and Herzegovina
In 2014, the trade activity of the companies Mercator - BH, d.o.o., and M-BL, d.o.o., was transferred to the company Konzum, d.o.o., Sarajevo, with transfer of all 89 grocery program business units, inventories and equipment and redeployment of the employees. Mercator remains responsible for programmes Intersport and Modiana on the Bosnian market, as well as the manager of real estate in its ownership.

In 2014, the Group sold the companies Mercator-A, s.h.p.k., and Mercator-B, e.o.o.d., for EUR 550 thousand, generating EUR 189 thousand of gain on disposal. These disposals are not disclosed as discontinued operation, because their effect is immaterial for the consolidated financial statements.

9. Revenues

Breakdown of revenue by categories:

EUR thousand	**2014**	**2013**
Sales of goods	2,507,314	2,626,631
Sales of services	135,681	131,301
Sales of products	16,791	16,565
Sales of materials	548	561
Expenses for discounts granted	(6,599)	(9,190)
Total	**2,653,735**	**2,765,868**

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

10. Other income

EUR thousand	2014	2013
Profit from sales of property, plant and equipment	6,347	2,896
Reversal of real estate impairment	4	1
Revenue from reversal and utilization of provisions	6,121	7,555
Other operating revenue	13,998	13,402
Total	**26,470**	**23,854**

Gains from disposal of property, plant and equipment in the amount of EUR 6,347 thousand (2013: EUR 2,896 thousand) refer to the sale of shop equipment to Konzum on the Bosnian and Croatian markets in the amount of EUR 3,278 thousand and the sale of non-core assets in the amount of EUR 3,069 thousand.

Revenue from reversal and utilisation of provisions in the amount of EUR 6,121 thousand (2013: EUR 7,555 thousand) refers to the reversal of provisions for legal claims in the amount of EUR 3,420 thousand; use of assigned assets for disability contributions in the amount of EUR 2,383 thousand, reversal of provision for termination and jubilee benefits in the amount of EUR 240 thousand; and other revenue from reversal of provisions in the amount of EUR 78 thousand.

The remaining part of the Group's other operating revenue in the amount of EUR 13,998 thousand (2013: EUR 13,402 thousand) includes indemnities based on insurance premiums and other indemnities in the amount of EUR 9,319 thousand; income from bonuses for employing of disabled people in the amount of EUR 776 thousand; and other operating revenue in the amount of EUR 3,903 thousand.

11. Expenses by nature

EUR thousand	2014	2013
Depreciation of property, plant and equipment	67,615	68,622
Amortization of intangible assets	4,391	4,982
Depreciation of investment property	118	131
Labor costs	272,487	284,518
Costs of material	66,399	74,814
Costs of services excl. rents	149,488	154,520
Rental/lease costs	57,959	56,398
Cost of provisions	2,904	888
Other costs	14,303	15,219
Impairment of property, plant and equipment, and intangible assets	16,249	1,956
Loss from disposal of property, plant and equipment	541	123
Change in the value of inventories	177	165
Other operating expenses	4,429	1,343
Cost of goods sold	2,010,764	2,090,070
Total cost of goods sold, selling costs and administrative expenses	**2,667,824**	**2,753,749**

Costs of goods sold and selling costs in the amount of EUR 2,570,480 thousand (2013: EUR 2,658,892 thousand) include production costs in the amount of EUR 21,103 thousand (2013: EUR 23,689 thousand); selling costs in the amount of EUR 534,184 thousand (2013: EUR 543,790 thousand); cost of goods sold in the amount of EUR 2,010,764 thousand (2013: EUR 2,090,070 thousand); and other operating expenses in the amount of EUR 4,429 thousand (2013: EUR 1,343 thousand).

Provisions in the amount of EUR 2,904 thousand were created in connection with legal actions and termination and jubilee benefits.

Impairment of property, plant and equipment and intangible assets totals EUR 16,249 thousand and refers to impairment of land in the amount of EUR 8,617 thousand, of the Presoflex unit assets in the amount of EUR

6,894 thousand and of goodwill in the amount of EUR 412 thousand and write-offs and deficits in fixed assets in the amount of EUR 326 thousand.

Other operating expenses refer to penalties and damages in the amount of EUR 4,429 thousand.

In 2014, the Group's discloses the costs of audit in the amount of EUR 180 thousand (2013: EUR 198 thousand). Besides the financial statements audit, the auditor 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. Labour cost

EUR thousand	2014	2013
Salaries	197,392	210,146
Pension insurance costs	18,725	19,169
Health insurance costs	15,436	16,080
Other labor costs	40,934	39,123
Total	**272,487**	**284,518**
Number of employees as at December 31	22,643	22,922

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 20,803 (2013: 22,239).

13. Finance income and expenses

Recognized in the income statement

EUR thousand	2014	2013
Interest income	2,514	3,979
Gains from disposal of subsidiaries	191	-
Gains on disposal of available-for-sale financial assets	55	10
Dividend income	29	11
Other finance income	700	4,025
Finance income	**3,489**	**8,025**
Interest expense	(38,693)	(47,951)
Loss from disposal of subsidiaries	(2)	-
Losses on disposal and impairment of available-for-sale financial assets	(210)	(181)
Impairment of trade and other receivables	(8,551)	(7,277)
Net currency translation differences	(6,422)	(2,879)
Other finance expense	(10,587)	(2,655)
Finance expenses	**(64,465)**	**(60,943)**
Net finance expense recognized in the income statement	**(60,976)**	**(52,918)**

Other finance expenses include impairment of rent for the Getro unit in Croatia paid in advance in the amount of EUR 5,282 thousand.

Recognized in other comprehensive income (net)

EUR thousand	2014	2013
Foreign currency translation differences on consolidation	(8,593)	(1,805)
Net change in cash flow hedges	912	3,097
Net gains/loss recognized in revaluation surplus in relation to available-for-sale financial assets	154	(19)
Finance income (expenses) recognized directly in comprehensive income	**(7,527)**	**1,273**
Attributable to:		
Parent company shareholders	(7,526)	1,274
Non-controlling interest	(1)	(1)
Finance income (expenses) recognized in comprehensive income		
Recognized in:		
Fair value reserve	2,789	3,078
Retained earnings	(1,723)	-
Currency translation reserve	(8,592)	(1,804)
Non-controlling interest	(1)	(1)
Total	**(7,527)**	**1,273**

14. Property, plant, and equipment

EUR thousand	Note	Land	Buildings	Equipment and other assets	Construction in progress	Total
Balance at 1 January, 2013						
Cost		559,001	1,482,386	445,493	35,010	2,521,890
Accumulated depreciation		-	(469,860)	(292,493)	-	(762,353)
Carrying amount		**559,001**	**1,012,526**	**153,000**	**35,010**	**1,759,537**
Year ended 31 December, 2013						
Opening carrying amount		**559,001**	**1,012,526**	**153,000**	**35,010**	**1,759,537**
Effect of movements in exchange rates		(1,341)	(2,005)	(421)	(16)	(3,783)
Additions		1,041	59	1,052	22,648	24,800
Transfers	15	189	21,321	16,841	(38,351)	-
Disposals		(2,135)	(241)	(3,418)	-	(5,794)
Depreciation charge	11	-	(40,731)	(27,891)	-	(68,622)
Impairment and write-offs		-	(97)	(1,348)	(511)	(1,956)
Closing carrying amount		**556,755**	**990,832**	**137,815**	**18,780**	**1,704,182**
Balance at 31 December, 2013						
Cost		556,755	1,501,423	448,406	18,780	2,525,364
Accumulated depreciation		-	(510,591)	(310,591)	-	(821,182)
Carrying amount		**556,755**	**990,832**	**137,815**	**18,780**	**1,704,182**
Year ended 31 December, 2014						
Opening carrying amount		**556,755**	**990,832**	**137,815**	**18,780**	**1,704,182**
Effect of movements in exchange rates		(5,234)	(14,468)	(2,508)	(153)	(22,363)
Additions		-	-	-	80,710	80,710
Transfers*	15	1,426	39,938	43,998	(81,203)	4,159
Disposals		(3,077)	(5,595)	(13,716)	(1)	(22,389)
Depreciation charge	11	-	(40,353)	(27,262)	-	(67,615)
Revaluation and impairment		(40,947)	(6,526)	(368)	-	(47,841)
Other changes		(10,004)	-	-	-	(10,004)
Closing carrying amount		**498,919**	**963,828**	**137,958**	**18,133**	**1,618,839**
Balance at 31 December, 2014						
Cost		498,919	1,519,308	424,432	18,133	2,460,793
Accumulated depreciation		-	(555,480)	(286,474)	-	(841,954)
Carrying amount		**498,919**	**963,828**	**137,958**	**18,133**	**1,618,839**

*Transfers comprise mostly transfers between groups and other changes.

Investments in property, plant and equipment, disclosed among investments in the amount of EUR 80,710 thousand, refer to:

EUR thousand	2014	2013
Purchase of equipment from Idea, d.o.o., in Serbia	58,016	-
Purchase of property, plant and equipment (new facilities)	2,665	8,698
Refurbishment of existing retail and wholesale units	16,274	12,481
Other	3,755	3,621
Total	**80,710**	**24,800**

Disposals of property, plant and equipment in the amount of EUR 22,389 thousand regard the sales of shop equipment to Konzum in Croatia and Bosnia and Herzegovina in the amount of EUR 14,749 thousand and disposal of non-core assets in the amount of EUR 7,640 thousand. Proceeds from disposal amounted to EUR 28,191 thousand; gains from disposal amounted to EUR 6,343 thousand; losses from disposal amounted to EUR 541 thousand.

All land of the Group was appraised as at October 31, 2014. The appraisal was conducted based on market value as determined by an independent certified real estate appraiser and is classified in Level 2 in determination of fair value.

The land revaluation effect for 2014 is negative and totals EUR 40,947 thousand:

EUR thousand	Other comprehensive income	Profit or loss	Total
Increase	1,611	-	1,611
Decrease	(33,945)	-	(33,945)
Impairment	-	(8,617)	(8,617)
Reversal of impairment	-	4	4
total effect on the value of land	**(32,334)**	**(8,613)**	**(40,947)**

The impairment includes also the impaired assets of the Presoflex units in Croatia in the amount of EUR 6,894 thousand, recognised in the income statement.

Land revaluation and impairment of the Presoflex units assets total EUR 47,841 thousand.

The Group arranged certain data on land upon the appraisal process, which allowed adjustment of the information on the surface area and commonhold ownership. This adjustment resulted in additional decrease in the value of land in the amount of EUR 10,004 thousand, which is disclosed under other changes. Instead of recognising it under operating expenses, the Group recognised this adjustment among retained earnings (other comprehensive income).

Depreciation of property, plant and equipment totals EUR 67,615 thousand (2013: EUR 68,622 thousand).

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

EUR thousand	2014	2013
Cost	356,615	413,585

Property, plant and equipment leased

Carrying amount of property, plant and equipment held under financial leases amounts to EUR 257,124 thousand (2013: EUR 258,569 thousand) and refers to land and buildings.

Collaterals

As at December 31, 2014, the Group had EUR 701,982 thousand of pledged property (2013: 7,493 thousand EUR).

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, 2013				
Cost		887	52,026	52,913
Allowance		-	(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
Allowance		-	(39,291)	(39,291)
Carrying amount		**879**	**16,528**	**17,407**
Year ended December 31, 2014				
Opening carrying amount		**879**	**16,528**	**17,407**
Effect of foreign exchange differences		(4)	(817)	(821)
Investment		-	4,981	4,981
Impairment		(412)	-	(412)
Amortization	11	-	(4,391)	(4,391)
Closing carrying amount		**463**	**16,301**	**16,764**
As at December 31, 2014				
Cost		463	59,358	59,821
Allowance		-	(43,057)	(43,057)
Carrying amount		**463**	**16,301**	**16,764**

As at December 31, 2014, investment in progress of intangible assets amounts to EUR 51 thousand (2013: EUR 51 thousand).

Intangible assets as at December 31, 2014 include rights, patents, licenses, trademarks and investments into software in amount of EUR 16,301 thousand (2013: EUR 16,528 thousand) and goodwill in the amount of EUR 463 thousand (2013: EUR 879 thousand).

The trademark value as at December 31, 2014 is EUR 3,700 thousand and refers to the trademark Roda in Serbia. The estimated useful life of the trademark is unlimited; as at December 31, 2014, it was tested for potential impairment, which was not identified.

Impairment of intangible assets in 2014 amounted to EUR 412 thousand (2013: /).

As at December 31, 2014, the goodwill amounts to EUR 463 thousand; the goodwill was generated in previous years upon the acquisition of companies Era Tornado, d.o.o, and Trgohit, d.o.o., in Croatia.

Amortization of intangible assets in 2014 amounts to EUR 4,391 thousand (2013: EUR 4,982 thousand).

Within the scope of the financial liabilities restructuring, the Group pledged the brand Roda in Serbia, the carrying amount of which is EUR 3,700 thousand, and other brands that are not disclosed in the balance sheet.

Goodwill impairment testing

Goodwill, which refers to the acquisition of the companies Era Tornado, d.o.o, and Trgohit, d.o.o. in Croatia in the amount of EUR 463 thousand, was allocated to cash-generating units of the Group, defined according to the store format, and tested for impairment as at December 31, 2014. In 2014, the impairment amounted to EUR 412 thousand.

Allocation and changes in goodwill are presented in the table below:

EUR thousand	**31/12/2013**	**Exchange rate differences**	**Impairment in 2014**	**31/12/2014**
Hypermarkets	-	-	-	-
Supermarkets	879	(4)	(412)	463
Markets	-	-	-	-
Other stores	-	-	-	-
Total	**879**	**(4)**	**(412)**	**463**

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., in Croatia, 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. The estimated value is based on the restructured business activity of the company Mercator – H, d.o.o., during the integration of operations with the company Konzum, d.d., which led to the transfer of the Mercator – H, d.o.o., retail activity to Konzum, d.d., and a material change of the company's core trade activity into real estate activity. Future operations projections are based on market rent, under which revenue and expenses arising from lease in line with the concluded lease agreements for each business unit, and policies for future medium-term period will be realized. Nominal rate of increase in revenue in the projection amounts to 1% (2013: 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 2% increase rate. The discount rate used for this valuation is 8.0%.

It was determined that the recoverable amount of cash-generating units is inferior to their carrying amount, including the goodwill; therefore, goodwill was impaired by EUR 412 thousand.

16. Investment property

EUR thousand	2014	2013
As at January 1	**2,791**	**3,194**
Investment	31	648
Transfer from property, plant, and equipment	950	-
Disposals	(160)	(920)
Depreciation	(118)	(131)
As at December 31	**3,494**	**2,791**
Closing value		
Cost	6,948	6,244
Revaluation adjustment	(3,454)	(3,453)
Carrying amount	**3,494**	**2,791**

Estimated fair value of investment property determined by a certified appraiser totals EUR 3,513 thousand as at December 31, 2014 (2013: EUR 7,806 thousand) and is classified to Level 2 based on the method for measuring fair value.

The following amounts were recognized in the income statement with regard to investment property:

EUR thousand	2014	2013
Rental income	169	169
Direct expenses arising from investment property generating rental income	(248)	(252)
Total	**(79)**	**(83)**

Depreciation of investment property amounts to EUR 118 thousand.

In 2014, the Group received EUR 164 thousand from sales of investment property, on the basis of which it generated EUR 4 thousand of profit.

Present value of investment property pledged as collateral for financial liabilities amounts to EUR 1,495 thousand as at December 31, 2014.

17. Available-for-sale financial assets

EUR thousand	2014	2013
As at January 1	**820**	**1,069**
Foreign exchange differences	17	-
Adjustment to market value	354	(162)
Disposals	(13)	(87)
As at December 31	**1,178**	**820**

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	2014	2013
Available-for-sale financial assets measured at cost	603	622
Available-for-sale financial assets measured at fair value	575	198
Total investments in shares and interests	**1,178**	**820**

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 assets is recognized in the income statement.

18. Derivative financial instruments

EUR thousand	2014	2013
Assets		
Interest rate cap contracts	-	16
Liabilities		
Interest rate swap contracts	-	(1,469)

The nominal amount of loans hedged against interest rate risk as at December 31, 2014 amounted to EUR 50,000 thousand. The total refers to interest rate caps with a strike rate of 2.50%. The interest rate cap contract was concluded in 2013 for a three-year period. As at December 31, 2014, the relevant variable interest rate, i.e. the 6-month EURIBOR, amounted to 0.171%. 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 1,452 thousand. Ineffectiveness with cash flow hedging was not material thus it was not recognized in the income statement.

As at December 31, 2014, the Group does not have any derivatives intended for fair value hedge.

Other than interest rate caps contracts, as at December 31, 2014 (as at December 31, 2013 also interest rate swaps), the Mercator Group did not hold any other contracts with third parties that would represent derivatives.

19. Income Taxes

Taxes recognized in profit or loss

EUR thousand	2014	2013
Current tax expense	861	854
Deferred tax	(4,909)	(870)
Tax	**(4,048)**	**(16)**

In 2014 income tax liability of the companies in the Mercator Group amounts to EUR 861 thousand.

Tax recognized in other comprehensive income

EUR thousand	2014		
	Value before tax	Tax	Value after tax
Net gains/losses recognized in revaluation surplus related to property, plant and equipment	(32,334)	5,308	(27,026)
Other changes in property, plant and equipment	(10,004)	-	(10,004)
Gains/(losses) recognized in revaluation surplus related to financial assets available for sale	360	(206)	154
Net gains (losses) recognized in revaluation surplus related to cash flow hedging	1,452	(540)	912
Foreign currency translation differences on consolidation	(8,593)	-	(8,593)
Provisions established for retirement benefits	(2,370)	-	(2,370)
Other changes	(1,143)	-	(1,143)
Other comprehensive income	**(52,632)**	**4,562**	**(48,070)**

EUR thousand	2013		
	Value before tax	Tax	Value after tax
Net gains/losses recognized in revaluation surplus related to property, plant and equipment	(883)	(1,939)	(2,822)
Gains/(losses) recognized in revaluation surplus related to financial assets available for sale	(43)	16	(27)
Transfer of gains/(losses) related to financial assets available for sale from revaluation surplus to profit or loss	55	(9)	46
Net gains (losses) recognized in revaluation surplus related to cash flow hedging	3,731	(634)	3,097
Foreign currency translation differences on consolidation	(1,805)	-	(1,805)
Deferral 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)**

Reconciliation to effective tax rate

EUR thousand	2014	2013
Profit (loss) for the year	(44,547)	(16,929)
Tax	(4,048)	(16)
Profit before income tax	(48,595)	(16,945)
Tax calculated at 17% tax rate	(8,261)	(2,881)
Tax on income that increases the tax base	404	365
Tax on income that decreases the tax base	(503)	(1,425)
Tax of non-deductible expenses	4,183	6,675
Tax relief	(556)	(2,750)
Effect of different tax rates and other	685	-
Total income tax expense	**(4,048)**	**(16)**
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	2014	2013
At beginning of year – net deferred tax (liabilities)	**(19,925)**	**(16,399)**
Effect of exchange rates movements	(301)	122
Recognized in profit or loss	4,909	870
Recognized in other comprehensive income	4,562	(2,566)
Recognized in liabilities	2,664	(1,952)
At end of year – net deferred tax (liabilities)	**(8,091)**	**(19,925)**

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, 2013	**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**
Effect of exchange rates movements	(211)	-	-	(44)	(256)
Recognized in profit or loss	(60)	-	40	1,145	1,125
Recognized in other comprehensive income	(5,308)	39	-	-	(5,268)
Recognized in liabilities	(2,664)	-	-	-	(2,664)
As at December 31, 2014	**27,098**	**41**	**626**	**2,627**	**30,392**

Deferred tax assets

EUR thousand	Provisions not recognized for tax purposes	Impairment of trade receivables	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, 2013	**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**
Effect of exchange rates movements	(12)	-	(262)	(1)	(306)	-	25	(556)
Recognized in profit or loss	(380)	372	10,643	26	200	-	(4,827)	6,034
Recognized in other comprehensive income	-	-	-	-	-	(707)	-	(707)
As at December 31, 2014	**1,508**	**2,721**	**13,454**	**34**	**2,562**	**23**	**1,999**	**22,301**

As at December 31, 2014, the Group holds unrecognized deferred assets from tax losses in the amount of EUR 17,540 thousand (2013: EUR 18,025 thousand). These pertain especially to tax losses of the companies Mercator - H, 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 2014 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 2014, whereas the deferred tax assets increase them.

Deferred tax assets not recognized through profit or loss, pertaining to the impairment of equity investment into subsidiaries Mercator - H, d.o.o., and Mercator – BH, d.o.o., amounted to EUR 12,524 thousand. These deferred tax assets were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

Deferred tax assets and liabilities are not offset in the balance sheet.

20. Inventories

EUR thousand	2014	2013
Merchandise	260,815	272,685
Material	5,180	5,113
Work-in-progress	28	35
Finished good	831	1,113
Less: allowance for inventories	(9,531)	(14,148)
Total	**257,323**	**264,798**

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress, and finished products as at December 31, 2014 amounted to EUR 257,323 thousand, which is 2.8% 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 have been pledged for loans received in the amount of EUR 24,490 thousand.

21. Trade and other receivables

EUR thousand	2014	2013
Trade and other receivables	230,004	216,388
Deferred costs	15,450	7,328
Accrued revenues	8,832	11,211
Total trade and other receivables	**254,286**	**234,927**

Trade and other receivables increased by EUR 19,359 thousand.

As at December 31, 2014 Mercator Group disclosed EUR 51,638 thousand of receivables from associated parties.

Deferred costs in 2014 amount to EUR 15,450 thousand, which is EUR 8,122 thousand more than in the year before.

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, 2014 amounted to EUR 41,896 thousand (2013: EUR 46,050 thousand). Movements of the provision for impairment of trade receivables are presented in Note 29 (Financial instruments).

A part of trade receivables and other receivables has been pledged for collateralizing the Group's liabilities. The collateral for receivables is presented in Note 29 (Financial instruments).

22. Loans and deposits

EUR thousand	2014	2013
Deposits for rent payment	19,373	29,256
Loans to companies	8,024	11,900
Deposits in banks	865	1,453
Total loans and deposits	**28,262**	**42,609**

Deposits for rent payment relate to long-term paid in advance rents for trade facilities abroad and are charged with interest. They are insured by mortgages on trade facilities. Loans granted to other companies mostly pertain to loans to companies that have built trade facilities; these loans are secured by a mortgage on the property being developed.

The average interest rate on loans given and deposits amounts to 4.74%.

23. Cash and cash equivalents

EUR thousand	2014	2013
Cash in banks	18,197	1,124
Cash in hand	16,027	17,381
Total cash and cash equivalents	**34,224**	**18,505**

Cash in hand in the amount of EUR 16,027 thousand includes cash in transit (daily proceeds of retail units), cash in hand, and cheques falling due in up to 90 days.

24. Equity

Share capital
Share capital of the company Mercator, d.d., amounts to EUR 254,175,051.39. It is divided into 6,090,943 ordinary, registered, no-par value shares. In 2014, the company's equity increased due to the capital increase by Agrokor Investments B.V., namely by EUR 97,046,536.86 or 2,325,582 ordinary registered no-par value shares. The capital of Mercator, d.d., was increased by a total of EUR 200,000 thousand.

Conditional capital increase
Shareholders' Assembly of the company Poslovni sistem Mercator, d.d., can adopt a resolution on conditional capital increase on the basis of provisions stated in 46th article of the company's Articles of Association; such possibility has not been realized so far.

Treasury shares
As at December 31, 2014 the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares in the amount of EUR 3,235 thousand (2013: 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.

As at December 31, 2014 *share premium* amounts to EUR 286,772 thousand. 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. In 2014, share premium rose by EUR 102,954 thousand due to the parent company's capital increase and dropped by EUR 15,054 thousand as a result of covering operating loss.

Revenue reserves, amounting to EUR 41,686 thousand as at December 31, 2014, include legal reserves, reserves for treasury shares, and other revenue reserves.

As at December 31, 2014, 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, and to cover the carried forward net loss, if revenue reserves are not used simultaneously to pay dividends to the shareholders.

As at December 31, 2014, 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, 2014 amount to EUR 25,062 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. In 2014, it decreased by EUR 104,970 thousand as a result of covering operating loss.

Currency translation reserve, amounting to EUR -89,215 thousand as at December 31, 2014, has decreased by EUR 8,592 thousand in 2014, 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 115,411 thousand as at December 31, 2014, includes the revaluation reserve of land as measured by the revaluation model, and changes to the fair value of available-for-sale financial assets.

Fair value reserve is shown below:

EUR thousand	**2014**	**2013**
Real property fair value reserve	115,206	143,170
Fair value reserve for available-for-sale financial assets	205	52
Hedging reserve	-	(2,635)
Total fair value reserve	**115,411**	**140,587**

Dividends

In 2014, the Shareholders' Assembly did not decide on payment of dividends, due to the disclosed loss of the company Mercator, d.d., in 2013.

Due to negative results in 2014, dividend payment is not planned for 2015.

Other comprehensive income

EUR thousand	Fair value reserve: Real property fair value reserve	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
2014								
Net gains/losses recognized in revaluation surplus related to property, plant and equipment	(32,333)	-	-	-	-	(32,333)	(1)	(32,334)
Other changes in property, plant and equipment	-	-	-	(10,002)	-	(10,002)	(2)	(10,004)
Sales of revalued real estate	(922)	-	-	922	-	-	-	-
Net gains (losses) recognized in revaluation surplus related to cash flow hedging	-	-	3,175	(1,723)	-	1,452	-	1,452
Gains/(losses) recognized in revaluation surplus related to available-for-sale financial assets	-	360	-	-	-	360	-	360
Provisions established for retirement benefits	-	-	-	(2,370)	-	(2,370)		(2,370)
Other changes	-	-	-	(1,140)	-	(1,140)	(3)	(1,143)
Deferred tax	5,308	(206)	(540)	-	-	4,562	-	4,562
Effect of exchange rates movements	-	-	-	-	(8,592)	(8,592)	(1)	(8,593)
Total other comprehensive income	**(27,947)**	**154**	**2,635**	**(14,313)**	**(8,592)**	**(48,063)**	**(7)**	**(48,070)**

EUR thousand	Fair value reserve: Real property fair value reserve	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 related to property, plant and equipment	(883)					(883)	-	(883)
Disposal and depreciation of revalued property	(3,215)	-	-	3,215	-	-	-	-
Net gains (losses) recognized in revaluation surplus related to cash flow hedging	-	-	3,731	-	-	3,731	-	3,731
Gains/(losses) recognized in revaluation surplus related to available-for-sale financial assets	-	(43)	-	-	-	(43)	-	(43)
Transfer of gains/(losses) related to available-for-sale financial assets from revaluation surplus to profit or loss	-	55	-	-	-	55	-	55
Deferral 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)
Effect of exchange rates movements	-	-	-	-	(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)**

The impact of land revaluation on the Group's equity was EUR -32,334 thousand. Upon the land appraisal, the Group arranged certain data about land. Thus, the data about the surface area and commonhold ownership were aligned. The adjustments accounted for EUR 10,004 thousand. The Group recognized the amount in the retained net profit or loss and did not make retrospective restatements due to immateriality.

The changes in equity in the year ended December 13, 2014 refer to:

- The increase in equity due to the capital increase by Agrokor Investments B.V. in the amount of EUR 200,000 thousand;
- The decrease in equity as a result of net loss equaling EUR 44,547 thousand;
- The decrease in equity as a result of land revaluation equaling EUR 32,334 thousand;
- The decrease in equity due to other changes in property, plant and equipment totaling EUR 10,004 thousand;
- The decrease in equity due to the provisions for retirement benefits totaling EUR 2,370 thousand;
- The decrease in equity due to exchange rate differences upon the translation of foreign subsidiaries in the amount of EUR 8,593 thousand;
- The increase in equity as a result of revaluation of financial assets available for sale totalling EUR 360 thousand;
- The increase in equity related to cash flow hedging totalling EUR 1,452 thousand;
- The decrease in equity due to other changes totaling EUR 1,143 thousand;
- The increase in equity due to the impact of deferred taxes totaling EUR 4,562 thousand.

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.

	2014	2013
Loss attributable to the owners of the parent company (EUR thousand)	(44,453)	(16,904)
Weighted average number of ordinary shares	4,124,571	3,723,169
Basic net loss per share (in EUR)	**(10.8)**	**(4.5)**

	2014	2013
Issued ordinary shares as at January 1	3,765,361	3,765,361
Effect of treasury shares	(42,192)	(42,192)
The effect of new issue	401,402	-
Weighted average number of ordinary shares as at December 31	**4,124,571**	**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	2014	2013
Non-current financial liabilities		
Bank borrowings	627,759	209,152
Finance lease	158,881	142,431
Borrowings from associated companies	20,000	-
Total	**806,640**	**351,583**
Current financial liabilities		
Bank borrowings	20,353	208,625
Borrowings from other companies	3,009	-
Current portion of finance lease liabilities	17,134	50,754
Current portion of bank borrowings	2,502	426,846
Total	**42,998**	**686,225**
Total financial liabilities	**849,638**	**1,037,808**

As at December 31, 2014 the company had EUR 701,982 thousand of pledged real property. Loans collateralized by a mortgage amounted to EUR 745,669 thousand as at December 31, 2014.

Effective interest rates as at the cut-off date of balance sheet:

	2014	2013
Bank borrowings	2.56%	3.97%
Other borrowings	1.87%	2.64%

Floating interest rates are mostly interest rates related to EURIBOR. Fixed interest rates are mostly related to borrowings from domestic banks, with fixed nominal interest rate. A small part of financial liabilities is hedged with the use of derivative financial instruments, i.e. by interest rate caps.

Finance lease

Finance lease liabilities - minimum lease payments:

EUR thousand	Future minimum lease payments 2014	Interest 2014	Present value of minimum lease payments 2014	Future minimum lease payments 2013	Interest 2013	Present value of minimum lease payments 2013
Less than one year	20,398	3,264	17,134	55,235	4,481	50,754
Between one and five years	100,942	9,873	91,069	77,033	9,598	67,435
More than five years	72,627	4,815	67,812	80,048	5,052	74,996
Total	**193,967**	**17,952**	**176,015**	**212,316**	**19,131**	**193,185**

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, 2014 amounted to 95% (34% as at December 31, 2013).

27. Provisions

EUR thousand	Restitution claims	Restructuring provisions	Legal claims	Retirement benefits and jubilee premiums provisions	Other provisions	Total
As at January 1, 2014	**214**	**95**	**9,563**	**15,107**	**68**	**25,047**
Establishment	-	-	2,017	4,191	2,517	8,725
Utilization	(158)	(70)	(4,954)	(1,675)	(2,383)	(9,240)
Reversal	(56)	(22)	(3,420)	(240)	-	(3,738)
Effect of exchange rates movements	-	-	(9)	(79)	-	(88)
As at December 31, 2014	**-**	**3**	**3,197**	**17,304**	**202**	**20,706**

Compared to the end of 2013, total provisions are lower by EUR 4,341 thousand. EUR 8,725 thousand of additional provisions were established (EUR 6,355 thousand debiting costs and EUR 2,370 thousand debiting other comprehensive income), provisions debiting the liabilities decreased by EUR 6,857 thousand; provisions crediting other operating income decreased by EUR 6,121 thousand. Net effect on the income statement amounted to EUR -234 thousand.

Provisions for restitution claims
Provisions related to restitution claims as at December 31, 2014 no longer existed, because during 2014 the last denationalization procedure was completed.

Restructuring provisions
As at December 31, 2014 provisions for reorganization expenses amount to EUR 3 thousand. Long-term provision was decreased by payments in the amount of EUR 70 thousand and reversal of excessive provisions in the amount of EUR 22 thousand.

Legal claims
In 2014 provisions for legal claims were decreased by EUR 6,366 thousand. Based on received legal claims and legal opinion, the Group recognized additional provisions in the total amount of EUR 2,017 thousand in 2014. Following the completion of legal proceedings decided in favor of Mercator, provisions in the amount of EUR 3,420 thousand were reversed, and EUR 4,954 thousand of liabilities were paid to plaintiffs. Decrease of EUR 9 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 local legislation 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 2014 are entitled to all jubilee premiums in the following 40 years, under the assumption 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);
- the considered employee fluctuation rate is 3.5%.

As at December 31, 2014, the value of provisions for retirement benefits and jubilee premiums amounted to EUR 17,304 thousand. Compared to the year before, provisions are higher by EUR 2,197 thousand. In 2014, additional provisions of EUR 4,191 thousand were created, of which EUR 1,821 thousand were recognized in labor costs and EUR 2,370 thousand in other comprehensive income. Payment of termination and jubilee bonuses has been debited to provisions in the total amount of EUR 1,675 thousand. Reversed provisions in the amount of EUR 240 thousand were credited to operating income. The decrease of EUR 79 thousand refers to foreign exchange differences.

Other provisions
Other provisions refer to the provisions for improvement of working conditions of persons with disabilities at the companies Mercator, d.d., Mercator IP, d.o.o., and Intersport-ISI, d.o.o. In 2014, they were increased by EUR 2,517 thousand. They were drawn and reversed pursuant to relevant legislation in the amount of EUR 2,383 thousand, to cover the labor costs of persons with disabilities, labor costs of employees helping the persons with disabilities, and depreciation of property, plant and equipment related to the work of persons with disabilities.

28. Trade and other payables

EUR thousand	2014	2013
Trade payables	607,802	601,260
Payables to employees	18,442	20,301
Social security and other taxes and duties	31,292	13,861
Other payables	15,845	5,510
Accrued costs and deferred revenues	41,041	46,425
Total	**714,422**	**687,357**
Trade and other payables include:		
Non-current/long-term payables	6,765	850
Current/short-term payables	707,657	686,507

Accrued costs pertain to accrued interest paid on borrowings, rebates granted but not accounted for, and compensations, the costs of unused holiday leave and other accrued costs.

Deferred revenue includes particularly deferred revenue for claiming the discounts related to Pika bonus points.

Trade payables in 2014 are higher by EUR 27,065 thousand, which is mostly the result of the adoption of the trade activity of the company Idea in Serbia.

As at December 31, 2014, 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 2014.

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 proposes the 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 at the level of the Group or a particular company would decrease 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 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 2014 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 decrease 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	2014	2013
Trade and other receivables	254,286	234,927
Deposits for rent payment	19,373	29,256
Loans to companies	8,024	11,900
Deposits in banks	865	1,453
Total	**282,548**	**277,536**

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.

The loans granted by the Group to companies are collateralized and it is assessed that the credit risk arising therefrom is low. Additional explanations regarding loans granted are given in Note 22.

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	2014	2013
Slovenia	153,508	168,053
Foreign markets	129,040	109,483
Total	**282,548**	**277,536**

Maximum exposure to credit risk for trade receivables and loans at the reporting date by type of customer was as follows:

EUR thousand	2014	2013
Retail customers	30,521	79,067
Wholesale customers and related parties	178,036	110,822
Receivables from employees and the government, and other receivables	21,447	26,499
Deferred costs	15,450	7,328
Accrued revenues	8,832	11,211
Loans and deposits	28,262	42,609
Total	**282,548**	**277,536**

In the category of retail partners the Group included receivables from individuals and financial partners related to purchases in company retail units with Pika card and other cards; the category of wholesale customers and related parties includes all receivables from sale of goods, material, and services, to legal/corporate entities.

Security of receivables and loans (in gross amounts, without the impairment of receivables):

EUR thousand	2014	2013
Trade receivables	250,453	235,939
Secured receivables	71,057	70,917
Unsecured receivables	179,396	165,022
Other receivables and loans	73,991	87,647
Total	**324,444**	**323,586**

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 the 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 2014	Impairment 2014	Gross value 2013	Impairment 2013
Not past due	204,963	-	230,819	-
Past due 0-60 days	51,291	-	33,507	19
Past due 61-74 days	5,226	320	3,378	240
Past due 75-89 days	6,401	309	1,680	202
More than 90 days	56,563	41,267	54,202	45,589
Total	**324,444**	**41,896**	**323,586**	**46,050**

Changes in revaluation adjustment to receivables and loans:

EUR thousand	2014	2013
As at January 1	**46,050**	**39,078**
Effect of exchange rate movements	(552)	(145)
Impairment loss recognized during the year	9,505	13,831
Receivable write-off	(12,153)	(1,442)
Decrease of allowance for impairment during the year	(954)	(5,272)
As at December 31	**41,896**	**46,050**

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 311,802 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.

The Group has been 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, 2014 Mercator Group had access to the following liquidity lines:

EUR thousand	**2014**
Cash and cash equivalents	34,224
Bank deposits	865
Standby revolving credit lines	44,954
Total	**80,043**

Following is an overview of the contractual maturity of liabilities and estimated interest expenses. The future contractual due date of the principal and interest is given based on the loan agreements as at December 12, 2014.

2014			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	650,614	793,769	3,660	4,921	19,195	4,981	54,938	26,186	169,890	46,146	402,931	60,921
Borrowings from related and other companies	23,009	23,009	-	-	3,009	-	-	-	-	-	20,000	-
Finance lease	176,015	193,967	9,108	1,639	8,026	1,625	38,276	5,661	52,793	4,212	67,812	4,815
Trade and other payables and current tax liabilities	714,960	714,960	708,195	-	-	-	6,765	-	-	-	-	-
Total	**1,564,598**	**1,725,705**	**720,963**	**6,560**	**30,230**	**6,606**	**99,979**	**31,847**	**222,683**	**50,358**	**490,743**	**65,736**

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**

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 exposures. In these activities the Group employs hedge accounting.

Interest rate risk

The Group's interest rate risk stems from financial liabilities. Financial liabilities expose the Group to the 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.

Exposure

The following table presents the Group's exposure to interest rate risk:

	31/12/2014	**31/12/2013**
EUR thousand	**Carrying amount**	**Carrying amount**
Fixed rate instruments		
Financial assets	27,332	42,609
Financial liabilities	(35,008)	(134,781)
Total	**(7,676)**	**(92,172)**
Financial instruments at variable interest rate		
Financial assets	930	-
Financial liabilities	(814,630)	(903,027)
Total	**(813,700)**	**(903,027)**

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 2013.

	Profit (loss)		Equity	
EUR thousand	**100 bp increase**	**100 bp decrease or decrease to 0%**	**100 bp increase**	**100 bp decrease**
2014				
Variable rate instruments	(8,137)	407	-	-
Interest rate caps	-	-	-	-
Cash flow sensitivity (net)	**(8,137)**	**407**	**-**	**-**
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)**

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 decreased 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 in the markets where Mercator is operating; 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, 2014

EUR thousand	EUR*	HRK	RSD	BAM
Trade and other receivables	153,508	18,789	106,144	4,107
Available-for-sale financial assets	1,125	49	-	4
Cash and cash equivalents	19,210	1,308	9,749	3,957
Financial liabilities	(833,400)	(3,516)	-	(12,722)
Trade and other payables	(376,407)	(72,494)	(256,998)	(8,524)
Balance sheet exposure	**(1,035,964)**	**(55,864)**	**(141,105)**	**(13,178)**
Forecasted sales	1,726,495	76,153	1,079,893	20,811
Forecasted purchasing	(1,353,572)	(42,522)	(953,546)	(8,012)
Estimated transaction exposure	**372,923**	**33,631**	**126,347**	**12,799**
Forward exchange contracts	-	-	-	-
Net exposure	**(663,041)**	**(22,233)**	**(14,758)**	**(379)**

* 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).

Mercator Group does not hold any derivative financial instruments for currency risk hedging (forward exchange contracts) as at December 31, 2014 and December 31, 2013.

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)**
Forecasted sales	1,663,402	327,889	547,687	190,544	-	-
Forecasted 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).

The following significant exchange rates applied during the year:

Units per EUR	Average rate 2014	Average rate 2013	Reporting date spot rate 2014	Reporting date spot rate 2013
HRK	7.634	7.579	7.658	7.627
RSD	116.868	112.944	120.600	114.140
BAM	1.956	1.956	1.956	1.956

Sensitivity analysis

A change in the exchange rate of local currencies against the Euro as at December 31 would have increased (decreased) profit or loss for the period 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 2013.

EUR thousand	Change in exchange rate	Forecasted transaction exposure Profit (loss)		Balance sheet exposure Profit (loss)	
2014					
HRK	**-+5%**	1,770	(1,601)	(2,940)	2,660
RSD	**-+10%**	14,039	(11,486)	(15,678)	12,828
BAM	**-+5%**	674	(609)	(694)	628
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

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 the ratio between equity and net financial debt of the Group. As at reporting date, the said ratio was as follows:

EUR thousand	2014	2013
Financial liabilities and liabilities for derivative financial instruments	849,638	1,039,277
Less:		
Loans and deposits	28,262	42,609
Available-for-sale financial assets	1,178	820
Derivative financial instruments	-	16
Cash and cash equivalents	34,224	18,505
Net financial debt	**785,974**	**977,327**
Equity	**621,677**	**514,294**
Ratio between equity and net financial debt	1:1.3	1:1.9

As at December 31, 2014 the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares (2013: 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.

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. As at December 31, 2014 the Group has no liabilities from derivative financial instruments. The fair value of interest rate caps is less than EUR 1 thousand.

2014

EUR thousand	**Carrying amount**	**Contractual cash flow**	**1 year or less**	**1-2 years**	**2-5 years**	**Over 5 years**
Interest rate caps:						
Assets	-	-	-	-	-	-

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)	-	-	-

Fair values

Fair values of assets and liabilities and carrying amounts as shown in the balance sheet:

	31/12/2014		31/12/2013	
EUR thousand	Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial instruments	-	-	(1,453)	(1,453)
Trade and other receivables	254,286	254,286	234,927	234,927
Current tax assets	702	702	256	256
Loans and deposits	28,262	27,886	42,609	41,622
Available-for-sale financial assets	1,178	1,178	820	820
Cash and cash equivalents	34,224	34,224	18,505	18,505
Fixed rate bank borrowings	(35,008)	(34,542)	(134,781)	(131,659)
Floating rate bank borrowings	(615,606)	(615,606)	(709,842)	(709,842)
Borrowings from related and other companies	(23,009)	(23,009)	-	-
Finance lease	(176,015)	(176,015)	(193,185)	(193,185)
Trade and other payables	(714,422)	(714,422)	(687,357)	(687,357)

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 for financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets is determined.

2014

EUR thousand	Level 1	Valuation technique
Available-for-sale financial assets	575	Quoted bid prices in an active market

2013

EUR thousand	Level 1	Valuation technique
Available-for-sale financial assets	198	Quoted bid prices in an active market

Fair value for financial instruments that are not measured at fair value on recurring basis

Based on the calculation of their fair value, financial instruments are divided into three 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.
- Level 3: assets or liabilities, the value of which is not based on active market basis.

2014

EUR thousand	Level 1	Level 2	Level 3	Total
Loans and deposits	-	-	27,886	27,886
Trade and other receivables	-	-	254,286	254,286
Derivative financial instruments - assets	-	-	-	-
Derivative financial instruments - liabilities	-	-	-	-
Financial liabilities	-	-	(849,172)	(849,172)
Trade and other payables	-	-	(714,422)	(714,422)

2013

EUR thousand	Level 1	Level 2	Level 3	Total
Loans and deposits	-	-	41,622	41,622
Trade and other receivables	-	-	234,927	234,927
Derivative financial instruments - assets	-	16	-	16
Derivative financial instruments - liabilities	-	(1,469)	-	(1,469)
Financial liabilities	-	-	(1,034,686)	(1,034,686)
Trade and other payables	-	-	(687,357)	(687,357)

Available-for-sale financial assets also include investments valued at historical cost in the amount of EUR 603 thousand in 2014 and 2013.

The fair values of the financial assets and financial liabilities in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties..

30. Operating leases

Minimum lease payments pertaining to operating lease (Group as the lessee) are as follows:

EUR thousand	2014	2013
Less than one year	51,064	48,746
Between one and five years	180,062	188,334
More than five years	209,355	273,266
Total	**440,481**	**510,346**

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	2014	2013
Property, plant and equipment	3,081	2,016

32. Contingencies

Group contingencies also include guarantees provided in the amount of EUR 16,917 thousand (2013: EUR 16,250 thousand).

The tax authorities may, at any time within a period of 5 or 10 years after the end of the year for which a tax assessment was due, review of the Group companies' operations, which may lead to assessment of additional tax liabilities, default interest, and penalties with regards to corporate income tax or other taxes and duties.

33. Related-party transactions

The company Mercator, d.d., has a controlling owner or shareholder. The major owner is Agrokor, d.d., holding 88.1% of total equity with associated companies.

Related parties of the Group are its management personnel and associated companies. 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 2014, managerial staff held no shares of the company Mercator, d.d.

In 2014, the Group paid out the following compensation in gross amounts to Management Board members and Supervisory Board members of Group companies:

EUR thousand	2014		2013	
	Amount	**Number of recipients**	**Amount**	**Number of recipients**
Members of Management Boards of companies in Mercator Group	2,057	15	1,772	17
Members of the Supervisory Board of the Mercator Group companies	161	14	187	11
Total	**2,218**	**29**	**1,959**	**28**

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 0.8% of total employee benefit expenses (2013: 0.7%).

Gross payments to Mercator, d.d., Management Board in 2014:

EUR thousand	**First and last name**	**Total payments**	**Gross payment**	**Base salary**	**Performance bonuses**	**Other payments**
President of the Management Board	Toni Balažič	266	251	210	41	15
Member of the Management Board	Drago Kavšek	224	210	168	42	14
Member of the Management Board	Igor Maroša	208	193	169	24	15
Member of the Management Board	Stanka Pejanović	162	144	126	18	18
		860	**798**	**673**	**125**	**62**

Gross payments to Management Board and Supervisory Board members in 2014 represent 0.57% of total labour costs at the company Mercator, d.d. (2013: 0.49%).

Gross compensation paid to members of managerial and supervisory bodies at the parent company in 2014 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	-	-	**125,492**	**4,188**	**10,915**	**-**	**46,889**	**187,484**
Toni Balažič	-	-	41,170	830	115	-	14,508	56,623
Drago Kavšek	-	-	42,172	753	115	-	13,591	56,631
Igor Maroša	-	-	24,150	825	115	-	13,803	38,893
Stanka Pejanović	-	-	18,000	1,780	10,570	-	4,987	35,337

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	**160,550**	**134,000**	**25,630**	**920**	-	-	-	-	**920**	-	-
Todorić Ante	542	-	427	115	-	-	-	-	115	-	-
Lahovnik Matej	30,584	26,000	4,469	115	-	-	-	-	115	-	-
Crnjac Ivan	542	-	427	115	-	-	-	-	115	-	-
Kuštrak Damir	542	-	427	115	-	-	-	-	115	-	-
Knez Darko	542	-	427	115	-	-	-	-	115	-	-
Mudrinić Ivica	7,367	6,000	1,252	115	-	-	-	-	115	-	-
Stojanovič Vesna	20,865	18,000	2,750	115	-	-	-	-	115	-	-
Tatić Veljko	20,865	18,000	2,750	115	-	-	-	-	115	-	-
Valand Ivan	22,361	18,000	4,361	-	-	-	-	-	-	-	-
Galić Boris	3,550	3,000	550	-	-	-	-	-	-	-	-
Podlesnik Zdenko	14,495	12,000	2,495	-	-	-	-	-	-	-	-
Rozman Rok	14,181	12,000	2,181	-	-	-	-	-	-	-	-
Zevnik Marjeta	13,650	12,000	1,650	-	-	-	-	-	-	-	-
Brank Bojan	10,464	9,000	1,464	-	-	-	-	-	-	-	-

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	**36,371**	**31,000**	**5,371**	-	-	-	-	-	-	-	-
Zevnik Marjeta	11,925	10,000	1,925	-	-	-	-	-	-	-	-
Rozman Rok	7,246	6,000	1,246	-	-	-	-	-	-	-	-
Igličar Aleksander	7,100	6,000	1,100	-	-	-	-	-	-	-	-
Slapničar Sergeja	10,100	9,000	1,100	-	-	-	-	-	-	-	-

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	**38,780**	**35,500**	**3,280**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Galić Boris	1,500	1,500	-	-	-	-	-	-	-	-	-
Lahovnik Matej	6,550	6,000	550	-	-	-	-	-	-	-	-
Podlesnik Zdenko	6,631	6,000	631	-	-	-	-	-	-	-	-
Rozman Rok	10,999	10,000	999	-	-	-	-	-	-	-	-
Zevnik Marjeta	6,550	6,000	550	-	-	-	-	-	-	-	-
Stojanovič Vesna	6,550	6,000	550	-	-	-	-	-	-	-	-

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	**2,681**	**2,200**	**481**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Filipović Nenad	2,681	2,200	481	-	-	-	-	-	-	-	-

In 2014 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).

Sales to related parties

EUR thousand	2014
Related companies:	
Agrolaguna d.d.	3
Dijamant a.d.	231
Dijamant agrar d.o.o.	3
Frikom d.o.o.	220
Idea d.o.o.	1,071
Jamnica d.d.	10
Jamnica d.o.o. Beograd	88
Jamnica d.o.o. Maribor	18
Kikindski mlin a.d.	13
Konzum d.d.	7,312
Konzum d.o.o. Sarajevo	13,677
Kor Neretva d.o.o.	25
Ledo d.d.	7
Ledo d.o.o. Čitluk	3
Ledo d.o.o. Ljubljana	16
Ledo d.o.o. Podgorica	15
PIK BiH d.o.o. Laktaši	3
PIK Vrbovec d.d.	192
Sarajevski kiseljak d.d.	5
Tisak d.d.	4
Zvijezda d.o.o Sarajevo	2
Zvijezda d.o.o. Ljubljana	31
Total	**22,949**

Outstanding items related to sales/purchase to/from related parties

Operating receivables from related parties

EUR thousand	2014
Associated companies:	
Agrokor, d.d.	3,335
Acro, d.o.o.	2
Agrolaguna, d.d.	3
Dijamant, a.d.	306
Dijamant agrar, d.o.o.	3
Frikom, d.o.o.	256
Idea, d.o.o.	1,048
Jamnica, d.o.o., Belgrade	77
Jamnica, d.o.o., Maribor	5
Kikindski mlin, a.d.	15
Konzum, d.d.	34,875
Konzum, d.o.o., Sarajevo	11,499
Kor Neretva, d.o.o.	1
Ledo, d.o.o., Ljubljana	5
Ledo, d.o.o., Podgorica	1
mStart, d.o.o.	9
PIK Vrbovec, d.d.	177
Tisak, d.d.	2
Zvijezda, d.o.o., Ljubljana	19
Total	**51,638**

Operating liabilities to related parties

EUR thousand	2014
Related companies:	
Agrokor-trgovina, d.d.	119
Agrokor-Zagreb, d.o.o., Grude	4
Agrolaguna, d.d.	5
Dijamant, a.d.	4,435
Dijamant agrar, d.o.o.	114
Frikom, d.o.o.	2,020
Idea, d.o.o.	72,033
Jamnica, d.d.	3,864
Jamnica, d.o.o., Belgrade	705
Jamnica, d.o.o., Maribor	204
Kikindski mlin, a.d.	935
Konzum, d.d.	3,870
Konzum, d.o.o., Sarajevo	247
Kor Neretva, d.o.o.	1,311
Ledo, d.d.	2,472
Ledo, d.o.o., Čitluk	25
Ledo, d.o.o., Ljubljana	292
Ledo, d.o.o., Podgorica	231
mStart, d.o.o.	72
PIK BiH, d.o.o., Laktaši	219
PIK Vinkovci, d.d.	16
PIK Vrbovec, d.d.	6,192
Roto dinamic, d.o.o.	65
Sarajevski kiseljak, d.d.	(10)
Solana Pag, d.d.	48
Superkartica, d.o.o., Belgrade	199
Tisak, d.d.	2,284
Zvijezda, d.d.	4,040
Zvijezda, d.o.o., Sarajevo	22
Zvijezda, d.o.o., Ljubljana	331
Žitnjak, d.d.	1,976
Total	**108,340**

Loans from related parties

EUR thousand	2014
Associated companies:	
Agrokor, d.d.	20,000

34. Major events following the end of the year

After the completion of the reported period, on February 25, 2015 the company Agrokor, d.d., acquired additional 581,395 shares of the issuer company Poslovni sistem Mercator, d.d., by concluding the purchase and sale contract of shares with the company Agrokor Investments B.V. Thereby, the share of the company Agrokor, d.d., in the company Mercator, d.d., has increase from 49.92% to 59.47%, and the share of the company Agrokor Investments B.V., in the company Mercator, d.d., has decreased from 38.18% to 28.64%.

Common share of companies Agrokor, d.d., and Agrokor Investments B.V., in the company Mercator, d.d., amounts to 88.10% and has not changed. Also 88.72% share of their voting rights has stayed unchanged.

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 31.12.2014, 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 31.12.2014, 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, 6 March 2015

FOR TRANSLATION PURPOSES ONLY- ORIGINAL PREVAILS

FINANCIAL REPORT OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

Balance sheet

EUR thousand	Note	31/12/2014	31/12/2013
ASSETS			
Non-current assets			
Property, plant and equipment	14	877,304	935,671
Investment property	16	3,494	2,791
Intangible assets	15	9,244	9,289
Deferred tax assets	20	20,236	16,003
Trade and other receivables	22	-	-
Loans and deposits	23	9,925	354
Investment into equity of subsidiaries	17	386,169	485,179
Available-for-sale financial assets	18	1,053	720
		1,307,425	**1,450,007**
Current assets			
Inventories	21	118,710	110,447
Trade and other receivables	22	99,519	154,814
Current tax assets		42	24
Loans and deposits	23	78,567	13,282
Derivative financial instruments	19	-	16
Cash and cash equivalents	24	18,571	6,018
		315,409	**284,601**
Total assets		**1,622,834**	**1,734,608**
EQUITY	25		
Share capital		254,175	157,129
Share premium		286,772	198,872
Treasury shares		(3,235)	(3,235)
Revenue reserves		16,624	121,595
Fair value reserve		84,865	103,426
Retained earnings		-	-
Profit (loss) for the year		-	-
		639,201	**577,787**
LIABILITIES			
Non-current liabilities			
Trade and other payables	29	5,354	1,006
Borrowings and other financial liabilities	27	559,758	242,007
Deferred tax liabilities	20	22,819	26,980
Provisions	28	16,577	25,136
		604,508	**295,129**
Current liabilities			
Trade and other payables	29	341,649	363,281
Current tax liabilities		-	-
Borrowings and other financial liabilities	27	37,476	496,942
Derivative financial instruments	19	-	1,469
		379,125	**861,692**
Total liabilities		**983,633**	**1,156,821**
Total equity and liabilities		**1,622,834**	**1,734,608**

Income statement

EUR thousand	Note	2014	2013
Revenue	9	1,455,212	1,464,319
Cost of goods sold and selling costs	11	(1,404,509)	(1,393,824)
Administrative expenses	11	(41,650)	(70,495)
Impairment of property, plant and equipment and intangible assets	11	(7,594)	-
Other income	10	9,232	24,628
Results from operating activities		**10,691**	**52,240**
Finance income	13	7,020	5,991
Finance costs	13	(118,146)	(94,348)
Net finance expense		**(111,126)**	**(88,357)**
Loss before tax		**(100,435)**	**(36,117)**
Tax	20	5,324	518
Loss for the year		**(95,111)**	**(35,599)**
Basic and diluted loss per share (in EUR)	26	(23.1)	(9.6)

* Due to the merger of companies Modiana, d.o.o., and M-nepremičnine, d.o.o., in 2014 the 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	2014	2013
Loss for the year		(95,111)	(35,599)
Other comprehensive income			
Items subsequently not reclassified to profit or loss		**(44,531)**	**(14,942)**
Net gains/loss recognized in revaluation surplus in relation to property, plant and equipment	14	(24,727)	-
Provisions for termination benefits		(2,021)	-
Liabilities for unused annual leave of employees		-	(3,035)
Losses on merger of subsidiaries		(12,522)	(11,907)
Other changes in property, plant and equipment	25	(9,465)	-
Deferred tax for items subsequently not recognized to profit or loss	20	4,204	-
Items that may be reclassified subsequently to profit or loss		**1,056**	**3,305**
Net gains recognized in revaluation surplus in relation to available-for-sale financial assets	18	347	5
Gains (losses) recognized in revaluation surplus in relation to available-for-sale financial assets	*18*	*347*	*(50)*
Gains transferred from revaluation surplus to profit or loss in relation to available-for-sale financial assets	*18*	*-*	*55*
Net gains/loss recognized in revaluation surplus in relation to cash flow hedges (successful hedging)	19	1,453	3,731
Corporate income tax for items that may be reclassified subsequently to profit or loss	20	(744)	(431)
Other comprehensive income for the year		**(43,475)**	**(11,637)**
Total comprehensive income for the year		**(138,586)**	**(47,236)**

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, 2013		**157,129**	**198,872**	**(3,235)**	**171,984**	**100,273**	**-**	**-**	**625,023**
Total comprehensive income for the year									
Net 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									
Distribution of profit for the year pursuant to Management Board 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**

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, 2014		**157,129**	**198,872**	**(3,235)**	**121,595**	**103,426**	**-**	**-**	**577,787**
Total comprehensive income for the year									
Loss for the year		-	-	-	-	-	-	(95,111)	(95,111)
Other comprehensive income		-	-	-	-	(18,561)	(24,914)	-	(43,475)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(18,561)**	**(24,914)**	**(95,111)**	**(138,586)**
Transactions with owners of the parent company directly recognized in equity									
Capital increase		97,046	102,954	-	-	-	-	-	200,000
Total transactions with owners of the parent company		**97,046**	**102,954**	**-**	**-**	**-**	**-**	**-**	**200,000**
Contributions by and distributions to owners									
Distribution of profit for the year pursuant to Management Board decision	25	-	(15,054)	-	(104,971)	-	24,914	95,111	-
Balance as at December 31, 2014		**254,175**	**286,772**	**(3,235)**	**16,624**	**84,865**	**-**	**-**	**639,201**

Proposal on the allocation of distributable profit

Distributable profit for 2014 consists of the following:

(in EUR)	2014	2013
Loss for the year 2014	(95,110,864.40)	(35,599,369.98)
Retained earnings	(24,913,126.52)	(14,790,059.72)
Loss for the year and retained earnings covered from other revenue reserves	104,970,349.23	50,389,429.70
Loss for the year and retained earnings covered from share premium	15,053,641.69	0.00
Distributable profit for the year	-	-

The company covered loss for the year and retained earnings from other revenue reserves.

Cash flow statement

EUR thousand	Note	2014	2013
Cash flows from operating activities			
Loss before tax		**(100,435)**	**(36,117)**
Adjustments:			
Depreciation of property, plant and equipment	14	33,422	33,285
Depreciation of investment property	16	118	131
Amortization of intangible assets	15	3,591	3,662
Impairment losses on property, plant and equipment and intangible assets	10,11	7,594	-
(Gains) losses on disposal of property, plant and equipment	10,11	(1,690)	(1,480)
Change in provisions	28	(9,120)	(17,362)
Gains from disposal of subsidiaries		79,558	56,167
(Gain)/loss on sale of available-for-sale financial assets		(2,046)	158
Dividends received and impairment losses on sale of available-for-sale financial assets	13	(290)	(992)
Interest received	13	(4,106)	(4,299)
Interest paid	13	27,925	32,552
		34,521	**65,705**
Change in inventories	21	3,937	(6,582)
Change in trade and other receivables	22	55,778	21,801
Change in trade and other payables	29	(23,839)	(319)
Interest paid	13	(27,925)	(32,552)
Income tax paid	20	-	-
Cash from operating activities		**42,472**	**48,053**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations		(510)	(44,937)
Acquisition of property, plant and equipment and investment property	14,16	(13,419)	(12,576)
Acquisition of intangible assets	15	(3,283)	(3,340)
Loans and bank deposits made		(330,780)	(42,839)
Proceeds from disposal of subsidiaries, net of cash disposals		551	72
Proceeds from sale of property, plant and equipment and investment property	14,16	5,812	5,884
Proceeds from sale of intangible assets	15	-	-
Proceeds from sale of available-for-sale financial assets	18	68	78
Interest received	13	4,106	4,299
Dividends received	13	290	992
Loans and deposits repayments received		251,499	62,561
Net cash used in investing activities		**(85,666)**	**(29,806)**
Cash flows from financing activities			
Proceeds from (repayment of) non-current borrowings		(258,331)	(19,287)
Increase in non-current borrowings		397,173	4,363
(Repayment) increase in current borrowings	27	(83,092)	(8,905)
Dividends paid		(3)	(11)
Net cash from (used in) financing activities		**55,747**	**(23,840)**
Net increase (decrease) in cash and cash equivalents		**12,553**	**(5,593)**

Cash and cash equivalents at beginning of the year		6,018	11,611
Cash and cash equivalents as at the end of the year	24	**18,571**	**6,018**

Contacts at Mercator Group

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Corporate communication sector, director	Katja Kek	+386 1 560 12 42	katja.kek@mercator.si
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Global supply of trade goods and services, director	Sanja Stojaković	+386 1 560 12 10	sanja.stojakovic@mercator.si
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Corporate marketing			
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Mercator Real Estate			
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Position	First and last name	Telephone	E-mail
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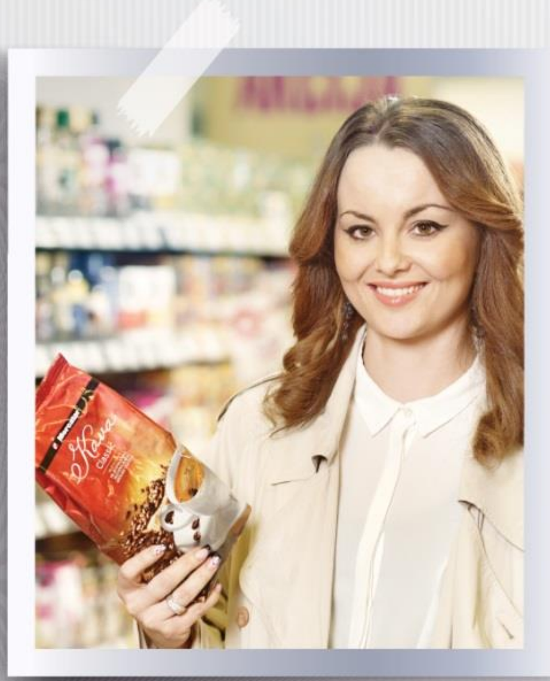

We were the first to open stores for you and offer new flavours. Today, the flavours are plentiful, and our offer is varied, appealing, fresh, and of high quality.

Every day, we do our best to be your best neighbour whom you have trusted for 65 years. Every day, we go all-out so that we are still your best neighbour tomorrow.