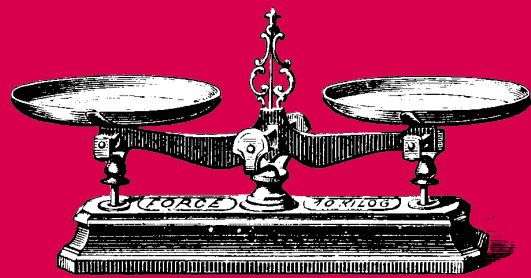








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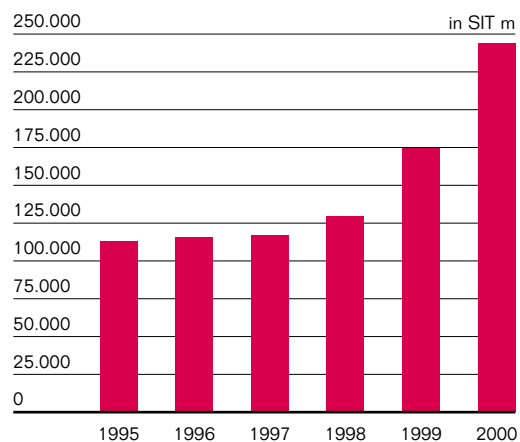


**M**ercator is a Slovene trade company, which has moved outside national borders in the year 2000 and expanded its business into Croatia and Bosnia - Herzegovina. It is recognized for its excellence and success, which have been achieved through constant development and growth of the Company. ¶ The main characteristics of Mercator's business performance are a clear view of its future and the internationalisation of its business activities. Mercator's core business is trade, in which interaction between people represents the basis of business performance. Despite its size it mainly operates in the trade sector, making possible the exchange of goods and services on varied markets. ¶ The most basic form of market was originally a simple marketplace where goods and values were exchanged. This exchange of goods and ideas facilitated the formation of societies, states, cities and successful companies. ¶ Beside the exchange of goods and services, the marketplace has traditionally played an important role in the development of people's social life. ¶ A marketplace is, where people can meet and get to know each other. It is connected with events that mark the whole community. The market has developed into the most abstract form, where goods in form of securities, based on demand and supply, are exchanged. Mercator has also become successful on this specific market. ¶ Through space and time the marketplace has changed significantly, however, it has preserved its basic characteristics. Whoever understands that every action of trade, management and business is developed from the basic form of human interaction of the market, will in company with international extension recognise and respect the individual and its mission. ¶ This year's annual report tells the story of the development of markets and trade through space and time. This is also the story of Mercator, which has crossed borders and developed through time to reach its most complete form in 2000. Just as the marketplace has become a hypermarket, Mercator has developed into successful international company, which through quality of services and supply is turning its vision into practical reality.

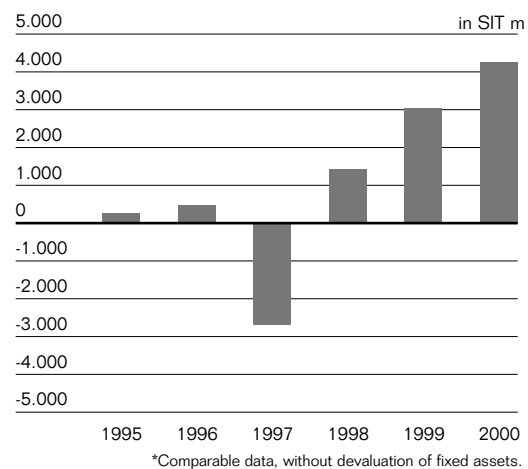
## Financial Highlights

	Poslovni sistem Mercator, d.d.			Mercator Group		
	2000	1999	1998	2000	1999	1998
Sales (in SIT 000)	96,450,055	77,314,429	66,496,079	240,040,002	175,078,276	128,436,900
Net profit (in SIT 000)	4,169,328	2,954,253	1,346,630	4,174,074	3,047,788	1,481,054
Gross cash from operations (in SIT 000)	5,361,340	4,534,585	3,156,315	12,393,128	11,157,544	6,619,298
Capital expenditure (in SIT 000)	5,935,336	5,672,746	3,642,267	26,886,615	15,873,124	8,643,822
Non-current financial investments (in SIT 000)	2,914,424	7,208,456	7,605,691	5,844,604	14,132,286	9,766,471
Return on equity (in %)	6.7	5.4	2.8	6.2	5.2	2.9
Earnings per share (in SIT)	1,300	921	420	-	-	-
Market share (in %)	-	-	-	36.8	29.9	20.1
<b>As at</b>	<b>31.12. 2000</b>	<b>31.12. 1999</b>	<b>31.12. 1998</b>	<b>31.12. 2000</b>	<b>31.12. 1999</b>	<b>31.12. 1998</b>
Book value per share (in SIT)	20,903	18,013	15,756	-	-	-
Market value per share (in SIT)	14,878	13,531	7,299	-	-	-
Number of employees	3,511	3,345	3,152	13,208	11,021	8,375
Number of companies in the Group	-	-	-	25	28	19

### Sales of the Mercator Group in the Years 1995 - 2000



### Net Profit of the Mercator Group in the Years 1995 - 2000



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Board of Management (from left to right):  
Marjan Sedej (Member), Jadranka Dakič (Member),  
Zoran Janković (President), Aleš Čerin (Member)

## Letter to shareholders

*Dear Shareholders,*

*In 2000 the company Poslovni sistem Mercator, d.d. and the Mercator Group again performed successfully and exceeded the projected operating results. Successful performance indicates that the correct strategy has been adopted by the Mercator Group, which over recent years has developed into one of the largest and most successful corporations in Slovenia.*

*The year 2000 was a landmark year in many respects. The opening of Mercator shopping centres in Pula, Croatia and Sarajevo, Bosnia - Hercegovina meant that the Company had "crossed borders" and started with the internationalisation of its business activities, which will gradually, according to what is possible, continue on other attractive markets of the former Yugoslavia. Mercator's numerous competitive advantages make these markets a main strategic opportunity for long-term growth and development of the Mercator Group.*

*Development activities, oriented towards satisfying the customer, have continued on the domestic market as well. New Mercator centres in Brežice, Ravne and Slovenj Gradec as well as other retail outlets, accompanied by numerous marketing activities, have increased the quality and price competitiveness of Mercator's offer. That the decision to continuously improve the quality of our services was correct has been proven by great customer loyalty and satisfaction, recorded by our regular marketing surveys, and by high growth in sales revenues. With extensive investment, by mergers and acquisitions and by successful marketing activities Mercator obtained a 36.8% share of the domestic market by the end of the year, which ranks it first among food retailers.*

*Activities related to mergers and acquisitions have mostly been completed in 2000. By acquiring a majority shareholding in seven new trade companies and merging ten companies with the regional trade*

*companies of the Mercator Group, the internal transformation of the Group's trade sector has mostly been completed.*

*The company Poslovni sistem Mercator, d.d. was awarded the ISO 9001 certificate of quality in 2000 as the first large retail trade company, which is a recognition of the uniform operational processes set up in the Company and a step forward towards business excellence. Procedures for obtaining such a certificate are being carried out in other trade companies of the Group as well.*

*Partnership was the base for building business relations with Slovene producers also in 2000. Their products represent over three quarters of all goods sold by Mercator. Adjusted planning of development and marketing activities are a precondition for ensuring long-term quality improvement of Slovene products and improved competitiveness on the domestic and foreign markets.*

*Mercator gives credit to the commitment of all its employees, who have participated in achieving the Company's successful results and are decisive in contributing to customers satisfaction. Comprehensive and target oriented training, strengthening of corporate and communication culture and ensuring social security have all contributed to employee satisfaction and loyalty of all Mercator companies, in Slovenia and abroad.*

*The Group's great financial strength and extensive internal sources of funds mean that it can successfully implement its development plan. Appropriate strategic financial decisions in 2000 led to an excellent financial position, which with its conservative capital structure, good liquidity and solvency and moderate exposure to business and financial risks make a safe and profitable investment for all shareholders.*

*The Company's Supervisory Board performed its function thoroughly and professionally also in 2000 and contributed to the Company's successful performance. Since their term of office is approaching its end I wish to offer my sincere thanks, on behalf of the Management Board and of all employees, to all Supervisory Board members for their contribution in creating Mercator's history.*

*Successful operations in 2000 were a combination of all before mentioned activities and in particular of committed work done by all who have participated in*

*Mercator's achievements. For the second consecutive year these achievements have been awarded the prestigious recognition of "The Best Company Listed on the Ljubljana Stock Exchange in 2000" given by the newspaper Finance.*

*Successful business performance in the past binds us to achieve successful operations in future. I am sure that with correct strategic objectives, harmonised and efficient work of the Group and by encouraging positive thinking of employees, we shall also meet your expectations and justify your trust in the years to come.*

*Ljubljana, 22 May 2001*

*Zoran Janković  
President of the Board of  
Management and CEO*

A handwritten signature in black ink, consisting of a large, stylized 'Z' followed by a series of loops and a horizontal stroke at the end.

## Report of the Supervisory Board

*In our report for 1999 we wrote that despite the excellent results achieved in recent years by the Company and the Mercator Group, it is necessary that we remain realistic and reasonable. The results achieved were so good that some might doubt their authenticity, in particular if we consider that the Company does not deal in any of the activities of the much praised new economy, but mainly trades in food and other products.*

*As far as the year 2000 is concerned, we could say that exceptional external business conditions were nothing special, although it would be fair to say that the period of considerably high rates of economic growth in Slovenia has been in favour of trade. As concerns operating results we are pleased to state that the results achieved at the end of the year were again above projections and thus more than just good. The achieved growth rates of sales, net profit, return on equity and earnings per share point to a highly increased volume of business and to a significant improvement in quality and business performance.*

*The management has continued to efficiently implement the strategic development plan approved by the Supervisory Board and achieved, two years ahead of projections, the goals set for sales, profit and return on equity, and by far exceeded the goal set for its market share in Slovenia.*

*Because Poslovni sistem Mercator, d.d., together with the subsidiary companies, more or less reached the level of a reasonable market share size in Slovenia in 2000, the year is important, if not a landmark year, from a very different aspect. It is a fact that the year 2000 was the first major year in the internationalisation of the Company's business. By opening shopping centres in Pula and Sarajevo and by planning to open centres in Zagreb and Belgrade, Poslovni sistem Mercator, d.d. is becoming not only the leading trade company and corporation in general, but also one of the domi-*

*nant trade companies on the territory of the Balkan countries. The initial successes in 2000 are amazing and there are no grounds for not believing in further successful development and in great challenges represented by these markets. Of course with a considerable level of caution on account of the risks associated with these markets and due to the fact that such investments were only partially insured by the Company.*

*The year 2000 is a landmark year also for the Company's shareholders, who have been very satisfied with the capital gains made over recent years. Last year market price of share listed on official market of the Ljubljana Stock Exchange grew by almost 10%. Its book value increased more than 16%, however, the profit was not distributed to shareholders. For the first time the Company will distribute dividends to shareholders from the earned net profit for 2000. Such an approach had already been adopted by the Supervisory Board upon approval of the Annual Report for 1999, but at that time the Company had not yet prepared and adopted a dividend policy. The latter was approved by the Supervisory Board, upon the proposal of the Management Board, at its last session prior to the Annual General Meeting of Shareholders.*

*The activities of the Supervisory Board were implemented in accordance with its competencies and responsibilities also in 2000. Its members actively and responsibly participated in adopting and monitoring the implementation of the business plan. The Supervisory Board regularly discussed other issues in accordance with its authority. It considered and adopted the annual business report and the auditors' report. Since in the current year the term of office of the existing Supervisory Board is expiring, let me finish by establishing that the Board has successfully performed its function and contributed to a more than successful operation of the Company during the period of its mandate. As always, some unsolved issues remain, which will have to be addressed and solved by*

*the Supervisory Board in the next mandate. Among them further reduction of operating costs, improvement of productivity and return on equity should be emphasised. Because of growing internationalisation of business the Company can no longer compare only with domestic, but mainly with foreign competitors.*

*The Company will sooner or later face the fact that its domestic competitors are foreign trade companies. The achieved market share ensures self-confidence, while the task of the management will mean further strengthening of Group's position and finalising the process of consolidation.*

*Ljubljana, 22 May 2001*

*Stanislav Valant, M.Sc.  
Chairman of the Supervisory Board*

A handwritten signature in black ink, appearing to read 'S. Valant', written in a cursive style.

## Key events in 2000



Award for The Best Company  
Listed on the Ljubljana Stock  
Exchange in 2000

*In 2000 the Mercator Group performed its operations in accordance with the set strategic objectives and achieved the following key goals:*

- ✦ Take-over of the company Emona Merkur, d.d. and acquisition of majority shareholdings in the companies Posavje, d.d., Dolenjka, d.d., Povrtina, d.d., TP Rožca, d.d., Potrošnik, d.d. and Mercator Tržni centar Sarajevo, d.o.o. successfully concluded the majority of mergers and acquisition processes.*
- ✦ Merging 10 new companies with the regional trade companies the Group completed the transformation of its trade sector with the aim to increase business efficiency.*
- ✦ Opening Mercator shopping centres in Brežice, Slovenj Gradec and Ravne and by expanding the Mercator Centre in Maribor the Group continued with successful development of the retail network on the domestic market pursuant to the strategic investment plan and in order to improve the quality of products offered to consumers.*
- ✦ Opening Mercator shopping centres in Pula and Sarajevo the Group started with the internationalisation of its business operations on the markets of Croatia and Bosnia - Herzegovina.*
- ✦ Introducing the project "the Slovene Shopping Basket", by continuing with the private label projects, permanently low prices and the loyalty card system Mercator Pika, Mercator succeeded in increasing the loyalty of its customers and the quality of its services.*
- ✦ The Group obtained a 36.8% share of the domestic market and increased the consolidated sales by over 37.1% compared to the year 1999.*
- ✦ Signing a syndicated loan arranged by foreign banks the Group strengthened its position in international financial markets and ensured favourable sources of funds for implementing its strategic investment plan.*
- ✦ Comprehensive, target training by the Group improved the professional qualifications of its employees and improved the quality of customer sales, which resulted in 4 diplomas and acknowledgements given to Mercator's trade companies in 2000 by the Association of Trade at the Chamber of Commerce and Industry for well kept stores and highly professional staff.*
- ✦ The company Poslovni sistem Mercator, d.d. was awarded the ISO 9001 certificate of quality while other trade companies of the Group started preparing for obtaining such a certificate, which is the base for introducing the concept of excellence in all operational processes of the Group.*

*The above key achievements of 2000 are the base for further development and growth of the Group and for further improvement of its business success and efficiency in the future.*

# 1 General information

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Identification number	5300231
Tax number	45884595
Court registry number	1/02785/00
Date of entry in the court register	12 October 1995
Share capital of the Company	SIT 32,085,040,000
Share nominal value	SIT 10,000
Share listing	Ljubljana Stock Exchange, official market, trading code: MELR
President of the Management Board and CEO	Zoran Janković
Members of the Management Board	Aleš Čerin, Jadranka Dakič, Marjan Sedej
Chairman of the Supervisory Board	Stanislav Valant

## 1.1 The Company's Activities

The principal activity of the company Poslovni sistem Mercator, d.d., which is the parent company of the Mercator Group, is retail and wholesale trade. The Mercator Group also includes companies operating in the food processing industry, agriculture, hotels and restaurants and service activities.

The Company's share capital is divided into 3,208,504 ordinary registered shares trading on the official market of the Ljubljana Stock Exchange.

### The Company's Management Board

The Company's Management Board is composed of:

President and CEO: Zoran Janković

Members: Aleš Čerin, Jadranka Dakič and Marjan Sedej.

The share's nominal value is SIT 10,000, its market value as at 31 December 2000 was SIT 14,878 (average daily price) and its book value was SIT 20,903.

In accordance with the Commercial Companies Act the Company is ranked among large joint-stock companies. As a parent company in a group of related companies, it is obligated to prepare consolidated financial statements.

### The Supervisory Board

The Supervisory Board is composed of:

Chairman: Stanislav Valant

Members: Janez Bohorič, Ksenija Bračič, Jože Cvetek, Dragica Derganc, Karmen Dietner, Nevenka Ferenc, Katja Galof, Matjaž Gantar, Milan Gerič, Stane Jamnik, Jožef Kolar, Peter Tevž and Niko Trošt.

The principal activities of the Company are retail and wholesale trade, but other companies of the Mercator Group also operate in food processing industry, agriculture, hotels and services sectors.

## 1.2 Composition of the Mercator Group

As at 31 December 2000 the Mercator Group, which is the group of related companies of the Poslovni sistem Mercator, d.d. (parent company), was composed of:

Poslovni sistem Mercator, d.d.									
Trade		Food processing		Agriculture		Hotels		Services	
Emona Merkur	95,89%	MDK	90,56%	Mercator KG Kočevje	90,94%	M Hotel	100,00%	Mercator Optima	100,00%
Potrošnik	50,10%	Eta	74,79%	Mercator KŽK Kranj	100,00%	Mercator Sremič	100,00%		
Povrtnina	100,00%	Pekarna Grosuplje	51,01%	Mercator Agrokombinat	100,00%				
		Mercator Emba	51,19%						
Mercator SVS	100,00%	Slosad	100,00%						
Mercator Dolenjska	100,00%								
Mercator Degro	100,00%								
Mercator Gorenjska	93,38%								
Mercator Goriška	99,05%								
Mercator Pula	100,00%								
Mercator TC Sarajevo	52,00%								
Trgoavto	51,01%								
Mercator Modna hiša	100,00%								
Intermercator, Avstrija	100,00%								

Due to activities related to acquisitions and internal restructuring, the Group's structure has changed significantly in 2000.

In 2000 the Group acquired a majority shareholding in the following trade companies:

Emona Merkur, d.d.  
 Povrtnina, d.d.  
 TP Rožca, d.d.  
 Dolenjka, d.d.  
 Posavje, d.d.  
 Potrošnik, d.d. and  
 Mercator Tržni centar Sarajevo, d.o.o.

The following changes occurred in the Group in 2000:

- companies Meractor Klas, d.d. (1 January 2000), Jelša, d.d. and Planika, d.d. (1 November 2000) were merged into Mercator SVS, d.d.,
- companies Dolenjka, d.d. (1 June 2000) and Posavje, d.d. (1 July 2000) were merged into Mercator Dolenjska, d.d.,
- company Jestvina, d.d. (1 September 2000) was merged into Mercator Degro, d.d.,
- companies Špecerija, d.d. (1 January 2000) and TP Rožca, d.d. (1 December 2000) were merged into Mercator Gorenjska, d.d.,
- companies Hubelj, d.d. and Grosist, d.d. (1 January 2000) were merged into Mercator Goriška, d.d.

By the end of 2000 regional trade companies merged all newly acquired subsidiary trade companies, thus completing the integration processes

within the trade sector of the Mercator Group.

The year 2000 was also marked by the Group's penetration into foreign markets. In 1999 the company Mercator Pula, d.o.o. was already established, owned by Poslovni sistem Mercator, d.d. and the company Intermercator, G.m.b.H., Austria. In 2000 the Mercator Group acquired a 52% shareholding in the company Mercator TC Sarajevo, d.o.o., through which all operations in Bosnia - Herzegovina are conducted.

In addition to changes in the structure of the Mercator Group, investments in associated companies also changed due to acquiring majority shareholdings in four associated companies.

By the end of the year 2000 the integration processes in the trade sector were completed. The Mercator Group started with the internationalisation of its business activities by opening its Mercator Centres in Pula and Sarajevo.

Associated company	Ownership stake as at 1 January 2000	Ownership stake as at 31 December 2000
Alpkomerc, d.d.	20.00%	20.00%
Dolenjka, d.d.	20.85%	merged
Emona Merkur, d.d.	39.45%	subsidiary company
Posavje, d.d.	25.00%	merged
Povrtnina, d.d.	42.15%	subsidiary company
Spar Slovenija, d.o.o.	20.00%	20.00%
Unileasing, d.o.o.	20.00%	20.00%
Unimercat, G.m.b.H. (Germany)	25.00%	25.00%

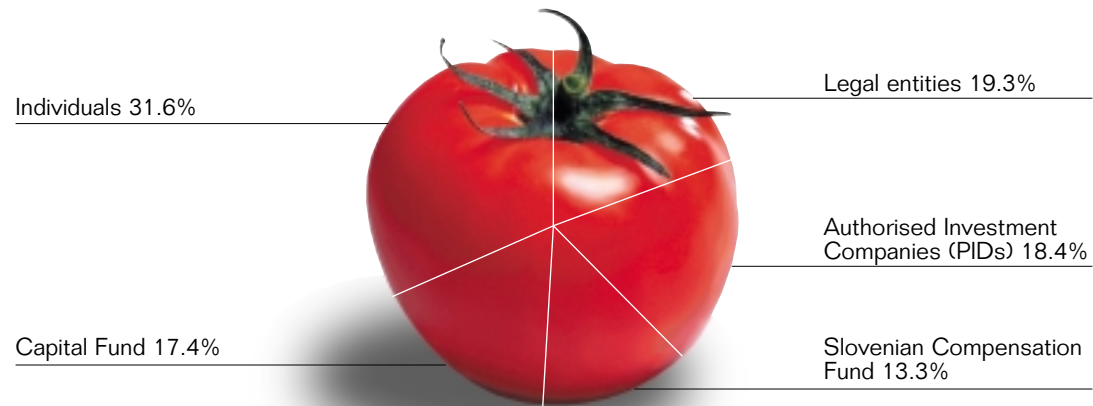




*From distant past till now, market is not just a place, where goods and services are exchanged, but it also plays an important role in the development of people's social life. Marketplaces, markets and stores represent a place, where people can meet and get to know each other.*

## 1.3 Ownership Structure

### Ownership Structure of Poslovni sistem Mercator, d.d. as at 31 December 2000



As at 31 December 2000 the Company had 22,611 shareholders, which is 1,403 less than as at 31 December 1999.

Ten major shareholders held a total of over 50 % shareholding as at 31 December 2000:

	Shareholding
Kapitalska družba PIZ, d.d. (Capital Fund)	17.35%
Slovenska odškodninska družba, d.d. (Slovenian Compensation Fund)	13.39%
Atena 1 sklad, d.d.	4.77%
PID Kmečka družba, d.d.	4.07%
Triglav Steber I PID, d.d.	2.46%
Emona obala Koper, d.d.	2.19%
Zavarovalnica Triglav, d.d.	2.09%
NFD 1 Investicijski sklad, d.d.	1.50%
Zoran Janković	1.46%
Pomurska investicijska družba 1, d.d.	1.23%

As at 31 December 2000 members of the Management boards of the parent company and of subsidiary companies held approximately 4.5% of shares in the Company.

## 1.4 Movements in the Market Price of the Company's Share

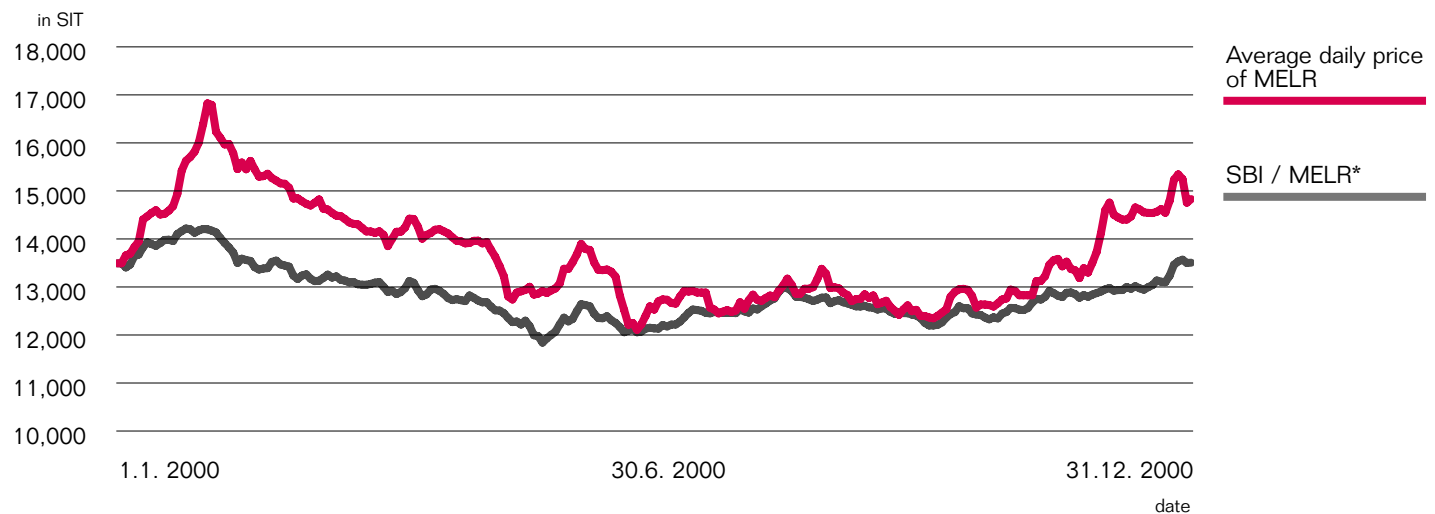
Shares of the parent company are listed on the official market of the Ljubljana Stock Exchange under the trading code "MELR".

The shares average daily price increased by 10.0% in the period from 31 December 1999, when it was SIT 13,531, to 31 December 2000, when it reached SIT 14,878. The share's highest average daily price was SIT 16,884 and the lowest SIT 12,137 in the same period. The weighted average

of the share's market price (excluding block and cross trades) amounted to SIT 14,046 which is 10.8 times earnings per share for the year. As at 31 December 2000 the average daily price represented 71.2% of its book value.

Pursuant to the provisions of the Securities Market Act and the Ljubljana Stock Exchange Rules, the Company regularly informs the public of its business results and other important events.

### Movements in the average daily price of MELR in 2000



\* To enable comparison the trend of the SBI Index has been adjusted so that the ratio of the price of MELR and SBI is 7.5 during the whole period under review as was on the 1 January 2000

# **B u s i n e s s   R e p o r t**

## 2.1 Important Events in the Operation of the Mercator Group

### Financial highlights taken from the audited financial statements of the Mercator Group for the year 2000

	2000	1999	1998
Sales (in SIT 000)	240,040,002	175,078,276	128,436,900
Operating profit (in SIT 000)	2,127,190	1,217,964	887,372
Profit before extraordinary items (in SIT 000)	1,668,097	1,635,671	887,483
Net profit (in SIT 000)	4,174,074	3,047,788	1,481,054
Gross cash from operations (in SIT 000)*	12,393,128	11,157,544	6,619,298
Assets (in SIT 000)	176,894,910	138,100,440	94,328,581
Capital (in SIT 000)	72,877,628	62,642,401	53,843,243
Return on equity (in %)	6.2	5.2	2.9
Return on assets (in %)	2.7	2.6	1.7
Profit margin (in %)	1.8	1.7	1.2
Number of employees on the basis of working hours	13,040	9,140	7,611

\* Gross cash from operations is defined as sum of net profit, depreciation and net long-term provisions.

The successful performance of the Mercator Group in 2000 resulted in the following:

- sales increased by 37.1% compared to 1999, as a result of mergers and acquisitions, expansion of the retail network and successful marketing activities,
- net profit increased by SIT 1,126,286 thousand or by 37.0% compared to 1999,
- gross cash from operations, which represents an estimation of the Group's internal source of funds and is calculated as sum of net profit, depreciation and net long-term provisions, grew by SIT 1,235,584 thousand, or by 11.1% compared to 1999.

The gross profit of the Mercator Group increased by 37.8% compared to 1999, which along with 36.8% growth in cost of sales and administrative expenses, leads to a 74.7% increase in operating

profit. Financial expenses in 2000 exceeded financial revenues by 11.3%, extraordinary revenues exceeded extraordinary expenses by 143.0%. Profit before tax of the Group in 2000 was higher by 35.0% compared to the previous year and amounts to SIT 4,238,639 thousand. It is composed of:

- SIT 2,127,190 thousand of operating profit,
- SIT 459,093 thousand of loss from financial activities,
- SIT 2,570,542 thousand of profit from extraordinary activities.

Due to investment and other tax allowances the applied tax rate is still low in spite of successful performance of the Group, so that the companies in the Mercator Group accounted for only SIT 64,565 thousand tax on profits in 2000, which represented 1.5% of the Group's total profit.

The Group's net profit amounts to SIT 4,174,074 thousand, of which SIT 4,008,563 thousand belongs to the majority owner, the parent company

Poslovni sistem Mercator, d.d. and the remaining SIT 165,511 thousand to the minority owners of subsidiary companies.

## 2.2 Position on the Market

Mercator's position on the market reflects the satisfaction of its customers. That's why marketing activities are very important for maintaining and improving its market position. In 2000 most atten-

tion was focused on projects for ensuring competitive prices, competitiveness of Mercator's services, product ranges and marketing surveys.

### 2.2.1 Marketing Activities

In 2000 the Mercator Group carried out the following marketing activities designed to improve customer satisfaction:

#### **Projects for Ensuring Competitive Prices**

The following projects for ensuring competitive prices in 2000:

##### **Sales Promotion Campaigns**

Regular sales promotion campaigns for food and the food related programme (hereafter referred to as the market programme) were organised each month as one of the key marketing instruments to ensure that Mercator stores offer a competitive range of products compared with the offer of other trade companies on the Slovene market. In 2000 eleven regular sales promotion campaigns for the market programme were held. On account of Mercator's 51 years of operation a sales promotion campaign with the slogan "Welcome to the new Millennium - in the 51st year up to 51% discount" was carried out throughout the year in co-operation with Mercator's largest suppliers.

##### **Sales Promotion Activities in Mercator Centres**

In 2000 special sales promotion activities for hypermarkets were organised, 12 campaigns for market and non-market (non-food) programmes with an average 60 - 70 products and a larger number of tastings and promotion campaigns, which have become an everyday occasion in improving the variety of offer in hypermarkets.

##### **Sales Promotion Activities Related to Non-market Programmes**

Greater attention was also focused on advertising furniture, technical products (DIY, home appliances, hardware), building materials and textiles. Sales promotion campaigns relating to individual sales programmes were supported by leaflets, posters and radio advertising.

##### **Sales Promotion Activities of Intersport Stores**

In 2000 six sales promotion campaigns were carried out within the project Intersport and five clearance sales - two of textile products, two of

In 2000 the Mercator Group carried out different kinds of marketing activities to increase customer satisfaction.

The major projects designed to ensure price competitiveness and competitive services are: Permanently Low Prices, The Mercator Brand Project, The Slovene Shopping Basket Project and The Mercator Pika Card.

sports footwear and one of sports equipment. Various smaller sales promotion campaigns were held accompanied by posters at the sales points. In the summer season Mercator co-operated with the tourist agency Kompas Holidays on Korčula. In April the third Intersport store was opened in Slovenia, in Mercator Centre Murska Sobota and in December another one in MC Slovenj Gradec and one in MC Maribor. In December 2000 the first two stores on the new markets were opened: in MC Pula and in MC Sarajevo. In August 2000 gift vouchers were introduced in all stores. In October 2000 the Intersport Internet and WAP pages were set up.

#### **Project of Every Day Low Prices**

Within the every day low prices group a total of 227 products from the market programme was offered at very favourable prices at the end of the year 2000.

#### **The Mercator Brand Project**

At the beginning of 2000 Mercator developed 3 product lines of Mercator brands. Together with the varieties of individual types of products, at the end of 2000 Mercator retailed a total of 68 products of the market programme - generic products from the brand range, 63 textile products under the name M-line, 9 products for children under the name Lumpi and 4 different products from the new line Complete care, introduced in June 2000.

#### **The Slovene Shopping Basket Project**

From June 2000 the project Slovene Shopping Basket was carried out in co-operation with Slovene producers, which aimed to ensure that Mercator's regional centres would offer competitively priced products. The Slovene shopping basket contains 50 top selling products of Slovene producers, which Mercator's hypermarkets offer at the lowest prices compared with the competitors in Slovenia, while the composition of products is

adjusted to the seasonal needs of customers.

The project was advertised under the uniform title: "Made in Slovenia. At the lowest price in Mercator". To convince the buyers that Mercator's offer was the most favourable, all those who provided a receipt proving that for a basket of the same 50 products they had paid less in one of the competitive stores, were promised to have the price difference reimbursed. In 2000 none of the buyers came forward.

#### **Competitiveness of Mercator's Services**

#### **The Mercator Pika Card**

In 2000 Mercator gained over 100,000 new holders of the Mercator Pika card, which, together with the existing holders represented close to 140,000 Pika card holders. In 2000 they generated almost SIT 20 billion of turnover. Customers collect bonus points for which they get special discounts. On 1 April a novelty was introduced, which is particularly convenient for buyers who "buy less but often", because each purchase of over SIT 1,000 counts. Also new is the fact that the card holder and the person authorised by him, who operate through the same account, may add the bonus points. The possibility of payment by instalments was introduced for larger purchases of products in specialised stores selling textiles, footwear, sports equipment, technical products, furniture and building materials.

#### **Presentations of Marketing Projects to Customer Sales Staff**

In 2000 Mercator focused on marketing project presentations for the Group member companies and Mercator's franchise units, for which 12 training programmes were held for customer sales staff, carried out by experts from the marketing, merchandising and internal services departments.

### **Quality of the Fresh Food Programme**

In 2000 the competition for the best quality of fresh programme on offer continued: fruits and vegetables, delicatessen, bread and pastry, dairy products and fresh meat. The fresh programme offer is taken care of by specialised promoters-instructors, who offer their help in improving the quality levels of products and services in all Mercator stores.

### **Shows and Events in Mercator Centres**

In 2000 Mercator started organising shows in its largest shopping centres - Mercator Centres. Shows and events are organised inside or in front of the Centres and are intended to add variance to the shopping and to enable social gatherings. The most popular promotion events held in front of Mercator Centres throughout Slovenia were Funball and Streetball, which ended in the second quarter of 2000.

### **Product Range**

In selecting the products for sales promotion campaigns, for Every Day Low Prices, products, which were included in the Mercator Brand Project and in the Slovene Shopping Basket Project in 2000,

special priority was given to high quality products produced by Mercator or by other Slovene producers and to products from the Mercator's import programme, in line with Mercator's marketing strategy.

### **Marketing Surveys**

#### **Monitoring the Quality of Sales Promotion Campaigns and Price Competitiveness**

In 2000 monitoring of prices was carried out in Slovene regions and in the new markets in Pula and Sarajevo. Prices in Mercator Centres in the vicinity of the border with the neighbouring countries were checked and compared with those from our competitors in Italy, Austria and Croatia. The projects of Every Day Low Prices, of the Mercator Brand and of the Slovene Shopping Basket were also monitored.

#### **Marketing Analyses of Potential Locations**

In 2000 large market analyses of potential locations in Slovenia and abroad were carried out as were the analyses related to restructuring of sales programmes, to stores refurbishment and to the Mercator franchise system.

Market analyses are the base for forming marketing strategies within the Mercator Group.

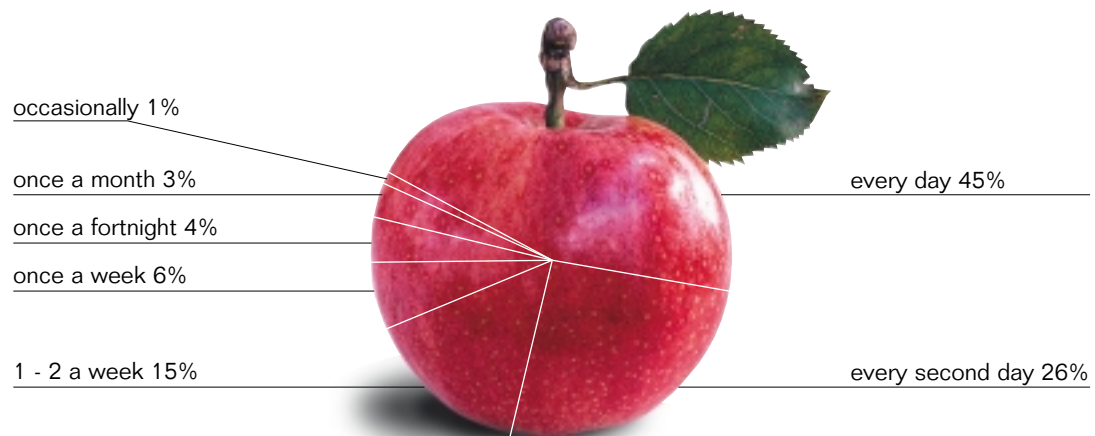
98% of Mercator's customers will continue shopping in Mercator stores in the future.

### Consumer Surveys

In 2000, for the second year running, a survey of shopping habits of Slovene population was conducted. The purpose of the survey was to obtain data on customer's satisfaction with Mercator's products and services. The survey showed:

**Customer Loyalty and Frequency of Purchases in Mercator:** Mercator's customers are very loyal since 80% of them has been shopping in Mercator for over a year. Almost half the buyers visit Mercator stores every day and one third of them every second day.

### Frequency of Purchases in Mercator



**Mercator's Services:** Mercator's customers have rated individual elements of offered services (location, product range, prices and other services) with the marks 1 (very unsatisfactory) to 5 (excellent). The results were:

- location - average 4.25
- product range - average 4.32
- prices - average 4.39
- services - average 4.25

**Sales Promotion Campaigns of Mercator:** Almost all interviewees, who buy in Mercator, know the sales promotion campaigns and 97% of them are satisfied with these campaigns.

**Outlook for Shopping in Mercator:** 98% of interviewees think that they will continue shopping in Mercator stores in the future.

## Research of Markets and Competition

Two analyses of Mercator's market position in Slovenia have been made and a comparison with European retail trader chains, on the basis of which Mercator's strategies and the success of their imple-

mentation have been appraised. It has been established that Mercator is developing into the largest trade company in Slovenia and into one of the best performing and efficient Slovene trading groups.

## 2.2.2 Relations with Suppliers

Mercator organises regular annual meetings with its business partners, called Mercator's Marketing Days, which are its most important meetings with its suppliers. The purpose of the meeting is to present the strategic objectives of the Mercator Group, the developing plans of Mercator's trade companies, the strategy of marketing sales programmes and common marketing projects, and this year also the partnership between trade and industry, the partnership between the retailer, supplier and buyer, co-operation in retail business and the strategy of penetrating and operating on the markets of South-East Europe of Slovene food producers.

The key strategic goals and the purpose of long-term partnership with suppliers are subordinated to customers' requirements. Therefore we have to increase their satisfaction together with high quality products and services and ensure their trust and loyalty on the domestic and on the new markets. We must be aware of our national responsibility

since we provide social security to almost 75 thousand employees.

Joint penetration of new markets by Mercator and its major suppliers is important as well. Business opportunities and risks in potential markets, the concept and partnership when entering, the role of international marketing, analysis of the new business environment, the importance of brand names of Slovene producers, possibilities of joint entrance into new markets and other activities are important issues.

With the creation of global markets, strategic partnership is becoming a condition for survival and development of trade and production. In a global and fiercely competitive environment, time and fast reactions are becoming essential. Market participants continuously struggle to adapt their strategies in line with ongoing changes in market conditions.

Mercator's key strategic goals and long-term partnership with suppliers are subordinated to attracting customers.

## 2.3 Sales and Operating Results by Activity

### 2.3.1 Sales by Activity

in SIT 000

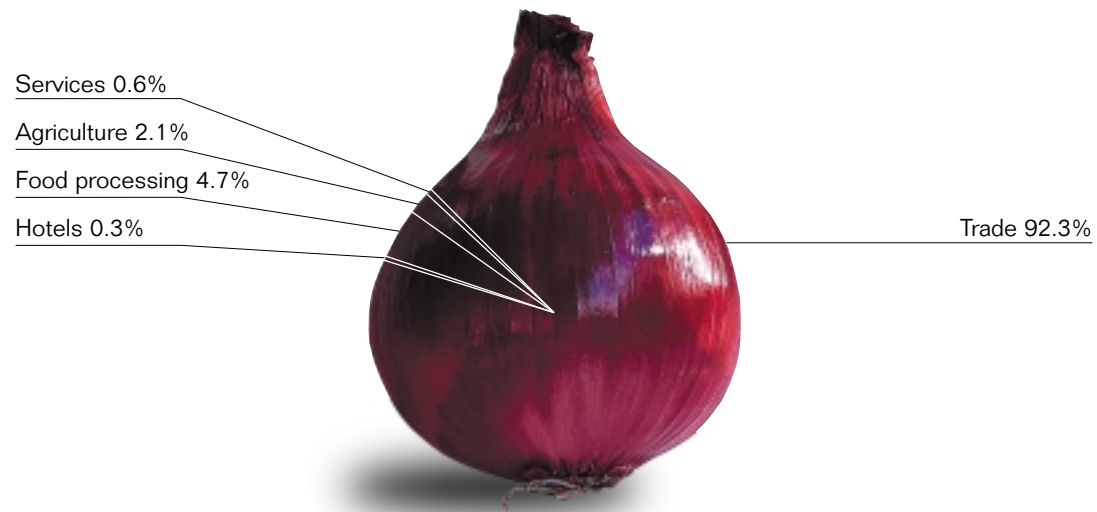
Activity	2000	1999	1998
Trade	251,211,606	175,599,565	121,536,353
Food processing	12,901,124	11,070,935	10,829,708
Agriculture	5,692,885	5,035,794	4,683,050
Hotels and restaurants	797,690	552,438	703,915
Services	1,551,305	1,452,336	772,184
<b>Total</b>	<b>272,154,610</b>	<b>193,711,068</b>	<b>138,525,210</b>
Internal sales	-32,114,608	-18,632,792	-10,088,310
<b>Consolidated sales</b>	<b>240,040,002</b>	<b>175,078,276</b>	<b>128,436,900</b>





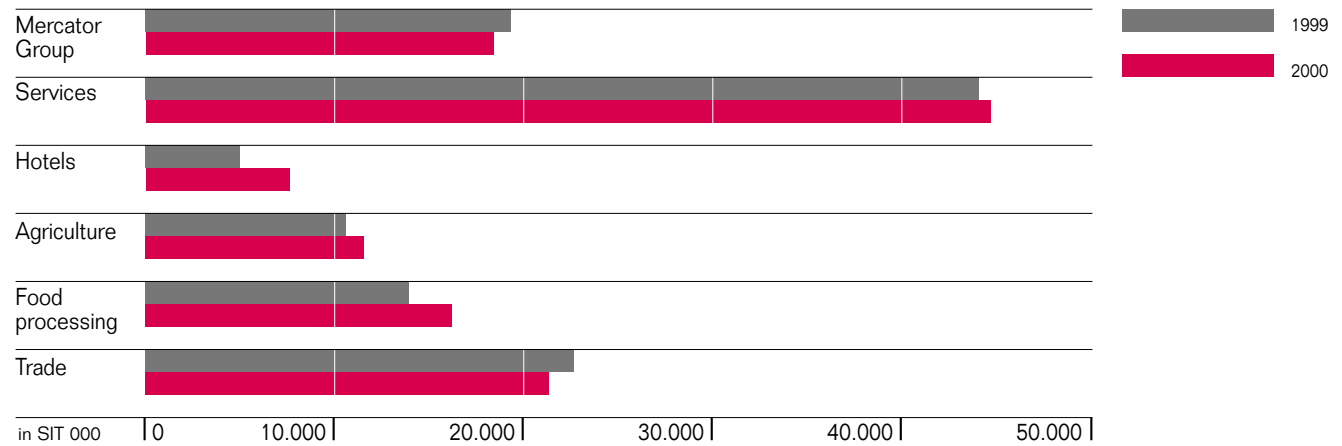
*The Stock Exchange represents the basic characteristic of the market as a place where securities are exchanged on the basis of supply and demand.*

### Structure of Sales by Activity



In 2000 sales from trade activities reached 92.3% of total sales, 1.6 percentage points over the 1999 figure, while the shares of sales from other sectors recorded a proportional decrease.

### Productivity by Activity



Productivity is defined as the ratio between sales and the number of employees on the basis of working hours. In 2000 productivity has increased in all fields of activity except trade due to the increased number of employees and restructuring processes occurring in the trade sector of the Mercator Group.

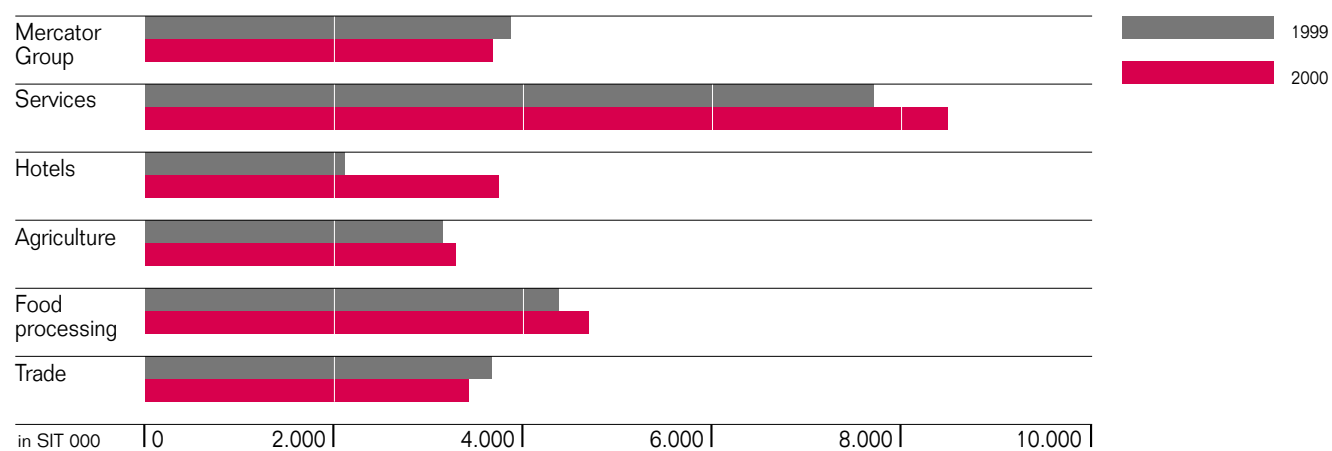
## 2.3.2 Operating Results by Activity

in SIT 000

Activity	Net profit and loss in 2000	Net profit and loss in 1999	Net profit and loss in 1998
Trade	3,797,791	2,861,457	1,362,412
Food processing	424,856	346,741	119,889
Agriculture	-77,428	-89,975	3,470
Hotels and restaurants	-7,656	-105,139	-18,829
Services	36,511	34,704	14,112
<b>Total</b>	<b>4,174,074</b>	<b>3,047,788</b>	<b>1,481,054</b>

Net profit from trade activities make up 91.0% of the Mercator Group's net profit. Business performance increased in all operational sectors of the Group. A negative total operating result was recorded in agriculture due to losses incurred by the company Mercator KG Kočevje, d.o.o. and in hotels and restaurants due to the loss recorded by the company Mercator Sremič, d.o.o..

### Added Value per Employee on the Basis of Working Hours



Added value per employee, which is defined as the sum of gross cash from operations and labour costs per employee on the basis of working hours, grew in all activities, except in trade, where it fell slightly compared to 1999 on account of costs of Group restructuring.

## 2.4 Trade Companies Performance

In 2000 intensive activities related to mergers and acquisitions were carried out in the Group's trade sector. The Group was joined by 7 new trade companies and 10 companies were merged with the regional companies.

Despite intensive restructuring, trade companies of the Mercator Group performed successfully in 2000 and earned a total of SIT 251,211,606 thousand of unconsolidated sales, which is 43.1% up the 1999 figure. The share of trade companies in total sales of the Group was 92.3%, an increase of 1.6 percentage points compared to 1999. Trade companies generated SIT 3,797,791 thousand of net profit, representing 91.0% of net profit of the Mercator Group.

The number of employees on the basis of working hours increased in trade companies by 50.2% to 11,635 employees, as a consequence of expansion of the retail network and of inclusion of new companies in the Mercator Group.

In 2000 three Mercator Centres were opened in Slovenia: in Brežice, Slovenj Gradec and Ravne and the Mercator Centre in Maribor was enlarged. Two shopping centres were opened abroad: on 2 December 2000 MC Pula in Croatia and on 1 December 2000 MC Sarajevo in Bosnia - Hercegovina. The total number of Mercator Centres has increased to 11 of which 9 operate in Slovenia and 2 abroad.

In 2000 the trade companies of the Mercator Group performed successfully. Sales increased by 43.1% and net profit by 32.7% compared to 1999.

## 2.5 Non-trade Companies Performance

Most of the net profit, earned by non-trade companies, was contributed by the companies of the food processing industry.

Non-trade companies generated SIT 20,943,006 thousand of unconsolidated sales in 2000, which is 15.6% above the 1999 level, and made a net profit of SIT 376,283 thousand. Net profit grew by 101.9% compared to the 1999 figure. The number of employees in non-trade companies remained at about the same level as in 1999 and was 1,449 employees.

Most of net profit earned by non-trade companies was contributed by the companies of the food processing industry. Compared to 1999 the best performers were the companies Mesnine dežele Kranjske, d.o.o. and Eta, d.d. and the highest profit was again recorded by the company Pekarna Grosuplje, d.d. Also the companies Mercator Emba, d.d and Slosad, d.o.o. performed in line with the business plan.

After its refurbishment in 1999 the hotel company M Hotel, d.o.o. performed successfully in 2000. The company Mercator Sremič, d.o.o. incurred a loss also in 2000, although considerably smaller than in 1999, due to low tourist market demand.

Of the agricultural companies Mercator KG Kočevje, d.o.o. recorded a loss due to low selling prices of raw materials and meat, while the companies Mercator Agrokombinat, d.o.o. and Mercator KŽK Kranj, d.o.o. made a profit.

The services company Mercator Optima, d.o.o. performed successfully also in 2000, increasing its net profit by 5.2%.

## 2.6 Investments

In 2000 the Mercator Group continued to implement its strategic business plan both in mergers and acquisitions and in developing its retail network. The Group invested a total of SIT 32.7 billion in 2000, of which SIT 26.9 billion refer to capital expenditure and SIT 5.8 billion to strategic

long-term equity investments.

Almost 41% of total investments were financed by internal sources (net cash flow from operating activities and divested assets), the rest mostly by non-current bank loans.

### 2.6.1 Capital Expenditure

A major part of capital expenditure refers to the development of the retail network in Slovenia and abroad, especially in modern shopping centres. In addition to the Mercator Centres in Brežice,

Slovenj Gradec and Ravne and enlargement of Mercator Centre in Maribor, the year 2000 was marked by the opening of the first two shopping centres abroad, MC Sarajevo and MC Pula.

#### An overview of investments in 2000

Type of investment	Value (in SIT m)	Share in %
<b>Mercator centres and hypermarkets</b>	<b>18,075</b>	<b>67.3</b>
- in Slovenia	6,516	24.3
- abroad	11,559	43.0
Food programme outlets	1,222	4.5
Non-food programme outlets	540	2.0
Distribution centres	1,231	4.6
<b>Total new units</b>	<b>21,068</b>	<b>78.4</b>
<b>Total refurbishment</b>	<b>3,740</b>	<b>13.9</b>
<b>Total other investments</b>	<b>816</b>	<b>3.0</b>
<b>Total investments in trade sector</b>	<b>25,624</b>	<b>95.3</b>
<b>Total investments in non-trade sector</b>	<b>1,263</b>	<b>4.7</b>
<b>Total investments of the Mercator Group</b>	<b>26,887</b>	<b>100.0</b>

In 2000 the Mercator Group disposed of fixed assets to the total book value of SIT 2,466 million, for which it received SIT 2,968 million. The major part (82.8%) of property, plant and equipment was

sold in the trade sector and the remaining in the non-trade sector.

Mercator's retail network comprises various types of stores, mostly stores with the food programme.

**The composition of retail outlets as at 31 December 2000**

Type of retail outlets	No. of outlets	Net sales area in m <sup>2</sup>	Gross sales area in m <sup>2</sup>
Hypermarkets	11	33,972	52,451
Supermarkets	317	89,346	157,971
Department stores	30	36,150	53,511
Other units of food programme	278	34,593	58,174
Technical outlets	112	26,815	63,087
Textiles outlets	92	24,472	31,618
Furniture outlets	24	12,134	16,036
Hotels and restaurants	83	6,441	9,977
Other	17	1,126	1,670
<b>Total</b>	<b>964</b>	<b>265,049</b>	<b>444,495</b>

**2.6.2 Non-Current Financial Investments**

In 2000 the Mercator Group acquired majority shareholdings in seven trade companies: Emona Merkur, d.d., Povrtnina, d.d., TP Rožca, d.d., Dolenjka, d.d., Posavje, d.d., Mercator Tržni centar Sarajevo, d.o.o. and Potrošnik, d.d..

Total strategic financial investments amounted to SIT 5.8 billion. In 2000 the Group divested SIT 1,751 million of financial investments and received SIT 2,021 million.

**2.6.3 Investment Financing**

The Mercator Group is able to successfully and promptly implement its ambitious investment plan on account of great internal financial strength mainly as a result of its conservative capital structure, good internal sources of finance and a large divestment potential.

Compared with similar trade companies abroad Mercator has retained a conservative capital structure, where the key source are internally generated, composed of capital and long-term provisions (49.9% of total liabilities as at 31 December 2000). To a minor extent (19.0%) the Group derives funds from trade and other payables, mostly payables to suppliers and the rest (36.1%) by bank loans. Payables to suppliers represent an important source of funds to foreign competitors, but for the Mercator Group they are less important because the companies in the Group settle their payables to

suppliers by early payments thus taking advantage of related cash discounts.

Based on a financial analysis of an optimal capital structure, benchmarking with domestic and foreign competitors and financial projections, the Mercator Group decided upon a conservative target capital structure with the following features:

- equity / debt = 1:1,
- 90% coverage of long-term assets by long-term sources of financing,
- financing of net working capital by short-term bank loans.

The target capital structure has not yet been reached in 2000, as well as the coverage of non-current assets by non-current liabilities. Net working capital financing, defined as the difference between

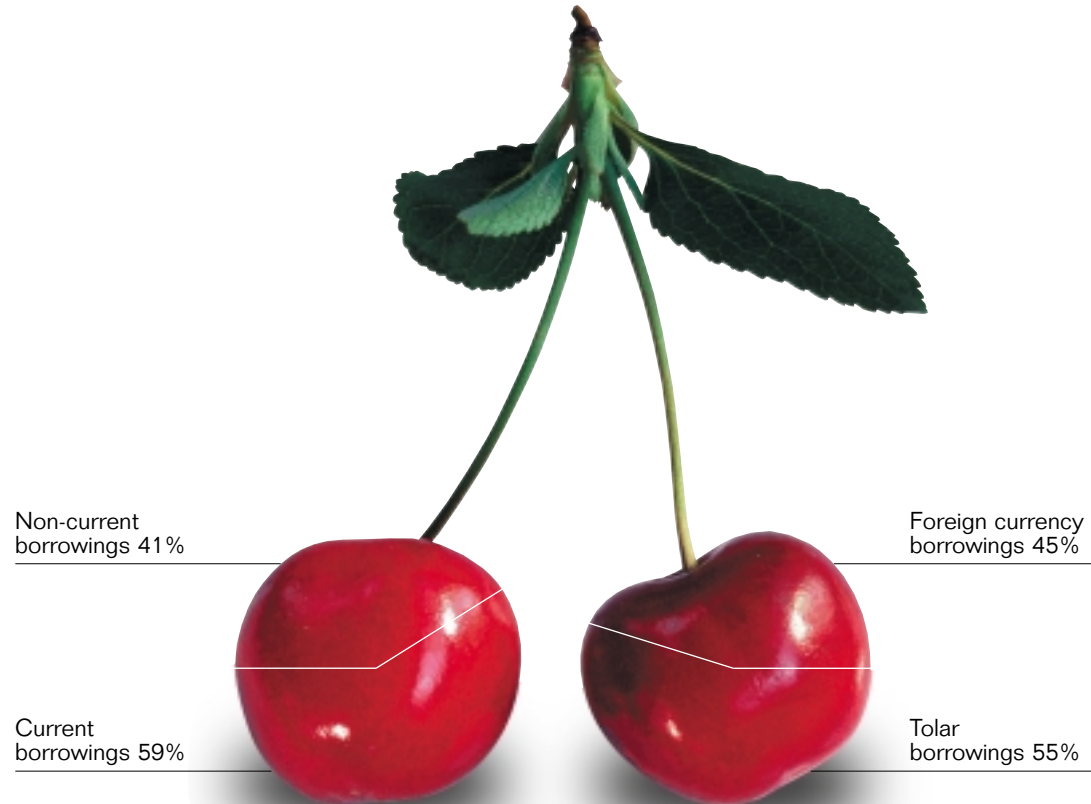
current assets and trade and other liabilities by short term bank loans is justifiable due to the fact that early payment discounts earned by far exceed the cost of funding such payments by short-term bank loans.

To finance its investments the Mercator Group searches for favourable, mostly long-term loans, which in most cases Slovene banks unfortunately are not able to provide. This problem is partially being solved through revolving current loans, which in fact represent non-current sources of funds. This ensures greater flexibility to the Group and the possibility to react to fluctuations in interest rates and foreign exchange rates as well as to actual financial needs.

In 2000 41% of investments of SIT 32.7 billion were financed by net cash flow from operating activities and by divestment of assets, the rest of investments was financed by bank loans, mostly long-term foreign loans.

In September 2000 a EUR 40.5 million syndicated loan agreement was signed under favourable terms and conditions. The syndicate comprised 7 foreign and one domestic bank, the arranger was Raiffeisen Zentralbank Österreich. Loans raised in 2000 with domestic banks were mostly revolving, short-term loans.

#### Structure of Borrowings as at 31 December 2000



## 2.7 Employees

### Employees by Company in the Mercator Group

Company	No. of employees as at 31 Dec. 1999	No. of employees as at 31 Dec. 2000	No. of employees on the basis of working hours in 2000
Poslovni sistem Mercator, d.d.	3,345	3,511	3,308
Emona Merkur, d.d.	N.A. - new	773	938
Povrtnina, d.d.	N.A. - new	87	87
Potrošnik, d.d.	N.A. - new	310	312
Mercator SVS, d.d.	1,213	1,839	1,564
Mercator Klas, d.d.	350	Merged	0
Mercator Jelša, d.d.	160	Merged	118
Mercator Planika, d.d.	228	Merged	184
Mercator Dolenjska, d.d.	832	1,310	1,083
Dolenjka, d.d.	N.A. - new	Merged	140
Posavje, d.d.	N.A. - new	Merged	113
Mercator Degro, d.d.	620	1,135	795
Jestvina, d.d.	629	Merged	393
Mercator Gorenjska, d.d.	596	1,003	809
Špecerija, d.d.	226	Merged	0
TP Rožca, d.d.	N.A. - new	Merged	80
Mercator Goriška, d.d.	461	809	768
Hubelj, d.d.	97	Merged	0
Grosist, d.d.	228	Merged	0
Mercator Modna Hiša, d.o.o.	160	185	164
Trgoavto, d.d.	298	310	293
<b>Trade in Slovenia</b>	<b>9,443</b>	<b>11,272</b>	<b>11,149</b>
Intermercator, G.m.b.H.	2	4	3
Mercator Pula, d.o.o.	0	207	207
Mercator TC Sarajevo, d.o.o.	N.A. - new	276	276
<b>Trade abroad</b>	<b>3</b>	<b>487</b>	<b>486</b>
<b>Total trade</b>	<b>9,445</b>	<b>11,759</b>	<b>11,635</b>

**Employees by Company in the Mercator Group (continue)**

Company	No. of employees as at 31 Dec. 1999	No. of employees as at 31 Dec. 2000	No. of employees on the basis of working hours in 2000
Mercator Emba, d.d.	103	95	94
Eta, d.d.	266	262	246
Mesnina dežele Kranjske, d.o.o.	220	222	211
Pekarna Grosuplje, d.d.	164	186	191
Slosad, d.d.	44	46	46
<b>Total food processing</b>	<b>797</b>	<b>811</b>	<b>788</b>
Mercator Agrokombinat, d.o.o.	87	82	81
Mercator KG Kočevje, d.o.o.	367	220	220
Mercator KŽK Kranj, d.o.o.	179	173	173
<b>Total agriculture</b>	<b>633</b>	<b>475</b>	<b>474</b>
M Hotel, d.o.o.	58	60	52
Mercator Sremič, d.o.o.	55	68	56
<b>Total hotels and restaurants</b>	<b>113</b>	<b>128</b>	<b>108</b>
Mercator Optima, d.o.o.	33	35	35
<b>Total services</b>	<b>33</b>	<b>35</b>	<b>35</b>
<b>Total Mercator Group</b>	<b>11,021</b>	<b>13,208</b>	<b>13,040</b>

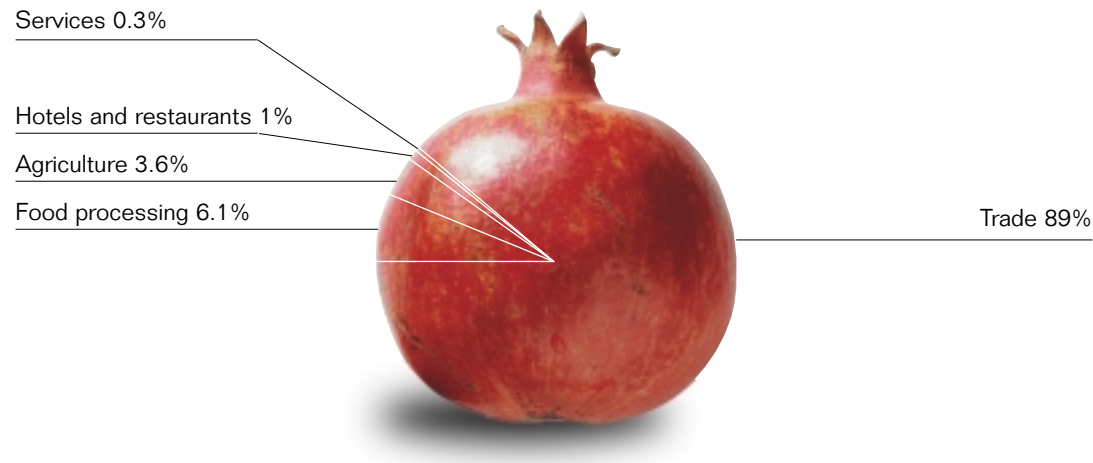
At the end of 2000 the Mercator Group had 13,208 employees, 2,187 employees more than in 1999 or a 19.8% increase. The highest increase was recorded in the trade sector, due to the opening of new shopping centres in Slovenia and abroad and activities related to mergers and acquisitions.



*Supermarkets, hypermarkets and modern shopping centres represent the marketplace and the market today as a place for shopping, spending free time and a lively social environment.*



### Structure of Employees in the Mercator Group by Activity



#### Training

In order to consolidate the Group's operational processes in accordance with the ISO 9001 quality standard major training activities were carried out. Other forms of training were organised, including the areas of computers, foreign languages and teaching. 3,699 employees of the Mercator Group participated a total of 41,582 hours in training and education processes. The total hours of training increased by 29.0% compared to 1999. Mercator continues to award scholarships for studies at university and supports its employees who follow studies after work to obtain high school diplomas or B.Sc. and M.Sc. degrees. The average qualification level of employees in the Mercator Group improved in 2000 compared to 1999 as a result of training activities.

#### Corporate Culture and Communication

Corporate culture and communication are a reflection of strategic goals. The key is that employees understand the company's goals and values and identify their own personal goals with those of the company. Satisfied employees are part of the strategy, of the vision and value of every company.

In co-operation with the Personnel Division of the parent company the Centre for Opinion Polls conducted a telephone survey of employees job satisfaction in May 2000. A sample of 2,662 employees was randomly selected from the employees list of which 1,690 were interviewed.

A very important strategic goal of the Mercator Group is to ensure long-term social security and satisfaction of employees, which is achieved through constant education processes, concern for improved an qualification profile of its employees and an incentive remuneration system.

The interviewees were asked to rate their satisfaction at work, the available sources of information necessary for their work, the management style of their superiors, the quality of communication in the working environment and to identify the priorities of Mercator. The results of the survey were as follows:

- employee loyalty is very high,
- employees know the Company's goals and mission,
- they accept the fact that they are all responsible for the Company's development,
- they give priority to long-term goals over short-term effects,

- they take training as an investment and not as an expense,
- they put market demands and customer satisfaction first,
- they trust the Company's management,
- they can obtain comprehensive and quality information about the Company,
- they are satisfied with their work.

Also in 2000 a gathering of all Mercator's employees - Mercatoriada was organised. Over 5000 employees participated in the meeting, which was held in Kočevje. The purpose of such gatherings is that employees can get to know each other and that the corporate culture is strengthened.

## 2.8 Quality

The ISO 9001 certificate of quality is the base for integration of business excellence into all business processes within the Group.

In 2000, after two years of intensive work on the project ISO 9001 in the trade companies of the Mercator Group, the company Poslovni sistem Mercator, d.d. succeeded in obtaining the ISO 9001 certificate of quality.

Two years ago the Management Board of Poslovni sistem Mercator, d.d. together with the managements of other trade companies decided to set up the project "Quality ISO 9001 in the Trade Companies of the Mercator Group" with the aim to develop and introduce a quality system pursuant to the ISO 9001 standard for individual trade companies in the Mercator Group and through this project to set up a uniform quality system and operational processes between the trade companies in the Group.

The project included activities such as preparation of documents for the quality system and introduction of documented procedures, training for quality, in which all employees participated and external appraisal of the ISO 9001 quality system.

Special attention was paid to training, which was carried out on all organisational levels of companies. In this respect the brochure "Get to Know the ISO 9001 Quality System" was prepared and distributed to all employees during their training.

The quality system was appraised also by the Slovene Standards and Metrology Institute - SIQ. The appraisal procedure took five months and by the end of August 2000 it was established that the quality system of the trade company Poslovni sistem Mercator, d.d. complied with the requirements of the ISO 9001:1994 standard.

The introduced ISO 9001 quality system is not the final aim, but a base for continuous improvement of quality and for increased business excellence. The system will be gradually upgraded with quality systems HACCP, ISO 14000, SA 8000, OHSAS 18001 to finally obtain the European award for business excellence (EFQM).

Poslovni sistem Mercator, d.d. is already introducing the system HACCP, which according to the Act on Health Suitability of Foods and Products and Substances that Come in Contact with Food will have to be applied to the end of the year 2002.

The positive effects of the newly introduced quality system have already been detected in practice, especially in a more efficient operation resulting from simpler communications within the Mercator Group and with Mercator's suppliers and business partners. With efficient corrective measures based on recorded discrepancies, operational costs can be

reduced. Because the ISO 9001 quality system is an international standard, the company will find it easier to establish partnership relations with its suppliers and other business partners. The customers will recognise Mercator more easily which will result in loyalty and trust.

In 2001 also the regional trade companies Mercator SVS, d.d., Mercator Gorenjska, d.d. and Mercator Dolenjska, d.d. plan to obtain the ISO 9001 certificate of quality, and the companies Mercator Degro, d.d. and Mercator Goriška, d.d. in the following years.

## 2.9 IT Systems

In 2000 the Mercator Group continued to develop and update its IT system in the trade and non-trade companies of the Group in line with the adopted strategic objectives related to the development of information technology.

The following activities were carried out in this field:

- information support to current operation,
- setting up of uniform operational and IT systems in the whole trade sector of the Group,
- integration of new subsidiary companies into a uniform operational and IT system, and
- development of new business applications.

By the end of 2001 the regional trade companies will be supported by a uniform, integrated operational and IT system, which will enable more efficient operational processes and monitoring of flows of goods in the whole trade sector of the Mercator

Group. In addition intensive activities are being carried out related to the informatisation of the whole retail network and to the development of a system for electronic exchange of data with business partners. The Mercator Group focused on data security measures during all phases of the operational and IT systems.

The development and support of the operational and IT systems in the Group's trade companies is carried out by the IT and Organisation Division of the parent company, while some specialised trade companies and non-trade companies use external information support experts.

All the processes of IT system support and development have been properly standardised and made uniform during the period of obtaining the ISO 9001 certificate of quality. The costs of information systems incurred by the Mercator Group amounted to SIT 0.9 billion in 2000.

The Group's IT system is updated in accordance with the adopted strategic objectives related to the development of information technology.

## 2.10 Mercator and the Environment

Part of Mercator's corporate culture and its mission are its attitude toward the wider environment and its response to the needs and demands of the general public.

Part of corporate culture and in particular of Mercator's mission is its attitude towards the wider environment and its response to the needs and demands of the general public. Its sponsorships and donations help build and maintain good human relations and develop and strengthen activities of local and national importance in various sectors of social life.

Supporting charitable initiatives, development of sports, culture, education and environmental projects is one of Mercator's important business activities, with which it enhances customer satisfaction, builds a positive reputation, public perception and image of Mercator and increases its business success. In 2000 Mercator's principal charitable action was a donation of seven ambulances to first-aid posts throughout Slovenia for intervention in life threatening cases. In culture the long-standing sponsorship of the gold season ticket performances of the major Slovene cultural institution, Cankarjev Dom, Ljubljana, was of special note.

In its concern for the environment and commitment to quality sales services, Mercator puts special emphasis on consumer health protection. In this respect permanent training of employees on handling various product groups, on meeting sanitary-

hygienic requirements of customer sales, on goods tracking and on other conditions, required for the sale of fault free products, is essential. The majority of stores and logistic units are equipped for selective collection of packaging designed for further processing.

Special attention to the protection of and responsibility for the environment is paid in production plants. This is particularly true for agricultural companies, which include large animal farms. Environmental measures, taken by these companies, are appraised by experts and checked with regard to their short-term and long-term effects on the environment.

In 2000 the Association of Trade at the Slovene Chamber of Commerce and Industry awarded Mercator's trade companies four diplomas and acknowledgements for creating a friendly and pleasant shopping environment for the customers and employees and improving the quality of goods and services. For well kept stores and highly professional staff the following retail units were given rewards: Mercator Hypermarket Ljubljana, Mercator Market in Ankaran, Mercator store in Bled and the store Drogerija Mercator in the shopping centre in Krško.

## 2.11 Risk Assessment and Management

Risk is any uncertainty associated with future business transactions, which can reduce the probability of achieving set business goals. The risk factors in the Mercator Group are assessed within the framework of two groups:

- business risks associated with the uncertainty of future competitiveness and of possibilities for development, growth and survival;
- financial risks associated with the uncertainty of value of individual types of assets and liabilities and pertinent expenses.

### 2.11.1 Business Risk Assessment

The management of the Mercator Group considers that its business risks are low, meaning a low level of uncertainty related to the Group's future development, growth, business performance and assets.

The reasons for the assessment of business risk as low are as follows:

- over 92% of total revenues of the Group derive from retail and wholesale of consumer products, of which the major part refers to the products from the food programme;
- the majority of consumer products are normal products with low income demand elasticity, which would ease up the effect of eventual recession or of substantial reduction in real purchasing power on the domestic market;
- the 36.8% share of the domestic market with even distribution throughout Slovenia represents a stable and strong source of the Group's revenues and a good competitive position, even after Slovenia has entered the European Union;
- high negotiating power of the Mercator Group in relation to its suppliers substantially reduces the risk related to changes in purchase prices and other conditions;
- the characteristics of trade activity and the pricing

policy enable a reasonable transfer of changes in purchase prices to selling prices, which reduces the risk of change in gross margins;

- efficient and adequate decentralisation of the Group's organisation and management enables a fast and adequate response to changes in local environments and efficient implementation of goals set within the Group;
- fixed costs represent only about one fifth of total operating costs, which points to low operating leverage of the Group;
- the risk of obsolescence, destruction or other reduction in value of the inventory is low, due to high inventory turnover and to the characteristics of the types of goods;
- all non-commercial risks associated with the activities on foreign markets are adequately ensured, commercial risks are monitored and reduced by appropriate measures;
- market research shows that the quality of offer and price competitiveness of the Group's trade part is high and growing, as indicated by the purchase frequency rate recorded in Mercator, which exceeded 98% in 2000.

The management of the Mercator Group considers that its business risks are low.

## 2.11.2 Financial Risk Assessment

The management of the Mercator Group considers that its financial risks are moderate.

The Mercator Group assesses financial risks within the framework of the following groups:

- commercial risks, which include the risk that receivables from customers will not be collected;
- market risks, which mostly include the inflation risk, foreign exchange risk, interest rate risk, securities liquidity risk and securities marketability risk;
- liquidity and solvency risks;

The Mercator Group management considers that the commercial risk exposure of the Group is moderate. The reasons are as follows:

- wholesale revenues represent only about 29.1% of total revenues of the trade part of the Mercator Group, while the collection risks of retail sale revenues are negligible;
- wholesale buyers are dispersed, and all trade companies use an adequate credit rating system for determining the maximum exposure to individual business partners.

The Mercator Group management considers that the inflation risk exposure of the Group is low,

which is a result of the Group's capability to incorporate the effects of a reduced purchase power of the domestic currency promptly and to an adequate extent into the selling prices of goods, products and services and of other assets of the company.

The Mercator Group management considers that foreign exchange risk exposure of the Group is moderate as a result of a planned reduction in net currency exposure due to the internationalisation of business operations.

The Mercator Group management considers that the interest rate risk exposure the Group's is moderate since only 43% of total financial liabilities are liabilities with variable interest rate linked to LIBOR and EURIBOR.

The Group is not exposed to securities liquidity risk and securities marketability risk as it has no materially significant investments in securities and has not issued marketable debt securities.

The Mercator Group management considers that the liquidity and solvency risk exposure of the Group is low since systematic use of early settlement of payables to suppliers means a high liquidity reserve, while the great financial strength and conservative capital structure ensure its solvency as well.

### 2.11.3 Risk Management Policy

In managing financial and business risks the Mercator Group pursues the following policy:

- It actively manages business risk by implementing adequate strategic objectives, by planning and monitoring business activities and the risks involved, by prompt and adequate adjustment to changes in the internal and external business environments, by constantly improving the efficiency of operational processes and by ensuring long-term international competitiveness;
- It actively manages commercial risks by implementing the following measures and carrying out the following activities:
  - *by applying a formalised, centralised credit rating system which limits risk exposure to individual business partners,*
  - *by centralised monitoring of slow payers for the Group,*
  - *by limiting open account payments on new markets,*
  - *by requesting adequate collateral for receivables, active set-off and barter deals.*

- the Group does not manage market financial risks actively because:

- *there are no instruments available for avoiding the inflation risk, therefore protection is not possible and the exposure to such a risk is low;*
- *instruments for avoiding interest rate risk associated with foreign currency liabilities exist, however the Group management estimates that they do not provide cost efficient protection against the risk at the moment, and the exposure to such a risk is moderate;*
- *the Group reduces foreign exchange risk by reduction in net currency exposure, which is a result of the internationalisation of business operations (the official currency in Bosnia - Herzegovina is directly linked to the exchange rate of Deutsche Mark and fully convertible), other instruments are not used due to their cost inefficiency.*

The Group actively manages liquidity and solvency risks by applying an adequate cash management system and by adopting appropriate strategic financial decisions.

The Mercator Group management considers the selected risk management policy suitable for the low to moderate risk levels to which the Group is exposed.

Risk management is adjusted to different kinds of risks and to the availability of efficient mechanisms for their reduction.

## 2.12 Strategic Goals and Opportunities for Future Development

In 2000 the Mercator Group continued to implement the strategic plan for the period 2000 to 2003, which had been adopted in 1999. The Group plans, despite growing competition on the domestic market, to increase net sales revenues mostly due to expansion of its sales network in Slovenia and abroad, and to improve its business performance and efficiency.

### **The Mission of the Mercator Group:**

*The Mercator Group is the leading trade chain in Slovenia and intends to become an important trade chain in the countries of the former Yugoslavia, which with a high quality offer efficiently satisfies the needs and wishes of consumers, and which can compare, due to improving business efficiency, to the most successful European trade chains, and increases, in the long-term, the value of assets of its owners, while fulfilling its obligations to employees and all other stakeholders.*

*The Group's mission is being carried out by all employees with the following values and beliefs:*

- *with mutual trust and team work,*
- *continuous personal development of employees,*
- *by encouraging creativity,*
- *emphasis on ethical values,*
- *by constantly monitoring and fulfilling customer wishes,*
- *by a method of management which stimulates employees.*

**The key strategic goals of the Mercator Group are to:**

- *continue improving the quality of offered products and of customer satisfaction,*
- *ensure sales growth and increased market share,*
- *improve business efficiency,*
- *establish long-term partnership relations with Slovene producers,*
- *provide social security benefits to employees,*
- *provide competitively priced high quality products and services in the non-trade activities,*
- *establish alliances with foreign strategic partners,*
- *increase the value of shareholders' assets and security of creditors' investment,*
- *care for the environment.*

### **Key activities of the Mercator Group in the Future Years**

- The Mercator Group will continue with projects which add value for consumers and adequately increase their loyalty and satisfaction.
- The Mercator Group will establish itself and expand the volume of business on the markets of Croatia and Bosnia - Hercegovina and will consider the possibility of penetrating the Yugoslav market. Internationalisation of business activities will enable further growth and development of the Group in the future years.
- For 2001 the Mercator Group plans to open the following shopping centres: MC Nova Gorica, MC Jesenice, MC Zagreb I and MC Kamnik and, as soon as possible, to prepare for the construction of MC Kranj, MC Split, MC Rijeka, MC Beograd and MC Zagreb II.
- In line with the category management concept a textiles chain will be formed in 2001 within which all specialised textiles stores of the Group trade sector will operate with the purpose to improve business efficiency and performance. In addition preparations will start for forming a chain of technical products stores.
- In 2001 the company Povrtinina, d.d. will be merged with the parent company and a feasibility study conducted of eventual mergers of the companies Emona Merkur, d.d. and Potrošnik, d.d. with the parent company or with the regional trade companies of the Group.
- The Mercator Group plans the merger of the Group's non-trade companies - Mesnine dežele Kranjske, d.o.o., Mercator Agrokombinat, d.o.o. and Mercator KG Kočevje, d.o.o. with the company Kraljeve Mesnine, d.d. into a new company Mesnine dežele Kranjske, d.d. in which the Group will have a majority shareholding. This will ensure long-term growth, development and international competitiveness also in the field of agriculture and food processing.
- A Mercator trade pool will be founded together with the major Slovene suppliers, which will enable harmonised joint penetration of target markets in the former Yugoslavia and a joint scholarships fund will be set for ensuring and increasing the necessary social and intellectual capital.
- Despite current activities related to restructuring, activities related to internationalisation and constantly increasing competition the Mercator Group will continue to improve its business performance and efficiency, increase its financial strength and long-term competitive power thus increasing shareholder value, ensuring the security of creditors' investments and fulfilling its obligations to all other stakeholders.

# Financial Report

## 3.1 Principal Accounting Policies

The financial statements of Poslovni sistem Mercator, d.d. have been prepared in accordance with the accounting and reporting requirements of Slovene Accounting Standards. Generally accepted accounting principles, in particular International Accounting Standards have been applied, financial definition of capital and the requirement for recording capital in real terms. Revaluation adjustments of certain non-current categories have direct affect on the financial result, recognised as revaluation surplus (loss) which is shown among financial revenues (expenses).

### **Intangible Assets and Property, Plant and Equipment**

Intangible Assets and Property, plant and equipment are stated at purchase cost and are depreciated over their estimated useful lives, on a straight line basis.

Depreciation is accounted for separately, except for small tools with useful life over one year. Land is not depreciated since its useful life cannot be established.

### **Financial Investments**

Financial investments are recorded at purchase cost, reflected in invested cash amounts or other funds.

Financial investments in subsidiary companies are accounted for by the equity method, financial investments in associated and other companies by using the cost method.

Financial investments in securities are recorded at the balance sheet date market value or revalued purchase value, if the latter is lower. Equity investments are revalued, loans only if required by the loan agreements.

### **Inventories**

Inventories are historically valued at cost of purchase.

Revaluation of inventories is carried out at each change in purchase price and the new purchase price is accounted for.

Inventories consigned for sale on commission are recorded at purchase costs among off-balance-sheet items.

A 50% write-down of the purchase costs is made for inventories, not sold within the accounting period and acquired prior to the accounting period. A 100% write-off of the purchase costs is made for inventories, not sold within a period of two years.

### **Trade and other receivables**

Trade receivables are carried at original invoice amount under the assumption that the receivables will be collected.

An estimate for non-current doubtful debts is made separately, when any of the instalments due is not collected or in the event of the debtor's liquidation, bankruptcy or compulsory settlement. In the event of liquidation, bankruptcy or compulsory settlement adjustments by 100 % of value are made.

The current trade receivables are adjusted by:

- 50% if the due date was exceeded by 61 to 74 days,
- 75% if the due date was exceeded by 75 to 89 days,
- 100% if the due date was exceeded by over 90 days.

Current receivables from interest deriving from receivables due from customers are adjusted by:

- 50% if the due date was exceeded by up to 365 days,
- 100% if the due date was exceeded by over 365 days.

The current disputable receivables are adjusted by 100% of their value.

### **Provisions**

Provisions are set up for major repairs, for costs of penetrating new markets, for jubilee bonuses and termination pay, for denationalisation claims and for other purposes.

Provisions are set up in accordance with projected needs and expectations and of utilisation. They are set up for a definite period.

Provisions for costs are used directly by debiting the costs incurred, in accordance with the utilisation schedule.

### **Borrowings**

Initially all borrowings are recorded at amounts determined in the relevant documents.

Borrowings are revalued and increased by the amount of accrued interest in accordance with the terms and conditions stipulated in the agreements made with the creditors. At the end of the financial year the calculation is obligatory.

### **Trade and other payables**

Non-current and current trade payables are record-

ed at amounts determined in the relevant documents.

The current trade payables are revalued only if it is so agreed.

### **Revenues and Expenses**

The Company categorises revenues and expenses as operating revenues and expenses, financial revenues and expenses and extraordinary revenues and expenses.

### **Foreign Currency Translation**

Assets and liabilities denominated in foreign currency are translated into the local currency using official exchange rates on the balance sheet date. Exchange differences on foreign currency transactions are included in the profit and loss account as financial revenues or expenses.

### **Principles of Consolidation**

Consolidated financial statements comprise separate financial statements of companies, showing their assets, liabilities and results as if they were single entities. All inter-company transactions between Group companies have been eliminated.

The consolidated financial statements of the Mercator Group have been prepared on the basis of the single entity method. All assets and liabilities of the parent company and the subsidiary companies belong to the Group, and the minority participating interests are shown as part of equity capital of the Group. Net profit and loss for the financial year is divided to net profit and loss of the parent company and net profit and loss of the minority shareholders.

## 3.2 Financial Statements of the Company Poslovni sistem Mercator, d.d.

### 3.2.1 Audited Financial Statements of the Company Poslovni sistem Mercator, d.d.

#### Balance Sheet of the Company Poslovni sistem Mercator, d.d. as at 31 December 2000

in SIT 000

	31.Dec. 2000	31.Dec. 1999	31.Dec. 1998
<b>Assets</b>			
<b>Non-current assets</b>	<b>86,643,411</b>	<b>73,544,737</b>	<b>58,597,314</b>
Intangible assets	200,796	188,810	146,997
Property, plant and equipment	32,796,238	28,714,165	23,695,878
Non-current financial investments	53,646,377	44,641,762	34,740,846
Capital adjustment	0	0	13,593
<b>Current assets</b>	<b>33,511,660</b>	<b>19,316,264</b>	<b>13,941,641</b>
Inventories	8,166,232	6,655,805	6,027,003
Non-current trade and other receivables	918	10,137	19,999
Current trade and other receivables	12,556,636	9,082,832	6,657,560
Current financial investments	12,139,326	2,797,669	954,372
Cash and cash equivalents	369,875	578,304	163,593
Prepaid expenses	278,673	191,517	119,114
<b>Total assets</b>	<b>120,155,071</b>	<b>92,861,001</b>	<b>72,538,955</b>
<b>Equity and liabilities</b>			
<b>Capital</b>	<b>67,067,004</b>	<b>57,796,073</b>	<b>50,552,878</b>
Share capital	32,085,040	32,085,040	32,085,040
Share premium	541,241	577,799	139,213
Reserves	4,300,883	1,346,630	1,346,630
Retained earnings from previous years	0	0	0
Capital revaluation adjustment	25,970,512	20,832,351	16,981,995
Undistributed net profit/loss for the year	4,169,328	2,954,253	0
<b>Provisions</b>	<b>1,353,545</b>	<b>1,313,111</b>	<b>0</b>
<b>Non-current borrowings</b>	<b>16,147,100</b>	<b>10,018,916</b>	<b>3,363,971</b>
Non-current trade and other payables	4,792	4,050	3,811
<b>Current borrowings</b>	<b>21,529,430</b>	<b>13,840,391</b>	<b>10,104,712</b>
Current trade and other payables	12,653,079	9,188,506	7,604,580
<b>Accruals</b>	<b>1,400,121</b>	<b>699,954</b>	<b>909,003</b>
<b>Total equity and liabilities</b>	<b>120,155,071</b>	<b>92,861,001</b>	<b>72,538,955</b>
Off-balance sheet items	15,200,058	16,963,322	14,127,254

The company Poslovni sistem Mercator, d.d. is the parent company of the Mercator Group and is obliged to prepare company and consolidated financial statements.

**Profit and Loss Account of the Company Poslovni sistem Mercator, d.d. for the Year Ended 31 December 2000**

in SIT 000

	2000	1999	1998
<b>Sales</b>	<b>96,450,055</b>	<b>77,314,429</b>	<b>66,496,079</b>
Domestic sale of products	138,757	133,207	92,638
Sale of products abroad	0	0	111
Domestic sale of services	5,040,387	2,366,540	2,059,806
Sale of services abroad	10,236	22,943	70,027
Domestic sale of goods	90,564,827	74,585,388	64,115,510
Sale of goods abroad	428,393	61,342	95,676
Sale of materials	34	718	3,201
Sale of capitalised own products	267,421	144,291	59,113
<b>Cost of sales</b>	<b>-73,763,016</b>	<b>-58,889,103</b>	<b>-50,969,585</b>
Production costs	-102,669	-109,379	-82,311
Purchase value of goods and materials sold	-73,660,347	-58,779,724	-50,887,274
<b>Gross profit</b>	<b>22,687,039</b>	<b>18,425,326</b>	<b>15,526,494</b>
Administrative expenses	-5,053,220	-4,991,512	-2,712,894
Selling expenses	-14,397,260	-12,101,652	-12,690,000
Other operating revenues	3,300	0	10
<b>Operating profit</b>	<b>3,239,859</b>	<b>1,332,162</b>	<b>123,610</b>
Revenues from investments	3,114,802	1,780,043	826,593
Interest revenues and other financial revenues	2,613,065	1,738,416	2,117,164
Current and non-current investment write-offs	-2,104,081	-251,085	-443,283
Interest expenses and other financial expenses	-2,521,229	-1,506,137	-1,381,308
<b>Profit before extraordinary items</b>	<b>4,342,416</b>	<b>3,093,399</b>	<b>1,242,776</b>
Extraordinary revenues	664,444	663,842	560,204
Extraordinary expenses	-837,432	-802,988	-456,350
<b>Profit before tax</b>	<b>4,169,428</b>	<b>2,954,253</b>	<b>1,346,630</b>
Tax	-100	0	0
<b>Net profit</b>	<b>4,169,328</b>	<b>2,954,253</b>	<b>1,346,630</b>
Gross cash from operations*	5,361,340	4,534,585	3,156,315

\* Gross cash from operations exclusive of participation in operating results of subsidiary companies.

**Cash Flow Statement of the Company Poslovni sistem Mercator, d.d. for the Year Ended 31 December 2000**

in SIT 000

	2000	1999	1998
Revalued opening balance of cash as at 1 January	629,773	176,026	210,833
Revenues	102,845,666	81,496,730	70,000,050
Expenses exclusive of depreciation and provisions	-96,457,891	-75,258,880	-66,189,838
Tax on profits and participation in net profit (exclusive of owners)	-100	0	0
<b>Non-adjusted net inflows (outflows) from operating activities</b>	<b>7,017,448</b>	<b>6,413,876</b>	<b>4,021,045</b>
Increase in trade and other payables and accruals	3,285,049	727,794	0
Decrease in trade and other payables and accruals	0	0	-2,471,699
Increase in trade and other receivables and prepaid expenses	-2,725,422	-1,971,266	-850,014
Increase in inventories	-918,060	-170,750	0
Decrease in inventories	0	0	588,503
<b>Adjusted net inflows (outflows) from operating activities</b>	<b>6,659,015</b>	<b>4,999,654</b>	<b>1,287,835</b>
Increase in intangible assets	-57,133	-69,909	0
Decrease in intangible assets	0	0	661,449
Increase in property, plant and equipment	-3,759,341	-5,148,618	0
Decrease in property, plant and equipment	0	0	636,817
Increase in non-current financial investments	-5,031,498	-7,260,612	-7,886,991
Increase in current financial investments	-9,092,665	-1,770,765	0
Decrease in current financial investments	0	0	807,248
<b>Net inflows (outflows) from operating and investment activities</b>	<b>-11,281,622</b>	<b>-9,250,250</b>	<b>-4,493,642</b>
Increase in capital	0	461,549	200,674
Decrease in capital	-42,247	0	0
Increase in provisions	0	0	0
Decrease in provisions	0	0	0
Increase in non-current borrowings	5,236,500	6,399,283	345,833
Increase in current borrowings	6,457,244	2,967,722	4,110,728
Decrease in dividends payable	0	0	0
<b>Closing balance of cash as at 31 December</b>	<b>369,875</b>	<b>578,304</b>	<b>163,593</b>

### 3.2.2 Notes to the Audited Financial Statements of the Company Poslovni sistem Mercator, d.d.

#### Notes to the Balance Sheet

##### Intangible Assets

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Goodwill	0	0	0
Organisational costs	11,904	12,427	12,523
Material rights	97,234	59,780	26,433
Other items	91,658	116,603	108,041
<b>Total</b>	<b>200,796</b>	<b>188,810</b>	<b>146,997</b>

Organisational costs refer to advance payment of rented equipment. Material rights mostly include licences and brand names, other items include investments in third party assets and software licences.

##### Property, Plant and Equipment

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Land	5,773,512	4,311,752	2,622,800
Buildings	21,138,430	17,049,740	13,517,961
Store equipment	3,828,026	3,866,655	3,280,513
Other assets	38,145	28,415	19,098
Construction in progress	716,615	1,975,879	3,070,151
Advances for property, plant and equipment	1,301,510	1,481,724	1,185,356
<b>Total</b>	<b>32,796,238</b>	<b>28,714,165</b>	<b>23,695,879</b>

In 2000 the value of property, plant and equipment changed due to:

- capital expenditure totalling SIT 5,935,336 thousand, of which SIT 3,126,511 thousand refers to investments in shopping centres, SIT 440,319 thousand to investments in supermarkets and their refurbishment, SIT 1,419,036 thousand in the purchase of four retail units and the remain-

- ing SIT 949,470 thousand to other investments,
- revaluation of value of property, plant and equipment in the total amount of SIT 2,272,635 thousand,
- depreciation in the amount of SIT 2,190,823 thousand and
- write-offs and disposal of property, plant and equipment in the total amount of SIT 1,923,089 thousand.

### Non-current Financial Investments

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Investments in subsidiary companies	50,570,144	37,947,755	26,974,566
Investments in associated companies	502,713	3,139,285	738,362
Investments in other companies	45,157	452,271	2,836,697
Loans to subsidiary companies	2,335,082	2,909,218	3,993,107
Loans to associated companies	305	1,962	3,863
Loans and deposits to other companies and banks	192,976	191,271	194,251
<b>Total</b>	<b>53,646,377</b>	<b>44,641,762</b>	<b>34,740,846</b>

Non-current financial investments represent 44.6% of the Company's total assets. Compared to the beginning of 2000 their value increased by 20.2%.

The major part of non-current financial investments (94.5%) refers to shareholdings of subsidiary companies of the Mercator Group in Slovenia and abroad. Compared to the beginning of 2000 they increased by 33.3%, and the changes in the year 2000 were due to:

- acquisition of a 56.9% shareholding in the company Emona Merkur, d.d. in the amount of SIT 3,351 million,
- reclassification of investments in the companies Emona Merkur, d.d. (SIT 2,458 million), Mercator Pula, d.o.o. (SIT 66 million) and Povrtnina, d.d. (SIT 78 million) from invest-

ments in associated companies to investments in subsidiary companies,

- acquisition of a 58.0% shareholding in the company Povrtnina, d.d. in the amount of SIT 168 million,
- acquisition of a 50.1% shareholding in the company Potrošnik, d.d. in the amount of SIT 827 million,
- acquisition of a 1.5% shareholding in the company Mercator Gorenjska, d.d. in the amount of SIT 35 million,
- acquisition of a 0.2% shareholding in the company Mercator Goriška, d.d. in the amount of SIT 10 million,
- investments in the companies Mercator TC Sarajevo, d.o.o. in the amount of SIT 564 million and Intermercator G.m.b.H. in the amount of SIT 71 million,
- shares of results of subsidiary companies in the

net amount of SIT 1,250 million, reduced by the elimination of total non-recorded goodwill of the company Mercator Goriška, d.d. in the amount of SIT 21 million and elimination of non-recorded negative goodwill of the company Emona Merkur, d.d. in the amount of SIT 278 million,

- revaluation of investments in the amount of SIT 3,890 million.

The Company has already eliminated the total non-recorded goodwill obtained by the acquisition of Mercator Goriška, d.d. in the amount of SIT 20,898 thousand by reducing share of result of this subsidiary for the year 2000. As at 31 December 2000 the non-recorded negative goodwill remains pertaining to the investment in the company Mercator Gorenjska, d.d. in the amount of SIT 254 million and to the investment in the company Potrošnik, d.d. in the amount of SIT 232 million. The Company has already eliminated the total non-recorded negative goodwill related to the com-

pany Emona Merkur, d.d. amounting to SIT 278 million by reducing its share of result of this company. As at 31 December 2000 the non-recorded goodwill of SIT 27 million with the company Povrtnina, d.d. remains.

Investments in associated companies decreased by SIT 2,637 million compared to the beginning of 2000 as a result of purchasing additional share in the companies Emona Merkur, d.d. and Povrtnina, d.d. and reclassification of these companies among the subsidiary companies. The value adjustment of the investment in the company Unimercat, G.m.b.H. of SIT 79 million, representing a 100% write-off of the investment's value due to instituted bankruptcy proceedings against the company, further reduced the investments in associated companies.

Investments in other companies decreased by SIT 407 million in 2000 mainly on account of sale of shares.

## Non-Current Financial Investments as at 31 December 2000

Company	Ownership stake		Value of investment	
	31.12. 2000	31.12. 2000	31.12. 1999	31.12. 1998
Emona Merkur, d.d.*	95.89	4,848,977	2,458,176	1,175,928
Povrtnina, d.d.*	100.00	0	78,168	0
Potrošnik, d.d.	50.10	836,868	0	0
Mercator SVS, d.d.	100.00	11,066,724	9,245,672	8,010,053
Mercator Dolenjska, d.d.	100.00	5,077,032	4,513,554	4,052,248
Mercator Degro, d.d.	100.00	3,530,032	2,975,879	2,716,362
Mercator Gorenjska, d.d.*	93.38	4,736,160	3,943,706	675,162
Mercator Goriška, d.d.*	99.05	5,402,647	4,349,237	322,705
Mercator Modna hiša, d.o.o.	100.00	768,790	642,266	532,728
Trgoavto, d.d.	51.01	1,458,245	1,238,985	1,084,026
<b>Total trade in Slovenia</b>		<b>37,725,475</b>	<b>29,445,643</b>	<b>18,569,212</b>
Intermercator, G.m.b.H.	100.00	139,459	117,017	91,302
Mercator TC Sarajevo, d.o.o.	52.00	562,295	0	0
Mercator Pula, d.o.o.*	50.00	0	65,578	0
<b>Total trade abroad</b>		<b>701,754</b>	<b>182,595</b>	<b>91,302</b>
<b>Total trade</b>		<b>38,427,229</b>	<b>29,628,238</b>	<b>18,660,514</b>
Mercator Emba, d.d.	51.19	968,189	859,666	776,332
Eta, d.d.	74.79	1,743,898	1,532,026	1,378,153
Mesnina dežele Kranjske, d.o.o.	90.56	624,768	485,387	394,621
Pekarna Grosuplje, d.d.	51.01	822,398	688,855	580,473
Slosad, d.d.	100.00	100,370	79,755	39,241
Zmajčkov butik, d.d.	0.00	0	0	393,849
<b>Total food processing</b>		<b>4,259,623</b>	<b>3,645,689</b>	<b>3,562,669</b>
Mercator Agrokombinat, d.o.o.	100.00	1,301,037	1,182,512	1,187,788
Mercator KG Kočevje, d.o.o.	90.94	2,692,348	2,551,273	2,369,720
Mercator KŽK Kranj, d.o.o.	100.00	2,005,144	1,837,736	1,704,241
<b>Total agriculture</b>		<b>5,998,529</b>	<b>5,571,521</b>	<b>5,261,749</b>
M Hotel, d.o.o.	100.00	982,994	886,883	888,438
Mercator Sremič, d.o.o.	100.00	590,762	565,285	558,874
<b>Total hotels and restaurants</b>		<b>1,573,756</b>	<b>1,452,168</b>	<b>1,447,312</b>

Company	Ownership stake		Value of investment	
	31.12. 2000	31.12. 2000	31.12. 1999	31.12. 1998
Mercator Optima, d.o.o.	100.00	311,007	252,061	216,117
<b>Total services</b>		<b>311,007</b>	<b>252,061</b>	<b>216,117</b>
<b>Total subsidiaries</b>		<b>50,570,144</b>	<b>40,549,677</b>	<b>29,148,361</b>
Spar Slovenija, d.o.o.	20.00	202,436	185,892	172,762
Unileasing, d.o.o.	20.00	18,095	16,616	15,442
Alpkomerc, d.d.	20.00	282,182	259,120	0
Gorenjska mlekarina, d.d.	0.00	0	0	385,954
Spectrum, d.o.o.	0.00	0	0	89,682
<b>Total associated companies in Slovenia</b>		<b>502,713</b>	<b>461,628</b>	<b>663,840</b>
Goimpex, s.r.l. Italia	0.00	0	0	2,190
Unimercat, G.m.b.H. Germany	25.00	0	75,735	72,332
<b>Total associated companies abroad</b>		<b>0</b>	<b>75,735</b>	<b>74,522</b>
<b>Total associated companies</b>		<b>502,713</b>	<b>537,363</b>	<b>738,362</b>
<b>Other companies in Slovenia</b>		<b>45,157</b>	<b>452,271</b>	<b>662,902</b>
<b>Total in Slovenia</b>		<b>50,416,260</b>	<b>41,280,981</b>	<b>30,383,801</b>
<b>Total abroad</b>		<b>701,754</b>	<b>258,330</b>	<b>165,824</b>
<b>Total</b>		<b>51,118,014</b>	<b>41,539,311</b>	<b>30,549,625</b>

\* In the years 1998 and 1999 the value of financial investments in companies was shown among either associated or other companies.

## Inventories

As at 31 December 2000 inventories of raw materials, materials and merchandise amounted to SIT 8,166 million, making up 24.4% of total current assets. Compared to the end of 1999 level of inventories increased by 22.7%.

In 2000 the inventories turnover ratio, calculated on the basis of purchase costs of goods sold, was 9.9, meaning that the day inventory ratio was 37 days which shows two days improvement compared to 1999.

### Current Trade and Other Receivables

As at 31 December 2000 the current trade and other receivables amounted to SIT 12,557 million, a 38.2% increase compared to the beginning of the year. Their share in total current assets was 37.5%. The key reason for that growth was a 33.4% increase in net wholesale revenues. Days sales outstanding ratio was 41 days, which indicates four days improvement compared to 1999.

The major part of current trade and other receivables refers to receivables from other companies (49.3%), receivables from subsidiary companies (33.4%), receivables from associated companies (11.2%), and the rest are current warranties, current consumer loans and other current receivables.

### Current Financial Investments

Current financial investments grew by 333.9% compared to the beginning of 2000, mostly as a result of short-term loans to subsidiary companies abroad in the total amount of SIT 9,913 million of which SIT 3,990 refers to the loan given to the company Mercator Tržni centar Sarajevo, d.o.o.,

SIT 5,923 million to the loan given to the company Mercator Pula, d.o.o. and SIT 945 million to loans given subsidiary companies in Slovenia. SIT 1,298 million of repaid short-term loans in 2000 refer to loans given to other companies.

### Capital Adjustment

As at 1 January 2000 the Company had no treasury shares. For the purpose of mergers and acquisitions the Company purchased 192,300 treasury shares totalling SIT 2,330 million. During the year 2000 all treasury shares were disposed of. The realised capital loss in the amount of SIT 37 million reduced the share premium. As at 31 December 2000 the Company did not hold any of its own shares.

### Prepaid Expenses

At the end of 2000 prepaid expenses amounted to SIT 279 million, 45.5% higher than at the end of the previous year. The major part of prepaid expenses are super-rebates of SIT 196 million. The rest are current deferred costs deriving from financial discounts and accrued realty transfer tax.

## Capital

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Share capital	32,085,040	32,085,040	32,085,040
Share premium	541,241	577,799	139,213
Reserves	4,300,883	1,346,630	1,346,630
Retained earnings from previous years	0	0	0
Capital revaluation adjustment	25,970,512	20,832,351	16,981,995
Undistributed profit/loss for the year	4,169,328	2,954,253	0
<b>Total</b>	<b>67,067,004</b>	<b>57,796,073</b>	<b>50,552,878</b>

The Company does not record profit from previous years because the shareholders decided that the revalued loss from previous years, which as at 31 December 1998 amounted to SIT 17,038 million, be covered by reserves and by capital revaluation adjustment, and that undistributed profit be allocated to the Company's reserves. The shareholders

also resolved to allocate SIT 2,633 million of the profit for 1999 to the Company's reserves and the remaining SIT 321 million to setting up the treasury shares fund accounted for under reserves.

In 2000 the value of capital increased due to revaluation amounting to SIT 5,138 million and earned

net profit for the year in the amount of SIT 4,169 million. The SIT 37 million reduction in share premium refers to the capital loss incurred by the sale of own shares.

### Provisions

In 2000 the Company did not set up any new provisions. Provisions grew by SIT 117 million on

account of revaluation and fell by SIT 76 million on account of utilisation. Provisions were utilised as follows:

- SIT 16 million of provisions for compensation for denationalisation claims,
- SIT 60 million of provisions for penetrating new markets in line with the utilisation schedule.

### Non-current Borrowings

As at 31 December 2000 the non-current borrowings amounted to SIT 16,147 million, a 61.2 % increase over 31 December 1999.

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
<b>Long-term loans raised</b>	<b>16,147,100</b>	<b>10,018,916</b>	<b>3,363,971</b>
- Domestic currency loans	4,292,445	3,532,887	907,767
- Foreign currency loans	11,854,655	6,486,029	2,456,204

In 2000 the Company mostly raised long-term loans with foreign banks. In September 2000 a syndicated loan agreement of EUR 40.5 million was signed. The syndicate comprised 7 foreign and one domestic bank, the arranger was Raiffeisen Zentralbank Österreich.

### Non-current Trade and Other Payables

Non-current trade and other payables of SIT 4,792 thousand fully refer to liabilities from joint-ventures.

### Current Borrowings

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Loans from subsidiary companies	887,131	1,201,964	1,084,772
Loans from other companies	550,226	619,488	168,006
Loans from associated companies	0	1,152,337	1,376,544
Loans from banks	15,867,160	8,329,760	6,435,822
Current portion of non-current borrowings	4,155,903	2,460,141	953,959
Securities, raised deposits	69,010	76,701	85,609
<b>Total</b>	<b>21,529,430</b>	<b>13,840,391</b>	<b>10,104,712</b>

Current borrowings grew by 55.6% compared to 1999. The major share of current borrowings refers to short-term loans from commercial banks, of which SIT 16,424 million are tolar loans and SIT 5,105 million are foreign currency loans.

### Current Trade and Other Payables

Current trade and other payables amount to SIT 12,653 million, an increase by 37.7% compared to 1999. The main reason for the increase was a 25.3% increase in purchase costs of goods sold. Days payables ratio was 54 days, two days more than in 1999.

In addition to current trade and other payables to suppliers (90.8%) the current trade and other payables include liabilities to employees (5.4%) and liabilities to the state (3.8%).

### Accruals

At the end of 2000 accruals amounted to SIT 1,400 million, 100% over the end of 1999. They refer to:

- accrued costs of SIT 1,299 million of which SIT 1,098 million refer to contingent exercising of guarantees.
- current deferred revenues of SIT 102 million.

### Off-Balance-Sheet Items

Off-balance-sheet items amount to SIT 15,200 million, of which the major part are warranties undertaken for liabilities of subsidiary companies and other undertaken warranties (54.8%) and mortgages as security for loans from commercial banks (28.0%). The remaining 17.2% refer to issued vouchers, goods consigned for sale on commission, denationalisation claims, returnable packaging, non-recorded negative and positive goodwill and other items.

## Notes to the Profit and Loss Account

### Sales

in SIT 000

	2000	1999	1998
Sale of goods	88,264,912	72,409,556	62,045,573
- wholesale	39,775,588	29,825,732	24,485,199
- retail	48,489,324	42,583,824	37,560,374
Internal margin	2,995,763	2,382,183	2,227,926
Sale of services and products	5,189,380	2,522,690	2,222,580
<b>Total</b>	<b>96,450,055</b>	<b>77,314,429</b>	<b>66,496,079</b>

In 2000 sales amounted to SIT 96,450,055 thousand. Compared to the previous year they were higher by 14.6% in real terms, taking into account a 8.9% rise in the Consumer Price Index.

## Gross Profit

Gross profit amounts to SIT 22,687,039 thousand, 23.1% above 1999. In 2000 the company generated SIT 17,600,328 thousand in sales margin, which in nominal terms is 9.9% more than in 1999.

## Costs by Type

in SIT 000

	2000	1999	1998
Costs of goods sold	73,763,016	58,889,103	50,969,585
Selling expenses	14,397,260	12,101,652	12,690,000
Administrative expenses	5,053,220	4,991,512	2,712,894
<b>Total</b>	<b>93,213,496</b>	<b>75,982,267</b>	<b>66,372,479</b>
Purchase costs of goods sold	73,660,347	58,779,724	50,887,274
Costs of materials	1,345,653	1,256,780	1,333,930
Costs of services	5,195,347	3,930,981	3,230,006
Provision for bad and doubtful debts	437,847	301,536	329,583
Costs of depreciation	2,294,780	1,970,485	2,363,581
Provisions	0	1,119,508	0
Labour costs	9,952,002	8,347,284	7,792,641
Other costs	224,851	166,590	353,153
Change in the value of inventories	102,669	109,379	82,311
<b>Total</b>	<b>93,213,496</b>	<b>75,982,267</b>	<b>66,372,479</b>

Administrative and selling expenses amount to a total of SIT 19,450,480 thousand. Compared to 1999 they increased by 13.8% in nominal terms and 4.5% in real terms. In 2000 administrative and selling expenses, reduced by costs of depreciation and provisions, increased by 14.3% in nominal terms and by 5.0% in real terms compared to the year before, but their share in sales fell by 1.6 percentage points to 17.8% compared to 1999, which points to improved cost-efficiency.

In 2000 the Company did not set up provisions but utilised SIT 76,332 thousand of provisions, of which SIT 16,332 thousand for compensation for denationalisation claims and SIT 60,000 thousand for costs of penetrating new markets.

Labour costs per employee on the basis of working hours were higher by 10.0% in 2000 compared to the year before. In 2000 the basic salaries grew by 6.2% in accordance with the Minimum Pay, Manner of Adjusting Salaries and Annual Holiday Allowance Act, in which the Consumer Price Index adjustment of salaries is stipulated.

## Financial Revenues

in SIT 000

	2000	1999	1998
Share of results of subsidiary companies	3,051,415	1,710,348	773,111
Share of results of associated companies	61,486	67,703	46,088
Share of results of other companies	1,901	1,992	7,394
Interest revenues	1,007,622	523,721	759,757
Financial discounts revenues	1,022,501	689,134	690,099
Other financial revenues	121,778	204,319	177,434
Foreign exchange gain	24,049	38,701	231,418
Revaluation surplus	437,115	282,541	258,456
<b>Total</b>	<b>5,727,867</b>	<b>3,518,459</b>	<b>2,943,757</b>

In 2000 financial revenues amounted to SIT 5,727,867 thousand, 62.8% over the 1999 figure. The largest share (53.3%) was represented by revenues from investments in subsidiary companies, which grew by 78.4%. Interest revenues recorded a significant 92.4% increase and financial discounts grew by 48.4%.

In 2000 the revaluation surplus was SIT 437,115 thousand and included:

- revaluation surplus of SIT 6,627,409 thousand referring to revaluation of property, plant and equipment, financial investments, inventories,

capital adjustment, depreciation and non-current trade and other receivables,

- revenues from revaluated given non-current loans of SIT 38,487 thousand,
- foreign exchange gain of SIT 555,064 thousand,
- revaluation deficit of SIT 5,254,928 thousand referring to capital revaluation and provisions,
- revaluation deficit of SIT 343,713 thousand referring to revaluated long-term and short-term loans and non-current trade and other payables,
- exchange rate losses of SIT 1,185,204 thousand referring to revaluation of borrowings nominated in foreign currency.

**Financial Expenses**

in SIT 000

	2000	1999	1998
Write-offs of financial investments	2,104,081	251,085	443,283
- in subsidiary companies	2,024,979	237,768	442,167
- in associated companies	78,820	13,284	0
- in other companies	282	33	1,116
Interest expenses	2,349,072	1,374,572	1,017,064
Financial discounts	42,332	15,560	13,920
Foreign exchange loss	129,825	116,005	350,324
<b>Total</b>	<b>4,625,310</b>	<b>1,757,222</b>	<b>1,824,591</b>

The major part of financial expenses (50.8%) are interest expenses, which compared to 1999 grew by 70.9%, mostly as a result of greater indebtedness on account of capital expenditure and funding of investments abroad which are fully carried out through the parent company.

The highest growth was recorded by expenses from write-offs of non-current and current financial investments, especially due to higher losses incurred by some subsidiary companies as a result of restructuring of companies in the Mercator Group.

The most significant write-off referred to the substantial loss of SIT 1,393 million recorded by the company Emona Merkur, d.d. which occurred due to the adjustment of the company's book value of assets to the market value, to the implementation of Mercator's business and accounting standards and to transformation processes.

Write-offs of investments in associated companies refer to a 100% adjustment to the investment in the company Unimercat, G.m.b.H..

## Share of Results of Subsidiaries

in SIT 000

Activities and companies	Ownership stake as at 31.12. 2000	Net profits and losses 2000	Share of result result in 2000
Emona Merkur, d.d.	95.89%	-1,741,803	-1,392,562
Povrtnina, d.d.	100.00%	-342,565	-342,565
Potrošnik, d.d.	50.10%	2,820	1,413
Mercator SVS, d.d.	100.00%	998,188	998,188
Mercator Dolenjska, d.d.	100.00%	161,772	161,772
Mercator Degro, d.d.	100.00%	289,300	289,300
Mercator Gorenjska, d.d.	93.38%	427,650	399,334
Mercator Goriška, d.d.	99.05%	676,221	648,908
Mercator Modna hiša, d.o.o.	100.00%	69,362	69,362
Trgoavto, d.d.	51.01%	213,663	108,989
<b>Trade in Slovenia</b>		<b>754,608</b>	<b>942,139</b>
Intermercator, G.m.b.H.	100.00%	11,557	13,863
Mercator Pula, d.o.o.	50.00%	-195,751	-72,995
Mercator TC Sarajevo, d.o.o.	52.00%	-63,539	-33,040
<b>Trade abroad</b>		<b>-247,733</b>	<b>-92,172</b>
<b>Total trade</b>		<b>506,875</b>	<b>849,967</b>
Mercator Emba, d.d.	51.19%	62,542	32,013
Eta, d.d.	74.79%	100,980	75,523
Mesnina dežele Kranjske, d.o.o.	90.56%	106,205	96,179
Pekarna Grosuplje, d.d.	51.01%	141,612	72,236
Slosad, d.o.o.	100.00%	13,517	13,517
<b>Total food processing</b>		<b>424,856</b>	<b>289,468</b>
Mercator Agrokombinat, d.o.o.	100.00%	13,281	13,281
Mercator KG Kočevje, d.o.o.	90.94%	-94,555	-85,988
Mercator KŽK Kranj, d.o.o.	100.00%	3,848	3,848
<b>Total agriculture</b>		<b>-77,426</b>	<b>-68,859</b>
M Hotel, d.o.o.	100.00%	17,178	17,178
Mercator Sremič, d.o.o.	100.00%	-24,834	-24,834
<b>Total hotels and restaurants</b>		<b>-7,656</b>	<b>-7,656</b>
Mercator Optima, d.o.o.	100.00%	36,511	36,511
<b>Total services</b>		<b>36,511</b>	<b>36,511</b>
<b>Total</b>		<b>883,160</b>	<b>1,099,431</b>

In the table the share of result of the company Mercator Goriška, d.d. is reduced by SIT 20,898 thousand, which refers to goodwill amortisation. The company Intermercator, G.m.b.H. includes the non-recorded profit of SIT 2,306 thousand for the year 1999.

The loss of SIT -72,995 thousand, incurred by the company Mercator Pula, d.o.o., is recorded and at the same time this amount is stated in the profit and loss account as adjusted value of investment in the company Intermercator, G.m.b.H..

With the company Emona Merkur, d.d. share of result is reduced by SIT 278 million and the non-recorded negative goodwill fully amortised. Losses incurred by the companies Emona Merkur, d.d. and Povrtina, d.d. are mainly the conse-

quence of assets revaluation, adjustment of accounting policies with the policy of the Mercator Group and of increased costs due to restructuring activities.

Losses incurred by the companies Mercator Pula, d.o.o. and Mercator Tržni centar Sarajevo, d.o.o. are the consequence of start-up costs and of start of operations on foreign markets.

Among the agricultural companies Mercator KG Kočevje, d.o.o. made a loss mainly as a result of low selling prices of raw materials and meat and of the general trend in the agriculture.

The hotel company Mercator Sremič, d.o.o. ended the year 2000 with a lower loss than in 1999. The loss was a result of poor tourist market demand.

### Extraordinary Revenues

in SIT 000

	2000	1999	1998
Revenues from previous years	255,777	185,349	82,681
Recovered bad debts from previous years	141,727	172,433	247,471
Write-offs of liabilities from previous years	33,082	13,333	26,006
Gains from sale of non-current assets	143,113	196,164	156,403
Collected penalties and indemnity claims	41,646	9,747	1,667
Other extraordinary revenues	45,767	53,006	45,976
Elimination of provisions	3,332	33,810	0
<b>Total</b>	<b>664,444</b>	<b>663,842</b>	<b>560,204</b>

The major part of extraordinary revenues refers to revenues from previous years (38.5%) of which

SIT 163,933 thousand refer to subsequently collected super-rebates for 1999.

### Extraordinary Expenses

in SIT 000

	2000	1999	1998
Expenses from previous years	96,269	214,814	189,854
Fines	29,866	34,201	225,282
Loss from sale of non-current assets	21,571	32,219	32,325
Other extraordinary expenses	689,726	521,754	8,889
<b>Total</b>	<b>837,432</b>	<b>802,988</b>	<b>456,350</b>

Extraordinary expenses increased by 4.3% compared to 1999 mostly on account of growth recorded by other extraordinary expenses, which represent the largest share (84.5%) in the structure of extraordinary expenses. Other extraordinary expenses amounted to SIT 593.743 thousand include accrued costs of contingent exercising of guarantee issued in 1993 to the bank Tržaška kreditna banka, d.d. Trieste with accrued interest.

### **Net Profit and Gross Cash From Operations**

In 2000 the Company made a net profit of SIT 4,169,328 thousand, a rise of SIT 1,215,075 thousand or 41.1% over the 1999 figure. Tax on profits for 2000 amounted to SIT 100 thousand on account of investment and other tax allowances.

In 2000 gross cash from operations, exclusive of share of results of subsidiary companies, amounted to SIT 5,361,340 thousand, SIT 826,755 thousand more than in 1999.

### 3.2.3 Auditors' Report

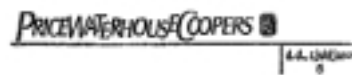
*We have audited the balance sheet of the company Poslovni sistem Mercator, d.d. as at 31 December 2000, the relevant profit and loss account and the cash flow statement for the year then ended. The financial statements are the responsibility of the Company's management, our responsibility is to express our opinion on them.*

*We conducted our audit in accordance with generally adopted principles on auditing and with International Standards on Auditing. Those principles and standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit required examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also included assessing the*

*accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.*

*In our opinion, the audited financial statements specified in the first paragraph, in all material respects, give a true and fair view of the financial position of the company Poslovni sistem Mercator, d.d. as at 31 December 2000, the results of its operation and cash flows for the year then ended, in accordance with Slovene Accounting Standards.*

*PricewaterhouseCoopers d.d., Ljubljana*



*Vida Lebar  
Chartered auditor*

Handwritten signature of Vida Lebar in black ink.

*Jure Šager  
Director*

Handwritten signature of Jure Šager in black ink.

*Ljubljana, 25. April 2001*

### 3.2.4 Proposal for Net Profit Distribution

Upon approval of the Supervisory Board, the Management Board proposes to the General Meeting of Shareholders that the net profit for the year 2000 in the amount of SIT 4,169,327,930.54 be distributed as follows:

- SIT 962,551,200.00 to shareholders as gross dividend of SIT 300.00 per share;
- SIT 3,260,776,730.54 of net profit remains undistributed.

Because of allocation of net profit for 2000 to participation in profit, the Company's base for tax on profits for 2001 will increase by SIT 2,193 million, which is equal to the value of tax allowances for investments utilised in 2000.

## 3.3 Consolidated Financial Statements of the Mercator Group

### 3.3.1 Audited Consolidated Financial Statements

#### Consolidated Balance Sheet of the Mercator Group as at 31 December 2000

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
<b>Assets</b>			
<b>Non-current assets</b>	<b>123,123,309</b>	<b>91,465,994</b>	<b>63,215,122</b>
Intangible assets	1,100,519	530,740	334,720
Property, plant and equipment	119,487,105	83,726,328	56,256,619
Non-current financial investments	2,354,627	6,962,669	6,610,190
Capital adjustment	181,058	246,257	13,593
<b>Current assets</b>	<b>53,771,601</b>	<b>46,634,446</b>	<b>31,113,459</b>
Inventories	28,952,476	23,164,634	16,483,012
Non-current trade and other receivables	134,278	0	0
Current trade and other receivables	19,439,440	16,163,889	11,099,033
Current financial investments	2,120,366	4,669,847	2,299,038
Cash and cash equivalents	2,776,608	2,090,753	1,091,510
Prepaid expenses	348,433	545,323	140,866
<b>Total assets</b>	<b>176,894,910</b>	<b>138,100,440</b>	<b>94,328,581</b>
<b>Equity and liabilities</b>			
<b>Capital</b>	<b>72,877,628</b>	<b>62,642,401</b>	<b>53,843,243</b>
- Majority interest	66,647,235	57,558,236	50,428,891
- Minority interest	6,230,393	5,084,165	3,414,352
<b>Provisions</b>	<b>6,504,315</b>	<b>6,345,062</b>	<b>1,282,730</b>
<b>Non-current borrowings</b>	<b>25,088,964</b>	<b>15,528,312</b>	<b>5,093,245</b>
<b>Non-current trade and other payables</b>	<b>78,279</b>	<b>662,534</b>	<b>31,128</b>
<b>Current borrowings</b>	<b>36,459,317</b>	<b>24,656,752</b>	<b>15,687,029</b>
<b>Current trade and other payables</b>	<b>33,556,196</b>	<b>26,586,466</b>	<b>17,096,324</b>
<b>Accruals</b>	<b>2,330,211</b>	<b>1,678,913</b>	<b>1,294,882</b>
<b>Total equity and liabilities</b>	<b>176,894,910</b>	<b>138,100,440</b>	<b>94,328,581</b>

**Consolidated Profit and Loss Account of the Mercator Group for the Year Ended 31 December 2000**

v 000 SIT

	2000	1999	1998
<b>Sales</b>	<b>240.040.002</b>	<b>175.078.276</b>	<b>128.436.900</b>
Sale of products and services	17,251,875	13,477,184	13,905,402
Sale of goods and materials	222,179,128	161,083,029	114,162,172
Sale of capitalised own products	608,999	518,063	369,326
<b>Cost of sales</b>	<b>-181,506,183</b>	<b>-132,616,274</b>	<b>-97,428,647</b>
Production costs	-14,597,471	-13,781,319	-11,972,147
Purchase value of goods and materials sold	-166,908,712	-118,834,955	-85,456,500
<b>Gross profit</b>	<b>58,533,819</b>	<b>42,462,002</b>	<b>31,008,253</b>
Administrative expenses	-9,637,018	-9,463,418	-5,462,832
Selling expenses	-46,999,584	-31,923,327	-24,735,727
Other operating revenues	229,973	142,707	77,678
<b>Operating profit</b>	<b>2,127,190</b>	<b>1,217,964</b>	<b>887,372</b>
Financial revenues	4,053,174	3,050,464	2,624,246
Financial expenses	-4,512,267	-2,632,757	-2,624,135
<b>Profit before extraordinary items</b>	<b>1,668,097</b>	<b>1,635,671</b>	<b>887,483</b>
Extraordinary revenues	4,368,564	2,726,347	1,440,936
Extraordinary expenses	-1,798,022	-1,222,341	-806,777
<b>Profit before tax</b>	<b>4,238,639</b>	<b>3,139,677</b>	<b>1,521,642</b>
Tax	-64,565	-91,889	-40,588
<b>Group profit</b>	<b>4,174,074</b>	<b>3,047,788</b>	<b>1,481,054</b>
Minority interests	-165,511	-207,386	-121,962
Net profit	4,008,563	2,840,402	1,359,092
<b>Gross cash from operations</b>	<b>12,393,128</b>	<b>11,157,544</b>	<b>6,619,298</b>

**Consolidated Cash Flow Statement of the Mercator Group for the Year Ended 31 December 2000**

in SIT 000

	2000	1999	1998
Revalued opening balance of cash as at 1 January	2,276,830	1,174,465	739,014
Revenues	248,691,713	180,997,794	132,579,760
Expenses exclusive of depreciation and provisions	-235,912,268	-170,013,697	-126,352,031
Tax on profits	-64,565	-91,889	-40,588
<b>Non-adjusted net inflows (outflows) from operating activities</b>	<b>14,991,710</b>	<b>12,066,673</b>	<b>6,926,155</b>
Increase in trade and other payables and accruals	4,462,186	9,105,481	0
Decrease in trade and other payables and accruals	0	0	-810,065
Increase in trade and other receivables and prepaid expenses	-1,725,819	-4,615,080	-1,208,521
Increase in inventories	-3,726,186	-5,428,913	-1,148,894
Decrease in trade and other receivables and prepaid expenses	0	0	0
<b>Adjusted net inflows (outflows) from operating activities</b>	<b>14,001,891</b>	<b>11,128,161</b>	<b>3,758,675</b>
Increase in intangible assets	-970,902	-536,944	-25,116
Increase in property, plant and equipment	-36,807,039	-28,519,268	-9,133,563
Increase in non-current financial investments	0	0	-3,672,052
Decrease in non-current financial investments	5,227,720	149,895	0
Decrease in current financial investments	2,965,097	0	363,061
Increase in current financial investments	0	-2,196,082	0
<b>Net inflows (outflows) from operating and investment activities</b>	<b>-15,583,233</b>	<b>-19,974,238</b>	<b>-8,708,995</b>
Increase in capital	573,095	1,427,652	678,301
Increase in provisions	0	2,811,851	120,133
Decrease in provisions	0	0	0
Increase in non-current borrowings	8,178,632	10,047,980	1,422,486
Increase in current borrowings	9,608,114	7,777,508	7,579,586
Decrease in dividends payable	0	0	0
<b>Closing balance of cash as at 31 December</b>	<b>2,776,608</b>	<b>2,090,753</b>	<b>1,091,510</b>

### 3.3.2 Notes to the Audited Consolidated Financial Statements

The consolidated financial statements of the Mercator Group include the financial statements of Poslovni sistem Mercator, d.d., the parent company, and the financial statements of all subsidiary companies, in which the parent company directly or indirectly, holds a majority shareholding.

Due to activities related to mergers and acquisitions and on account of consolidation within the Group, the structure of the Mercator Group has changed in 2000. On 1 January 2000 the Group was joined by the companies Emona Merkur d.d., Dolenjka, d.d., Posavje, d.d., TP Rožca, d.d., Povrtnina, d.d., Mercator Tržni centar Sarajevo, d.o.o. and on 1 July 2000 by Potrošnik, d.d.

In addition, the following changes occurred in the Group in 2000: the company Mercator Dolenjska, d.d. merged the companies Dolenjka, d.d. (1 June 2000) and Posavje, d.d. (1 July 2000), the company Mercator Goriška, d.d. merged the companies Hubelj, d.d. and Grosist, d.d. (1 January 2000), the company Mercator Gorenjska, d.d. merged the companies Špecerija, d.d. (1 January 2000) and TP Rožca, d.d. (1 December 2000), the company Mercator SVS, d.d. merged the companies Mercator Klas, d.d. (1 January 2000), Jelša, d.d. and Planika, d.d. (1 November 2000) and the company Mercator Degro, d.d. merged the company Jestvina, d.d. (1 September 2000).

#### Notes to the Consolidated Balance Sheet

##### Intangible Assets

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Goodwill	483,959	0	0
Organisational costs	71,729	73,313	83,583
Material rights	274,716	233,230	33,945
Other items	270,115	224,197	217,192
<b>Total</b>	<b>1,100,519</b>	<b>530,740</b>	<b>334,720</b>

Goodwill in the amount of SIT 374 million refers to the company Emona Merkur, d.d., in the amount of SIT 22 million to Povrtnina, d.d., in the amount of SIT 71 million to Mercator Pula, d.o.o.

and in the amount of SIT 17 million to Mercator Goriška, d.d. The Mercator Group eliminates the goodwill according to the straight line method of amortisation by applying a 20% amortisation rate.

**Property, Plant and Equipment**

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Land	18,125,624	13,742,302	8,156,089
Buildings	81,568,964	53,066,841	34,570,352
Store equipment	10,577,753	7,724,964	5,827,535
Office and other equipment	3,653,105	3,853,654	2,260,750
Livestock	262,128	256,608	265,137
Plantations	0	16,160	16,043
Other assets	206,818	176,559	124,270
Construction in progress	3,578,856	3,201,976	3,796,124
Advances for property, plant and equipment	1,513,857	1,687,264	1,240,319
<b>Total</b>	<b>119,487,105</b>	<b>83,726,328</b>	<b>56,256,619</b>

**Non-current Financial Investments**

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Investments in associated companies	504,090	5,108,866	851,561
Investments in other companies	1,151,376	1,423,881	5,294,224
Loans to associated companies	305	11,152	8,863
Loans to other companies	698,856	418,770	455,542
<b>Total</b>	<b>2,354,627</b>	<b>6,962,669</b>	<b>6,610,190</b>

Non-current financial investments in associated companies have decreased considerably as the Group obtained a majority shareholding in most of the companies, which became its subsidiaries in 2000.

**Inventories**

As at 31 December 2000 inventories of raw materials, materials and merchandise amounted to SIT 28,952 million, making up 53.8% of current assets. Compared to the beginning of 2000 level, inventories increased by 25.0%, mainly as a result of increased volume of sales and inclusion of new subsidiary companies in the Mercator Group.

**Current Trade and Other Receivables**

As at 31 December 2000 the current trade and other receivables amounted to SIT 19,439 million,

a 20.3% increase over the level at the beginning of the year. Their share in current assets grew by 1.5 percentage points. The key reasons for growth in current trade and other receivables were the increase in sales and inclusion of new subsidiary companies in the Group.

**Current Financial Investments**

Current financial investments decreased by 54.6% compared to the beginning of 2000, mostly as a result of decrease in given current loans.

**Capital Adjustment**

As at 31 December 2000 the subsidiary companies of the Mercator Group: Mercator Gorenjska, d.d. and Mercator Emba, d.d. held treasury shares totalling SIT 181 million due to activities related to mergers and acquisitions.

**Capital**

in SIT 000

	31.12. 2000	31.12. 1999	31.12. 1998
Share capital	34,755,047	34,174,799	33,871,865
Share premium	546,022	584,422	139,213
Reserves	4,930,837	1,956,284	5,307,826
Retained earnings from previous years	50,276	6,667	-16,005,885
Capital revaluation adjustment	28,421,372	22,872,441	29,049,170
Undistributed profit/loss for the year	4,174,074	3,047,788	1,481,054
<b>Total capital</b>	<b>72,877,628</b>	<b>62,642,401</b>	<b>53,843,243</b>
<b>- majority interest</b>	<b>66,647,235</b>	<b>57,558,236</b>	<b>50,428,891</b>
<b>- minority interests</b>	<b>6,230,393</b>	<b>5,084,165</b>	<b>3,414,352</b>

Minority interests increased by revaluation adjustment, by the appropriate share of consolidated net profit and by the minority capital of new subsidiary companies.

**Provisions**

In 2000 provisions increased by SIT 159 million.

Provisions increased by SIT 1,554 million on account of:

- increased negative goodwill, which occurred upon inclusion of new companies in the Group in the amount of SIT 1,338 million,
- increased provisions for indemnities and guarantees in the amount of SIT 131 million,
- setting up of provisions for major repairs in the amount of SIT 65 million and for other purposes in the amount of SIT 20 million.

Provisions decreased by SIT 1,916 million on account of:

- utilisation of provisions for major repairs in the amount of SIT 915 million,
- utilisation of provisions for costs of penetrating new markets in the amount of SIT 60 million,
- amortisation of negative goodwill in the amount of SIT 854 million,
- utilisation of other provisions in the amount of SIT 87 million.

Revaluation of provisions was SIT 536 million.

**Non-current Financial Liabilities**

As at 31 December 2000 the non-current financial liabilities amounted to SIT 25,089 million, a 61.6% increase over 31 December 1999. Tolar long-term loans make up 29.2% and foreign currency loans 70.8% of total loans.

Increased financial liabilities are due to raising long-term loans from commercial banks for financing investments in fixed assets, in accordance with the strategic goals and the strategic plan of investments.

**Non-current Trade and Other Payables**

In 2000 non-current trade and other payables amounted to SIT 78 million and mainly refer to raised non-current commercial loans.

**Current Borrowings**

Current borrowings grew by 47.9% compared to 1999. The major share of current borrowings refers to short-term loans from commercial banks, of which 76.1% represent tolar loans and 23.9% foreign currency loans.

### Current Trade and Other Payables

Current trade and other payables amount to SIT 33,556 million, an increase by 26.2% compared to 1999. The main reasons for the increase were: increased purchase of merchandise and inclusion of new subsidiary companies in the Mercator Group.

In addition to current liabilities to suppliers of merchandise and other suppliers (88.7%) the current trade and other payables include liabilities to

employees (7.9%) and liabilities to the state (3.4%).

### Off-Balance-Sheet Items

Off-balance-sheet items amount to SIT 23,472 million, of which SIT 11,095 million refer to mortgages as security for loans from commercial banks, and the rest to goods consigned for sale on commission, vouchers and other items.

## Notes to the Consolidated Profit and Loss Account

### Sales

Sales in the Mercator Group increased by 37.1% compared to 1999 and amount to SIT 240,040 million. Of this amount 92.6% refers to sale of goods and the remaining 7.4% to sale of products and services and to capitalised own products.

### Gross profit

Gross profit amounts to SIT 58,534 million, 37.8% over the previous year. The major part of gross profit refers to a sales margin of SIT 55,879 million, the remaining SIT 2,655 million refer to the surplus generated from sales of products and services.

### Costs by Type

in SIT 000

	2000	1999	1998
Costs of goods sold	181,506,183	132,616,274	97,428,647
Cost of sales	46,999,584	31,923,327	24,735,724
Administrative costs	9,637,018	9,463,418	5,462,832
<b>Total</b>	<b>238,142,785</b>	<b>174,003,019</b>	<b>127,627,206</b>
Purchase costs of goods sold	166,908,712	118,834,955	85,376,826
Costs of materials	13,932,711	11,446,946	9,802,297
Costs of services	12,852,864	10,314,718	7,928,031
Provision for bad and doubtful debts	921,211	661,308	647,818
Costs of depreciation	8,946,264	6,442,888	4,706,087
Provisions	334,808	2,217,289	432,157
Labour costs	34,274,703	23,939,533	18,412,284
Other costs	939,603	496,546	602,984
Change in the value of inventories	-968,091	-351,164	-281,278
<b>Total</b>	<b>238,142,785</b>	<b>174,003,019</b>	<b>127,627,206</b>

Administrative and selling expenses amount to a total of SIT 56,637 million. Compared to the previous year they increased by 36.8% in nominal terms. In 2000 administrative and selling expenses, reduced by costs of depreciation and provisions, increased by 44.7% in nominal terms, compared to 1999, which was mainly a result of inclusion of new subsidiary companies in the Mercator Group.

Labour costs per employee on the basis of working hours were higher by 0.4% in 2000. In 2000 the basic salaries increased by 6.2% in accordance with the Minimum Pay, Manner of Adjusting Salaries and Annual Holiday Allowance Act, in which the Consumer Price Index adjustment of salaries is stipulated.

### Financial Revenues

in SIT 000

	2000	1999	1998
Share of results	106,024	293,953	84,184
Interest revenues	922,752	671,464	844,722
Financial discounts revenues	1,941,895	1,265,693	1,169,158
Other financial revenues	380,222	360,563	191,025
Foreign exchange gain	96,545	77,042	248,279
Revaluation surplus	605,736	381,749	86,878
<b>Total</b>	<b>4,053,174</b>	<b>3,050,464</b>	<b>2,624,246</b>

### Financial Expenses

in SIT 000

	2000	1999	1998
Write-offs of investments	183,177	238,554	413,729
Interest expenses	3,965,878	2,090,522	1,690,781
Financial discounts	13,584	67,912	115,150
Foreign exchange loss	349,628	235,769	404,475
Revaluation deficit	0	0	0
<b>Total</b>	<b>4,512,267</b>	<b>2,632,757</b>	<b>2,624,135</b>

**Extraordinary Revenues**

in SIT 000

	2000	1999	1998
Revenues from previous years	500,139	508,932	172,240
Recovered bad debts from previous years	274,653	361,799	341,287
Write-offs of liabilities from previous years	242,372	69,611	57,695
Gains from sale of non-current assets	932,091	661,260	404,008
Collected penalties and indemnity claims	130,653	57,371	32,812
Elimination of negative goodwill	853,902	445,375	222,735
Elimination of provisions	916,132	390,030	0
Other extraordinary revenues	518,622	231,969	210,159
<b>Total</b>	<b>4,368,564</b>	<b>2,726,347</b>	<b>1,440,936</b>

Negative goodwill related to the newly acquired companies arises mainly from expected future losses of companies, which could not survive on the Slovene market as independent entities due to unfavourable purchase and other conditions. The

Mercator Group eliminates the goodwill in the consolidated financial statements according to the straight line method of amortisation by applying a 20% amortisation rate.

**Extraordinary Expenses**

in SIT 000

	2000	1999	1998
Expenses from previous years	327,221	333,209	158,097
Fines	27,926	17,734	14,243
Loss from sale of non-current assets	429,304	216,534	361,123
Other extraordinary expenses	1,013,571	654,864	273,314
<b>Total</b>	<b>1,798,022</b>	<b>1,222,341</b>	<b>806,777</b>

The major part of other extraordinary expenses (SIT 594 million) refers to setting up of current deferred liabilities due to exercising of guarantee issued in 1993 to the bank Tržaška kreditna banka, d.d. Trieste with accrued interest.

**Tax**

In 2000 the Mercator Group accounted for SIT 65 million of tax on profits, representing a 1.5% effective

tax rate. The effective tax rate is low due to investment and other tax allowances with most of the companies of the Mercator Group.

**Consolidated Net Profit**

Net profit of the Mercator Group for 2000 amounts to SIT 4,174 million, of which SIT 4,009 million belongs to Poslovni sistem Mercator, d.d., the majority owner.

### 3.3.3 Auditors' Report

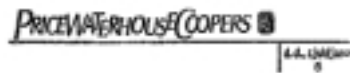
*We have audited the balance sheet of the group of companies Poslovni sistem Mercator, d.d. as at 31 December 2000, the relevant profit and loss account and the cash flow statement for the year then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express our opinion on them.*

*We conducted our audit in accordance with generally adopted principles on auditing and with International Standards on Auditing. Those principles and standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit required examining, on a test basis, evidence supporting the amounts and disclosures in the*

*financial statements. It also included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.*

*In our opinion, the audited financial statements specified in the first paragraph, in all material respects, give a true and fair view of the financial position of the group of companies Poslovni sistem Mercator, d.d. as at 31 December 2000, the results of its operation and cash flows for the year then ended, in accordance with Slovene Accounting Standards.*

*PricewaterhouseCoopers d.d. Ljubljana*



*Vida Lebar  
Chartered auditor*

*Jure Šager  
Director*

*Ljubljana, 25. April 2001*

## 3.4 Consolidated Financial Statements of the Mercator Group in Accordance with International Accounting Standards

### 3.4.1 Audited Consolidated Financial Statements in Accordance with International Accounting Standards

#### Consolidated Balance Sheet of the Mercator Group for the Year Ended 31 December 2000

in SIT m

	31.12. 2000	31.12. 1999	31.12. 1998 (revised)
<b>Assets</b>			
<b>Non-current assets</b>	<b>103,114</b>	<b>74,239</b>	<b>53,258</b>
Property, plant and equipment	95,555	66,119	42,199
Intangible assets	282	255	56
Goodwill and negative goodwill	-1,653	-2,591	0
Investments in associated undertakings	1,135	4,170	2,128
Other investments	1,337	1,605	4,678
Non-current receivables	908	432	466
Deferred tax assets	5,550	4,249	3,731
<b>Current assets</b>	<b>53,796</b>	<b>46,787</b>	<b>30,904</b>
Inventories	28,978	23,180	16,273
Trade and other receivables	19,473	17,379	11,073
Loans receivables	1,996	3,592	2,325
Cash and cash equivalents	2,775	2,091	1,092
Prepaid expenses	574	545	141
<b>Total assets</b>	<b>156,910</b>	<b>121,026</b>	<b>84,162</b>
<b>Equity and liabilities</b>			
<b>Capital</b>	<b>58,728</b>	<b>51,949</b>	<b>44,512</b>
Share capital	32,085	32,085	32,085
Share premium	600	578	139
Treasury shares	0	0	-13
Retained earnings	20,342	15,113	9,315
<b>Minority interest</b>	<b>5,701</b>	<b>4,173</b>	<b>2,986</b>
<b>Non-current liabilities</b>	<b>25,499</b>	<b>16,400</b>	<b>5,322</b>
Borrowings	25,213	16,190	5,124
Provisions for employee benefits	286	210	198
<b>Current liabilities</b>	<b>72,683</b>	<b>52,677</b>	<b>34,328</b>
Trade and other payables	33,550	26,591	17,063
Accruals	1,930	1,733	1,294
Borrowings	36,431	23,577	15,723
Provisions for liabilities and charges	772	776	248
<b>Total equity and liabilities</b>	<b>156,910</b>	<b>121,026</b>	<b>84,162</b>

**Consolidated Profit and Loss Account of the Mercator Group as at 31 December 2000**

in SIT m

	31.12. 2000	31.12. 1999	31.12. 1998 (revised)
Sales	240,040	175,079	128,437
Cost of sales	-180,772	-132,622	-97,218
<b>Gross profit</b>	<b>59,268</b>	<b>42,457</b>	<b>31,219</b>
Other operating revenues	2,416	1,876	718
Selling and distribution costs	-44,427	-31,647	-22,980
Administrative expenses	-9,696	-6,217	-5,986
<b>Operating profit</b>	<b>7,561</b>	<b>6,469</b>	<b>2,971</b>
Net finance costs	-3,363	-911	-470
Share of result of associated undertakings	245	194	208
<b>Profit before tax</b>	<b>4,443</b>	<b>5,752</b>	<b>2,709</b>
Tax	1,267	433	497
<b>Group profit</b>	<b>5,710</b>	<b>6,185</b>	<b>3,206</b>
Minority interest	-481	-388	-242
<b>Net profit</b>	<b>5,229</b>	<b>5,797</b>	<b>2,964</b>

### Consolidated Cash Flow Statement of the Mercator Group for the Year Ended 31 December 2000

in SIT m

	31.12. 2000	31.12. 1999	31.12. 1998 (revised)
<b>Operating activities</b>			
Cash generated from operations	14,500	11,312	3,133
Interest received	1,356	1,130	2,051
Interest paid	-6,626	-3,449	-2,285
Tax paid	-65	-212	-40
Net cash from operating activities	9,165	8,781	2,859
<b>Investing activities</b>			
Acquisition of subsidiaries, net cash outflow	-5,116	-11,535	0
Purchase of property, plant and equipment	-27,070	-14,975	-9,016
Purchase of intangible assets	-127	-85	0
Movement of non-current investments	-548	1,431	-3,673
Purchase of associated undertakings	0	-1,767	0
Loans made	-2,184	-1,911	0
Disposals of subsidiary, net of cash disposed	0	394	0
Disposals of property, plant and equipment	4,273	2,564	43
Disposals of current investments	628	3,072	0
Disposals of intangible assets	8	16	0
Dividends received	61	47	84
Loan repayments received	3,782	644	0
Net cash used in investing activities	-26,293	-22,105	-12,562
<b>Financing activities</b>			
Purchase / disposal of treasury shares	-2,330	-2,319	368
Dividends paid	0	0	-62
Proceeds from borrowings	38,339	46,657	9,801
Payments on borrowings	-18,197	-30,015	0
Net cash flow from financing activities	17,812	14,323	10,107
<b>Increase in cash and cash equivalent</b>	<b>684</b>	<b>999</b>	<b>404</b>
<b>Movement in cash and cash equivalent</b>			
At beginning of year	2,091	1,092	688
Decrease/increase	684	999	404
At the end of year	2,775	2,091	1,092

### 3.4.2 Auditors' Report

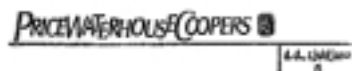
*We have audited the accompanying consolidated balance sheet of Mercator, d.d. and its subsidiaries (the Group) at 31 December 2000 and the related consolidated income statement and cash flow statements for the year then ended. These financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.*

*An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.*

*In our opinion the consolidated financial statements present fairly in all material respects the financial position of the Mercator Group at 31 December 2000 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.*

PricewaterhouseCoopers d.d. Ljubljana



Vida Lebar  
Chartered auditor

A handwritten signature in black ink, appearing to read 'Vida Lebar'.

Jure Šager  
Director

A handwritten signature in black ink, appearing to read 'Jure Šager'.

Ljubljana, 25. April 2001

### 3.4.3 Comments to the Audited Consolidated Financial Statements in Accordance with International Accounting Standards

The differences between certain categories in financial statements of the Mercator Group, prepared according to Slovene Accounting Standards and International Accounting Standards mainly exist due to the following differences in accounting principles:

- Mandatory revaluation of equity and certain non-current assets and liabilities with consumer price index under Slovene Accounting Standards;
- Investments in associated companies are accounted for by the equity method under International Accounting Standards and by the cost method under Slovene Accounting Standards;
- Taxes under International Accounting Standards were calculated using the liability method according to IAS 12, whereby under Slovene Accounting Standards the current tax method was used;
- Provisions for employee benefits are made for the estimated liability arising from statutory pension contributions under International Accounting Standards, while they are not formed under Slovene Accounting Standards;
- Other differences in accounting principles.

In the year 2000 adverse macroeconomic factors and costs of restructuring and integration of newly acquired companies into the Group resulted in lower profit before tax of the Mercator Group in comparison to the previous year. In 2000 domestic inflation rate was 8,9%, which resulted in higher nominal cost of domestic loans shown under interest expenses pursuant to International Accounting Standards. In addition EURIBOR was higher during the year 2000 in comparison to the previous years, which together with a higher level of indebtedness led to higher net finance costs.

As regards restructuring activities the Group acquired 6 new companies in the year 2000 and in addition 10 existing companies were merged to regional trade companies with the aim to increase business efficiency. Costs related to these restructuring processes are shown under administrative and selling expenses. However, the Group increased cash generated from operations in comparison to 1999 by 28,1% and net cash from operating activities by 4,4%, which demonstrates its high financial strength.

E-mail: [info@mercator.si](mailto:info@mercator.si) web site: [www.mercator.si](http://www.mercator.si)

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Potrošnik, d.d. Celje Kocenova 2a, 3000 Celje Director: Darko Zupanc tel.: (03) 548-44-10	Mercator Tržni center Sarajevo, d.o.o. Ložionička 16 71000 Sarajevo, BIH Director: Mensud Lagumdžija tel.: 00 387 33 654-829	Eta, d.d. Kajuhova pot 4, 1240 Kamnik Director: Alojz Franc tel.: (01) 83-08-404	Mercator KŽK Kmetijstvo Kranj, d.o.o. Begunjska 5, 4000 Kranj Director: Janez Tavčar tel.: (04) 20-15-501
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Mercator SVS, d.d. Rogozniška 8, 2250 Ptuj President of the Management Board: Stanislav Brodnjak tel.: (02) 78-07-250	Mercator Modna hiša, d.o.o. Partizanska 3-5, 2000 Maribor Director: Jožef Šilec tel.: (02) 23-45-442	Mercator Emba, d.d. Slovenčeva 21, 1000 Ljubljana Director: Mladen Mladenič tel.: (01) 53-46-261	
Mercator Dolenjska, d.d. Livada 8, 8000 Novo mesto President of the Management Board: Stanislav Hribar tel.: (07) 37-30-717	Intermercator, G.m.b.H. Bahnhofstr. 38. b/V. A - 9021 Klagenfurt/Celovec Director: Stanislav Kavkler tel.: 00 43 463 516-262	Slosad, d.o.o. Bohova 8 2311 Hoče pri Mariboru Director: Jurij Pavlič tel.: (02) 61-81-466	
Mercator Degro, d.d. Obala 144, 6320 Portorož President of the Management Board: Boris Požar tel.: (05) 67-16-601			
Mercator Gorenjska, d.d. Kidričeva 54, 4220 Škofja Loka President of the Management Board: Ludvik Leben tel.: (04) 51-10-102			
Mercator Goriška, d.d. Gregorčičeva 19 5000 Nova Gorica President of the Management Board: Silvan Makuc tel.: (05) 33-43-000			
			<b>Services</b>
			Mercator Optima, d.o.o. Dunajska 105, 1000 Ljubljana Director: Primož Goslar tel.: (01) 56-01-900



