

Annual
REPORT
2015

TABLE OF CONTENTS

- INTRODUCTION 1**
 - REPORT BY THE PRESIDENT OF THE MANAGEMENT BOARD 3
 - SUPERVISORY BOARD REPORT 5
 - 2015 HIGHLIGHTS BY MARKETS 7
 - PERFORMANCE HIGHLIGHTS FOR THE PERIOD 2013–2015 8
 - MERCATOR GROUP PROFILE AND ORGANIZATION 9
 - MERCATOR GROUP ACTIVITIES 12
 - KEY EVENTS 14
 - CORPORATE GOVERNANCE STATEMENT 17
 - MERCATOR GROUP BUSINESS STRATEGY 25

- BUSINESS REPORT 29**
 - SALES AND MARKETING 31
 - REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT 40
 - EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN 2015 44
 - PERFORMANCE ANALYSIS IN 2015 48
 - OPERATIONS AND PERFORMANCE PLANS FOR 2016 54
 - RISK MANAGEMENT 55
 - FINANCIAL MANAGEMENT 69
 - MERCATOR SHARE AND INVESTOR RELATIONS 71

- SUSTAINABILITY REPORT 75**
 - RESPONSIBILITY TO CUSTOMERS 79
 - RESPONSIBILITY TO EMPLOYEES 81
 - RESPONSIBILITY TO NATURAL ENVIRONMENT 89
 - RESPONSIBILITY TO SOCIAL ENVIRONMENT 97
 - RESPONSIBILITY TO SUPPLIERS 101
 - RESPONSIBILITY TO QUALITY 103

FINANCIAL REPORT	107
Management Responsibility Statement	109
FINANCIAL REPORT OF THE MERCATOR GROUP	111
Consolidated balance sheet	113
Consolidated income statement.....	114
Consolidated statement of comprehensive income.....	115
Consolidated statement of changes in equity	116
Consolidated cash flow statement	118
Notes to consolidated financial statements	119
Independent auditor's report	181
FINANCIAL REPORT OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.....	183
Balance sheet.....	185
Income statement.....	186
Statement of comprehensive income	187
Statement of changes in equity	188
Proposal on the allocation of distributable profit	190
Cash flow statement	191
CONTACTS AT MERCATOR GROUP	193



INTRODUCTION

For a good start, we have to be able to look back and appreciate everything we have already accomplished; this will build solid foundations for the future.

My
**START
TO THE
WEEK**

REPORT BY THE PRESIDENT OF THE MANAGEMENT BOARD

2015 – a year of notable performance improvement

After several years of intensive business restructuring, Mercator Group returned to the path of positive performance in 2015. Consistent pursuit of the strategy adopted in 2011, based on the pillars of optimization, growth, focus, and profitability, has brought positive results. Following our strategic guidelines, we continued in 2015 the activities to step up the focus on our core activity, i.e. fast-moving consumer goods retail; we notably cut our costs as a part of our cost rationalization efforts; and divested some non-strategic activities. Thus, a large share of our funds was invested into maintaining the market position and improved competitiveness. With the new owner, consolidation of retail activities in the region has boosted our activities to improve Mercator's competitiveness in our profitable markets, i.e. Slovenia, Serbia, and Montenegro.

Mercator Group wrapped up the year 2015 with a **positive result from operating activities** in the amount of **EUR 61.5 million**, which is a more than 15-fold improvement relative to the year before. In 2015, Mercator Group **revenue reached EUR 2.6 billion**, while the **net profit** for the year amounted to **EUR 20.2 million**.

The indicators are not entirely comparable to the equivalent period of the year before due to the changes in their structure following the consolidation of retail operations in respective markets. In Serbia, this included the transfer of Idea, d.d., retail units to the company Mercator - S, d.o.o.; in Croatia and Bosnia and Herzegovina this involved transfer of Mercator retail units to Konzum. It is, however, indisputable that Mercator Group returned to the path of profitability in 2015 as it built on the foundations of successfully completed financial liability restructuring processes, ownership consolidation, and business restructuring.

We worked intensively and consistently on all key areas. In order to boost its wholesale activities, Mercator acquired the wholesale operations of the company Era Good, d.o.o., which led to expanded scope and diversity of fast-moving consumer goods wholesale offer and to improved business efficiency. The process of divesting our non-core operations included selling the Pekarna Grosuplje to the company Don don, d.o.o. On the one hand, this allows further growth and development for the bakery; on the other hand, we entered a strategic partnership in the bakery category which will have a positive impact on all key stakeholders. Mercator, d.d., also found a strategic partner who will allow further development of ground coffee products, as it negotiated the divestment of its ground coffee brands Santana and Loka, previously held by the company Mercator - Emba, d.d., to the company Ivero Trade, d.o.o., an associated company of Franck, d.d. We have also completed the process of divesting the tourist service operations of M Holidays to a new strategic owner, the company Kompas, d.d.

At the same time, we stepped up investments into refurbishment of our retail network in 2015 which was intensively revised and updated. This included investment of EUR 77.4 million, with opening of 65 new stores and two distribution centres in the entire market of Mercator Group operations. Considerable efforts and funds had to be invested into restoration efforts following a devastating fire at the refrigeration warehouse in Zalog, Ljubljana, which was a major event in 2015. We intensively refurbished our stores, both the smaller neighbour stores and our larger format units. Of the total investment amount, 54% was used for investments in Slovenia, which is a 2.4-fold increase over the same period of the year before. Investments in the markets of Serbia and Montenegro accounted for 43% of the total.

Dynamics of marketing activities for the consumers were intensive as well. In our modern and cosy stores in all markets of our operations, we wish to offer our customers more than merely sale of products. Rational consumer behaviour, which has become typical following the changes in consumer behaviour in recent years, does not necessarily pertain only to the price, but involves looking for the best value for money.

We wish to make sure that our basket of products represents the best value to our customer, both in terms of pricing and quality. Therefore, we are constantly adapting our marketing mix and we hold regular campaigns that include favourable shopping, as well as discounts or savings. Quality offer of fresh produce, competitive pricing, the most widespread store network, and the broadest offer of Slovenian products are a standard that Mercator customers have come to expect. In addition to the pleasant shopping environment and customer-tailored retail service, customers were also offered new features not found elsewhere. We continued to develop our multi-level offer of quality and well-priced products. After the refurbishments, our store formats are even closer to the modern consumers in terms of equipment, offer, services, and working hours. We have revised our web store and expanded its offer to all major cities in Slovenia. In addition we are also developing new interactive services that are close to the modern consumer.

As partners, we have consolidated our cooperation with both renowned international and strong local and regional suppliers whose products match the criteria in the competitive market of the region, and meet the needs of our customers. Consumers are of key importance. Therefore, Mercator will always carry the products wanted and bought by them. We wish to provide our customers the best possible shopping experience and convenience with a high offer of fast-moving consumer goods and broad choice of innovative and attractive products.

Mercator Group remained loyal to its tradition of the best neighbour in 2015 and responded to the needs of its local environments. Our sponsorships supported many activities in culture, education, and sports, while the majority of our donations went to humanitarian activities. In the current circumstances, we have remained a source of solid support and a caring neighbour.

Our market is among the most competitive markets in Europe. Our competition are some of the Europe's and world's best retailers. We have proven that with expert personnel and hard work, we can transform into one of the most competitive and successful retailers in the region. Encouraged by the positive trend in our performance, Mercator Group will focus even more intensively on its core activity – retail of fast-moving consumer goods. In addition to improvement of business performance indicators, it is also our goal that the customers continue to deem Mercator as "my store" – the store that provides the highest quality of offer in fresh programs, the best service, competitive pricing, the most extensive network of stores, and the broadest offer of local products. I thank all who are taking part in creating a new Mercator, and all who encourage and support us.



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

Ljubljana, February 22, 2016

SUPERVISORY BOARD REPORT

Pursuant to the legislation and company Articles of Association, operations of the company Poslovni sistem Mercator, d.d., as the controlling company of the Mercator Group were supervised in 2015 by a Supervisory Board which met at three regular and three correspondence sessions in the course of the year.

Composition of the Supervisory Board was as follows: Ante Todorić (Supervisory Board chairman), Matej Lahovnik (deputy chairman), Damir Kuštrak, Ivan Crnjac, Darko Knez, and Ivica Mudrinić as shareholder representatives; and Ivan Valand, succeeded as of May 20, 2015, by Matjaž Grošelj, Vesna Stojanović, and Veljko Tatić as worker representatives.

Major Supervisory Board resolutions

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

- the Supervisory Board discussed and adopted the Annual Report for the company Mercator, d.d., and the Mercator Group for the year 2014, and confirmed the wording of the Supervisory Board Report on the 2014 Annual Report audit;
- the Supervisory Board adopted the proposal for appointment of the 2015 company auditor;
- the Supervisory Board approved the agenda for the 22nd Shareholders Assembly of the company Mercator d.d.;
- approved the divestment of Pekarna Grosuplje to the company Don don, d.o.o., and the divestment of M Holidays to the company Kompas, d.d.;
- the Supervisory Board was presented the results of the company Mercator, d.d., and the Mercator Group for the periods 1-3, 2015, 1-6, 2015, and 1-9, 2015;
- the Supervisory Board adopted the updated wording of the Corporate Governance Policy for the company Mercator, d.d., and the Mercator Group;
- the Supervisory Board was presented the role of internal audit at the Mercator Group;
- the Supervisory Board launched the procedure of assessing the performance of the Supervisory Board and the Audit Committee;
- the Supervisory Board was presented the investment study and a rough projected value of the investment into a Mercator logistics and distribution centre, complete with head offices for the company Mercator, d.d., at the location freight station Ljubljana Moste (BTC Letališka), and approved the application for the public tender for the acquisition of property at the said location.

Activities of the Audit Committee

The Audit Committee consisting of Ivan Crnjac, chairman (Mercator, d.d., Supervisory Board member); Damir Kuštrak, member (Mercator, d.d., Supervisory Board member); and Sergeja Slapničar, member (independent expert on accounting and auditing); held five sessions in 2015.

At their sessions, the Audit Committee addressed the following major issues:

- the Audit Committee approved the 2015 annual plan for the internal audit department;
- the Audit Committee discussed and commented the Annual Report of the company Mercator, d.d., and the Mercator Group for the year 2014;
- the Audit Committee discussed the report by the independent certified auditor on the progress and findings of the second stage of the audit conducted at the company Poslovni sistem Mercator, d.d., and the Mercator Group in 2014;
- the Audit Committee discussed and confirmed the offer for auditing services for the company Mercator, d.d., and the Mercator Group for the year 2015 and proposed to the Supervisory Board that the auditing company Deloitte revizija, d.o.o., be selected as the company auditor;
- the Audit Committee examined and proposed suggestions for improvement of the Business Reports of the company Mercator, d.d., and the Mercator Group for the periods 1-3, 2015; 1-6, 2015; and 1-9, 2015.
- the Audit Committee supervised the work of Internal Audit in the period 1-12, 2015, and submitted proposals for improvements.

Semiannual and Annual Report for 2015

The Supervisory Board was presented the non-audited Semiannual Business Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for the period 1-6, 2015, at their session held on August 31, 2015. The company announced its non-audited semiannual report pursuant to the relevant legislation and the Rules and Regulations of the Ljubljana Stock Exchange.

At its regular session held on March 31, 2016, the Supervisory Board discussed the audited non-consolidated and consolidated Annual Report for the year 2015, as audited by the auditing company Deloitte revizija, d.o.o., Ljubljana. The Annual Report had previously been discussed on the same day by the Audit Committee of Mercator, d.d. Also present at this Audit Committee session was the certified auditor who provided any additional explanations required. On March 11, 2016, the auditing company issued unqualified opinions on the non-consolidated and consolidated Annual Report. Supervisory Board did not have any objections to the certified auditor's report and concurred with it.

The Supervisory Board verified the Report on Relations with Affiliated Companies and the Statement prepared in this respect by the management of the company Mercator, d.d. The Supervisory Board had no objections to the statement regarding relations with affiliated companies. The Supervisory Board was also presented the Independent Auditor's Report on the said statement, by which the auditor confirms and concludes that the information in the Report on Relations with Affiliated Companies is true and accurate in all material respects.

The Supervisory Board had no objections to the submitted Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for 2015, and confirmed it unanimously at the session held on March 31, 2016.

In 2015, Mercator Group net profit amounted to EUR 20,154,185.

In 2015, the company Poslovni sistem Mercator, d.d., ran a net loss of EUR 3,799,694. Retained earnings were positive at the end of 2015, at EUR 619,318. The company did not offset the distributable loss in the amount of EUR 3,180,376.

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

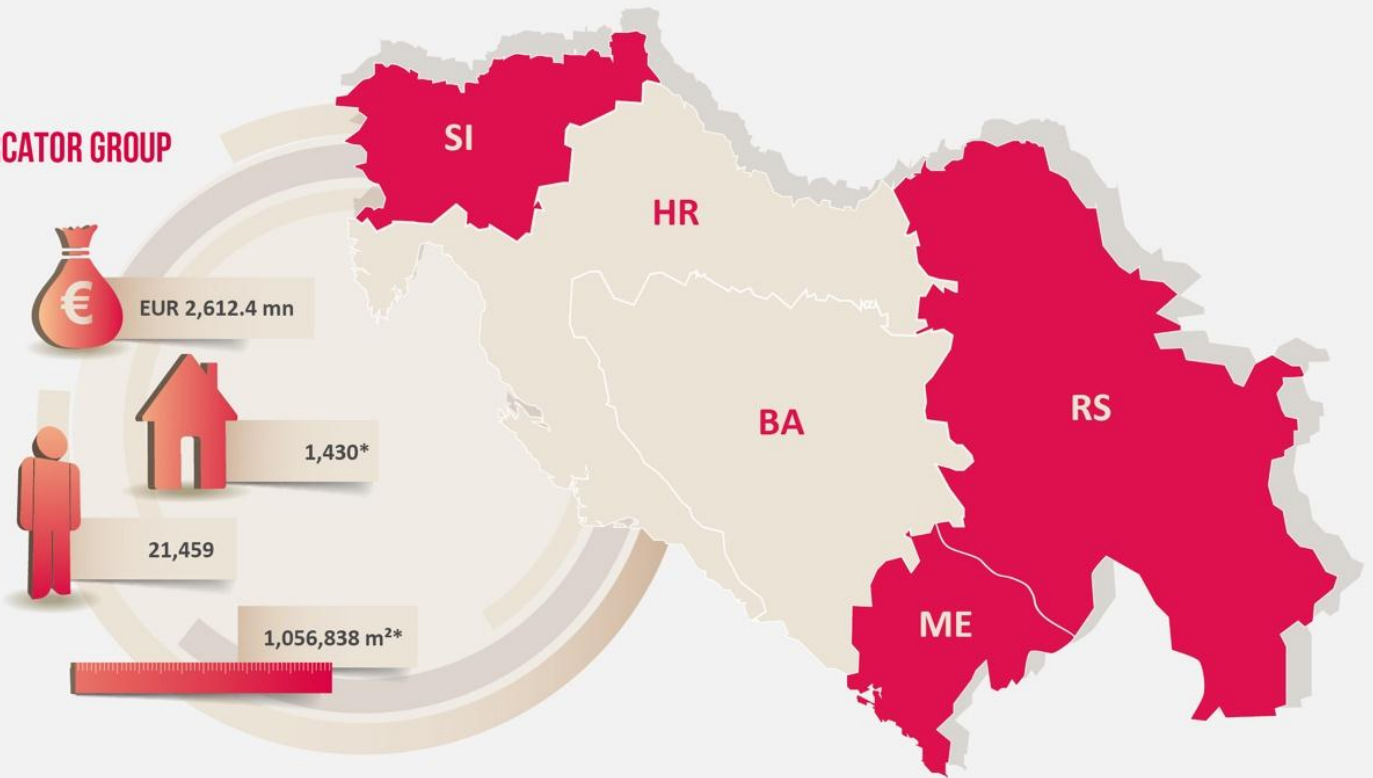


Supervisory Board Chairman,
Poslovni sistem Mercator, d.d.
Ante Todorčić

Ljubljana, March 31, 2016

2015 HIGHLIGHTS BY MARKETS

MERCATOR GROUP



EUR 2,612.4 mn



1,430*



21,459



1,056,838 m²*

Revenue (in EUR mn)



Number of retail units*



Number of employees



Gross area of retail units (in m²)*



* excluding franchise stores Intersport in the markets of Macedonia, Albania and Kosovo

PERFORMANCE HIGHLIGHTS FOR THE PERIOD 2013–2015

	2013	2014	2015	Index 2015/2014
INCOME STATEMENT*				
Revenue (in EUR 000)	2,765,868	2,653,735	2,612,418	98.4
Results from operating activities (in EUR 000)	29,121	3,946	61,510	1,558.7
Profit (loss) before income tax (in EUR 000)	-16,945	-48,595	26,797	-
Profit (loss) for the year (in EUR 000)	-16,929	-44,547	20,154	-
Gross cash flow from operating activities (EBITDA) (in EUR 000)	102,857	91,993	140,322	152.5
Gross cash flow from operating activities before rental expenses (EBITDAR) (in EUR 000)	159,255	149,952	217,758	145.2
BALANCE SHEET				
Total assets (in EUR 000)	2,303,841	2,237,373	2,225,723	99.5
Equity (in EUR 000)	514,294	621,677	634,433	102.1
Net financial debt (in EUR 000)	977,326	785,974	849,241	108.0
INVESTMENT ACTIVITIES				
Capital expenditure (in EUR 000)	29,499	85,722	77,362	90.2
EMPLOYEES				
Number of employees as at the end of the period	22,922	22,643	21,459	94.8
Number of employees based on hours worked	22,239	20,803	20,440	98.3
FINANCIAL INDICATORS				
Productivity (in EUR 000)	124.4	127.6	127.8	100.1
Value added per employee per hours worked (in EUR 000)	20.0	20.3	23.2	114.3
Return on sales	-0.6%	-1.7%	0.8%	-
Return on equity	-3.2%	-7.5%	3.3%	-
Net financial debt / equity	1.90	1.26	1.34	105.9
Net financial debt / gross cash flow from operating activities (EBITDA)	9.5	8.5	6.1	70.8
Gross cash flow from operating activities (EBITDA) / revenue	3.7%	3.5%	5.4%	154.9
Gross cash flow from operating activities before rental expenses (EBITDAR) / revenue	5.8%	5.7%	8.3%	147.5
SHARE				
Market value per share as at the end of the period (in EUR)	82.0	72.0	82.0	113.9
Earnings per share (in EUR)	-4.5	-7.3	-0.6	8.6
NUMBER OF COMPANIES IN THE GROUP				
Number of companies in the Group as at the end of the period	17	12	20	166.7

* In 2015, Mercator Group changed the method of reporting its expenses related to revaluation adjustments and write-offs of receivables, by transferring them from finance expenses to selling and marketing costs. As a result, indicators for the previous years are adjusted for comparability.

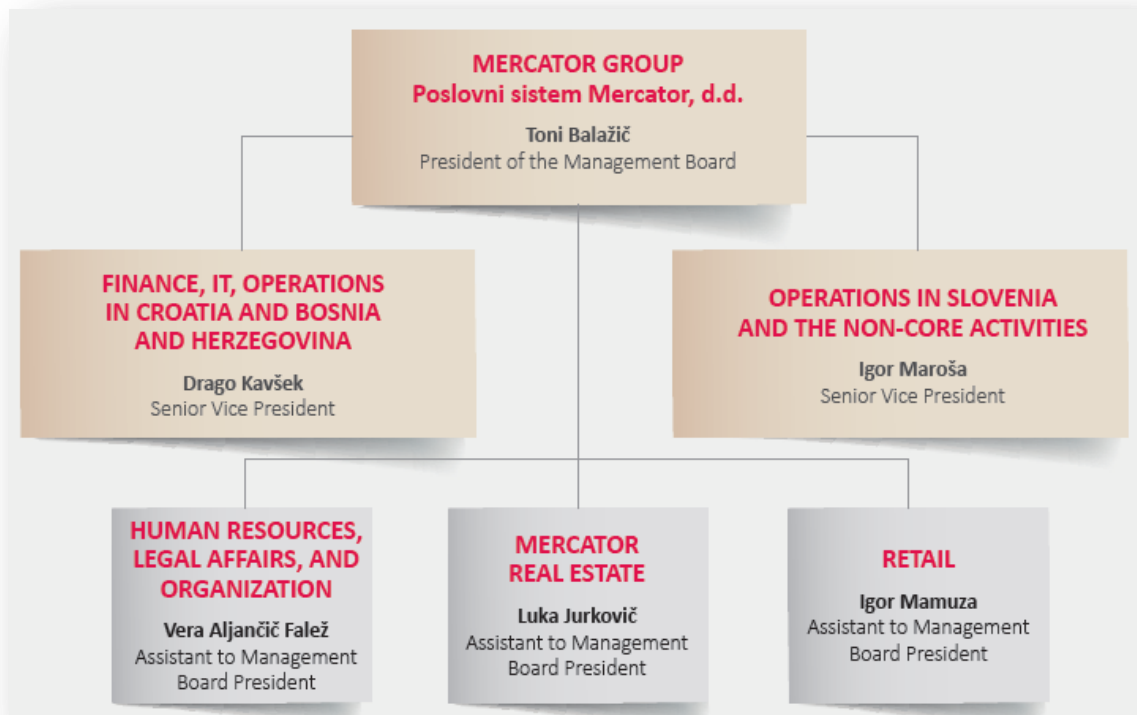
MERCATOR GROUP PROFILE AND ORGANIZATION

Mercator Group Profile

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

Poslovni sistem Mercator, d.d.	
Telephone	+386 1 560 10 00
Email adress	info@mercator.si
Website	www.mercatorgroup.si
Company head office	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT tax code	45884595
Company share capital as at December 31, 2015	EUR 254,175,051.39
Number of shares issued and paid-up as at December 31, 2015	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Mercator Group organization as at December 31, 2015



The Management Board represents the company. It manages its business independently and at own responsibility. The Management Board of the company Mercator, d.d., consists of three members: Management Board president, and two members. All current members of the Mercator, d.d., Management Board were reappointed for a 5-year term starting on September 19, 2014.

Pursuant to the Mercator, d.d., Management Board Act, the Management Board president and members were, respectively, in charge of the following fields in 2015:

- **Toni Balažič** was in charge of coordinating the work of the Management Board of the company Poslovni sistem Mercator, d.d., and the Mercator Group, and coordinating the trade operations in Serbia and Montenegro;
- **Drago Kavšek** was in charge of finance, controlling, accounting and internal audit, IT and telecommunications, and coordination of the activities of subsidiaries Mercator - H , d.o.o., Mercator - BH, d.o.o., and M - BL, d.o.o.;
- **Igor Maroša** was in charge of management of retail operations in Slovenia and coordination of Mercator Group non-core activities.

Assistants to Management Board president as at December 31, 2015, were in charge of the following fields:

- **Vera Aljančič Falež** of human resources development, legal affairs, and organization;
- **Luka Jurkovič** of real estate; and
- **Igor Mamuza** of retail.

Mercator Group composition as at December 31, 2015

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

*The company does not conduct business operations.

**The company did not conduct business operations in 2015.

Branch Offices

As at December 31, 2015, Mercator Group companies did not have any branch offices.

Other Organizations

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

The company Mercator - S, d.o.o., is the founder of the Mercator Solidarity Foundation in Serbia, and Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro. At Mercator - BH, d.o.o., and M - BL, d.o.o., Employee Solidarity Funds were established, following the example of Serbia and Montenegro. The purpose of these three organizations is to provide solidarity aid to employees in social or economic distress.

MERCATOR GROUP ACTIVITIES

Every day, we do our best to provide comprehensive offer for our customers, to meet the needs and desires of every individual. We are aware of the importance of providing a quality shopping experience of the user. In 2015, we remained focused on our core activity of fast-moving consumer goods retail, which will allow us to attain a better market position and to accomplish our goals more easily in the future.



86.5%

of total revenue in 2015 was generated with sale of fast-moving consumer goods.

Fast-moving consumer goods



With a dense and extensive retail network of fast-moving consumer goods stores, Mercator Group is present in Slovenia, Serbia, and Montenegro. Looking to meet all desires, tastes, and needs of our customers, we are offering over **40,000 different FMCG products**. Our sales assortment is further upgraded with private label lines such as Mercator Premium, Lumpi, Bio, mojdan, PRO Magic, Minute, Active Life, Naše ime ima značaj, and Bonus Plus. Total number of private label products on our shelves is over 2,800.

We ensure broad coverage of the market with the neighbour store format. These stores represent nearly 66% of all our fast-moving consumer goods stores in Slovenia. The rest includes hypermarkets, supermarkets, comfort stores, mini stores, and wholesale units. In recent years, we focused mainly on refurbishments of smaller neighbour stores, carrying on the tradition of coming closer to our customers in the local environment.

Particular attention is also paid to freshness and Slovenian origin. Thus, our regular offer under the slogan **Slovenian** rounds off our sales assortment of fast-moving consumer goods with offer of fruit and vegetables, meat, dairy products, wheat, and wine sourced from Slovenia.



Home products

The M Tehnika (technical consumer goods) stores offer products for home at favourable payment terms. Like the fast-moving consumer goods, Mercator's home product program is offered in Slovenia, Serbia, and Montenegro. The offer includes small and major home appliances, consumer electronics, tools and accessories, construction equipment and machinery, and products for a cosy home and ambient. Offer at the stores is further extended with the M Tehnika web store with over 9,000 available products and free delivery option.



Apparel and cosmetics

Modiana stores offer fashion by renowned Slovenian and selected international brands. Our offer there is upgraded with body care products, perfumes, and other decorative cosmetic products by renowned brands, offered at the Beautique stores.



Sportswear and equipment

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



Maxi

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



Mercator Real Estate

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



Service activities and manufacturing

Mercator Group is also offering its customers other service activities like self-service petrol stations **Maxen**, rounding off the Mercator Group's spectre of sale. Mercator Group also includes two independent manufacturing companies **Mercator - Emba, d.d.**, and **Mercator IP, d.o.o.**, which is a social enterprise employing persons with disabilities, to whom Mercator dedicates particular care. Production program of the company Mercator - Emba, d.d., includes instant beverages and hot chocolate, dessert toppings, cereals, dried fruit and nuts, fillings, and syrups. In mid-2015, a part of the production program of coffee processing was divested along with the sale of the Santana and Loka brands.



KEY EVENTS

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

On February 25 2015, the company Agrokor, d.d., acquired additional 581,395 shares of the company Mercator, d.d., increasing its shareholding in the company from 49.92% to 59.47%. At the same time, the company Agrokor Investments B.V. divested equal amount of shares, decreasing its shareholding in the company from 38.18% to 28.64%. Combined shareholding of the companies Agrokor, d.d., and Agrokor Investments B.V., in the company Mercator, d.d., did not change and it remains at 88.10%. Their share of voting rights did not change either and it remains at 88.72%.

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

At the session held on April 22, 2015, members of the Works Council of Mercator, d.d., appointed a new employee representative in the company Supervisory Board. The term of the previous Supervisory Board member Ivan Valand expired on May 19, 2015.

At the end of 2014, Igor Mamuza was appointed (Assistant to Management Board President) in charge of retail.

Changes in Mercator Group composition and other changes related to the Group's operations

In January 2015, Mercator Group completed its withdrawal from the market of Bulgaria. The company Poslovni sistem Mercator, d.d., **divested its entire capital investment in the company Mercator - B, e.o.o.d.**; on January 12, 2015 it was deleted as a partner in the said company.

On February 11, 2015, the company Mercator, d.d., signed with the company **Era Good, d.o.o.**, an agreement on the **acquisition/transfer of a part of the operations** of the said company to Mercator, d.d., in order to enter the existing relations with the customers of the company Era Good, d.o.o.

Acquisition of a part of Era Good, d.o.o, operations is consistent with Mercator, d.d., strategy of focusing on the core activity, i.e. FMCG trade. By taking over a part of the activities of Era Good, d.o.o., Mercator improved the scope and variety of offer in wholesale of fast-moving consumer goods. Moreover, the acquisition has had a positive effect on business efficiency and competitiveness of Mercator's wholesale activities in Slovenia.

On March 12, 2015, the Slovenian Competition Protection Agency issued a decision that it did not oppose the reported concentration following the acquisition of control by Mercator, d.d., over a part of the activities of Era Good, d.o.o. The acquisition of wholesale operations of the company Era Good, d.o.o., by Mercator, d.d., was effective as of March 31, 2015.

Poslovni sistem Mercator, d.d., and the company **Don don, d.o.o.**, signed on April 16, 2015, the sale and purchase agreement on the **sale and purchase of Mercator's stake in the Pekarna Grosuplje (Grosuplje Bakery)**. The transaction was completed on September 30, 2015, and the ownership of Pekarna Grosuplje was transferred to the company Don don, d.o.o., on October 1, 2015.

By divesting the Grosuplje Bakery, Mercator is pursuing its strategic policy of focusing on its core activity and gradual divestment of non-core operations.

For the purpose of real property monetization, **6 project companies were founded in Slovenia** on May 18, 2015, as follows: Platinum - A, d.o.o., Platinum - B, d.o.o., Platinum - C, d.o.o., Platinum - D, d.o.o., Platinum - E, d.o.o., Platinum - F, d.o.o.

On June 30, 2015, the company **Ivero Trade, d.o.o. – an associated company of Franck, d.d. – and the company Mercator - Emba, d.d.**, signed a sale and purchase agreement on the **acquisition of the ground coffee brands Santana and Loka**.

Divestment of the Loka and Santana brands is consistent with the long-term strategy of the company Mercator, d.d., which includes increasing focus on the company's core activity, i.e. retail. With this transaction, Mercator has found a strategic partner who will allow further development of ground coffee products and this product category, which in turn will generate positive effects for both the consumers and other key stakeholders.

On December 7, 2015, the companies Poslovni sistem Mercator, d.d., and Kompas, d.d., signed an agreement on **the transfer of M Holidays operations**. Consistently with the medium-term strategic business policies, Mercator thus divested its activity of tourist services offered by M Holidays to a new strategic owner. The divestment of this activity is also a part of the company restructuring process and consistent with the policy of focusing on the core activity of fast-moving consumer goods retail. In this way, Mercator optimized its costs and rationalized its operations, while further improving the quality of services in its core activity for the customers. The process of divestment of the M Holidays tourist services to a new strategic owner, the company Kompas, d.d., was completed on December 31, 2015, and the ownership of the M Holidays activities was transferred to the new owner as of January 1, 2016.

As at the end of 2015, **two companies were founded: Intersport H, d.o.o., Croatia; and Intersport BH, d.o.o., Bosnia and Herzegovina**. Both are subsidiaries of the Slovenian company Intersport ISI, d.o.o., but neither company commenced its business operations in 2015. The companies were founded to allow gradual transfer of sportswear retail activities from the Mercator companies in these two markets. The key reasons for the transfer of retail activities to the newly founded companies in 2016 are improved local response in all markets, better adjustment to consumer needs, and improved business efficiency.

Awards and other achievements

In March 2015, Effie 2014 Awards for efficient market communication were presented during the 22nd Slovenian Advertising Festival taking place in Portorož. The expert jury ranked our Pika among the very best. **Mercator received the bronze Effie for the campaign "Simply save. Pika."**

At the 4th digital communication conference DiggIt, organized by the Marketing Magazin and TSmedia, which took place on June 4, 2015, Mercator's M-Lab team received the **gold DiggIt award for the Good Deed Month strategy, which was an extension of the project "We Like to do Good Deeds"**. Throughout the month of April, Mercator's communication on the Facebook social network was dedicated to good deeds and to encouraging the neighbours to do good deeds for themselves, their loved ones, or for people they had never met. To make sure the good deeds do not remain merely in words, the M-Lab teamed up with društvo Mladi hišni prijatelj (the Young Home Friends society) – one of last year's donation recipients – to carry out some of the proposed good deeds.

In May 2015, the Swiss organization ICERTIAS carried out the first private label survey in Slovenia, called the Best buy Award PRIVATE LABEL 2015/2016. The survey was conducted in the form of an online survey and it measured exclusively the experience and opinion of consumers about the providers of private label products in the Slovenian market. The consumers ranked Mercator **first in terms of price to quality ratio of private labels in as many as 9 categories**: fruit juices, ice cream, cookies, breakfast cereals, beer, preserved vegetables, ajvar, carbonated soft drinks, and jams and marmalades.

In March 2015, Mercator's IT solution to support the Click & Collect process reached the **finals of the prestigious European IT & Software Excellence Awards 2015** in the category of the most useful practical solutions. This achievement places Mercator on the European map of software solutions and stands witness to the solid work in provision of innovative IT support to good business ideas.

In the contest for the BMC Engage Customer Innovation Awards, **Mercator was nominated for the award in the category of IT process management solution in the Remedy application**, which is also proof of solid IT process design.

On September 23, 2015, days of vocational and employment rehabilitation REHA 2015 took place at the Portus conference centre in Portorož. There, **Mercator received a special award as the largest employer of persons with disabilities in the Republic of Slovenia**.

On November 17, 2015, the award ceremony of the Best Annual Report contest, held by the Finance daily paper, took place. **The company Mercator, d.d., received the Best Annual Report award in the field of risk management among corporate entities for its 2014 Annual Report**. The organizers commended us for pointing out new types of risks related to changes in ownership, which has laid down new guidelines on risk reporting in Slovenia.



Unlike in previous years, we took a step forward in risk management reporting as we included more areas of our activities and provided greater transparency of information while pointing out in greater detail in the report the results of risk management analysis for the Mercator Group and the parent company Poslovni sistem Mercator, d.d.

Our subsidiary **Mercator IP, d.o.o.**, received the **first prize for the best annual report among small and medium enterprises**. In the explanation, the organizer stated that Mercator IP, d.o.o., is a medium enterprise that provided in a skilful and transparent manner its high-quality information that is relevant, understandable, and accurate. The company is aware of the fact that the annual report is in fact the best and the most complex communication tool for presenting to a target audience the operations and performance in a certain period in the past, as well as the strategy and business plans. They presented their activities, analyzed the strengths, weaknesses, opportunities and threats of their operations, and the risks they faced in 2014. The motto of their report is: not only did they accomplish the 2014 business goals, they considerably exceeded them as well.

At the end of 2015 Mercator's subsidiary **Intersport ISI, d.o.o.**, received two awards at the end of the year: **Superbrands** and **ICERTIAS Customers' Friend – AWARD OF EXCELLENCE**. In the survey of the company Icertias for the Slovenian market, which took place in 2015, Slovenian customers in the category of sportswear, sports footwear, and sports equipment picked Intersport as the store offering the best user experience in the Slovenian market. The experts – members of the expert board of Superbrands Slovenia 2015/2016 – presented Intersport with the Superbrands award, which is based on expert evaluation of the criteria of reliability, quality, differentiation, and emotional effect.



The company **Mercator IP, d.o.o.**, ranked among the 100 fastest growing companies in Central Slovenia in the **Gazela 2015** project. As stated by the organizers in the invitation to the regional award ceremony, this points to exceptional operations and performance in recent years.

Mercator's humanitarian activities

True to our corporate social responsibility policy, Mercator immediately responded to the call by humanitarian organizations to donate aid for refugees upon their expected arrival to Slovenia.

Thus, we **donated EUR 2,500 worth of goods to the Red Cross of Slovenia and the Slovenian Caritas organization**. We also **allowed Slovenian Caritas to use Mercator warehouse area in Slovenčeva 19 in Ljubljana as a collection centre for food for the refugees**.

We also invited our customers and our employees to participate in the humanitarian efforts. The customers donated their contributions into special Red Cross and Slovenian Caritas shopping carts located in major Mercator stores.

Mercator made New Year's wishes come true for 200 children of the Friends of the Youth Association Moste Polje. Presents for them were prepared by our administration employees – their New Year's godparents. Throughout December 2015, the employees brought the presents for selected children to the New Year's tree in the lobby of Mercator's office building. Before Christmas holidays, Mercator team added the addresses and shipped the presents to the children.



Major events following the end of period at hand

On February 18, 2016, **the subsidiary M - BL, d.o.o., was successfully merged with the company Mercator - BH, d.o.o.** The company M - BL, d.o.o., was thus wound up and it was deleted from the court register.

CORPORATE GOVERNANCE STATEMENT

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

Reference to the Corporate Governance Code

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

Management and Supervisory Board of the company Poslovni sistem Mercator, d.d., hereby submit this statement of compliance with the Code, which is also a constituent part of the 2015 Annual Report. It is available at company website at www.mercatorgroup.si.

Compliance with the provisions of the Code

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

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

Relations with shareholders

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

Recommendation 5.2: The company publicly announced on its official website all information about lodging proxies for voting at particular Shareholders Assembly; in addition, each shareholder was informed individually in this regard. However, the company did not announce on its website the information on the cost of organized lodging of voting proxies at particular Shareholders Assembly

Supervisory Board

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

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

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

Legal transactions between the company Mercator, d.d., and the parent company of the Agrokor Group

The company Mercator, d.d., as a subsidiary, did not enter or execute any legal transaction with its parent company in 2015, which would result in damage or negative consequences for the subsidiary's operations and performance. Moreover, there was no legal transaction between the parent company and the subsidiaries in this period based on any obligatory instruction. Pursuant to Articles 545 and 546 of the Companies Act, the parent company did not exert its influence in a way to coerce or induce the subsidiary into conducting a legal

transaction disadvantageous or damaging to the subsidiary, or to do anything to its disadvantage. Moreover, the company did not perform or omit any action at the initiative or in the interest of such companies.

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

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

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

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

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

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

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

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

Audit

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

External audit

At their 22nd regular Shareholders Assembly, the shareholders appointed the auditing company Deloitte revizija, d.o.o., Slovenia, as the auditor for the company Mercator, d.d. The auditing company Deloitte is also in charge of auditing the Group and most of the subsidiaries.

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

Internal audit

In addition to the Management Board, Supervisory Board, and independent auditor, internal audit is one of the pillars of corporate governance. Internal audit reports to the Management Board and to the Audit Committee of the Mercator, d.d., Supervisory Board. Activities of Mercator Group internal audit are compliant with the International Standards of Professional Conduct in internal auditing, Code of Professional Ethics for Internal Auditors, and the Code of Internal Auditing Principles.

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

Internal audit conducts regular and extraordinary audits. In 2015, 11 regular and one extraordinary internal audit were carried out. The following major fields or processes were audited: category management and trade goods procurement; master data management; sales promotion activity management; Cash&Carry unit operations; material operation data warehouse data quality; non-trade goods and service procurement for maintenance, minor refurbishments and investments, material operations in the production process.

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

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

In 2015, internal audit discussed 12 reports.

Audit Committee

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

Horizontal Monitoring

On October 5, 2010, the company Mercator, d.d., signed with the Tax Administration of the Republic of Slovenia a cooperation agreement as a part of the pilot project Horizontal Monitoring (hereinafter referred to

as the Agreement), the purpose of which was to establish cooperation based on transparency, understanding and mutual trust, and to reduce tax-related risks by voluntary disclosure of information and improved responsiveness on the part of the Tax Administration in clarifying its positions on tax treatment of respective transactions. The cooperation started in 2011 and continued in subsequent years. In these years, the tax authority audited the operation of the internal controls system in tax reporting and assessed that the system works well.

In October 2015, the Rules and Regulations on Provision of Status for Encouraging Voluntary Compliance with Obligations (hereinafter referred as the Rules) came into effect, superseding the said Agreement. Based on the Rules, the company filed in December 2015 an application for the Status for Encouraging Voluntary Compliance with Obligations which, in terms of contents, is an extension to the pilot project of horizontal monitoring. Thus, the company will continue to cooperate with the tax administration as it has done since the start of the pilot project of horizontal monitoring.

Composition of major holders of company securities as at December 31, 2015

	Country	Number of shares	Share
1 Agrokori d.d.	Croatia	3,621,992	59.47%
2 Agrokori Investments B.V.	Netherlands	1,744,187	28.64%
3 Societe Generale - Splitska Banka d.d.	Croatia	380,399	6.25%
4 Hypo Alpe-Adria-Bank d.d.	Croatia	173,334	2.85%
5 Zagrebačka Banka d.d.	Croatia	35,383	0.58%
6 Galić Josip	Croatia	21,525	0.35%
7 Erste Group Bank AG	Austria	10,522	0.17%
8 Zveza Bank Reg.Z.Zo.J.Bank und Revisions	Austria	2,761	0.05%
9 Clearstream Banking SA	Luxembourg	1,170	0.02%
10 Banque Pictet and CIE SA	Switzerland	1,107	0.02%
Total		5,992,380	98.40%

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

The company Poslovni sistem Mercator, d.d., is represented by a three-member Management Board. The number of Management Board members and their respective fields of work are specified in the Management Board Act adopted by the company Supervisory Board, upon proposal by the Management Board president. All Management Board members of the company Poslovni sistem Mercator, d.d., signed their respective fixed-term employment agreements with the company for a period of five years, which is consistent with the duration of their terms.

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

The Shareholders Assembly decides on any changes to the Articles of Association with a three-quarter qualified majority of the share capital represented in the vote.

Shareholders Assembly and shareholder rights

Shareholders Assembly is the superior body of governance through which the shareholders assert their rights with regard to the company affairs. The company Poslovni sistem Mercator, d.d., is committed to full compliance with the principle of equal treatment of shareholders, allowing them to exercise their legal or statutory rights. All shareholders shall have equal voting rights.

As a rule, Company Management Board shall convene the Shareholders Assembly of Poslovni sistem Mercator, d.d., once per year. The convocation shall be announced at least 30 days before the Assembly meeting. The convocation of the Assembly shall be announced in the Delo daily paper, and in the electronic information dissemination system of the Ljubljana Stock Exchange called SEOnet, at least 30 days prior to the Assembly date.

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

On June 18, 2015, the 22nd regular Shareholders Assembly took place with 94.91% of total shares with voting rights present. The Shareholders Assembly included the presentation of the 2014 Annual Report and the Supervisory Board's Report on the results of Annual Report review and audit for the fiscal year 2014; information on the offsetting of net loss; information on the compensation and rewards of the members of managerial and supervisory bodies; information on the Supervisory Board performance assessment procedure; and granting discharge from liability to the Management Board and the Supervisory Board.

Shareholders Assembly was informed that the Workers Council of the company Mercator, d.d., elected at their session held on April 22, 2015, Matjaž Grošelj as the workers' representative in the Supervisory Board of the company Mercator, d.d., for a term of four years.

The Shareholders Assembly appointed the auditing company Deloitte revizija, d.o.o., as the company auditor for 2015.

Managerial and supervisory bodies

MANAGEMENT BOARD MEMBERS:

President of the Management Board – Toni Balažič

Education:

- MBA, BA Economics

Fields of responsibility:

- coordinating the work of Management Board of the company Poslovni sistem Mercator, d.d., and the Mercator Group
- coordination of trade operations in Serbia and Montenegro
- strategic marketing
- public relations
- human resources, legal affairs, and organization
- real estate management

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

Education:

- BA Economics

Fields of responsibility:

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

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

Education:

- MA business administration and organization, BA economics

Fields of responsibility:

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



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

SUPERVISORY BOARD MEMBERS:

Supervisory Board Chairman – Ante Todorčić

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

Supervisory Board Members Representing Shareholders

Matej Lahovnik, deputy chairman

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

Damir Kuštrak

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

Ivan Crnjac

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

Darko Knez

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

Ivica Mudrinić

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

Supervisory Board Members Representing Employees

Ivan Valand – Supervisory Board member until May 19, 2015, when his term of office expired

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

Matjaž Grošelj – Supervisory Board member as of May 20, 2015

- Education: sales manager, VI level of education
- Employment: Head of distribution system I at the company Poslovni sistem Mercator, d.d.

Vesna Stojanović

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

Veljko Tatić

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

Observing the diversity policy

The company Poslovni sistem Mercator, d.d., has put into place a policy of diversity in its managerial and supervisory bodies. The composition of the Supervisory Board takes the following aspects of diversity policy into account: gender, age, education, and professional experience. By ensuring a certain level of diversity in the Supervisory Board, the company Mercator, d.d., is pursuing the goals of representation and voice for the interests of various groups of company stakeholders. Candidacy for Supervisory Board membership is allowed for any individual who expresses such interest and meets the criteria specified in the Corporate Governance Code. Composition of the Management Board considers the following aspects of diversity: age, education, and professional experience; it does not take into account the gender diversity.

In recent years, pursuit of diversity policy has intensified. After the acquisition of the company Mercator, d.d., by the company Agrokor, d.d., major changes took place in the composition of the Supervisory Board and the Management Board; however, the company's current business results indicate that the composition of both the Management Board and the Supervisory Board are appropriate.

Information on activities and composition of the Audit Committee

Operations of the Audit Committee of the Supervisory Board of the company Poslovni sistem Mercator, d.d., are consistent with the provisions of the Companies Act (ZGD-1). As of September 19, 2014, its members include: Sergeja Slapničar, independent expert; and Ivan Crnjac and Damir Kuštrak, Supervisory Board members at Mercator, d.d. The activities of the Audit Committee are aimed at further improvement of performance of the supervisory function at the company.

Management of subsidiaries

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

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

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

MERCATOR GROUP BUSINESS STRATEGY

Vision

Mercator will be the biggest, the most successful, and the most efficient retailer in the markets of Slovenia, Serbia, and Montenegro.

Mission

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

Principles of corporate governance

Our work shall be:

Motivated

Elementarily simple

Rational

Common goal oriented

Ambitious

Thorough

Oriented on profitability and development

Rapturous

Activities as a part of the four pillar strategy implemented in 2015

We are aware that **growth** is very important in our industry. Therefore, we are focused on maintaining especially our organic growth and **focus** in the markets with the highest growth potential. We are aware that accomplishment of goals requires financial stability and cost **optimization**, with the savings being invested into the market and into our employees. Pursuit of the strategy laid down will improve our **profitability** and generate adequate returns for the shareholders

FOCUS

In January 2015, Mercator Group completed its **withdrawal from the Bulgarian market**. Throughout the year, we continued our **activities to divest our non-core operations**, which is consistent with our strategy of focusing on the fast-moving consumer goods program:

- In June, the companies **Ivero Trade, d.o.o.**, and **Mercator - Emba, d.d.**, signed an agreement on the takeover of **ground coffee brands Santana and Loka**.
- In September, we completed the divestment of **Pekarna Grosuplje** (Grosuplje Bakery) to the company Don don, d.o.o.
- At the end of the year, we completed the divestment of **M Holidays** operations to the company **Kompas, d.d.**

In order to improve the way consumers perceive our pricing, we carried out a high-recognition campaign **My Day, Every Day** which includes offering attractive discounts to customers in a wide range of categories.

In the **Locally Grown** project, we continued to sign agreements with growers on larger purchasing volumes for Slovenian produce. We worked with the growers to provide an increasingly broad offer for our customers, with a variety of sorts of Slovenian fruit and vegetables.

We were the first retailer to offer the so-called **live vegetables** to our stores.

We also remained focused on refurbishment of smaller neighbour stores where Mercator continues the tradition of coming closer to its customer in their local environment.

OPTIMIZATION

In 2015, the **effects of financial restructuring** completed in 2014 were fully evident in Mercator Group's financial performance.

Moreover, we continued in 2015 with the **business process rationalization and optimization of the number** of employees, especially in administration.

We maintained our in-depth system of **risk management** and the measures to mitigate or hedge the identified key risks.

We closed down more **underperforming units**, especially in the apparel and home product program, mostly in Serbia and in Croatia. This has already resulted in a decrease of labour costs. Cost rationalization in 2015 led to lower costs than initially planned.

We continued our category management activities in order to build a high-quality multi-level offer of products by **renowned brands** and a variety of **private labels**.

As at the end of 2015, two **companies** were founded: **Intersport H, d.o.o.**, Croatia; and **Intersport BH, d.o.o.**, Bosnia and Herzegovina. Both are subsidiaries of the Slovenian company Intersport ISI, d.o.o., but neither company commenced its business operations in 2015.

PROFITABILITY

Promotional activities took place in sales campaign planning for appealing special offers, improve customer and employee satisfaction, and to improve and reward customer loyalty.

We have closed down our unprofitable business units, both in the fast-moving consumer goods program and in the programs of non-core activities, especially apparel (textile) and home products.

As of June 2015, all Mercator retail units in Croatia were finally loaned out to the company Konzum, d.d. This will leave us focused on the most profitable markets for the Mercator Group: Slovenia, Serbia, and Montenegro.

GROWTH

In 2015, we entered the market of **the Republic of Kosovo** with Intersport franchise stores.

In February, we signed the agreement on the acquisition/takeover of a part of the operations of the company **ERA GOOD, d.o.o.**, which expanded the scope and variety of Mercator's offer in fast-moving consumer goods wholesale.

In May 2015, **6 project companies** were founded for the purpose of real property monetization.

Following the transfer Agrokor's Idea units to Mercator's management, we considerably boosted our position in the market of **Serbia**. Revenue also increased in the market of Montenegro.

Consistently with our investment plan, priority was given to refurbishments and expansions of our existing retail units. In total, we opened **65 new stores and two distribution centres in Sežana and in Nikšić, in Montenegro**.



BUSINESS REPORT

Let us focus on our essence, on our mission, on what we are devoted to.

My
WEDNESDAY

SALES AND MARKETING

Sales

The euro zone saw positive business growth in 2015. Signs of growth of private consumption were seen as well, and the conditions in the financial system and in the labour market were improving. Forecasts for next year are optimistic as well. Slovenia saw positive economic growth in 2015, largely fuelled by rising exports and stronger household consumption.

Economic growth was also positive in other countries of Mercator's presence in 2015. High unemployment rate remains one of the biggest problems in all markets, especially in Bosnia and Herzegovina.

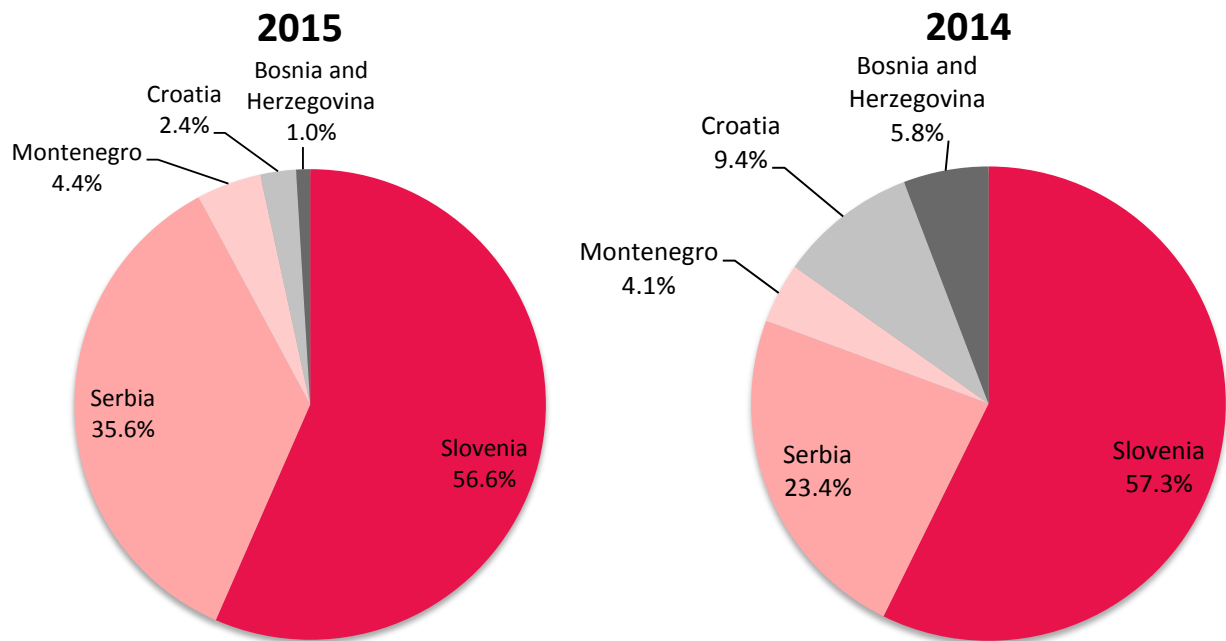
Global economic crisis had a strong impact on the fast moving consumer goods retail industry. Rising prices of food products, weak growth of personal income, and low consumer confidence rate have led to a drop in consumer confidence in Europe in recent years, and this has affected even the essential product categories of food and beverages. The result was a permanent shift in consumer shopping behaviour. In recent times, however, slight progress can be seen again as the consumer confidence index has been improving at the EU level for several successive quarters; in the 3rd quarter of 2015 it was at 81. Similar index development is seen in Slovenia as well, although at 65 in the 3rd quarter of 2015 it still lags behind the EU average.

In 2015, **revenue** for the entire Mercator Group amounted to **EUR 2,612 million**, which is 1.6 less than in 2014.

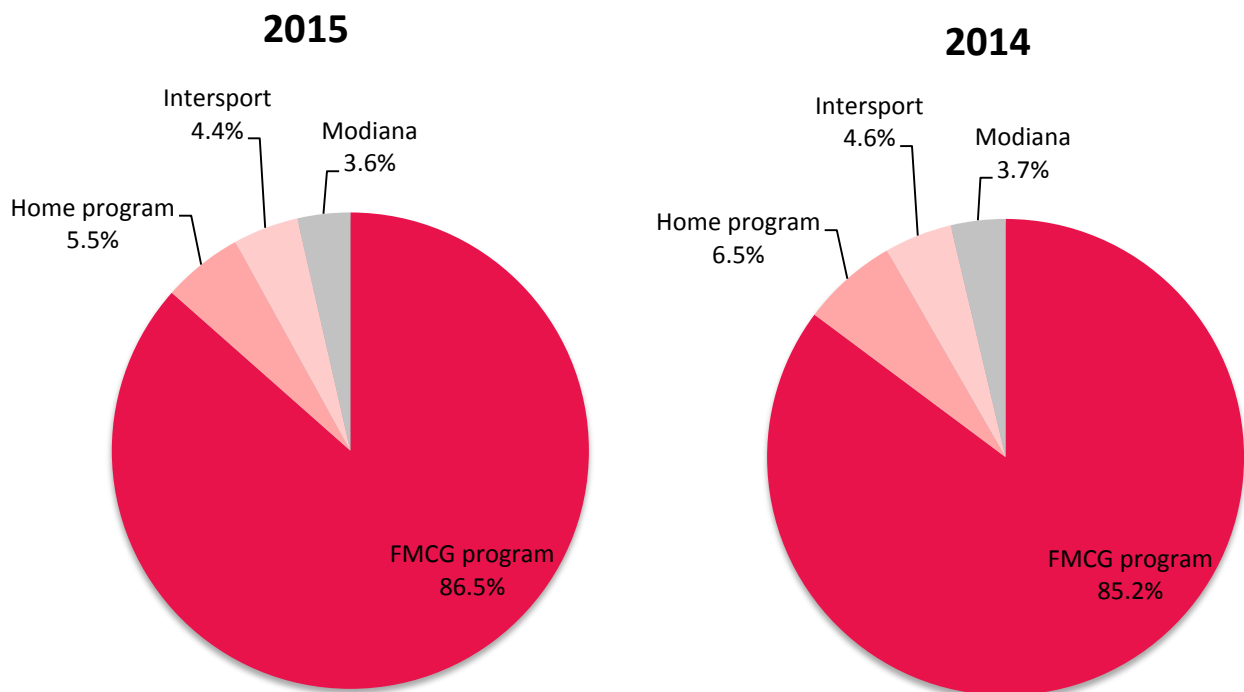
The drop in revenue is mostly a result of further consolidation in the markets that took place in the last months of 2014 as the company Mercator, d.d., was acquired by the company Agrokor, d.d. The highest increase in revenue as a result of consolidation was seen in Serbia, while revenue in Croatia and in Bosnia and Herzegovina was lower than in the year before for the same reason. Also negatively affecting the revenue was the fire in Mercator's fruit and vegetable warehouse in Zalog, Ljubljana, in May 2015.

Developments regarding revenue differed from one market to the other. In Slovenian market, our revenue in 2015 dropped (by 2.8%), mostly as a result of temporary delivery failures due to the fire at Mercator's warehouse in May 2015 and closing down of underperforming units in non-core operations. Revenue increased significantly in Serbia (49.8%) while it dropped sixfold in Bosnia and Herzegovina and fourfold in Croatia. Higher revenue in Serbia is mostly a result of the transfer of retail units of the company Idea, d.d., to the company Mercator - S, d.o.o., at the end of 2014. Lower revenue in Croatia and Bosnia and Herzegovina is a result of the transfer of Mercator retail units to the company Konzum, d.d., in Croatia, and to the company Konzum, d.o.o., in Bosnia and Herzegovina. Most of Mercator revenue in these two markets was generated in non-core activities, i.e. Modiana, Intersport, and asset management operations. In the market of Montenegro where no changes regarding the consolidation of trade operations took place following the integration into the Agrokor Group, revenue was 6.5% higher than in the same period last year.

Mercator Group revenue by geographical segments:



Mercator Group revenue from trade operations by programs



In 2015, the majority of Mercator Group revenue resulted from sales of fast-moving consumer goods as they accounted for 86.5 percent of total revenue; revenue from other specialized programs amounted to 13.5 percent. Relative to the year before, Mercator Group saw the highest drop of revenue in the sale of home products. In addition, revenue also dropped at the textile and fashion program (Modiana). Lower revenue in these two programs was mostly a result of closing down of unprofitable units. Within the home product program, the number of sales units in Serbia decreased in 2015 from 14 to 5. In addition, 3 sales units were closed down in Slovenia. In the fast-moving consumer goods program, our sales revenue rose in total by 8.7%, while sales in sports equipment (Intersport) rose by 1.3%.

Mercator Group revenue by type of sale:

In 2015, Mercator Group generated 78.9% of the Group's revenue from retail, while the remaining 21.1% was generated in wholesale and other activities. Higher share of wholesale in total revenue relative to 2014 is a result of the signing of the acquisition/takeover agreement for a part of the operations of the company Era Good, d.o.o., which allowed the company Mercator, d.d., to replace Era Good, d.o.o., in its existing customer relationships. Thus Mercator improved the scope and variety of offer in wholesale of fast-moving consumer goods. Moreover, the acquisition has had a positive effect on business efficiency and competitiveness of Mercator's wholesale activities in Slovenia.

Store formats, customer segments, and category management**Store Formats**

Shopping – once a simple process – has been getting increasingly complex in recent years. The power has shifted to the customers. Today's customer is defined by rapidly changing demographic conditions, lifestyle, and technological development. The consumers have become even more demanding, more informed, and aware. They look to get the most for their money and they are less loyal to a single retailer, which further increases the complexity of the business.

Pressure on the retailers is mounting to move faster and more to the digital world and the online environment as consumers are willing to spend less and less of their time on shopping. After years of expansion of large store formats, **small box** formats are returning to the fore. In addition, **reinventing the existing retail networks** is also becoming increasingly important (i.e. new concepts in existing locations). Diversification of store formats thus remains the key strategy of retailer growth.

Like most leading global retailers, Mercator is also looking to adjust accordingly as much as possible, by diversifying its store formats. They are intended to accommodate a variety of shopping needs, from major planned shopping sessions to minor daily, top-up, or occasional shopping for fast-moving consumer goods. We are looking to offer our customers a shopping environment with modern design, in as many locations as possible, with extended and richer offer of fast-moving consumer goods.

Major refurbishments of Mercator stores took place in 2015, with emphasis on refurbishment of stores with the highest sales growth potential. The greatest number of refurbishments in 2015 included smaller neighbour stores as Mercator continues the tradition of coming closer to its customer in their local environment. As many as 20 Mercator stores were refurbished according to the "Neighbour" concept.

In the second quarter of 2015, the store in Stritarjeva Street, Ljubljana, was refurbished. It is of the so-called convenience store format which puts a strong grab&go offer of fresh program to the forefront, while offering fast and simple shopping to customers on a tight schedule.

In addition to neighbour stores, Mercator has launched comprehensive refurbishments of its supermarkets, looking to come closer to the customers with a new store concept that is an upgrade to neighbour stores with a

broader and especially deeper offer of fast-moving consumer goods. Ten Mercator supermarkets were refurbished in 2015.

In 2015, Mercator was also focused on its largest format, the hypermarket as 6 hypermarkets were refurbished in the year. Most prominent among these refurbishments was the Šmartinska hypermarket in Ljubljana which is Mercator's most modern and advanced hypermarket. It offers customers the latest and the best in offer and service.

In total, 37 market stores were refurbished in 2015 in the Slovenian market, as well as two Intersport stores and one Modiana unit. In other markets of Mercator Group operations, the number of refurbished units was as follows: 5 units in Croatia, a total of 64 in Serbia, and 2 units in Montenegro. In total, 111 units were refurbished in all markets of Mercator operations, spanning a combined total area of 74,881 m².



Composition of sales units as at December 31, 2015

COUNTRY	SLOVENIA				SERBIA		CROATIA		BOSNIA AND HERZEGOVINA		MONTENEGRO		MACEDONIA, ALBANIA and KOSOVO *		MERCATOR GROUP	
	Mercator	Mercator	Roda	Idea	Mercator	Mercator	Mercator	Roda	Intersport							
	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross area	Net sales area			
STORE FORMATS																
Hypermarkets	22	2	31	2	-	-	-	-	2	-	-	59	259.713	177.088		
Supermarkets	129	-	5	84	-	-	-	-	13	-	-	231	249.592	162.057		
Neighbour stores	321	-	1	212	-	-	-	-	84	-	-	618	224.463	133.656		
Comfort stores	1	-	-	1	-	-	-	-	-	-	-	2	6.296	3.776		
Mini stores	1	-	-	-	-	-	-	-	-	-	-	1	159	83		
Cash & Carry / VELPRO	14	-	-	9	-	-	-	-	2	-	-	25	81.328	36.550		
Restaurants	8	-	-	-	-	-	2	-	-	-	-	10	2.292	1.514		
Total FMCG program	496	2	37	308	-	-	2	-	101	-	-	946	823.843	514.724		
Technical consumer goods	47	5	-	-	-	-	-	1	-	-	-	53	73.260	46.478		
Clothing program and drugstores	49	13	-	-	28	13	-	-	-	-	-	103	53.186	44.777		
Clothing program	42	8	-	-	28	9	-	-	-	-	-	87	51.133	42.998		
Drugstores and perfumeries	7	5	-	-	-	4	-	-	-	-	-	16	2.053	1.779		
Intersport	35	12	-	-	34	10	2	-	-	-	-	93	56.102	42.911		
M holidays	12	-	-	-	-	-	-	-	-	-	-	12	242	242		
Total specialised programs	143	30	-	-	62	23	3	0	-	-	-	261	182.791	134.408		
Total retail units under management	639	32	37	308	62	25	3	101	-	-	-	1.207	1.006.633	649.132		
Franchise stores	222	-	-	-	1	-	-	-	6	-	-	229	52.962	35.610		
TOTAL	861	32	37	308	63	25	3	101	6	-	-	1.436	1.059.596	684.743		

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

Store formats by country and store brands

COUNTRY	FMCG	HOME PRODUCTS, TEXTILE AND COSMETICS, SPORTSWEAR AND OTHER NON-CORE ACTIVITIES
<p>SLOVENIA</p> 		    
<p>SERBIA</p> 	  	   
<p>CROATIA</p> 		 
<p>BOSNIA AND HERZEGOVINA</p> 		  
<p>MONTENEGRO</p> 		 

Customer segments

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

In Serbia, we introduced a major change in the customer relationship management in 2015 as the Pika card customer loyalty system was shut down as of January 31, 2015. The entire customer loyalty system was transferred to the Super Card bonus system, a customer loyalty system of the IDEA brand. Upon this transition to the new system, all Pika card holders were sent AN invitation to join the Super Card system. The package included the card with additional tags, a sign-up form complete with terms and conditions, and a booklet presenting the membership benefits. Based on the analyses, we find that 88% of active Pika card users in fact migrated to the Super Card system while the share of transition among non-active users is at 26%. Moreover, we started to introduce as at the end of 2015 a new Mastercard credit card, working with the Sberbank and consistently with the modern marketing model of co-branding.

In the markets of Slovenia and Montenegro, there were no major changes in the Pika card customer loyalty system. We only introduced some new functionalities that allow adjusted activities for respective customer segments. Monthly activity in 2015 increased by 3% in Slovenia and declined by 3% in Montenegro. The share of revenue in the market format, generated with Pika card checkouts, rose by 1 percentage point in Slovenia in 2015.

In Croatia, the Pika card customer loyalty system was discontinued in 2014 when, following the transfer of operations to the company Konzum, d.d., all Mercator stores become Konzum stores and the transition was made to the MultiplusCard customer loyalty system; Pika Card with the payment function, however, remained in effect.

Category management

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

Marketing

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

1. We are the best neighbour in the local environment in which we are active

2. We are particularly focused on fresh and local offer of produce

3. We are focused on the consumer and we provide well-priced shopping

4. We reward customer loyalty with the Pika card

5. We offer quality private label products

1. We are the best neighbour in the local environment in which we are active

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



In April, we carried out for the second time the **We Like to do Good Deeds** activity in which buyers in 100 Mercator stores receive a special token to vote for one of the three proposed local societies. The society with the greatest number of votes receives a Mercator donation in the amount of EUR 1,000, while smaller awards were presented to the other two societies. As the best neighbour, Mercator enabled within this project the realization of ideas for the improvement of the quality of life in smaller communities.

At the same time, we carried out via Mercator social network profiles the activity **Good Deed Month** in which we surprised residents of a number of communities with kind gestures.

At the start of the school year, we launched the customer loyalty program **SpongeBob Squarepants** for the segment of children and families. The program involves collecting stickers, action figures, and discs, as well as complementary offer of SpongeBob toys and other licensed products.



2. We are particularly focused on fresh and local offer of produce.

Especially when it comes to offer of fresh produce, the customers find it important to buy local. The key goal of the **Locally Grown ("Iz domačih krajev")** project is to satisfy the needs and demand of our consumers. We offer them a broad choice of genuine, local, Slovenian produce and products, and this offer is continuously being expanded. We also stress the importance of tradition, maintaining the rural environment and providing a possibility for the survival of smaller growers, and care for the development of the economy and preservation of jobs. Genuine local produce and products are specially labelled on the shelves so they are easier to find for the customers.

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



The Locally Grown project is thus focused on Slovenian offer of fresh produce. In May this year, we became the first in the market to offer our customers seasonal fruit and vegetables. We were also the first retailer to introduce and offer the so-called live vegetables at our stores.

3. We are focused on the consumer and we provide well-priced shopping

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



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

Mercator is continuously pursuing the goal of offering the most appealing price benefits for the customers. The **My Day, Every Day** campaign involves offering attractive discounts to customers in a number of categories.



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

Providing quality offer of fresh produce, competitive pricing, the most widespread store network, and the broadest offer of Slovenian products are a permanent feature, a standard expected by Mercator customers. In addition to the pleasant shopping environment and excellent retail service, they also expected new features that cannot be seen elsewhere.

4. We reward customer loyalty with the Pika card

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

Advantages of the Pika Card customer loyalty system are now known to virtually every household in Slovenia. The customers can win and use their loyalty points for nearly the entire offer. They are also offered special Pika discounts for select products. In addition, the card allows them to defer the payment or to pay in up to 24 instalments at a zero interest rate. For the segment of customers keen on shopping in the web store, we will continue to allow the functionality of online payment for alimentary products and technical consumer goods using the Mercator Pika card. Therefore, we shall continue to develop and upgrade the unique Pika customer loyalty system.

In addition to the Pika discounts on select products, and double and extra Pika card bonus points which are available to all Pika card holders, additional discounts are offered to all retirees who show their retiree card at the check-out counter.



Value added of was enhanced

the offer in cooperation with new partner companies that provide appealing complementary offer exclusively for us and for our target segments.

the Pika card by extending

5. We offer quality private label products

Mercator was the first Slovenian retailer to offer private label lines which have seen excellent reception by the consumers. Introduction of private labels allows some control over the supply chain and targeted management in such way that allows offering the customers the best quality products at reasonable prices. The share of private label sales has been continuously rising.



Mercator is successfully building its distinction and recognition with its private label products as these are only available in Mercator's retail network. Moreover, we are offering quality products by renowned manufacturers, at lower prices. Mercator private label lines offer a variety of products for all occasions, at all price segments.



REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

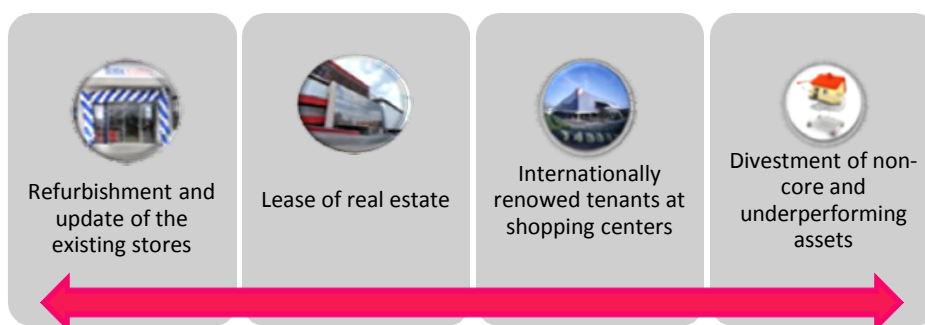
Consistently with the investment plan, Mercator Group was focused primarily on refurbishments and extensions to individual retail units in 2015. New openings include 65 new stores and two distribution centres, one of which is a replacement for the Zalog cold storage in Ljubljana which burned down in May 2015. The Group also sought and assessed new potential locations for expansion of retail network for all Mercator programs, as well as for a new logistics and distribution center in Slovenia. The result is the acquisition of a new location in Izola, intended for the construction of a trade center.

After three years of decrease in investment funds, total investment in 2015 amounted to **EUR 77.4 million**.
Ninety-two percent of all investment activities took place in **Slovenia and Serbia**.

There was no own property development in 2015. Investment funds were mostly used for renovation and investment maintenance of the existing retail network, and for investment into new leased stores. Major additions include the refurbished Mercator center in Domžale.

Activities also took place in divestment of non-operating assets. Pursuant to the adopted legislation effective as of January 1, 2015, we obtained by June 30, 2015, all energy certificates that allow real property to be sold or some real property to be leased out.

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



Investment and Divestment

In 2015, Mercator Group investment into property, plant, and equipment (CAPEX) amounted to EUR 77.4 million. Of this amount, 54.0% was used for investments in Slovenia, which is a more than 2.4-fold increase over the same period of the year before; and 46.0% was used for investments in foreign markets.

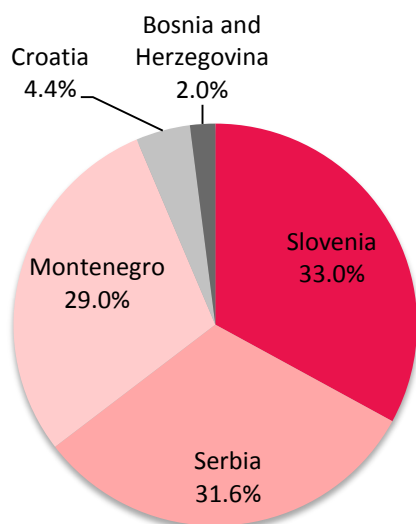
	Capital expenditure in 2015 (in EUR 000)		Structure (in %)
Slovenia	41,761		53.98%
Serbia	29,616		38.28%
Montenegro	3,946		5.10%
Croatia	1,498		1.94%
Bosnia and Herzegovina	541		0.70%
TOTAL	77,362		100.00%

Investment into expansion of retail area represented 20.6% of total investment; refurbishments of existing units accounted for 54.5%; remaining 24.9% was invested in logistics, IT, and non-trade activities.

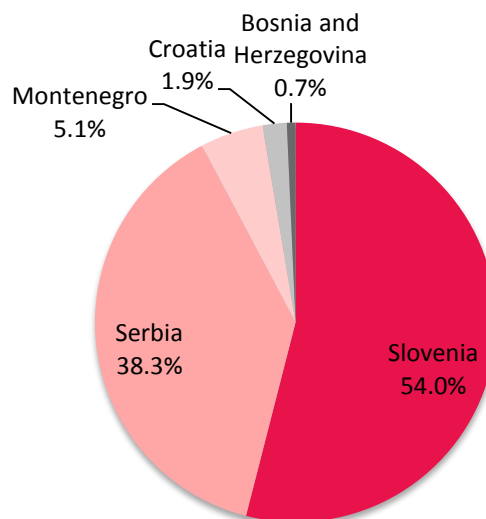
In 2015, Mercator Group acquired 50,276 m² of new gross area, of which 99% was acquired by operating lease, and the remaining was acquired by acquisition or extension to an already owned store.

In 2015, Mercator Group divested property, plant, and equipment worth EUR 23.5 million, of which EUR 2.3 million pertains to the divestment of store equipment to Agrokor subsidiaries Konzum in Croatia and Bosnia and Herzegovina. Major divestments also include the sale of the Grosuplje Bakery (Pekarna Grosuplje).

Share of newly launched facilities by markets in 2015:



Share of investments by markets in 2015:



Summary of total gross retail area as at December 31, 2015 (in square meters):

	Used for own operations	Leased out-Konzum	Leased out-third parties	Total at December 31, 2015
Owned retail area	596,313	108,562	226,723	931,598
Leased retail area	410,320	75,675	111,531	597,526
Total retail area	1,006,633	184,237	338,254	1,529,124
Owned warehouse capacity	140,657	661	6,201	147,519
Leased warehouse capacity	48,802	25,982	8,237	83,021
Total warehouse capacity	189,459	26,643	14,438	230,540
Owned commercial facilities	18,078	0	953	19,031
Leased commercial facilities	7,958	0	0	7,958
Total commercial facilities	26,036	0	953	26,989
Gross area under management	1,222,128	210,880	353,645	1,786,653
- of which owned	755,048	109,223	233,877	1,098,148
- of which leased	467,080	101,657	119,768	688,505

SUMMARY OF RETAIL UNITS LAUNCHES BY MARKETS IN 2015

SLOVENIA

Area of new facilities: 16,579 m²*

Number of new retail units: 7

Openings: C&C Murska Sobota; C&C Ajdovščina; C&C Celje; Modiana Maximus, Murska Sobota; Tehnika Maribor Tabor II; Market Loče

Extensions: Market 78, Izola; Market Kobarid; supermarket Murgle, Ljubljana

* Of the total new area the leased storage capacity of LDC Sežana includes 7,474 m², of which 1,580 m² is submitted to sublease.

Refurbishments:

Number of retail units: 40 (37 FMCG units, 1 Modiana, 2 Intersport)

CROATIA

Area of new facilities: 2,188 m²

Number of new retail units: 7

Openings: Intersport Gračani, Zagreb; Intersport Makarska; Intersport Vodice; Intersport Požega; Benetton Rovinj II; Intersport Golubica Mall, Vukovar; Intersport Garden Mall, Zagreb

Refurbishments:

Number of retail units: 5 (2 Modiana, 1 Benetton, 2 Intersport)

SERBIA

Area of new facilities: 15,900 m²

Number of new retail units: 30

Openings: Santana Caffè bar, Belgrade; Market 328, Subotica; Supermarket 327, Temerin; Megamarket Kiš Ernea, Novi Sad; Modiana, Novi Sad; Market 485, Smederevo; Market 484 M.Pupina, New Belgrade; Market 331 Orač, Belgrade; Market 336 D.Tucovića, Belgrade; Market 492 J.Popovića, Novi Sad; Market 338 R.Končara, B.Topola; Market 489 Sremska, Novi Sad; Market 491 Jožefa Atile, Novi Sad; Market 334 Altina, Belgrade; Market 494 Miloša Obilića, Subotica; Market 496 Bulevar 2, Novi Sad; Market 493 Šumadijska, Novi Sad; Market 497 Vojvode Stepe, Belgrade; Market 498 Vitanovačka, Belgrade; Market 506, Sombor centar; Market 495 Kraljevo 3; Market 505 Subotica centar 2; Supermarket 503 Miletićeva, Zrenjanin; Market 512 Roda, Kutak; Market 502 Pančevo; Market 500, Novi Pazar 2; Market 499, Šajkaš; Market 501, Brus; Market 339, Provizka Subotica; Intersport, Zemun

Refurbishments:

Number of retail units: 64 FMCG units

BOSNIA AND HERZEGOVINA

Area of new facilities: 1,014 m²

Number of new retail units: 2

Openings: Modiana and Intesport Emporium, Banja Luka

MONTENEGRO

Area of new facilities: 14,595 m²*

Number of new retail units: 19

Openings: Market Solaris Mala Plaža, Ulcinj; Supermarket Solaris mega, Ulcinj; Market Solaris Solaris Centar, Ulcinj; Market Solaris Kruče, Ulcinj; Market Solaris Diskont, Ulcinj; Market Budva Posta; Market Budva II; Market Šušanj, Bar; Market Sutomore plaža, Bar; Market Sutomore II, Bar; Market Kaća, Polje; Market Kaća Biskupada; Supermarket Kaća Makedonska; Supermarket Kaća Čeluje; C&C Čeluge; Market Kolašin; Supermarket Solaris Amelino, Ulcinj; Market Cetinje; Market Zagorič 2

* Of the total new areas the leased storage capacity LDC Nikšić covers 4,473 m²

Refurbishments:

Number of retail units: 2 FMCG units



EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN 2015¹

Economic conditions in the period 1 - 12, 2015

Economic recovery in the European Union and the euro zone is entering its third year and according to forecasts by the European Commission it is expected to continue. Although the recovery is modest, it is stable and it is anticipated to continue in such trend. Short-term indicators of economic activity and confidence in the euro zone point to further GDP growth in the last quarter of 2015. Processing industry and construction output remain at a similar level than in past months. Revenue growth in retail stopped in recent months; however, in the ten months of 2015, it is the one indicator, among the three, to exceed the figure for the year before by the largest margin. Improvement in labour market continues as well. Employment rose again in the third quarter of 2015 (by 0.3%) while the unemployment rate declined.

The European Central Bank (ECB) decreased the marginal lending (deposit) rate in December and extended its expanded asset purchase program, while the US central bank (FED) increased its key interest rate for the first time after 2006. In 2015, dollar prices of Brent crude oil declined further to the lowest point in the last ten years. After a considerable drop in the last two months, they plummeted to below USD 40 per barrel in December.

SLOVENIA

At the end of 2015, economic activities in Slovenia, with the exception of construction, remained at the previously attained level. Goods exports and processing industry were at a higher level than a year earlier. Exports thus remain the key factor of economic recovery. Total revenue in retail has been steady in recent months, while growth in non-alimentary retail continued. Along with growth in the automotive trade, this points to further recovery of private spending on durables. Exports to EU is similar to the 2014 end-of-year level and exports to non-EU countries decreased again in recent months. Prospects remain rather favourable as the indicator of expected exports in processing industries indicates growth in the months to come. In 2015, real retail revenue was somewhat higher as well as growth in non-alimentary retail and drop in food retail continue. Despite the decrease in recent months, nominal year-on-year revenue in wholesale has been somewhat higher as well in the last ten months.

The number of registered unemployed increased again at the end of 2015 after an extended period of decline. The number of unemployed, having been in decrease since April 2014, rose in December 2015 especially due to lower transition to employment. Increase into the unemployment register was also somewhat higher due to expiry of fixed-term employment contracts. Nevertheless, the number of unemployed at the end of December 2015 remained lower by 5.3% year-on-year, with 113,076 persons registered.

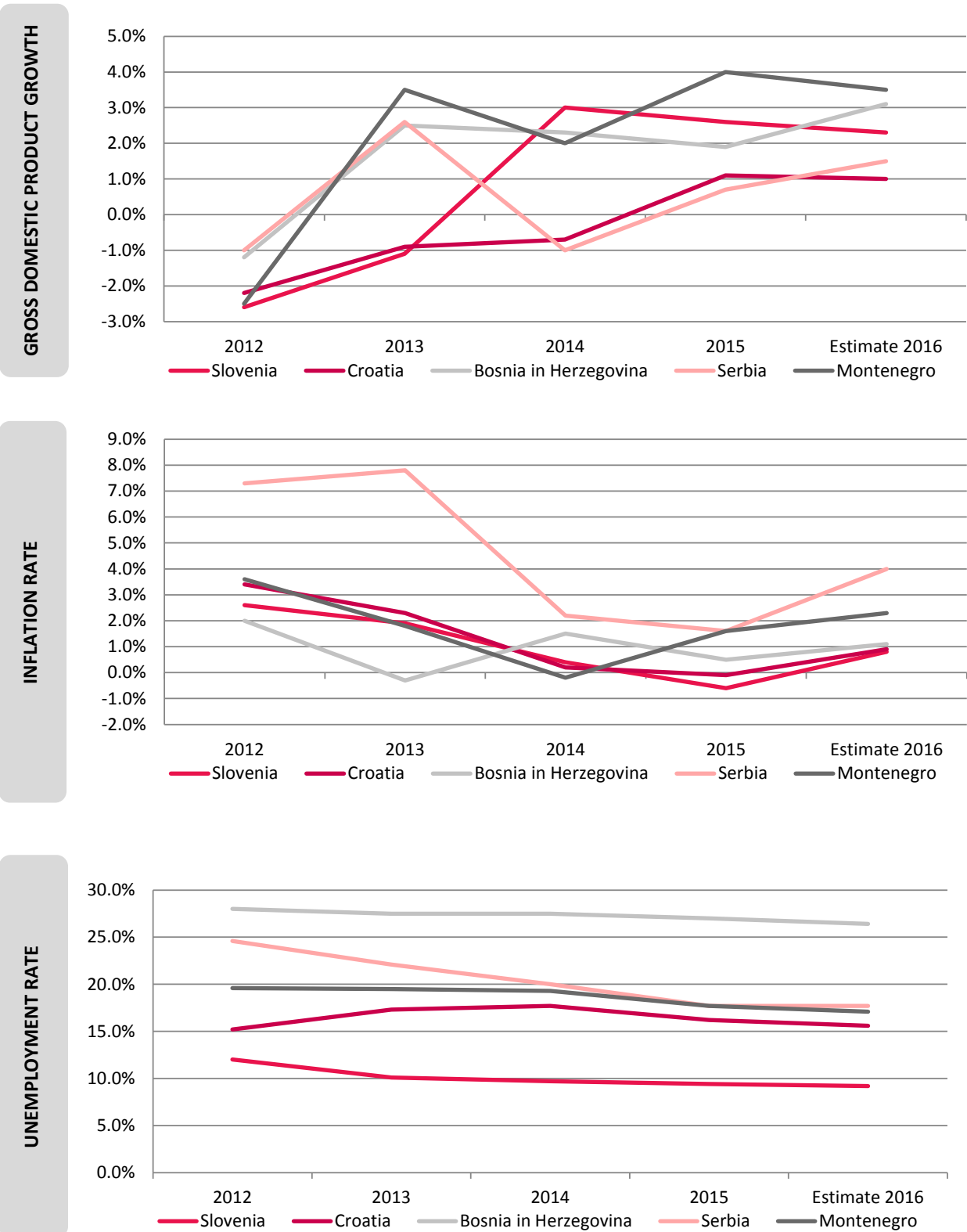
In 2015, we saw deflation for the first time at the end of the year (-0.5%), mostly as a result of lower fuel and energy prices. Negative contribution of year-on-year decrease in liquid fuel prices (-0.9%) was even more pronounced than in the year before.

Slovenia's rating remains A- (according to Standard&Poor's), with a positive trend.

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

Key macroeconomic indicators in the markets of Mercator's operations

Following is a presentation of changes in three indicators: GDP growth, inflation rate, and unemployment rate since 2012. The data pertains to the countries of Mercator Group operations.



Credit rating by markets

	Rating in 2015 ²	Outlook
Slovenia	A-	positive
Serbia	BB-	stable
Croatia	BB	negative
Bosnia and Herzegovina	B	stable
Montenegro	BBB-	stable

Competitive conditions in the markets of Mercator's operations**SLOVENIA****Effect of market situation on consumption**

Consumer confidence³ in Slovenia in 2015 improved, which is a positive indicator affecting private spending. The annual increase is a result of more optimistic forecasts regarding the general economic conditions, unemployment rate, financial position of households, and the possibilities of saving in the next 12 months.⁴

The share of respondents believing the country is in recession has decreased (for 2015, the share is at 74% while in 2014 it was at 88%). Consumer expectations are therefore more positive; they are less worried about further reduction of wages or losing their jobs. The consumers adjusted their shopping to the changes in the market conditions. This also means they included discount stores in the range of retailers they shop at.

Competition

In addition to the conventional retailers (Mercator, Spar, Tuš), two discount retailers also have a considerable market share (Hofer, Lidl). Retail industry is relatively stable and consolidated (top five players account for 84% of the market⁵).

SERBIA**Effect of market situation on consumption**

Consumer confidence in Serbia⁶ is low and remains below European average. Most consumers believe the country is still in recession (87%). Security of employment is the primary concern of the population. Serbia recorded GDP growth (2.2% in the third quarter of 2015 relative to the third quarter of 2014), but the unemployment rate remains high.

Competition

Trade is relatively less consolidated (top 5 retailers account for 32% of the market⁷) as traditional retail (smaller independent retailers) is still predominant. Mercator's competition includes international retailers (Delhaize, Intermarche, Metro) and domestic retail chains (DIS, Univerexport and Aman).

² Rating agency Standard&Poor's

³ Nielsen: Consumer Confidence Index, Q3 2015, Slovenia

⁴ SURS, Consumer Confidence, Slovenia, December 2014

⁵ Valicon, market share survey

⁶ Nielsen: Consumer Confidence Index, Q3 2015, Serbia

⁷ Nielsen, market share measurement with a panel of stores

CROATIA

Effect of market situation on consumption

According to Nielsen data,⁸ consumer confidence in Croatia in 2015 (third quarter) was higher than in 2014, but it remains below the European average and among the lowest in Europe. The consumers believe the country is still in a recession (over 91%) and they do not expect any improvement in the coming year. Security of their employment and debts are their prime concern.

Competition

Compared to other markets in the region, retail is relatively consolidated (top five retailers account for 57% of the market⁹). In addition to domestic retailers (Konzum, Plodine, Tommy, KTC, and association of retailers NTL and Ultragros), the following European retailers are present in Croatia with their retail chains: Schwarz Group (Lidl and Kaufland), Rewe Group (Billa and Bipa), Interspar, DM – Drogerie Markt, and Metro as a wholesaler.

BOSNIA AND HERZEGOVINA

Effect of market situation on consumption

Household consumption dropped in Bosnia and Herzegovina. High unemployment rate and the lowest purchasing power in the region define the market. Moreover, high consumer debt has a negative effect on personal consumption.

Competition

The market of Bosnia and Herzegovina is less consolidated (top five retailers account for 29% of the market¹⁰) and traditional retail still accounts for a considerable share. Konzum is a major retail chain in the market; others include Bingo and Tropic. International retail chains Delhaize and Intermarche have withdrawn from the market.

MONTENEGRO

Effect of market situation on consumption

In 2015, Montenegro's GDP rose by 4%. Unemployment rate remains high at 18%. Average salary and income of retirees remain unchanged, persisting at the 2010 level.

Competition

The Montenegrin market is the least consolidated compared to other markets of the region (top five retailers account for 23% of the market¹¹); traditional retail continues to account for a considerable share. In 2015, most retailers expanded their sales network: Mercator, Voli Trade, Domaća trgovina, Laković, and Mesopromet Franca.

⁸ Nielsen: Consumer Confidence Index, Q3 2015, Croatia

⁹ Nielsen, market share measurement with a panel of stores

¹⁰ Nielsen, market share measurement with a panel of stores

¹¹ Nielsen, market share measurement with a panel of stores

PERFORMANCE ANALYSIS IN 2015

Following is a performance analysis for 2015 for the Mercator Group, the parent company Poslovni sistem Mercator, d.d., and respective markets of Mercator Group's operations. It should be taken into account when reading and interpreting the analysis that the parent company has a double role in the Mercator Group: it is the controlling company that holds the ownership shares in Mercator Group's subsidiaries; at the same time, it is an operating company carrying out all trade and other activities in Slovenia.

REVIEW OF WRITE-OFFS AND IMPAIRMENTS ACCOUNTED FOR IN THE PERFORMANCE ANALYSIS

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

Mercator Group 2014 income statement was affected the most by the impairment of land in Slovenia, Serbia, and Bosnia and Herzegovina, amounting to EUR 8,617 thousand, and impairment of assets and goodwill in Croatia in the amount of EUR 7,307 thousand. In 2015, there were no extraordinary events affecting the performance.

MERCATOR GROUP OPERATIONS AND PERFORMANCE ANALYSIS

The performance improvement is a result of **focus on our core activity of retail** in the markets of Slovenia, Serbia, and Montenegro, and considerable **cost cuts resulting from our cost rationalization efforts**.
Mercator Group wrapped up the year 2015 with a **profit of EUR 20,154 thousand**.

Revenue and productivity

Mercator Group revenue dropped by 1.6% in 2015 relative to the year before, reaching a total of EUR 2,612,418 thousand. Relative drop was the highest especially in the home product and textile and fashion (Modiana) programs while revenue from fast-moving consumer goods sales rose by 8.7%, and revenue from sportswear sales increased by 1.3%. The data, however, is not entirely comparable to last year due to the change in our revenue profile as most of our revenue since January 1, 2015, has been generated in Slovenia and Serbia. The structure of revenue by countries has changed considerably relative to the year 2014, especially due to the consolidation of trade operations in respective markets following Agrokor's acquisition of Mercator. In Serbia, revenue was considerably increased in particular due to the transfer of retail units of the company Idea, d.d., to the company Mercator - S, d.o.o.; in Croatia and Bosnia and Herzegovina, revenue dropped substantially due to the transfer of Mercator retail units to the company Konzum, d.d., in Croatia, and to Konzum, d.o.o., in Bosnia and Herzegovina. Most of Mercator's 2015 revenue in these two markets was generated at the Modiana and Intersport units, and in real estate management operations. Revenue in the market of Montenegro rose.

The drop in revenue for the entire Mercator Group was also a result of the changes in consumer behaviour due to the economic crisis, and harsher competition.

Productivity was again improved slightly relative to 2014, which is consistent with the decrease in the number of employees in the process of transfer of Mercator retail units to Agrokor in the markets of Croatia and Bosnia and Herzegovina, and transfer of Agrokor units to Mercator in the market of Serbia, and with closing down or optimization of the non-profitable or underperforming units in Slovenia.

Operating costs

Total Mercator Group costs dropped by 2.9% in 2015 relative to 2014.

Mercator Group cost of sales and selling and marketing costs, which include the purchase value (cost) of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 2,513,048 thousand in 2015, which is 2.6% less than in 2014.

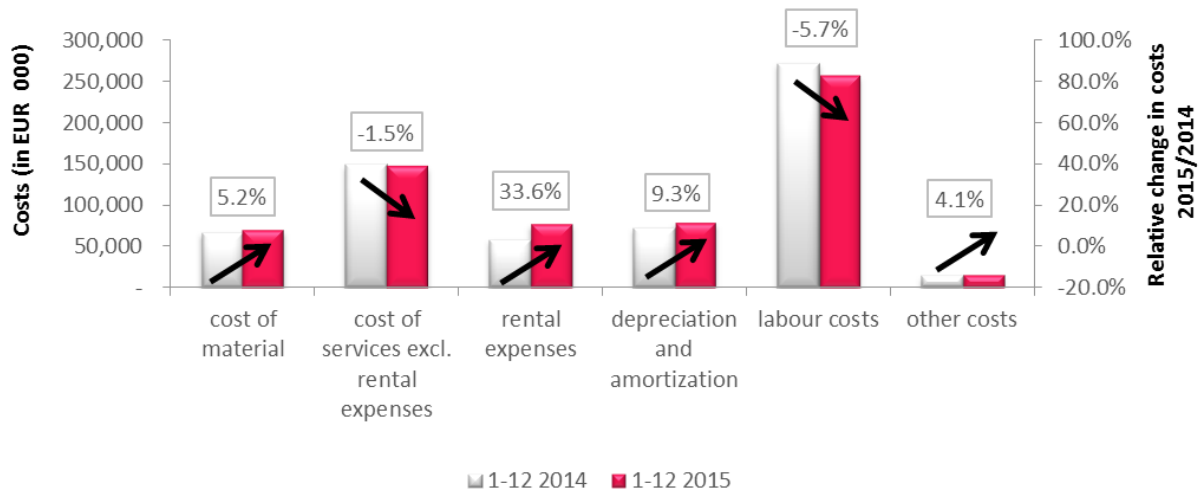
In 2015, impairments to receivables were re-classified from finance expenses to operating expenses. Consistently with the decision to re-classify these impairments, the impairments for previous years were re-classified as well for comparability of indicators. In 2015, total receivable impairments and write-offs amounted to EUR 1,705 thousand, or 79.8% less than in 2014.

Administrative expenses in 2015 amounted to EUR 86,419 thousand, which is 6.6% more than in 2014.

Total costs, including the purchase value (cost) and impairments and receivable write-offs, amounted to EUR 2,599,667 thousand in 2015, which is EUR 76,592 thousand less than in 2014.

There was a major decrease in labour costs resulting from the decrease of the number of employees upon consolidation in the markets of Croatia and Bosnia and Herzegovina, from the optimization of employees in relation to this, and from the optimization of employees at other companies. From December 31, 2013 to the last day of 2015, the number of employees in the entire Mercator Group was cut by 1,463, of which 1,184 pertain to last year. In 2015, the number of employees in administration decreased by 12.8%.

Cost of material rose by 5.2%, especially on account of higher energy costs. Depreciation and amortization costs rose as well, by 9.3%, as a result of investment activities in 2015. The year 2015 was also another year in succession when cost of services, excluding rents, decreased – this time by 1.5%, while the costs of rents increased, especially due to higher share of leased area relative to the year before.



Results from operating activities

Mercator Group wrapped up the year 2015 with a positive result from operating activities at EUR 61,510 thousand, which is an improvement of EUR 57,564 thousand over the year before, following the adjustment for land, asset, and goodwill impairment for 2014. Throughout 2015, Mercator Group operated with a positive performance trend, which was attained by focusing on the core activity of retail, improved performance of non-core activities, cost-cutting, and divestment of some non-strategic activities. Business results in 2015 thus point to improvement of company performance and operations that are consistent with the strategy of focusing on the company's core activity.

Net finance expenses

Net financial expenses for 2015 amount to EUR 34,713 thousand, which is 33.9% less than in the year before. The highest share within financial expenses pertains to interest expenses, amounting to EUR 35,493 thousand, which is EUR 3,200 thousand or 8.3% less than a year earlier. Mercator Group net finance expenses from currency translation differences amounted to EUR 644 thousand in 2015, which is EUR 5,778 thousand less than in the year before.

Profit or loss for the year

In 2015, Mercator Group generated a net profit of EUR 20,154 thousand. Mercator Group's result for the year 2014 was a loss of EUR 44,547 thousand. The improvement is a result of focus on our core activity of retail in the markets of Slovenia, Serbia, and Montenegro, considerable cost cuts resulting from our cost rationalization efforts, and divestment of some non-strategic activities. Thus, Mercator Group laid down new directions of positive performance after several years of intensive business restructuring.

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

Gross cash flow from operating activities (EBITDA) amounted to EUR 140,322 thousand in 2015, which is 52.5% more than the comparable EBITDA for 2014.

Gross cash flow from operating activities before rental expenses (EBITDAR) in 2015, amounting to EUR 217,758 thousand, was higher than the comparable figure for 2014 by 45.2%.

Assets

Mercator Group's assets as at December 31, 2015, amounted to EUR 2,225,723 thousand, which is EUR 11,650 thousand less than at the end of 2014.

Non-current assets as at December 31, 2015, amount to EUR 1,443,480 thousand, which is lower by EUR 244,111 thousand relative to the end of 2014, mostly as a result of re-classification of bookkeeping of property, plant, and equipment in the process of monetization, as these assets were reclassified as at the end of 2015 from non-current fixed assets to current assets for disposal. Property, plant, and equipment account for the highest share of non-current assets (95.2%); relative to the end of 2015, they are lower as a result of the aforementioned reclassification of property, plant, and equipment intended for monetization.

Mercator Group current assets as at December 31, 2015, amounted to EUR 782,243 thousand, which is EUR 232,461 thousand more than at the end of 2014. The increase in the value of current assets is for the most part a result of a change in the accounting policy regarding assets intended for monetization.

Equity and liabilities

Major changes in equity in 2015 pertain especially to: positive net result in the amount of EUR 20,154 thousand; actuarial losses on recognition of provisions for retirement benefits in the amount of EUR 3,730 thousand; currency translation differences pertaining to international subsidiaries in the amount of EUR 452 thousand; elimination of revaluation for financial assets available for sale upon their divestment in the amount of EUR 208 thousand; and increase due to deferred tax in the amount of EUR 561 thousand.

Mercator Group's borrowings and other financial liabilities as at December 31, 2015, amounted to EUR 907,432 thousand, which is EUR 57,794 thousand more than at the end of 2014. The increase in financial liabilities is a result of the increase of short-term financial liabilities by EUR 106,226 thousand, while long-term borrowings decreased by EUR 48,432 thousand. Net financial debt of the Mercator Group as at December 31, 2015, amounts to EUR 849,241 thousand, which is 8.0% above the 2014 figure. Relative to 2013, we succeeded in cutting our net financial debt by EUR 128,085 thousand by the end of 2015, and in notably improving the maturity profile of our debt financing

Trade and other payables as at December 31, 2015, amounted to EUR 626,469 thousand, which is EUR 87,953 thousand less than at the end of 2014. The decrease in trade payables is a result of compliance with the current changes in the agricultural legislation in Slovenia which cut the payment terms for perishable food from 75 to 60 days, and other increased needs for working capital, especially due to closing down of core operations in Croatia and in Bosnia and Herzegovina.

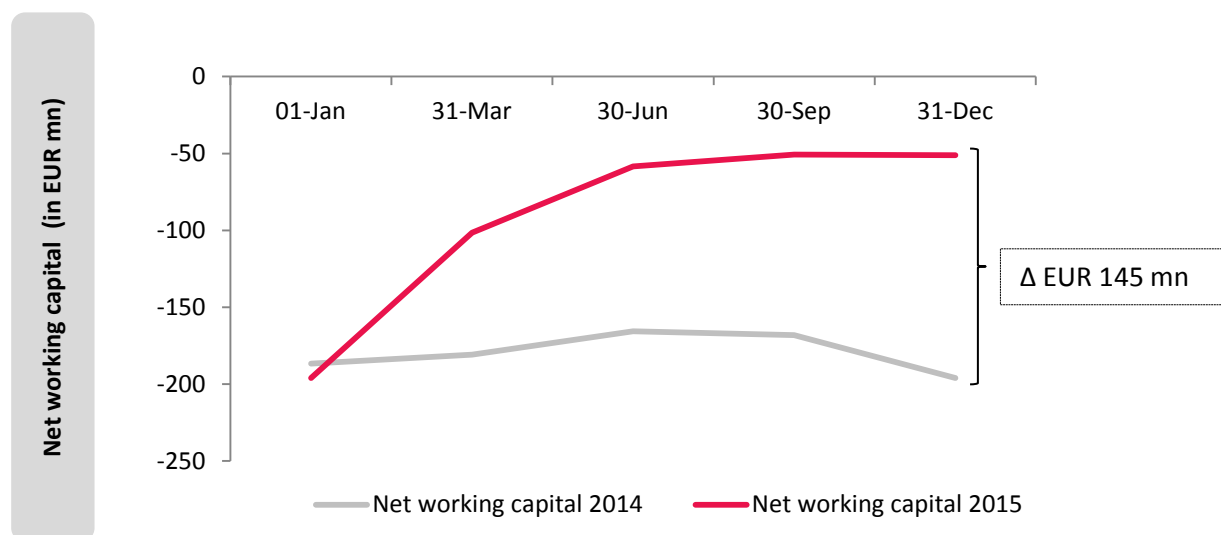
Provisions as at December 31, 2015 amounted to EUR 25,918 thousand, which is EUR 5,212 thousand more than as at the end of 2014, especially due to higher provisions for retirement benefits and rewards for loyal service. The reason for the increase is mostly a result of changes in the actuarial assumptions in the calculation of required provisions.

As at December 31, 2015, long-term coverage of non-current assets with non-current liabilities at the Mercator Group is at 103.0%, which is 14.9 percentage points more than as at the end of 2014. The increase is a result of

the increase of financial liabilities and transfer of a part of the tangible fixed assets (property, plant, and equipment) for the monetization process from non-current to current assets of the Mercator Group.

Changes in working capital

Relative to the end of 2014, working capital increased mostly on account of lower current trade payables, by 16.9%. The reason is that the payment terms for perishable goods were cut from 75 to 60 days, consistently with the change in the Agriculture Act in Slovenia as at January 1, 2015; and higher working capital requirements resulting from integration processes which involve closing down market program business units in Croatia and Bosnia and Herzegovina. The value of inventories and trade receivables remained roughly the same as at the end of 2014.



PERFORMANCE ANALYSIS BY MARKETS

Consolidation by markets within the Agrokor Group has resulted in an **increase of Mercator Group revenue in Serbia by 49.8%** while revenue in Croatia and Bosnia and Herzegovina dropped considerably. The consolidation did not affect the Slovenian and Montenegrin market. Revenue **dropped by 2.8%** in **Slovenia** and **increased by 6.5%** in **Montenegro**. Breaking down by programs, **the highest increase was seen in the share of revenue from fast-moving consumer goods (8.7%)**, while growth was also seen in the share of revenue from the Intersport program. On the other hand, the share of revenue from **home product and Modiana programs declined considerably**.

Slovenia

In 2015, Mercator Group completed over 100 million transactions in the fast-moving consumer goods, home product, textile, and sportswear programs. Over 95% of all transactions pertain to the FMCG program. Total sales revenue from Slovenian market in 2015 amounted to EUR 1,477,590 thousand, which is 2.8% less than in the year before. The reason for the drop in revenue is mostly further closure of non-profitable or underperforming units, and delivery failures in May 2015 due to the fire at Mercator's Ljubljana warehouse. The drop of revenue was the highest in the home product segment and textile programs. Positive growth was seen in the sportswear program and in FMCG.

Parent company Poslovni sistem Mercator, d.d.

In 2015, the company Poslovni sistem Mercator, d.d., generated EUR 1,404 million of sales revenue. Compared to the year before, this is a drop of 3.6%. Cost of sales and selling and marketing costs for the company Mercator, d.d., which include the purchase value (cost) of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,339,958 thousand in 2015, which is 5.0% less than in 2014. Administrative expenses in 2015 amounted to EUR 43,399 thousand, which is 11.9% less than in 2014.

Total costs, including the purchase value (cost) and impairments and receivable write-offs, amounted to EUR 1,383,357 thousand in 2015, which is EUR 75,998 thousand, or 5.2%, less than in the year before.

The decrease was seen in particular in labour costs, by 3.9%, which amounted to EUR 173,036 thousand in 2015. This is a result of cutting the number of employees by 569 relative to 2014, of which 23% of the decrease pertains to employees in administration. Moreover, cost of services excluding rental expenses decreased by 1.9% while depreciation and amortisation costs increased by EUR 71 thousand, or 0.2%, and costs of material increased by EUR 806 thousand, or 3.3%. Increase in costs of material is mostly a result of higher write-offs of petty supplies in the amount of EUR 1,510 thousand, which is EUR 653 thousand more than in the year before.

Result from operating activities in 2015 is at EUR 51,077 thousand, which is an improvement of EUR 45,988 thousand relative to 2014. The improvement is a result of further cost rationalization and optimization of the entire operating processes. In 2015, the company Mercator, d.d., generated a negative net result of EUR 3,800 thousand. Such result is a considerable improvement by EUR 91,311 thousand relative to the 2014 result.

Gross cash flow from operating activities (EBITDA) in 2015 amounted to EUR 88,279 thousand, which is EUR 46,059 thousand more than in the year before, or a more than two-fold improvement over 2014.

Gross cash flow from operating activities before rents (EBITDAR) in 2015 amounted to EUR 98,997 thousand, which is EUR 45,219 thousand, or 84.1%, more than in 2014.

Serbia

In the Serbian market, Mercator Group is present with three fast-moving consumer goods banners (or brands): Mercator, Idea, and Roda. Total number of retail units is 377, of which 308 units are under the Idea banner. These Idea units were transferred to Mercator from the company Agrokor, d.d., at the end of 2014 as a part of the consolidation process. Business results of the consolidation had a considerable effect on the revenue in 2015 when it amounted to EUR 929,727 thousand, or 49.8% more than in 2014. By sales programs, the highest revenue growth was seen in the fast-moving consumer goods program, while sportswear (and sporting equipment) saw growth as well.

Croatia

Following the consolidation by markets late in 2014, revenue in the Croatian market declined as Mercator retail units were transferred to Konzum, d.d., leaving Mercator only with textile (fashion) and sportswear program in Croatia, and the continuing activities of property rental. In 2015, total revenue decreased by 74.4% relative to 2014. The main reason for the decline is the said transfer of retail units. Revenue from rents almost doubled in 2015 to reach EUR 17,543 thousand. The company Mercator - H, d.o.o., ended the 2015 fiscal year with a loss of EUR 20,710 thousand, which is a lower loss than in the previous year.

Bosnia and Herzegovina

Due to consolidation by markets and the transfer of retail units within the Agrokor Group, Mercator Group saw its revenue decline in 2015 in the market of Bosnia and Herzegovina as well. As in Croatia, 89 Mercator retail units in Bosnia and Herzegovina were leased out to Konzum, d.o.o., late in 2014. In the market of Bosnia and Herzegovina, Mercator remains in charge of the programs Intersport and Modiana, and management of real property owned by Mercator. Revenue in Bosnia and Herzegovina amounted to EUR 24,967 thousand in 2015, which is 83.8% less than in 2014. The companies Mercator - BH, d.o.o., and M - BL, d.o.o., wrapped up the year with profit.

Montenegro

In the market of Montenegro, Mercator Group revenue rose relative to 2014. Revenue totalled at EUR 116,191 thousand, or 6.5% more than in the year before. Revenue growth mostly originated from the fast-moving consumer goods program. In other programs (home products and sportswear and equipment), Mercator's revenue decreased. The company wrapped up the year 2015 in the Montenegrin market with a profit of EUR 1,969 thousand. The takeover of Mercator, d.d., by Agrokor, d.d., did not affect Mercator's position in the market of Montenegro.

Main indicators by markets

in EUR 000, except of shares	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro	Mercator Group
Revenue	1,477,590	929,727	63,943	24,967	116,191	2,612,418
Share Group revenue	56.6%	35.6%	2.4%	1.0%	4.4%	100.0%
Gross cash flow from operating activities (EBITDA)	100,123	35,282	-3,511	4,276	4,152	140,322
EBITDA / revenue	6.8%	3.8%	-5.5%	17.1%	3.6%	5.4%
Gross cash flow from operating activities before	111,779	75,858	8,750	11,711	9,660	217,758
EBITDAR / revenue	7.6%	8.2%	13.7%	46.9%	8.3%	8.3%

OPERATIONS AND PERFORMANCE PLANS FOR 2016

Macroeconomic situation at the European Union level has been improving for three consecutive years. Real GDP is anticipated to rise by another 0.1 percentage point in 2016. Recovery of economic activity will mostly result from increase in domestic demand which will, through higher disposable income of households, also increase investment activities. Consistently with the changes in the market, we can expect new challenges and opportunities in retail operations in the entire geographical area of Mercator Group activities.

Revenue planned to exceed the 2015 figure

For 2016, Mercator Group is planning to generate revenue of EUR 2.6 billion, which is somewhat more than in 2015. Revenue is planned to increase in 2016 in all markets of Mercator's operations except Croatia. In the markets of Slovenia, Serbia, and Montenegro, higher revenue will be generated especially on account of opening of new sales units, while in Bosnia and Herzegovina, revenue increase is planned with regard to rental income. Drop of revenue in Croatia will be mostly a result of closing down of the remaining retail units in the first half of 2015.

Notable performance improvement relative to 2015

Mercator Group has laid down ambitious, yet attainable goals for 2016. Creating and reaping synergistic effects and withdrawal from underperforming markets have had a positive effect on performance, which is reflected in the improved performance for 2015. The trend of performance improvement will continue in 2016 and the anticipated results will put us in a position on a par with the most successful retailers in Europe. In 2016, Mercator Group' net profit is planned at EUR 55.3 million.

EUR 34 million allocated for investment in 2016

In 2016, Mercator Group investment will amount to EUR 34 million. Most of this sum will be allocated to refurbishments of the existing units, predominantly in Slovenia and Serbia. New retail area will mostly be acquired by lease.

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

Financing activities to remain stable in 2016

Cash flow to be generated by Mercator Group in 2016 will be largely allocated for deleveraging or repayment of financial liabilities maturing in 2016. Mercator Group net financial debt as at the end of 2016 is planned at EUR 799 million. In 2016, Mercator Group will continue to observe the covenants arising from the financial restructuring agreements, and well as those from other financial arrangements.

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

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

RISK MANAGEMENT

In Mercator Group markets, economic conditions are improving. However, impacts from its business environment remain considerable. Following a period of change in the majority owner and capital increase, Mercator Group operations have been stabilized. We remained focused on our core activity. Consistently with the changes in Mercator Group operations, we are pursuing such policy in risk management as well. We are aware of the importance of identifying the potential new risks and preparation and implementation of measures to mitigate or hedge the identified risks to the lowest possible level.

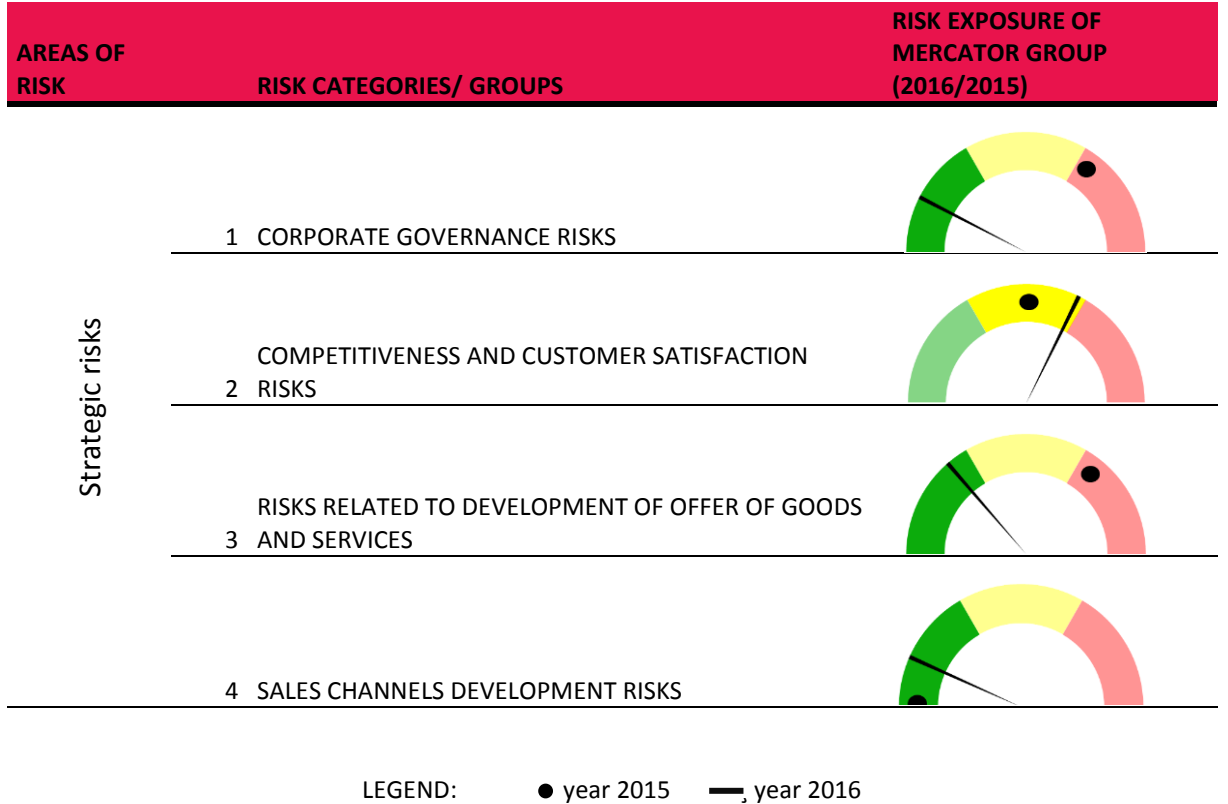
A revised risk monitoring and management system allows us more stable operations. In 2015, we implemented **114 risk management measures** in all fields of our activities.

RISK MONITORING AND MANAGEMENT SYSTEM

In 2015, we revised our risk monitoring and management system and adopted a new Mercator Group Risk Management Rules of Procedure which specify the requirements, activities, and responsibilities of risk management at Mercator Group companies. The Rules of Procedure lay down the risk management policy and specifies the systemic approach and risk management process.

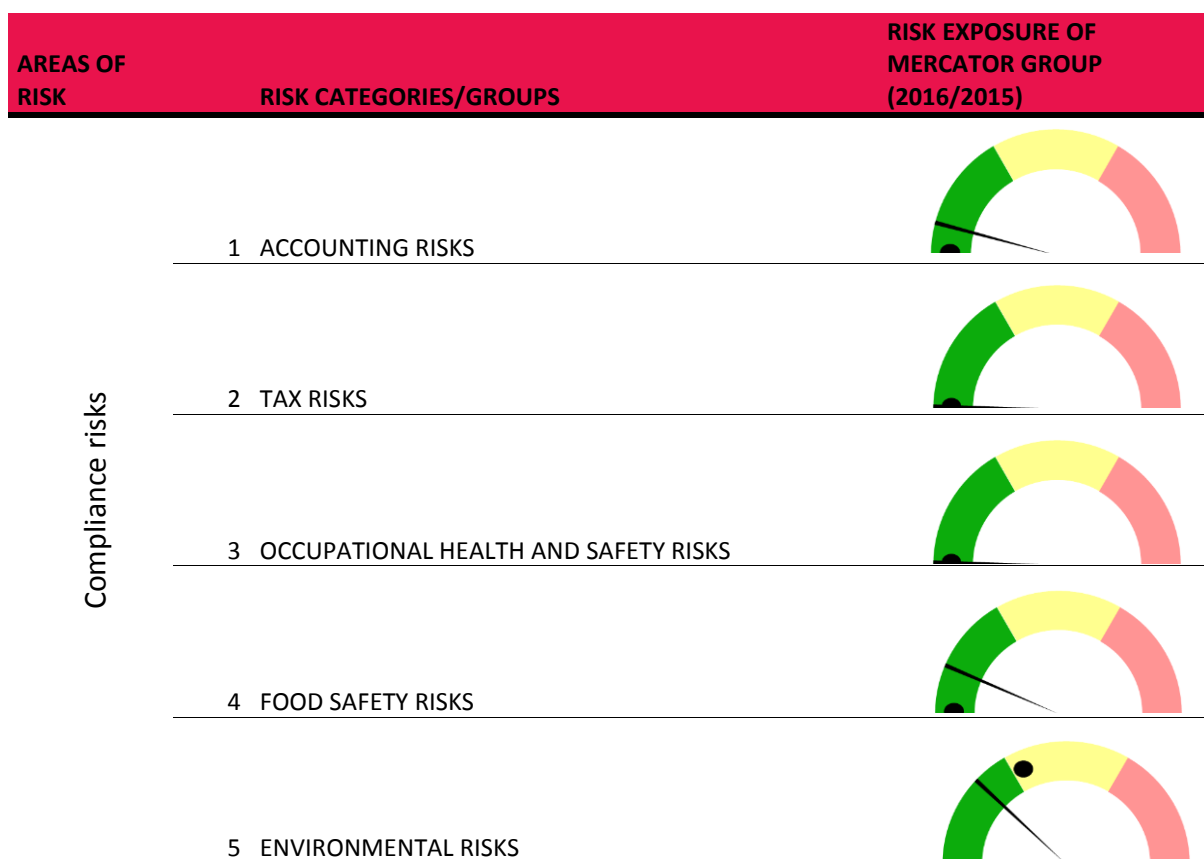
We kept the Mercator Group risk register up to date. In the register, the risks are broken down into 5 areas, and within those, they are divided further into a total of 21 risk categories or groups, which was the basis for determining the key risks of Mercator Group. The criterion applied is that key risks for Mercator Group are those that exceed 1% of Mercator Group EBITDA, or those where the highest risk in a particular risk group or category exceeds 1% of Mercator Group EBITDA.

In the table below, are presented individual key risk categories and the exposure of Mercator Group to this risk in 2016 in relation to 2015.





LEGEND: ● year 2015 — year 2016



LEGEND: ● year 2015 — year 2016

KEY RISK ANALYSIS FOR THE MERCATOR GROUP

In 2015, the Risk Management Council held six sessions to address particular risks. A total of 114 measures were adopted to mitigate or hedge the risk level. The 2015 risk analysis identifies 25 key risks that were monitored during the year and reported at the Mercator Group level.

Based on the analysis of all fields of risks at Mercator Group, we find that the key risks at the entire Group level are divided into strategic, financial, operational, support, and compliance risks. Among those fields, Mercator Group's exposure in 2015 was the highest for financial risks, followed by risks of development of goods and service offer, corporate governance risk, risk of damage events, and risk of category management and procurement. In all groups of risks, we believe that among all companies of the Mercator Group, the company Mercator, d.d., has the highest exposure. The key reason is that the company generates the majority of EBITDA for the entire Mercator Group.

KEY RISK ANALYSIS FOR THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

Identified groups or categories of key risks were the same for Mercator, d.d., and for the entire Group. This means that the key risks for the company Mercator, d.d., are strategic, financial, operational, support, and compliance risks. The company Mercator, d.d., has the highest exposure to financial risks, followed by the risks of category management and procurement, risk of damage events, risks of development of the offer of goods and services, and corporate governance risks. However, risks of category management and procurements, risks of wholesale performance, and damage event risk are higher at the level of the company Mercator, d.d., than at the level of the entire Group. Financial risks are more pronounced at the Group level as it depends on Mercator Group performance which is diversified across several markets. Another higher identified key risk at the Mercator Group level is the risk of offer of goods and services.

DETAILED RISK ANALYSIS

Strategic risks

Strategic risks pertain to development and implementation of the company strategy, stability of ownership, integration processes, management or governance of the company, compliance with the ethics code, flow of information, company reputation, sustainability of operations etc. These risks pertain to the questions of what will our customers, procurement sources, services, and sales channels be like in the medium run.

CORPORATE GOVERNANCE RISKS

Key risk RISK OF LOSS OF REPUTATION	
Key risk description	In addition to the actual effect on the assets of the company or the Group, negative information regarding the company Mercator, d.d., and the Mercator Group also affects their reputation. Therefore, the magnitude and probability of loss or damage resulting from loss of reputation has to be established. By pursuing a solidly planned communication with the public, providing financial support to numerous cultural and sports events and humanitarian campaigns, and by responsible conduct, the company Mercator, d.d., is seeking to build and maintain a positive image in its business environment.
Risk management analysis for 2015	In 2015, we continued to pursue solidly planned communication with the public, providing financial support to numerous cultural and sports events and humanitarian campaigns, and by socially responsible conduct in all areas, seeking to build and maintain a positive image in our business and broad environment.
Activities planned for 2016	No major activities are planned for 2016 to manage the risk of loss of reputation, as the risk is not perceived as a key risk.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

Key risk RISK OF FAILURE TO REAP THE SYNERGISTIC EFFECTS OF INTEGRATION	
Key risk description	The purpose of integration of the acquired operations into the Mercator Group is the pursuit of joint synergies, strategic interests, lower costs, and improvement of market position. Project approach was employed by Mercator Group for the takeover and integration of the transferred units. In the project that includes all Mercator Group companies and the goal of which is to reap the planned or anticipated synergies involves all key companies of the parent company and other companies. All have clear tasks regarding the measures to be implemented in order to actually benefit from the synergies. The parent company Management Board is in charge of supervision and monitoring of these measures.
Risk management analysis for 2015	The takeover of the company Mercator, d.d., by the company Agrokor, d.d., involved in 2014 the integration of acquired operations by markets in which both the Mercator Group and Agrokor Group had been present. This also included transfer of employees in the markets, which required adaptation to different organizational cultures and activities for earliest possible and smooth integration of employees into the shared organizational culture. These activities continued in 2015. In order to reap as many of the anticipated synergistic effects of the integration as possible, a project was under way at all Mercator Group companies in 2015, with the goal to increase cost efficiency and improve performance. In 2015, we also held several joint projects at the level of all units in respective markets, which further boosted the integration.
Activities planned for 2016	All Mercator Group companies will continue to pursue the project for higher cost efficiency and performance improvement. We shall also continue to carry out other joint projects at the level of all retail units in respective markets in which Mercator Group is present, while these projects will be coordinated by the parent company Mercator, d.d.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

COMPETITIVENESS AND CUSTOMER SATISFACTION RISKS

Key risk	RISK OF A DECLINE IN MARKET SHARE RESULTING FROM NEW OPENINGS OF OUR COMPETITORS
Key risk description	Change in market share is related to a change in net retail area of Mercator and that of the competition. If our competition opens more new retail area than Mercator, this may lead to a decline in our market share. Market share is monitored on a monthly basis as the share of sales of FMCG categories (food and beverages, cosmetics and other body care products, washing detergents and products for refreshing the home and laundry) at all types of stores, using the method of survey. The value of risk is calculated as the loss of margin as a result of potential drop in revenue due to a drop in market share.
Risk management analysis for 2015	We monitored on a monthly level the changes in market share and net retail area of our own stores and those of our competitors, as a part of regular monthly reporting. We refurbished our existing stores and continuously looked for new potential locations.
Activities planned for 2016	We will continue to monitor on a monthly level the changes in market share and net retail area of our own stores and those of our competitors, as a part of regular monthly reporting. We shall open new stores and refurbish the existing ones, pursuant to the plan for 2016. Moreover, we shall continuously look for new potential locations.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be HIGHER .

RISKS RELATED TO DEVELOPMENT OF OFFER OF GOODS AND SERVICES

Key risk	RISK OF POOR PRICE COMPETITIVENESS
Key risk description	Risk of poor price competitiveness is related to pricing management. Inefficient pricing management may lead to loss of revenue, loss of profit margin, or both.
Risk management analysis for 2015	In 2015, prices were managed based on the revised pricing policy and regular monitoring of competitiveness of our regular retail prices. Particular attention was paid to products that have the strongest impact on price perception. Weekly price lists were taken as a part of the "lowest price guaranteed" project, and monthly lists were taken for other prices, based on which price analyses and corrections were made. We also regularly analyzed, on a monthly basis, the pricing perception of the company Mercator, d.d., by consumers, as a part of the Consumer Perception survey.
Activities planned for 2016	The pricing management policy will be broken down in even greater detail, with in-depth analysis down to the level of individual products. We shall monitor and analyze on a monthly level the pricing perception among consumers. We shall monitor, analyze and adjust as necessary our prices on a weekly level as a part of the "lowest price guaranteed" project.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Key risk RISK OF SUB-OPTIMUM ASSORTMENT AND RETAIL AREA MANAGEMENT AT THE MICRO LEVEL	
Key risk description	The risk of sub-optimum assortment and retail area management at the micro level is related to assortment management, and to development and implementation of planograms at retail units. Inadequate management of assortment and retail area at the micro level may lead to lower revenue and profit margin, and increase in inventories at retail units.
Risk management analysis for 2015	In 2015, our marketing mix was managed with established strategies and tactics for most categories. We regularly monitored various performance indicators (cost/purchase value, sales value, profit margin, market share). Based on the identified consumer shopping behaviour and competition monitoring, we actively managed our assortment as well. Revised material operation processes allow easier and more automated implementation of assortments and planograms, as well as inventory optimization in retail.
Activities planned for 2016	We will manage our assortments in compliance with the strategies and tactics laid down for individual categories. Assortment models and planograms will be additionally managed for the categories of cosmetics, accessories, delicatessen, organic (eco), and special diet products. We shall actively monitor market developments and global trends.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

Key risk RISK OF SUB-OPTIMUM MANAGEMENT OF SALES PROMOTION ACTIVITIES	
Key risk description	The risk of sub-optimum management of sales promotion activities is the risk related to the efficiency of sales promotion activities and their implementation at retail units. Inefficient sales promotion activity management may lead to lower revenue as well as lower profit margin and excessive stock at retail units after the end of such activities.
Risk management analysis for 2015	Sales promotion activities were conducted in compliance with the adopted annual marketing plan. Based on the annual marketing plan, executive fields of category management and procurement and marketing prepared more detailed quarterly activity plans. The completed sales promotion activities were analyzed. We measured their effectiveness, monitored the competition, and responded as quickly and efficiently as possible. Integration into the Agrokor Group has allowed us to directly compare sound practices and efficiency of their implementation.
Activities planned for 2016	No major activities are planned for 2016 to manage the risk of sub-optimum management of sales promotion activities, as the risk is not perceived as a key risk.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

Financial risks

Financial risks pertain to financial management. They involve credit, interest rate, currency, liquidity, inflation, price, and other similar risks.

Key risk CREDIT RISK RELATED TO LEGAL PERSONS	
Key risk description	Credit risk is the risk of loss due to failure on the part of a debtor to settle his liabilities or meet his obligations.
Risk management analysis for 2015	In 2015, we continued to intensively manage our receivables from legal persons. To this end, we have put into place a central limit system which is continuously updated through our daily work. The largest customers who also represent the highest risk in this segment are managed individually. For 85 largest customers by revenue in 2015, the responsible departments within Mercator agreed upon a business strategy for 2016, clearly laying down the goals to be pursued. For 10 largest customers in terms of open receivables, we have negotiated repayment plans.
Activities planned for 2016	In 2016, we shall continue our work as to date. This way of work will also be employed in the future as it has shown positive effects in terms of decrease of receivables, especially those with the highest level of risk. Implementation of a workflow is in the closing stage, which will allow more automated assignment and correction or amendment of credit limits, with participation of all key Mercator sectors and departments. This will make sure a certain customer is assigned the maximum credit limit with minimum risk of payment default.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Key risk LIQUIDITY RISK	
Key risk description	Liquidity risk is the risk of a company being unable to settle its liabilities at a certain point in time.
Risk management analysis for 2015	Positive effects of Mercator's financial restructuring, completed in 2014, are still positive. Debts are projected to be repaid by 2021, which means that maturity profile of our debt has been extended. This affected the current performance which is much better as a result. In order to secure new financing, we issued commercial paper twice in 2015: first in June, with the issue amount of EUR 20 million; and second time in November, for the same amount. This allowed us to repay some loans with a higher interest rate, which was a rational move.
Activities planned for 2016	In 2016, we shall continue to monitor the working capital development in all segments. In the receivables segment, the monitoring system is already tested and it works well. In the segment of inventories and payables, a lot of attention will be paid to the goods purchasing process and therefore to the amount of inventory and trade payables.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

Key risk CURRENCY RISK AT MERCATOR-S, D.O.O.	
Key risk description	Currency risk is the risk of a financial loss due to a change in the value of one currency relative to another one.
Risk management analysis for 2015	At the start of 2015, the Serbian dinar exchange rate was at RSD 120.96 per 1 EUR; at the end of 2015, it was at RSD 121.62 per 1 EUR. Comparing the exchange rate at the start and the end of the period, we find that the Serbian dinar depreciated by 0.55%. Comparing the average of 2015 to the average of 2014, the depreciation is somewhat higher at 2.27%. A part of the loans in the process of Mercator Group financial restructuring was converted into EUR, which hedged the currency risk to some degree. Additional measures were not required in 2015.
Activities planned for 2016	As every year, we will monitor in detail in 2015 the macroeconomic changes in Serbia and the RSD/EUR exchange rate, looking to identify the trends in economic developments. Based on our findings, we will seek to adjust our operations to such degree that our currency risks are hedged as much as possible.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Operational risks

Operational risks can threaten the operations in category management and procurement, production, logistics, retail, and wholesale.

OPERATIONAL RISKS IN CATEGORY MANAGEMENT AND PROCUREMENT

Key risk SUPPLIER FAILURE	
Key risk description	Supplier failure risks are risks connected with goods not to be delivered properly. Late deliveries or delivery failures affect our inventory management, result in deficiency of goods on the shelves/in the aisles of our retail units, higher goods distribution expenses due to additional transport from distribution centers to retail units, and direct loss of revenue which could have been generated had the goods been delivered on time.
Risk management analysis for 2015	In 2015, delivery failures were monitored on a weekly and monthly level, and corrective measures were adopted accordingly. In the executive field of IT, they completed the construction of information support for delivery failure monitoring for direct deliveries to retail units.
Activities planned for 2016	No major activities are planned for 2016 to manage the supplier failure risk, as the risk is not perceived as a key risk.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

Key risks SEASONAL EFFECT	
Key risk description	The risk of the effect of bad weather on the seasonal products is related to efficient management of such categories. Increasingly unpredictable weather introduces higher probability of lower sales of certain products during their peak season which depends on nice sunny weather. In order to provide a varied in appealing offer, stores have to stock up for the summer season. However, bad weather increases the probability of low sales, which results in loss of revenue, high inventory, or low profit margin due to extraordinary discounts on retail prices. Other products of seasonal character, related to holidays, are not subject to weather conditions.
Risk management analysis for 2015	In 2015, we carefully planned our orders of seasonal products. We specified appropriate dates for the start of sale of seasonal products, as well as appropriate dates for the start of clearance sales. We monitored the actual profit margin and the inventory level for seasonal products. We reached agreements with some suppliers for additional discounts in case of additional price cuts and for return of goods following the end of season.
Activities planned for 2016	In 2016, we shall reach agreements with the suppliers for additional discounts in case of additional price cuts to seasonal products, or agree on return of goods following the end of season. We shall carefully plan our orders of seasonal products. We shall specify suitable dates for the start of sale of seasonal products, and start in a timely manner the clearance sales for any remaining seasonal stock.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Key risks INCREASE OF TRADABLE COMMODITY PRICES	
Key risk description	This is the risk of increase of prices of traded commodities, which is related to efficient management of those categories that may be subject to considerable effect from the commodity market. Ineffective management leads to lower revenue, lower profit margin, and lack of goods.
Risk management analysis for 2015	Last year, we closely monitored the effect of the increase of tradable commodity prices on the categories that may be subject to considerable effect from the commodity market. We monitored on a daily basis the prices of sugar, wheat, corn, milk, sunflower oil, electricity and oil in their respective markets and exchanges. We also monitored on a daily basis the development of the EUR/USD exchange rate. We stayed up to date with trends and causes of any fluctuations through reports on commodity prices. Appropriate annual volumes and stable private label product prices were ensured via central purchasing offer. We monitored European Union's and Russia's trade measures which can result in a rapid increase or decrease in the supply of goods in Europe. This applied in particular to milk, meat, fruit and vegetables, and sunflower seed oil.
Activities planned for 2016	In 2016, we shall monitor the commodity exchange prices for raw materials with a considerable impact on particular products and categories. We shall continue to monitor the trade measures by the European Union and Russia. We shall actively monitor the trade measures negotiated with other countries. Appropriate annual volumes and stable private label product prices will be ensured via central purchasing offer.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Key risks	RISKS OF FAILURE TO ATTAIN THE PLANNED PROFIT MARGIN AND RETURNS ON SALES PROMOTION ACTIVITIES
Key risk description	Risks of failure to attain the planned profit margin and returns on sales promotion activities is related to effective sales promotion activity management and performance of other contractually agreed activities with suppliers. Planned and actual key performance indicators for the entire FMCG format and for particular categories were regularly monitored on a monthly basis. In case of any undesirable deviation, short-term and long-term measures for the improvement of all key performance indicators within each category or at the level of a particular product were adopted immediately.
Risk management analysis for 2015	In the past year, we regularly monitored on a monthly level the performance indicators for respective categories and for the entire market format. In case of any undesirable deviation of actual figures from the expected ones, we adopted short-term and long-term measures to increase sales and profit margin within each category or at the level of a particular product.
Activities planned for 2016	No major activities are planned for 2016 to manage the risk of failure to attain the planned profit margin and returns on sales promotion activities, as the risk is not perceived as a key risk.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

OPERATIONAL RISKS IN WHOLESALE

Key risks	RECEIVABLES AND DISPUTED RECEIVABLES
Key risk description	The purpose of trade receivables management is to mitigate the risk of repayment of all outstanding overdue and not-yet-due receivables, or repayment of all outstanding receivables in cases of compulsory settlement, receivership, or bankruptcy.
Risk management analysis for 2015	The following activities were conducted in 2015: <ul style="list-style-type: none"> • We examined the possibility of dated entry of credit limits based on subjective criteria in order to avoid manual management of credit limits. • With customers who provided a bank guarantee as collateral for their liabilities, we consistently observed the contractual obligation. • We specified the amount of credit limits for our biggest customers. • We decreased the threshold of defaults on payments of trade payables, and introduced automatic blocks of purchases in case of payment defaults. • We adopted an agreement on management of customers who are at the same time tenants at Mercator's commercial premises. • We developed a plan on cooperation with suppliers who are also our customers. • We adopted instructions on customer debt repayment in instalments. • We adopted a measure on mutual cooperation and notification between account managers (administrators) within various sectors at Mercator.
Activities planned for 2016	In 2016, we shall regularly conduct measures to specify limits for the customers and strictly observe the blocks in cases of late payments, and report on the situation on a weekly basis.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Key risks FAILURE OF THE REFRIGERATION SYSTEM AND ELECTRICAL WIRING	
Key risk description	The economic situation and planned investment priorities regarding refurbishments of the existing facilities in recent years have not allowed satisfactory updates to the worn refrigeration equipment and electrical wiring at C&C units, which in turn introduces risks related to the worn-out refrigeration equipment at all C&C unit locations. A refrigeration system failure can result in major damage.
Risk management analysis for 2015	In 2015, a detailed review of the status of refrigeration equipment in wholesale was made. Based on the review, planned activities to improve the condition of refrigeration equipment were defined. Employees were educated and trained with regard to diligent maintenance of the refrigeration equipment, and written instructions for refrigeration equipment users were compiled. The first revisions of refrigeration equipment have been completed in compliance with the investment plan.
Activities planned for 2016	In 2016, we will carry out or complete the planned activities to improve the condition of refrigeration equipment.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

Support risks

Support risks pertain to employees, legal affairs, property and equipment management, IT support, and management of damage events.

IT RISKS

Key risk	FAILURE OF CENTRAL IT SYSTEMS
Key risk description	The risk is related to the failure of the central IT systems. Failures may occur for various reasons such as natural disasters, fires at the premises, failure of individual system components, failure in system or application software etc.
Risk management analysis for 2015	<p>Mercator Group carried out several projects on central IT systems as a result of merger with the Agrokor Group. IT infrastructure was consolidated and adjusted to the corporate policies. Due to consolidation of business solutions (applications), operations were migrated from one business solution to another, or the existing solutions were updated and adapted to the Agrokor Group standards.</p> <p>An initiative was launched within Mercator Group to improve the efficiency of management of the changes to the central IT systems. Consolidation of requirements for changes was completed in all key IT systems. Moreover, an advanced IT solution was established to support the management of such changes. Environment for more advanced IT equipment error reporting was developed, which allows structured reports of incidents in retail and more complex analysis of such errors.</p>
Activities planned for 2016	<p>In 2016, we are planning to conduct all regular operational activities and management of relevant IT system architecture.</p> <ul style="list-style-type: none"> • All hardware will be subject to new, stricter security requirements, and compliance with security requirements will be regularly monitored. • We shall revise the management processes for information assets, changes, and problems related to the central IT systems, so that they comply with the corporate requirements and local legislation. • We shall establish advanced central records of servers and workstations. In addition to the information on assets, advanced records will also include key infrastructural data for such assets (e.g. CPU, memory, and disk). The records will be regularly updated. • We shall establish a central system for distribution of security fixes to workstations and servers. • We shall replace or make uniform the anti-virus protection on all systems. • We shall revise and reset our firewalls on the central IT system servers and on workstations accessing them. • We shall connect the workstations into a network using an ID certificate. • We shall establish vulnerability management for workstations and servers. • We shall regularly analyze business information systems to identify and resolve any problems related to the operation of the business IT system. • We shall establish advanced central registry of changes taking place on the assets and allowing the operation of the central IT systems. <p>At Mercator - S, d.o.o., we are planning to carry out all regular operating activities and maintain suitable IT system architecture, which includes the following:</p> <ul style="list-style-type: none"> • Servers from the computer center in Novi Sad will be relocated to the computer center in Belgrade, which will improve security requirements. • We shall introduce a solution for early identification of a breach into the IT system and rapid response to such breach.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Key risk	THE RISK OF INCORRECT DATA IN CENTRAL OR RETAIL SYSTEMS AS A RESULT OF A FAILURE IN THE PROCEDURES TRANSFERRING AND PROCESSING THE DATA, OR DUE TO A SYSTEM BREACH
Key risk description	The risk is mostly related to business loss resulting from changed (lower) downstream prices or embezzlement of funds from the company accounts.
Risk management analysis for 2015	In 2015, we continued the project of implementing the IT Service Management (ITSM) principles. The project included optimization of and provision of support to the problem management process.
Activities planned for 2016	<p>The following activities are planned at Intersport ISI, d.o.o.:</p> <ul style="list-style-type: none"> • We shall join the revised management processes for information assets, changes, and problems related to the central IT systems. • We shall establish connection with the newly establish central registry of servers and workstations and the registry will be regularly updated. <p>At Mercator IP, d.o.o., we are planning to carry out all regular operating activities and replacement of the manufacturing support system.</p>
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Key risk	OPERATIONAL FAILURE OF A THIRD OF THE BUSINESS IT SYSTEM CLIENTS (PERSONAL COMPUTERS, LAPTOPS)
Key risk description	The risk of operational failure of a third of the business IT system clients (personal computers, laptops, notebooks) deals with the failure of key IT equipment that the users use to access an IT service. This category of equipment includes personal and portable computers on which client software is installed to allow the use of business applications (e.g. SAP, GOLD, LogInfo), or independent clients for conducting individual business operations (e.g. MS Office, Corel Draw). Equipment failure may result from a number of reasons, such as the failure of system software that allows equipment operation, key electronic component failure, equipment breach, infection with a computer virus etc. The risk was a key risk for the company Mercator - H, d.o.o., in 2015.
Risk management analysis for 2015	At Mercator - H, d.o.o., we continued to implement the IT Service Management (ITSM) principles, which included optimization of the information asset management system.
Activities planned for 2016	No major activities are planned for 2016 to manage the risk of operational failure of a third of the business IT system clients (personal computers, laptops), as the risk is not perceived as a key risk.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be LOWER .

DAMAGE RISKS

Key risks EARTHQUAKE AND FIRE	
Key risk description	In analysis of all damage risks managed by insurance, we reached the conclusion that two risks are critical to Mercator: fire and earthquake.
Risk management analysis for 2015	We are aware that insurance does not entirely hedge the risk of loss of funds in case of loss (or damage) events, but only serves to even out or balance the financial fluctuations in company operations, resulting from any loss events.
Activities planned for 2016	Activities planned for 2016 are the same as in 2015, which means keeping the insurance policies at the same level as in previous years.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

Compliance risks

Compliance risks pertain to compliance with the requirements of the accounting legislation and standards, tax requirements, occupational health and safety, requirements regarding health compliance and safety of food in production and trade, and risks related to identified environmental aspects.

ENVIRONMENTAL RISKS

Key risks ELECTRICAL ENERGY	
Key risk description	Environment risk for the environment aspect of electric energy is related to inefficient use of electric energy due to suboptimal design of business processes and technologies employed.
Risk management analysis for 2015	<p>In 2015, all employees were informed on a quarterly basis about the change to the settings of regimes related to the use of electricity and on observance of instructions.</p> <p>Report on environmental aspects (energy sources) was prepared each month for the Mercator Group, as well as analyses by particular units, based on which particular discrepancies were analyzed and further measures were specified.</p> <p>The project involved setting up an energy accounting system for monitoring the target use of energy for each unit. By upgrading the energy accounting system, we established faster control over the implementation of measures for efficient use of energy by the employees. Currently, the system includes: 359 units via information on 15-minute measurements on key consumption points, and 29 units with additional energy consumption meters with 15-minute intervals.</p> <p>Activities were adopted to implement the measures for efficient use of energy on 172 units, such as optimization of refrigeration equipment and ventilation system control, optimization of lighting, education on efficient use of energy etc.</p> <p>We also completed the pilot project of regulating the equipment in the hot bar in order to optimize the operation of respective pieces or parts of the equipment. We regularly conducted central control over the operation of refrigeration equipment at all major units as a part of the Retail Care project.</p> <p>Heat and power were generated in the combined heat and power (CHP) system (or co-generation system).</p>
Activities planned for 2016	In 2016, we are planning to inform the employees on energy consumption on a quarterly basis; to upgrade the existing energy accounting system; and to cut power consumption by 1.5% annually.
Assessment of exposure 2016/2015	Relative to 2015, we believe the risk in 2016 will be EQUAL .

FINANCIAL MANAGEMENT

Stable Financial Operations

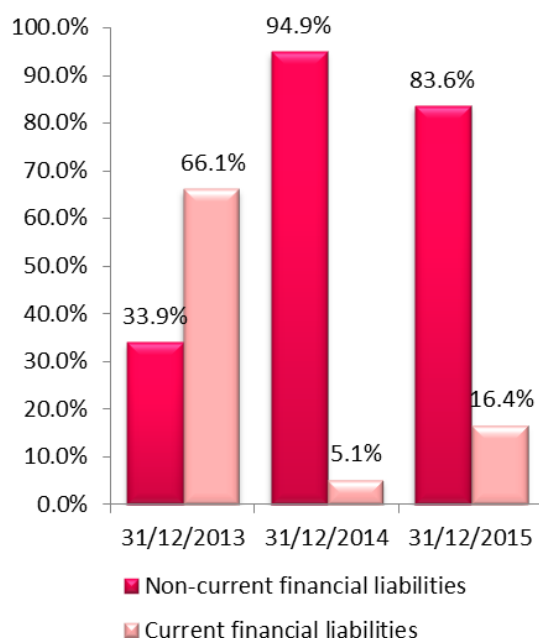
As at December 31, 2015, Mercator Group net financial debt amounted to EUR 849,241 thousand, which is 8.0 percent more than as at the end of 2014. In the last year, Mercator Group thus continued its stable financing activities and maintained a long-term sustainable maturity profile of its financial liabilities.

in EUR 000	Dec 31, 2014	Dec 31, 2015
Non-current borrowings and other financial liabilities	806,640	758,208
Current borrowings and other financial liabilities	42,998	149,224
Financial liabilities	849,638	907,432
Cash and cash equivalents	34,224	18,998
Available-for-sale financial assets	1,178	524
Loans and deposits	28,262	38,669
Financial assets	63,664	58,191
NET FINANCIAL DEBT	785,974	849,241

Financing costs

In the period 1-12 2015, the 6-month EURIBOR averaged at 0.055%. At the end of the period, it was negative at -0.040%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at 0.308%, this rate fell by 82.27%.

Debt to equity and financial liability ratio



As at December 31, 2015, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.3. The ratio is a quotient between equity and net financial debt.

In the last 2 years, Mercator Group succeeded in improving the composition of financial liabilities by maturity (maturity profile) by completing its financial restructuring. The share of long-term financial liabilities as at December 31, 2015, was 83.6% (94.9% as at December 31, 2014).

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

Available liquidity lines as at December 31, 2015

As at December 31, 2015, Mercator Group had access to the following liquidity lines:

in EUR thousand	Dec 31, 2015
Cash and cash equivalents	18,998
Standby revolving credit lines	62,541
Total	81,539

Security of bank loans

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

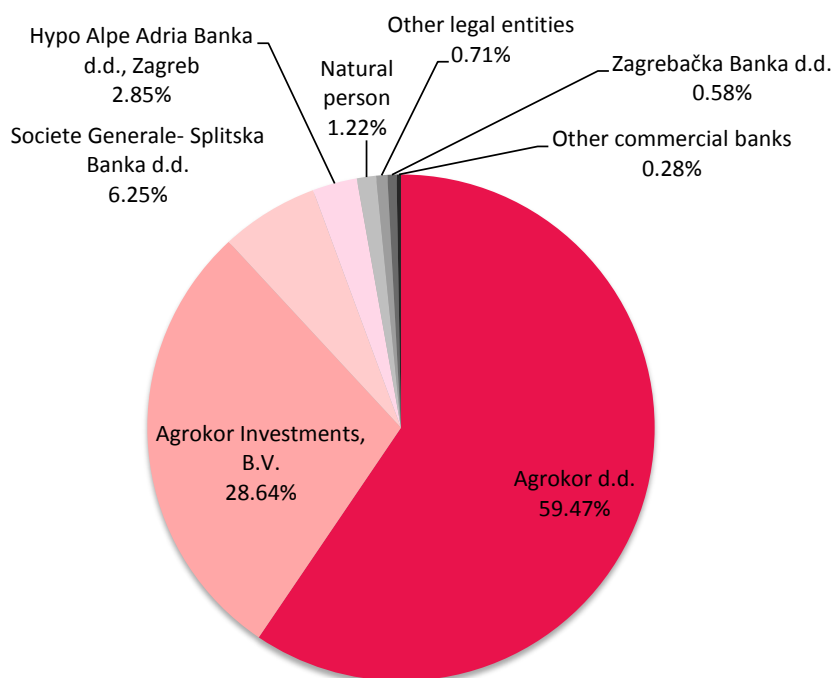
MERCATOR SHARE AND INVESTOR RELATIONS

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31, 2015:

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska Borza, d.d.
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of treasury shares	42,192
Number of shareholders	2,518

Ownership structure of the company Poslovni sistem Mercator, d.d., as at December 31, 2015:



Major Shareholders

As at December 31, 2015 the following ten largest shareholders held a combined share of **98.40%** of the company.

		Country	Number of shares	Share
1	Agrokor d.d.	Croatia	3,621,992	59.47%
2	Agrokor Investments B.V.	Netherlands	1,744,187	28.64%
3	Societe Generale - Splitska Banka d.d.	Croatia	380,399	6.25%
4	Hypo Alpe-Adria-Bank d.d.	Croatia	173,334	2.85%
5	Zagrebačka Banka d.d.	Croatia	35,383	0.58%
6	Galić Josip	Croatia	21,525	0.35%
7	Erste Group Bank AG	Austria	10,522	0.17%
8	Zveza Bank Reg.Z.Zo.J.Bank und Revisions	Austria	2,761	0.05%
9	Clearstream Banking SA	Luxembourg	1,170	0.02%
10	Banque Pictet and CIE SA	Switzerland	1,107	0.02%
Total			5,992,380	98.40%

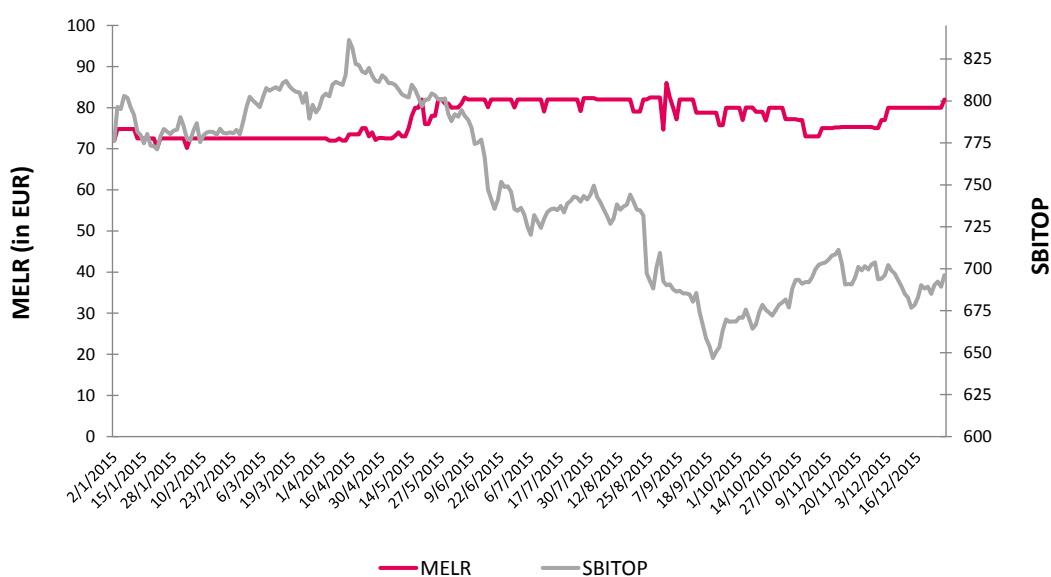
Shares held by Management and Supervisory Board Members as at December 31, 2015

Management Board and Supervisory Board Members did not own shares of the company Poslovni sistem Mercator, d.d., as at December 31, 2015.

Foreign shareholders

As at December 31, 2015, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.45%**, which is 0.05 percentage point more than at the end of 2014.

Movement of closing price per MELR share in the period 1-12 2015, compared to the movement of the SBITOP index



Key information for the shareholders

	Dec 31, 2014	Dec 31, 2015	Index Dec 31, 2015/ Dec 31, 2014
Number of shares entered into the court register	6,090,943	6,090,943	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	438,547,896	499,457,326	113.9
Market price per share (in EUR)	72.00	82.00	113.9
Share book value (in EUR)	105.67	104.32	98.7
Minimum close rate in the period (in EUR)	66.01	70.13	106.2
Maximum close rate in the period (in EUR)	85.50	86.00	100.6
Average close rate in the period (in EUR)	75.51	77.18	102.2
Net return on equity – ordinary shares (in EUR)	-15.72	-0.63	4.0
P/E ratio	-9.78	24.61	-
Capital gain (in %)	-12.20	13.89	-

Market capitalization is calculated by multiplying the number of shares entered into the court register as at December 31, 2015 with market price per share as at December 31, 2015.

Net return on equity (ordinary share) is calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares.

Share book value is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at December 31, 2015, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

P/E (price-to-earnings ratio) is calculated as the ratio between market price per share as at December 31, 2015 and net profit of Mercator Group per share.

Capital gain is calculated as the ratio between market price per share as at December 31, 2015 and market price per share as at December 31, 2014.

Dividend policy

The company Mercator, d.d., generated negative result in 2015, because of this no dividend payment is planned for 2016.

Treasury shares

As at December 31, 2015, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1-12 2015 the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

Changes in ownership structure

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

Investors

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

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



SUSTAINABILITY REPORT

First, second, third, or fourth – it does not matter. We pay the same attention to all.



At Mercator, we are aware of the importance of our effect on the environment into which we are integrated, and on our stakeholders. Our loyal customers are at the heart of our efforts. All Mercator employees do their best every day to provide a quality and pleasant shopping experience for them. Our suppliers are an important link in our activities. We seek to maintain long-term cooperation with them, based on transparent communication and mutual trust. Responsible and sustainable operations are not restricted merely to our stores and trade activities too. Rather, we also take part in the broad social life. With our sponsorships, donations, and other charity campaigns we seek in particular to help the broad society in today's harsh economic conditions, and to contribute to more optimism for the future.



RESPONSIBILITY TO CUSTOMERS

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

Within the Locally Grown project, we continue to sign agreements with growers on larger purchasing volumes for Slovenian fruit and vegetables. We work with the growers to provide an increasingly broad offer for our customers, with a variety of sorts of Slovenian fruit and vegetables. The project contributes to preservation of the environment and provides a faster route to our stores, aisles, and shelves for the growers.

The project places great emphasis on increasingly broad offer of Slovenian fruit and vegetables at the Locally Grown marketplaces; on new and innovative products made of Slovenian wheat, by the Grosuplje Bakery; on regular offer of meat raised in Slovenia; and broad offer of milk and dairy products made of 100% Slovenian milk.

Customer satisfaction monitoring

At Mercator, we continuously monitor the satisfaction of our customers. The goal of the survey is to monitor general satisfaction and to identify any causes of customer dissatisfaction. Based on the survey results, proposals are made for improvement of particular elements of our service and offer, which in turn has a positive effect on the customer satisfaction level.

After a drop of the share of highly satisfied customers in Slovenia in 2014, satisfaction was stabilized in 2015.

Mystery shopper

The goal of the mystery shopper survey is to examine the level of service, suitability of communication, and expertise of the sales staff at Mercator stores. The results are used to improve the quality of service. The survey includes evaluating the following aspects: attitude to customers, cleanliness and neatness of stores and employees, knowledge about the products, selling skills, product presentation, stocking, price labelling, waiting time, and Pika card.

Compared to 2014, the mystery shopper survey results remained the same in 2015, with no major deviations across store formats.

Customer complaints

Received customer complaints are an important source of information based on which we seek to improve our offer and appearance of stores, and adjust our campaigns and other activities. Response to customer initiatives and complaints also improves customer satisfaction. We consider every complaint or proposal and we seek to take it into consideration as closely as possible, and eliminate deficiencies in all fields.

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

By introducing the Commitments to Customers, we ensured that any mistakes in price labelling are resolved immediately at the store, which in turn makes sure the customers leave the store satisfied.



RESPONSIBILITY TO EMPLOYEES

In 2015, we continued the processes of restructuring and reorganization which had started in 2014. The goals of these processes are to establish more efficient work processes, to cut the scope of administration, and to cut labour costs. Nevertheless, we are aware that the employees are at the heart of our operations. They contribute greatly to customer satisfaction and to success of the pursuit of Mercator's business goals.

At Mercator, d.d., we continued the business process rationalization and optimization of the number of employees in 2015.

At Mercator - H, d.o.o., integration processes with the Agrokor Group companies continued in 2015. We divested 46 FMCG units, opened five new Intersport retail units, a Benetton unit in Rovinj, and closed down the Modiana in Split.

At Mercator - BL, d.o.o., variable part of the salary was introduced for employees in administration. Two new sets of rules and regulations were adopted on the systematization of jobs and payroll accounting. In the last quarter, the most important activities in human resource management pertained to the process of leasing out the Santana bars to third-party tenants.

At Mercator - CG, d.o.o., we took over 5 business units of the company Solaris, d.o.o., and 4 business units of the company Kaća, d.o.o. New business units were opened in Ulcinj, Cetinje, and Podgorica.

At Mercator - S, d.o.o., we reorganized the marketing and purchasing sectors. Closing down of catering units required transferring the employees to other units within the company, while a part of the employees were redundant. We divested 7 units, and employees of these units were transferred to another company. Annex to employment contracts were signed due to transition to fixed salaries for the employees at Roda, Intersport, and Modiana.

New job systematization was adopted on May 1, 2015 at Mercator - BH, d.o.o. Optimization was in progress at the company for a full year, which resulted in a decrease of administration employees. In July, new Modiana and Intersport Emporium units were opened in Banja Luka. In the last quarter, most activities were geared toward the process of separating the activities of sportswear sales from the company Mercator - BH, d.o.o., and transferring these activities to the company Intersport BH, d.o.o. (65 employees).

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

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

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

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

Human resources

Employees by markets and categories

As at December 31, 2015, Mercator Group had 21,459 employees, of which 10,909 were employed in foreign markets. Relative to the end of 2014, total number of employees dropped by 5.2%.

Number of employees

	Number of employees as at December 31, 2015	Number of employees as at December 31, 2014	Index number of employees Dec 31, 2015/ Dec 31, 2014	Number of employees based on hours worked in the period Jan-Dec 2015
Slovenia	10,550	11,101	95.0	10,037
Serbia	8,843	8,880	99.6	8,341
Montenegro	1,333	1,239	107.6	1,210
Croatia	557	1,207	46.1	681
Bosnia and Herzegovina	176	216	81.5	171
TOTAL	21,459	22,643	94.8	20,440

In 2015, the general composition of employees did not change considerably relative to 2014. Operational personnel, or shop assistants, remained the largest group of employees by field of work in 2015.

Employment of disabled persons

The largest number of disabled persons (576, or 6% of all employees) are employed at the company Poslovni sistem Mercator, d.d. A significant number of persons with disabilities are employed at the company Mercator IP, d.o.o., which has a total of 399 employees, of which 209 are employees with a registered category of disability (52.4%).

In 2015, the company Mercator IP, d.o.o., continues with the N Service project (work performance assessment) within which we received a subsidy for the salaries of employees with disabilities in the amount of EUR 77 thousand. In December 2015, we transferred from the parent company of the company Mercator IP, d.o.o., the activity of preparing sandwiches, salads, and freshly diced fruit.

External fluctuation

Optimization and integration processes had a strong impact on the field of hiring and recruitment, as evident in the percentage of external fluctuation which was at 21% for Mercator Group in 2015. We hired 4,372 new employees, and employment relationship was terminated for 5,671 employees.

The highest rate of external fluctuation in 2015 was seen in Croatia. The reason for this are the integration processes at Mercator - H, d.o.o., most prominently the divestment of 46 market program sales units.

In Montenegro, fluctuation rate is a result of departure of seasonal fixed-term employees; on the other hand, 150 new employees were welcomed from other, third-party companies. Fluctuation rate at Mercator - S, d.o.o., is a result of closing down of the catering units and unit divestment.

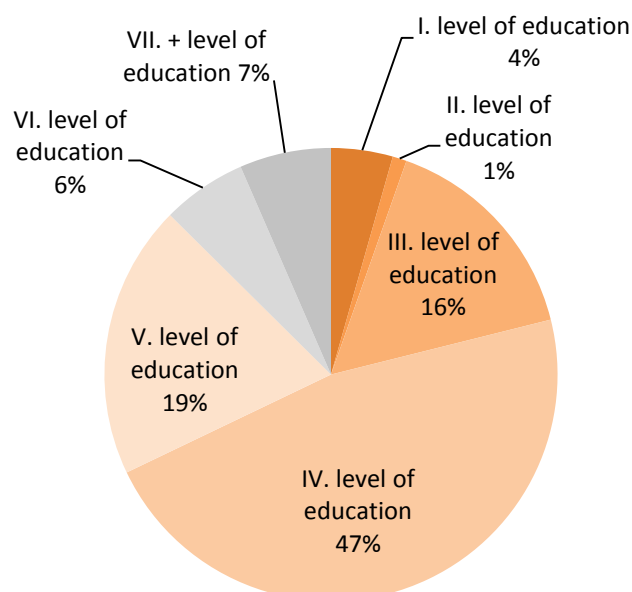
The parent company acquired 3 business units of the company Era Good, d.o.o., along with 34 employees. By transferring the activities of internal manufacturing and travel services, 241 employees were transferred to external acquiring parties in these processes. During the tourist season, several hiring activities were conducted and the number of employees was temporarily increased.

Care for employee development

Composition by education

The largest share of Mercator Group employees have IV level of education (9,997 employees, or 47%), which reflects our core activity of retail. This group is followed by those with III and V level of education (total of 7,529 employees, or 35%).

Actual level of education (% of employees) as at December 12, 2015



Training and education

In the period at hand, Mercator Group devoted 165,799 hours to functional training and education that involved 26,454 employees. The cost of this effort was EUR 815,405.

In 2015, average employee training was longer, which also resulted in a higher cost of training and education per employee than in 2014.

Review of the number of hours, participants, and funds allocated to functional training and education

	No of hours	No of participants	Funds allocated (in EUR)
2015	166,799	26,454	815,405
2014	155,473	37,242	446,980

Young and talented employees from various Mercator companies have been included in Agrokor's educational program **Futura 2015**. Seven employees completed the program "**Developing Key Talent for Organization Excellence**" at the IEDC Bled School of Management.

The **Succession in Retail** project involved the launch of the **2nd Retail Academy** at the parent company, which includes 23 employees. These are employees who we believe to have the potential and the ambition to become a shop manager. The training also includes **individual coaching** by internal coaches. Upon completion, the participants will receive certificates.



As a part of the **7th Coaching Conference** organized by Planet GV, we presented Mercator's internal coaching system as an example of good practice.



In the **Selling Skills Development** project, we improved the level of service in 2015 as well. Since the launch of the project (in 2013), over **3,800 employees** took part in the two-day workshops, of which **2,800 were employees in retail**. The project was expanded to the Modiana and Tehnika divisions, and here, too, nearly all employees were involved. Participants received the "I am an Excellent Salesperson" manual as material for the workshop. Use of selling skills in the workplace was encouraged by our sales instructors during regular and extraordinary visits to sales units and by systematic induction training

of newly hired employees.

Throughout the year, employees in retail in Slovenia were trained to **refresh their knowledge of working hour registration**.

In November 2015, we carried out the first training program for persons responsible for the sale of pyrotechnical products. The exam was successfully passed by 79 employees.



In September, we held the **1st Retail Conference** intended for all shop managers and retail managers. The conference was attended by 509 managers and shopping centre managers from across Slovenia. The purpose of the conference was to present the key processes and projects currently in progress in the field of retail.

In order to set up the Store Manager School program, we held **Word Café with 76 shop managers** to discuss the contents required in the program so that every participant can develop his or her competencies.

In Serbia, we equipped the training and education centre in Novi Sad, which provided many training and education programs: retail training, shop manager education, teambuilding activities etc. High-school student practical training contracts were signed with 28 high schools across Serbia.

Following the project **English Goes to Store**, we also carried out the project **English to Go** with English conversation workshop. Employees learned English at several levels of proficiency in individual and group courses provided by the Berlitz language school.

ENGLISH TO GO



IRU (Individual Responsible User) training was held – for individual performance – intended for store managers and heads of business units. The goal of the training was continuous monitoring of quality for every retail store employee, which in turn serves as the basis for evaluation of the employee's further development, for improvement of efficiency, and for development of the feedback culture. Due to the migration from the Pika card to the Super Card, training was held for approximately 240 employees in November and December.

At Mercator - BL, d.o.o., we relied on internal resources to carry out retail employee training aimed at improving the quality of services and selling skills.

In Montenegro, training was held as planned for key fields in retail within our trainer network. We also held two-month training for 8 new shop managers.

Coaching network at the company Intersport ISI, d.o.o., has continued good work in retail for successful communication and establishment of better relations with customers during the sales process. In addition, on-the-job training provided by suppliers is also in progress.

Motivation and rewards

At the parent company, we continue our activities in the project **Career Challenge** for our employees identified as having the potential to take over the most demanding positions at Mercator. In June, members of the Mercator Group Management Board Council, executive directors, and talented employees (a total of 80) with prospect to be promoted to the top positions, were invited to a meeting with the president. In the informal social event, the president presented his career path and challenges lying ahead. The project included 60 career interviews and 7 evaluation centres, as well as individual feedback to candidates and their superiors. Within the activity, we identified the greatest



potentials and the greatest possibilities for development of our key employees. In November, we launched the workshops **Personal Career Plan** by which the participants of the Career Challenge will think about their career path and the path of personal and professional development. At the end of the year, all 60 employees had **one day of work at shops or warehouses**. In December, the second meeting with the president and the participants of the Career Challenge was held. Over 70 employees pooled their thoughts about the true importance of teamwork, links between employees, socializing, and exchange of good practices. At the end of the gathering, we collected over 100 presents for the **Volunteer Society**

of Vincent's Association of Kindness which holds a New Year's party with a bingo every year for the Ljubljana homeless.

At the parent company, we announced in November in the magnificent ambient of the Ljubljana castle **the best leaders and presented the Mercator Awards**. We presented 13 awards for the Best boss, and 18 Mercator Awards.



At Mercator - S, d.o.o., 16 employees who met the criteria for part-time studies received scholarships for the 2015/16 academic year. The scholarship program goes to show that we appreciate our employees and believe that individual's progress and development contribute to the development of the company as well. We

launched the project **Roda Manager** intended for training of business unit managers and provision of new knowledge and skills from in-house experts on a variety of sectors of the company. We carried out the activity 360° core competence assessment (responsibility, ideas, integrity, trust) and leadership skill assessment (consistency, self-motivation and motivation of others, decisiveness and benevolence) for top and middle management. In the project **First Job, the Right Move**, aimed at young employees in retail, 20 candidates were selected who started work as of February 1, 2016, at all major cities in Serbia. We also completed many activities for hiring appropriate human resources in retail: participation at the Link2Job fair; hiring retired employees; working with the national employment agency; integration of persons with disabilities etc. Application **Gamification of the induction process/ acquainting new employees with the company** is being developed. The goal of the application is to save time used for induction of new employees through the concept of a game.



In Montenegro, we held an open door day and issued an information brochure. A part of the corporate culture was included in the **SpongeBob Squarepants** project and we encouraged unity and teamwork. According to this project many activities were organized in nearly all cities of Montenegro, including Budva, Nikšić, Herceg Novi, and Podgorica. In November, we launched the project **Roda Manager – the Right Job**, the goal of which is to motivate economics and business graduates to recognize retail as a sector where they could build their professional careers. We presented New Year's packages for our employees' children aged up to 10.

At Mercator - Emba, d.d., we completed the project **Permanent Career Orientation**, co-financed by the Public Fund of the Republic of Slovenia for Development of Human Resources and Scholarships. The project involved 96% of all employees who attended workshops on personal and career development and stress management, and a career plan was designed for 62 employees through annual development interviews.

As a socially responsible enterprise, the social enterprise Mercator IP, d.o.o., works actively with six different vocational rehabilitation centres and enables on-the-job training for persons with disabilities or special needs, which improves further employment prospects for such persons. In 2015, we offered training to twelve people. We took part in the REHA days, co-organized by the Ministry of Labour, Family, Social Affairs and Equal Opportunities of the Republic of Slovenia, and the Vocational Rehabilitation Association of the Republic of Slovenia. During this event, the company Mercator, d.d., received a special award as the biggest employer of persons with disabilities in Slovenia.



At Intersport ISI, d.o.o., top six employees in retail and the best employee in logistics are rewarded each month.

Connecting our employees

Mutual cooperation and aid

Mercator employs more female than male employees: 70% of employees are women and 30% are men. Compared to 2014, the percentage of women has increased slightly (in the year before, the share of women was 68.6%).



In September and October we organized the **Category Manager Meetings** taking place simultaneously in Slovenia, Serbia, Bosnia and Herzegovina, and Croatia. The purpose of these two-day events is to meet, connect, and to reinforce the team spirit and connections between the companies. The first day includes work meetings, and the second day is intended for informal socializing and outdoor sports activities. Finally, the participants develop a team paper with the target of specifying an innovation in the field of work which can be implemented in all markets involved. The 6 meetings held were attended by a total of 70 participants.

From June to the end of September, we held the traditional **team-building workshops on Vogel**. This year, we revised the program contents and made the team games more interesting. We held a total of 22 workshops attended by 323 employees from the companies Mercator, d.d., Mercator IP, d.o.o., and Intersport ISI, d.o.o. At Mercator - S, d.o.o., we held teambuilding activities for top managers and young talent in order to strengthen the team spirit within sectors and between them.

Two-day field trips were held for employees from the parent company, mostly store managers. These included 6 groups of participants who visited Agrokor companies and manufacturing plants in Croatia.

As a part of the full **Family-Friendly Company certificate**, all parents of first-grade students and parents of children going to the kindergarten for the first time have been offered at Slovenian companies of the Mercator Group for several years an extra day of extraordinary paid leave, if their work process permits it. This year, the measure was used by 378 parents of which 268 accompanied their children to the first grade of elementary school and 110 accompanied them to kindergarten.

In Serbia, the Mercator Solidarity Foundation provided aid in the amount of EUR 30,721 to 96 employees. In Montenegro, the Solidarity Foundation helped 34 employees by providing aid in the total value of EUR 6,900. In Slovenia, Mercator Humanitarian Foundation provided aid to 534 employees of Mercator, d.d., or Mercator IP, d.o.o., who were in need of help. We have paid out humanitarian aid in the total amount of EUR 197,097.22. We also granted social scholarships to six children of our employees, in the total amount of EUR 5,400.

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

Occupational health and safety

Numerous activities are in place at the Mercator Group level aimed at improving the health and well-being of our employees.

Workplace accidents

	Year 2014		Year 2015	
	No of accidents	% of accidents	No of accidents	% of accidents
Slovenia	298	2.7	332	3.1
Serbia	312	3.5	591	6.7
Montenegro	0	-	11	0.8
Croatia	39	3.2	6	1.1
Bosnia and Herzegovina	38	17.6	0	-
TOTAL	687	3.0	940	4.4

In 2015, a total of 940 workplace accidents were recorded at Mercator Group. Compared to 2014, the workplace accident rate is higher by 1.4 percentage point relative to total number of employees.

Overall health absenteeism rate

	Year 2014	Year 2015
Slovenia	6.2	7.4
Serbia	4.4	5.3
Montenegro	7.2	6.9
Croatia	6.8	8.1
Bosnia and Herzegovina	5.0	4.7
TOTAL	5.8	6.5

The rate of health-related absenteeism is calculated as the ratio between health-related absenteeism hours to total available work hours of all employees in a period. Total health-related absenteeism rate at Mercator Group in 2015 was 6.5%, which is more than in 2014 when it was at 5.8%. In Slovenia, the increase in overall absenteeism rate is the highest. The increase is mostly a result of higher absenteeism rate to the burden of the Institute at the companies Mercator, d.d., and Mercator IP, d.o.o.



RESPONSIBILITY TO NATURAL ENVIRONMENT

In the spirit of the Circular Economy concept which was created as a response to pressures from the expanding economy and consumption on the scarce resources and the absorption capacity of the environment, the company Mercator, d.d., paid particular attention in 2015 to cutting the use of raw materials, reuse, repairs, and recycling of existing materials and products, and to reduction of the use of hazardous chemicals.

Energy efficiency

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

The company Mercator, d.d., is a major consumer of power and fuel in Slovenia. In 2015, it used 269,442 MWh of power for its operations.

Efficient use of energy is a result of effort by all Mercator employees.

At Mercator, d.d., the **following measures** were implemented in 2015 with regard to efficient use of energy:

- We regularly informed, on a quarterly basis, all employees, via the intranet portal, about the changes in the settings regimes for heating, air conditioning, and lighting, and on the compliance with the instructions from the Manual on efficient use of energy.
- Report on environmental aspects (energy sources) was development each month for the Mercator Group, as well as analyses by particular units, based on which particular discrepancies were analyzed and further measures were specified.
- The project of Upgrading the current energy accounting system with a more detailed targeted power consumption monitoring and implementation of measures for efficient use of energy included establishing an energy accounting system for monitoring the target energy consumption for each individual unit. By upgrading the energy accounting system, we will establish faster control over the implementation of measures for efficient use of energy at any moment. The project also includes measures for efficient use of energy in the following fields:
 - optimization of refrigeration equipment and ventilation system operation;
 - lighting optimization; and
 - employee education on efficient use of energy.
- We completed the pilot project of regulating the equipment in the hot bar in order to optimize the operation and performance of respective pieces of equipment to cut energy costs.
- We regularly conducted central control over the operation of refrigeration equipment at all major units as a part of the Retail Care project.
- Heat and electricity were generated in 25 combined heat and power (co-generation) systems.

Our goal at Mercator is to **cut power consumption by 1% annually**.

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

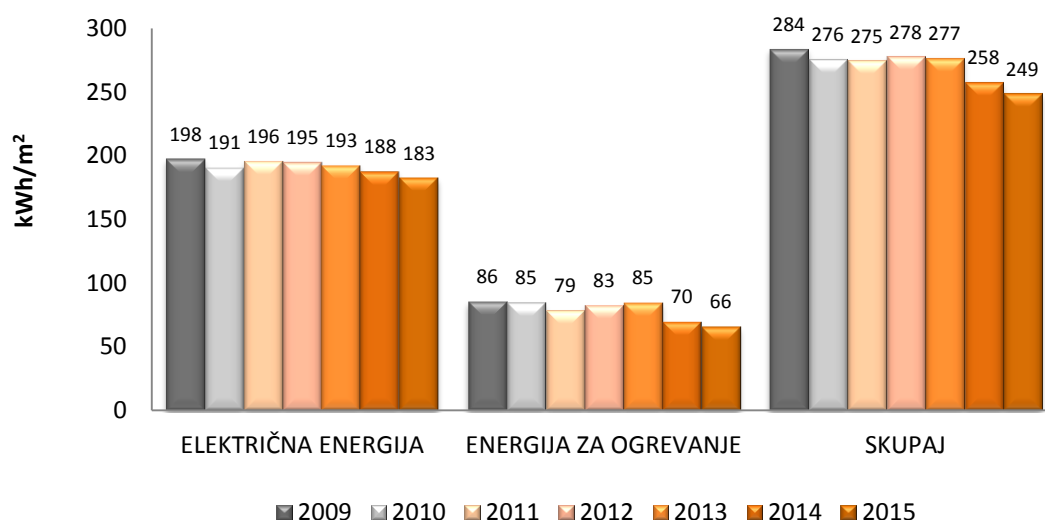
- central sourcing of energy for all facilities;
- adopted corporate energy and environmental policy;
- established environmental management system – ISO 14001 certificate;
- implementation of environmental projects;
- appointed "Sustainable Development Council".

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

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

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

Use of specific total final energy in the years 2009–2015



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

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

In the field of efficient use of energy, the company Mercator, d.d., has also received a number of awards: award for innovative approach to new shopping centre planning; international European Business Award for sustainability, and the prestigious award for energy efficient large enterprise, and the award for the large enterprise energy manager.

Waste and other environmental aspects

Management of environment aspects

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

Out of respect to the natural environment, Mercator, d.d., not only complies with the requirements of the environmental legislation, but also conducts a range of other activities to prevent or mitigated negative impact on the environment. In order to reduce environmental impact, we conducted various activities for managing the environment aspects in 2015.

Environmental risks

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

In order to efficiently manage the environmental aspects, we assessed our environmental risks. The greatest environmental risks identified for 2015 were risks related to electricity, heating, and waste management. The

only critical risk identified pertained to inefficient use of electric energy due to suboptimal design of business processes and technologies employed. Two resolutions were adopted, complete with measures to mitigate the effects of the critical environmental risk. Both were implemented and completed.

In 2015, the following measures and activities were implemented, by respective segments:

1. Waste and raw materials

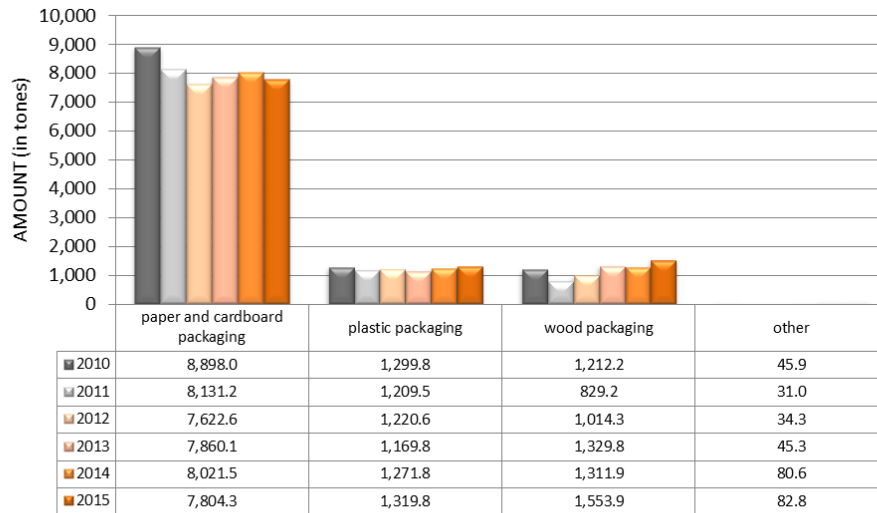
- We worked with the recycling and reuse center Center za ponovno uporabo (CPU), providing it with damaged products that are prepared at the CPU for reuse with minor repairs and innovative refurbishment. Thus we reduced the amounts of waste generated and showed responsible conduct towards resources, raw materials, and social groups in distress.
- In order to attain the medium-term plan of reducing the amount of mixed waste by 10%, we optimized the volume of waste bins at 70 units and provided waste bins for small waste packaging and biological waste, thus increasing the share of separately collected waste and cutting the mixed municipal waste handling costs by more than EUR 80 thousand per year.
- At 23 refurbished retail units, we installed waste bins for separate waste collection for the customers.
- We actively pursued the supervision over the separate collection of waste packaging. In order to increase the amounts of separately collected packaging, we raised employee and tenant awareness at our units.
- Pursuant to the legislation on waste electric and electronic equipment we provided collection of very small waste electric and electronic equipment at stores with area intended for sale of electrical and electronic equipment spanning at least 400 m².
- We emptied the archives, submitted all separately collected paper documentation to the authorized waste collection centre, and donated the funds for the collected paper documentation to Mercator Humanitarian Foundation.
- We were entered into the register of manufacturers, licensees and importers of crop protection products and cemetery candles, and met other legal requirements on environment protection.



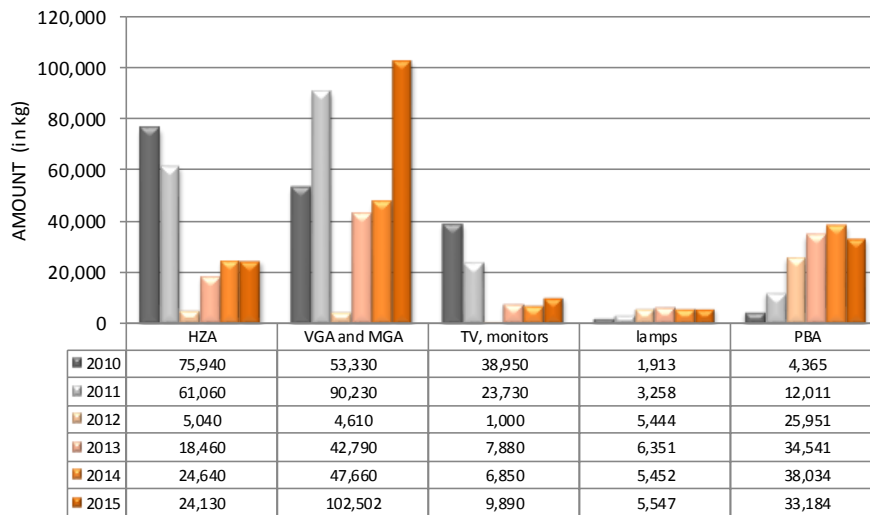
Final products of cooperation with the recycling and reuse center "Center za ponovno uporabo" (CPU)

Waste packaging, waste electric and electronic equipment, and biological waste account for the highest share among separately collected waste at the company Mercator, d.d. The graphs below present the amounts of waste packaging by years, varying as a result of mergers of companies, changes in the shares of private label sales and own imports, and other factors.

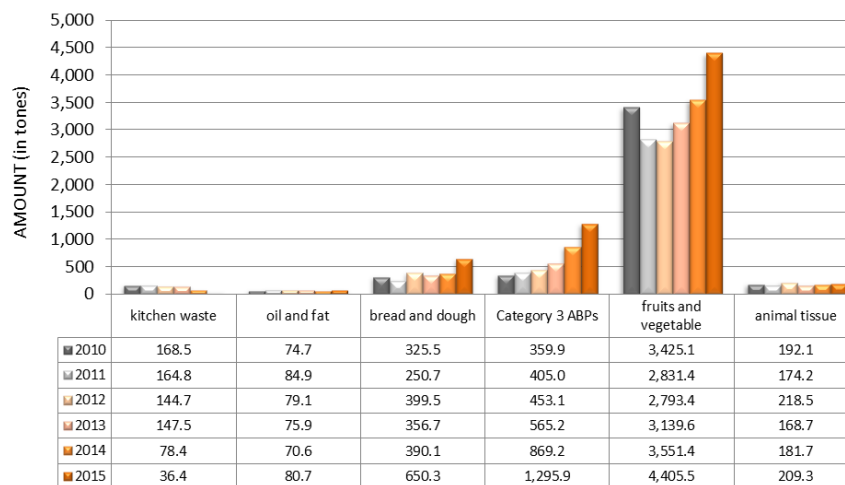
WASTE PACKAGING



WASTE EE EQUIPMENT



ORGANIC WASTE



2. Water and wastewater

- A pumping test was conducted on the Maribor well for the requirements of approval of an increase in the volume of pumped water for unit refrigeration.
- First wastewater analyses were made at the Grosuplje Bakery plant in order to identify all types of waste water (municipal wastewater or industrial wastewater).
- In the car wash at Slovenčeva in Ljubljana, the first wastewater measurements were conducted and generation of industrial wastewater was identified. Due to very low daily water consumption and regular implementation of measures laid down by the law, operational monitoring for wastewater and the resulting payment of environment charges for environment pollution resulting from wastewater discharge is not required.

3. Emissions into atmosphere and substances harmful to health

- We have installed environmentally friendlier refrigeration equipment at 39 newly constructed or refurbished facilities.
- Measures were implemented to replace or revise the equipment using the R-22 refrigerant.

4. Hazardous substances and preparations

- Pursuant to the requirements issued at the European level on classification, labelling, and packaging of hazardous chemicals, new and stricter rules for hazard identification have been put into place, and new requirements for labelling have been introduced, resulting in the redesign of the labels and symbols, and updates to safety data sheets for products in the sales network of Mercator, d.d.
- Better records have been set up for safety data sheets for hazardous chemicals used in internal processes (processes not a part of the Mercator, d.d., sales network), such as fuels, refrigerants, gases etc.

5. Noise

- Authorized agency for measurement of noise emissions into the natural environment conducted 200 noise measurements at Mercator, d.d., units.

6. States of emergency

- Following the fire at the Mercator warehouse in Zalog, we immediately continued to alleviate and eliminate the negative effects of this extraordinary event on the environment. The inspector from the Environment Protection Inspectorates of the Republic of Slovenia examined the site for waste management and did not identify any irregularities or breaches of regulations in the field. After all permits by relevant bodies of authority had been obtained, demolition and other works started, with efforts to minimize the impact on the environment.

Compliance

Successful and efficient operation of the environmental management system can be attained by regularly inspecting and evaluating it. This allows us to identify the opportunities for improvements and their implementation.

We are regularly monitoring changes in relevant legislation on environment protection. 59 such changes were identified in 2015.

Following were the activities related to environment legislation and environment protection in 2015:

1. External audits

External audit of the environmental management system according to the ISO 14001 standard was carried out; no non-compliance was found; only 16 recommendations were issued.

2. Internal audits

Internal audit of the environmental management system according to the ISO 14001 standard was carried out; no major cases of non-compliance were identified. Recommendations were implemented or are still in the process of implementation, yet no problems are expected with regard to their completion.

3. Inspections

Environment Protection Inspectorates of the Republic of Slovenia conducted 12 inspections at the company Mercator, d.d. In one case, no irregularities were found. In other cases, request for additional information or request to eliminate irregularities were submitted. All information was provided within due deadlines. All irregularities have already been corrected. In one case, we were fined due to irregular waste management; this irregularity, too, has already been corrected.

Customs duty and tax inspection was carried out, which included a review of environmental charges with regard to which no irregularities were identified.

4. Explanations and reporting to government institutions

We communicated with government institutions for environment protection (e.g. Ministry of Environment and Spatial Planning, Slovenian Environment Agency etc.) in 31 cases when we addressed to them questions and requests for explanations of legislation, provided comments to drafts of legislation in a public debate, or requested changes in our permits. All quarterly and annual reports on environment protection were completed within due deadlines.

As members of the Sustainable Development and Environment Protection Council, we are active within the Ministry of the Environment and Spatial Planning; we are also active as members of the Environment Committee with the Slovenian Chamber of Commerce; and as members of the Environment and Spatial Planning Committee within the American Chamber of Commerce.

5. Questions and complaints by interested public

We received 34 questions and complaints by interested public regarding environment protection, to which we responded accordingly.

Communication, promotion of awareness, education

A system of internal communication has been established with employees whose work has considerable environmental impact. We are striving for correct and balanced two-way communication. We enter dialogue responsibly and we build trust with the environment in which we operate. In communication with the customers and other interested public, our commitment to environment protection was reflected in 2015 in the following activities:

- We have updated the Environment Protection portal which is intended for all Mercator d.d., employees. It provides in a single place all environment protection information required by the employees for their work.
- We announced environment information for our employees on the intranet.
- We updated the environment protection information on the Mercator, d.d., website. This information is intended for our customers and other interested public.
- In order to effectively manage the environment aspects, we prepared and standardized and updated our internal documents, consistently with the needs and legislative provisions.
- At the 2nd Agrokor Days of Environment Protection we presented the field of sustainable development at the company Mercator, d.d. We also shared good environment protection practices with other Agrokor Group companies.
- At the expert conference Green Strategy of Managing Waste as Resources, we presented our proposals for the improvement in packaging and waste packaging management in Slovenia.
- The project LIFE e-WASTE GOVERNANCE, of which we are a part, was successful on the tender by the LIFE program for environment and climate action 2014–2020. The goal of the project is permanently raising consumer awareness about the importance of correct treatment and separation of e-waste and waste batteries, and to establish efficient and user-friendly infrastructure for collection of such waste. The five-year project will be co-financed by the European Commission and the Ministry of the Environment and Spatial Planning.

Environment protection expenses

At Mercator, d.d., more than EUR 6 million was allocated in 2015 for environment protection investments. In addition, current environment protection expenses exceeded EUR 4 million, while revenue from environment protection activities exceeded EUR 1 million.



RESPONSIBILITY TO SOCIAL ENVIRONMENT

Donations and sponsorships

In 2015, Mercator Group continued to pursue the tradition of prompt response to the needs of local environments in which we operate, in keeping with our slogan of the best neighbour. We responded to all applications submitted by societies, organizations, clubs, and individuals. Considering the current harsh social and economic situation in the country, our funds are primarily allocated to humanitarian projects. In 2015, we supported over 1,700 different humanitarian, cultural, educational, and sports projects.

Donating food for hot meals

In 2015, we continued the Donated Food project. Volunteers from Lions Clubs from Celje, Maribor, Trbovlje, Velenje, Koper, Domžale, Brnik, Slovenj Gradec, and the Cenacolo Community of Novo Mesto and the Institute "Pod strehco" ("With Roof Over Your Head") of Ljubljana collected food from 20 stores across Slovenia every evening. The project activity continues in 2016.



Donations at re-openings of refurbished neighbour stores

Upon opening of twelve neighbour stores, donations of EUR 1,000 were presented to the Jesenice kindergarten, Mavrica Izola kindergarten, Urša Domžale kindergarten, Tourist Society Kobarid, Voluntary Fire Department Podpeč, Sonček VDC Maribor, Mavrica Brežice kindergarten, Šent Association, Voluntary Fire Department Zgornji Kašelj, Music School Ljubljana Polje Moste, Miškolin kindergarten in Ljubljana, and VCD INCE Mengeš.



We like to do good deeds

In April 2015, a pan-Slovenian donation activity "We Like to do Good Deeds" took place at 100 minor Mercator stores for the second year in a row. Three hundred local societies and organizations from around Slovenia competed for a donation of a total of EUR 130,000. The winners were chosen in cooperation with our customers. After each check-out, the customers voted for their favourite organization to be awarded a donation of EUR 1,000 for a project of local importance. Over one million votes were cast by our customers in the course of the campaign. A donation was also presented to the first and second runner up, in the amount of EUR 200 or 100, respectively.



Slovenian breakfast – the breakfast of champions

Two days before the Slovenian day of food, Mercator distributed at eight locations across Slovenia – at main railroad stations in Ljubljana, Maribor, Celje, Kranj, Nova Gorica, Novo mesto, and Litija, and on the bus stop in front of Mercator's office building on Dunajska cesta in Ljubljana – a total of 10,000 packages with Slovenian breakfast to passers-by. The offer is Mercator's contribution, for the fifth year in a row, to raising the awareness about the importance of Slovenian breakfast, and support to self-sufficiency with quality food of local origin. Slovenian breakfast was made possible along with Mercator by Slovenian food processing companies: Pekarna Grosuplje, Ljubljanske mlekarne, Mlekarna Celeia, Mlinotest, Sadjarstvo SLOM, and Štajerc. Joining Mercator in the promotion of Slovenian breakfast were renowned Slovenian athletes: kayaker Nejc Žnidaršič, stand-up paddle surfer Manca Notar, team handball players of the RK Celje Pivovarna Laško, team handball players of RK Krim Mercator, and members of football clubs NK Olimpija and NK Maribor.



Humanitarian activities

In addition to aid to numerous societies and individuals, our humanitarian activities also included donations to the Friends of the Youth Association Moste Polje for families in social distress, the Palčica (Thumbelina) Safe house in Grosuplje, and the Safe House in Pilštanj. We supported the Drobtinica (Crumb) project by the Red Cross of Slovenia, by donating 4 tons of bread.



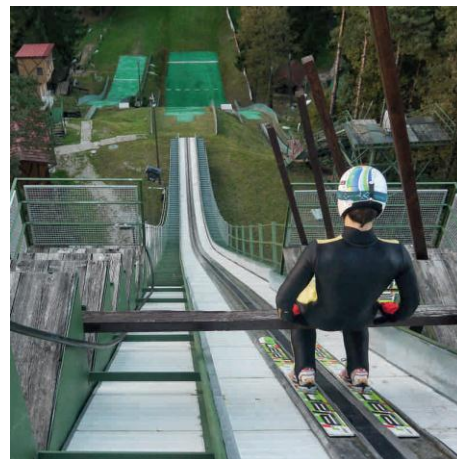
Lending a helping hand to refugees

We donated EUR 2,500 worth of goods to the Red Cross of Slovenia and the Slovenian Caritas organization. We also allowed Slovenian Caritas to use Mercator warehouse at Slovenčeva Street in Ljubljana as a collection centre for food for the refugees. Food and hygienic products for the refugees were also donated by consumers at Mercator's major stores, in specially placed shopping carts of the Red Cross of Slovenia and Slovenian Caritas.

Sponsorship

In sports, we sponsored the Slovenian Olympic Committee, Handball Club Krim Mercator, Handball Club Celje Pivovarna Laško, Football Association of Slovenia, Football Club Maribor, Football Club Olimpija, Ski Jumping Club Ilirija, wheelchair basketball team of the Ljubljana Region Society of Paraplegics, stand-up paddle surfer

Manca Notar, and whitewater kayaker Nejc Žnidaršič. This year, we again supported the "Zlata lisica" ("Golden Fox" women's Alpine skiing competition), mass "Hike along the Wire of Occupied Ljubljana", the Ljubljana Marathon, the EuropaDonna Run, and the international bicycle race "Tour of Slovenia". We are a traditional supporter of the "kurentovanje" carnival in Ptuj, the main sponsor of the Choir Boom festival, sponsor of the "Borštnikovo srečanje" theatre festival, and the golden subscription at the Cankarjev dom. We also sponsor the Sales Summit, Slovenian Marketing Conference, Portorož Business Conference, Case Challenge, TED-x, and the high school competition in sales techniques.



Competition protection and legal proceedings

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

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



RESPONSIBILITY TO SUPPLIERS

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

Supplier commitments, monitoring and control

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

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

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

Assessment and selection of suppliers

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

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

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

Inclusion of suppliers into expansion of Slovenian and local offer

At Mercator, we work with local suppliers to offer our customers as much locally grown produce as possible. Inclusion of products by local suppliers allows cutting supply and transport routes and thus reduces carbon dioxide emissions.

Fruit and vegetables, 100% Slovenian

In the "Locally Grown" campaign, we offer our customers fruit and vegetables of Slovenian origin. We are working with more than 100 local suppliers of fruit and vegetables, with all major cooperatives, and with small growers. The amounts purchased from all of the above are increasing. In the last two years, we have increased the purchase amounts for Slovenian fruit and vegetables by over 40%. Every year, we buy 15,000 tons of Slovenian vegetables and 9,000 tons of Slovenian fruit from Slovenian farmers, growers, and cooperatives.

At our stores, we present Slovenian growers with their produce or products. The buyers can obtain all information on these growers using their mobile devices by scanning the QR codes on the labels for each grower.

We teamed up with the Chamber of Commerce and Industry of Slovenia, Slovenian fruit growers, and the Ministry of Agriculture, to create the activity Local Quality. The purpose of the activity was to inform our customers about the flavours of various apples varieties grown in Slovenia. It was the wish of all activity supporters to increase the confidence of Slovenian consumers in the locally grown apples.

Fresh locally sourced meat, grown 100% in Slovenia

In November 2015, we signed a long-term agreement with two largest Slovenian producers on the purchase of fresh pork. Long-term cooperation is important to maintain the activity of local farmers and growers, and to provide traceability and meat quality to Slovenian customers.

We continue to constantly source fresh beef, veal, and poultry raised in Slovenia from Slovenian top meat suppliers who are in turn supplied with fresh meat by more than 100 growers. All growers are carefully chosen and tested. By including the meat grown in Slovenia in to our regular offer, we are ensuring traceability and better quality of meat from the aspect of attainment of healthcare standards and increasing the share of self-sufficiency.

Milk and dairy products, 100% Slovenian milk

Slovenian milk is comparable to the milk from the European countries renowned for quality milk. Shorter routes from farms to dairy plants allow the milk to stay fresher and less damaged or modified. By offering our consumers milk and dairy products made of 100-percent Slovenian milk, we are offering what they recognize as safe products of high quality. Thus, we are carrying on our efforts to promote the production and consumption of locally produced food. Thirteen Slovenian suppliers of milk and dairy products have committed to deliver selected milk and dairy products made of 100-percent Slovenian milk.



RESPONSIBILITY TO QUALITY

Efficient management of business processes is provided through compliance with the requirements of the international quality management systems. Respective systems were connected into an integrated management system, the basic requirements of which are implemented at all Mercator Group companies. The system is constantly developed and expanded, and systemic monitoring of key indicators allows us to efficiently manage the processes, and to continuously improve and transfer good practices between Mercator Group companies.

Management of certified management systems

There are **13 certified management systems** maintained at Mercator Group companies.

Management Quality Systems	Mercator, d.d.	Mercator - S, d.o.o.	Mercator - H, d.o.o.	Mercator IP, d.o.o.	Mercator - Emba, d.d.
ISO 9001 - Quality Management Systems	C	C	C		C
ISO 14001 - Environmental Systems	C	C			
HACCP - Food safety		C			
IFS - International Food Standard					C
AEO - Supplier Food Standard	C				
Family Friendly Company	C			C	
SQMS - Supplier Quality Management System					C
Organic production				C	

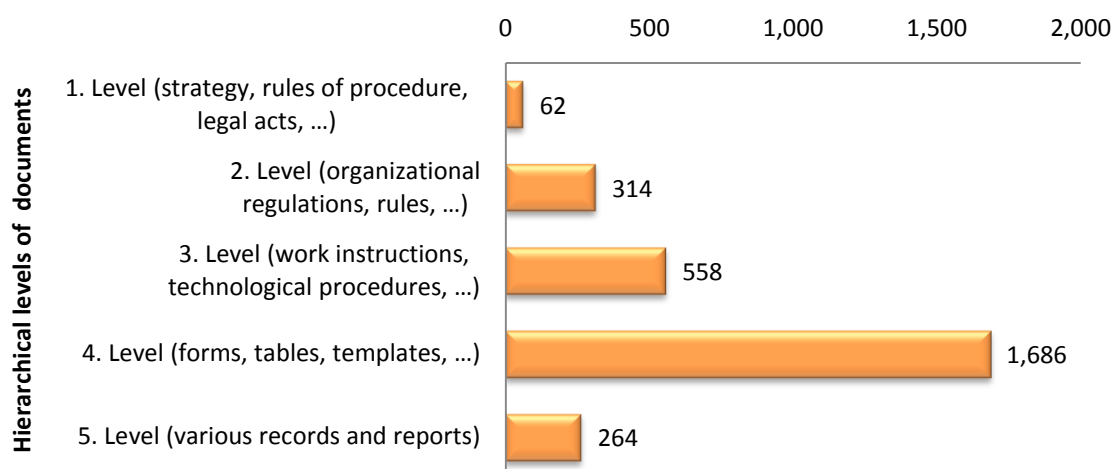
In addition to regular audits, we also completed 7 follow-up audits in 2015.

Document management – managing knowledge and information

Requirements or rules of operation at Mercator Group are specified in internal documents controlled electronically in the Mercator Standards Collection. All employees may access the collection to browse or search for documents related to their role in the business process, and provide proposals for improvements. This way, we also improve communication and the flow of knowledge and information between employees. Valid documents are regularly revised: document owners have to revise the documents at least once per year, and the document contents are updated based on good practices and suggestions for changes.

Leaders use automated notifications to inform on a daily basis about all new documents at Mercator Group companies, while access counters are used to find which documents are most frequently used by our employees in their work.

Number of valid documents at Mercator Group as at December 31, 2015



Source: Mercator Standards documents as at December 31, 2015

External and internal control of operations

External control at Mercator Group is conducted by inspection agencies and external auditors who regularly review the compliance of operations with the requirements of certified management systems, currently applicable legislation, and internal rules.

In addition to external control, we also conduct various forms of internal control. Compliance of operations is reviewed with internal controls, monitoring, internal audit, accounting and tax supervision and control, internal system audits, and controls of security, occupational health and safety and fire safety.

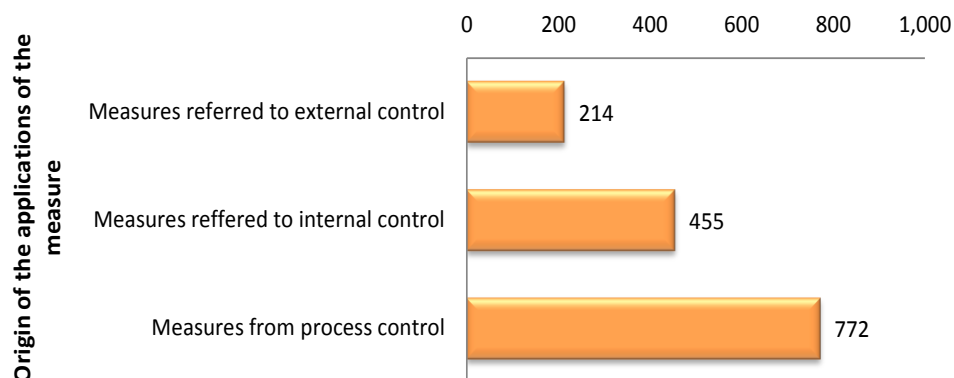
Findings of internal controls are combined in systemic corrective measures which have the same relevance and are considered in the same way as the corrective measures recommended by external audits or supervision.

Management of the continuous improvement system

Continuous improvement process is consistent with the policy and quality goals, based on the findings of councils, third-party control, internal control, customer and employee satisfaction analyses, risk management, non-compliance system, recommendations and commendations, and improvement proposals provided by the employees.

The system has information support for faster and more transparent resolution of reports. Everyone concerned by a report is notified by electronic mail about their task, and the reporting entity quickly receives relevant feedback for the solution of a problem or a proposal. Analyses are used to identify major discrepancies and to introduce corrective measures based on our findings. Application supporting the continuous improvement system is used at all Mercator Group companies.

Number of measures addressed at Mercator Group in 2015



Vir: Intern application



FINANCIAL REPORT

Sometimes it is hard to maintain stability despite the obstacles and turbulence; but we complete our work with positive thoughts.

My
FRIDAY

Management Responsibility Statement

The company Management Board is responsible for preparation of the Annual Report for the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2015, and of the financial statements which, to the best knowledge of the Management Board, present truly and fairly the development and operating results of the company and its financial position, including the description of significant risk types the company or any other company included in the consolidation are exposed to as a whole.

The Management Board confirms to have consistently applied the appropriate accounting policies in compiling the financial statements and to have made the accounting estimates according to the principle of fair value, prudence and good management, and that the financial statements give a true and fair view of the company's property and operating results for the year 2015.

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

The Management Board approves and confirms the Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for financial year 2015.

Ljubljana, February 22, 2016



Toni Balažič
President of the Board



Drago Kavšek
Member of the Board



Igor Maroša
Member of the Board

FINANCIAL REPORT OF THE MERCATOR GROUP

Consolidated balance sheet

EUR thousand	Note	31/12/2015	31/12/2014
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,371,405	1,618,839
Investment property	16	3,352	3,494
Intangible assets	15	19,538	16,764
Deferred tax assets	18	18,057	22,301
Loans and deposits	22	30,604	25,015
Available-for-sale financial assets	17	524	1,178
		1,443,480	1,687,591
Current assets			
Disposal groups	19	217,482	-
Inventories	20	280,853	257,323
Trade and other receivables	21	256,189	254,286
Current tax assets		656	702
Loans and deposits	22	8,065	3,247
Cash and cash equivalents	23	18,998	34,224
		782,243	549,782
Total assets		2,225,723	2,237,373
EQUITY			
	24		
Share capital		254,175	254,175
Share premium		286,772	286,772
Treasury shares		(3,235)	(3,235)
Revenue reserves		41,686	41,686
Fair value reserve		108,865	115,411
Retained earnings		15,365	(53,485)
Profit (loss) for the year		20,245	69,353
Currency translation reserve		(89,668)	(89,215)
Total equity attributable to equity owners of the company		634,205	621,462
Non-controlling interests		228	215
Total equity		634,433	621,677
LIABILITIES			
Non-current liabilities			
Trade and other payables	28	38,352	6,765
Borrowings and other financial liabilities	26	758,208	806,640
Deferred tax liabilities	18	29,947	30,392
Provisions	27	25,918	20,706
		852,425	864,503
Current liabilities			
Trade and other payables	28	588,117	707,657
Current tax liabilities		1,524	538
Borrowings and other financial liabilities	26	149,224	42,998
		738,865	751,193
Total liabilities		1,591,290	1,615,696
Total equity and liabilities		2,225,723	2,237,373

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

Consolidated income statement

EUR thousand	Note	2015	2014
Revenue	9	2,612,418	2,653,735
Cost of goods sold and selling costs	11	(2,513,048)	(2,578,915)
Administrative expenses	11	(86,419)	(81,095)
Impairment of property, plant and equipment and intangible assets	11	(200)	(16,249)
Other income	10	48,759	26,470
Results from operating activities		61,510	3,946
Finance income	13	4,308	3,489
Finance expenses	13	(39,021)	(56,030)
Net finance expense		(34,713)	(52,541)
Profit (loss) before tax		26,797	(48,595)
Tax	18	(6,643)	4,048
Net profit (loss) for the year		20,154	(44,547)

Profit (loss) for the year attributable to:

Owners of the parent company	20,245	(44,453)
Non-controlling interests	(91)	(94)

Basic and diluted earnings (loss) per share (in EUR)	25	3.3	(10.8)
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The accompanying notes are an integral part of consolidated financial statements and should be read in conjunction with them.

Consolidated statement of comprehensive income

EUR thousand	Note	2015	2014
Profit (loss) for the year		20,154	(44,547)
Other comprehensive income			
Items subsequently not reclassified to profit or loss		(6,775)	(40,543)
Net gains/losses recognized in revaluation surplus in relation to property, plant and equipment	14	-	(32,334)
Other changes in property, plant and equipment	14	-	(10,004)
Provisions for termination benefits		(3,730)	(2,370)
Other changes		(3,569)	(1,143)
Deferred tax for items subsequently not recognized in profit or loss	18	525	5,308
Items that may be reclassified subsequently to profit or loss		(624)	(7,527)
Foreign currency translation differences - foreign operations		(452)	(8,593)
Net gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets		(208)	360
<i>Gains/losses recognized in revaluation surplus</i>	24	(208)	360
Net gains recognized in revaluation surplus in relation to cash flow hedges (successful hedging)	24	-	1,452
Deferred tax for items that may be reclassified subsequently to profit or loss	18	36	(746)
Other comprehensive income for the year		(7,398)	(48,070)
Total comprehensive income for the year		12,756	(92,617)
Total comprehensive income for the year attributable to:			
Owners of the parent company		12,846	(92,516)
Non-controlling interests		(90)	(101)

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

Consolidated statement of changes in equity

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as at January 1, 2014		157,129	198,872	(3,235)	146,656	140,587	(63,887)	18,695	(80,623)	514,194	100	514,294
Total comprehensive income for the year												
Net profit (loss) for the year		-	-	-	-	-	-	(44,453)	-	(44,453)	(94)	(44,547)
Other comprehensive income		-	-	-	-	(25,158)	(14,313)	-	(8,592)	(48,063)	(7)	(48,070)
Total comprehensive income for the year		-	-	-	-	(25,158)	(14,313)	(44,453)	(8,592)	(92,516)	(101)	(92,617)
Transactions with owners of the parent company directly recognized in equity												
Contributions by and distributions to owners												
Capital increase		97,046	102,954	-	-	-	-	-	-	200,000	-	200,000
Change in the interest in a subsidiary		-	-	-	-	(18)	(198)	-	-	(216)	216	-
Distribution of revenue reserves pursuant to Management decision	24	-	(15,054)	-	(104,970)	-	24,913	95,111	-	-	-	-
Total transactions with owners of the parent company		97,046	87,900	-	(104,970)	(18)	24,715	95,111	-	199,784	216	200,000
Balance as at December 31, 2014		254,175	286,772	(3,235)	41,686	115,411	(53,485)	69,353	(89,215)	621,462	215	621,677

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

Consolidated statement of changes in equity (continued)

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as at January 1, 2015		254,175	286,772	(3,235)	41,686	115,411	(53,485)	69,353	(89,215)	621,462	215	621,677
Total comprehensive income for the year												
Profit (loss) for the year		-	-	-	-	-	-	20,245	-	20,245	(91)	20,154
Other comprehensive income		-	-	-	-	(6,546)	(400)	-	(453)	(7,399)	1	(7,398)
Total comprehensive income for the year		-	-	-	-	(6,546)	(400)	20,245	(453)	12,846	(90)	12,756
Transactions with owners of the parent company directly recognized in equity												
Contributions by and distributions to owners												
Change in the interest in a subsidiary		-	-	-	-	-	(103)	-	-	(103)	103	-
Distribution of profit for the year pursuant to Management decision	24	-	-	-	-	-	69,353	(69,353)	-	-	-	-
Total transactions with owners of the parent company		-	-	-	-	-	69,250	(69,353)	-	(103)	103	-
Balance as at December 31, 2015		254,175	286,772	(3,235)	41,686	108,865	15,365	20,245	(89,668)	634,205	228	634,433

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

Consolidated cash flow statement

EUR thousand	Note	2015	2014
Cash flows from operating activities			
Profit (loss) for the year		20,154	(44,547)
Adjustments:			
Income tax expense	18	6,643	(4,048)
Depreciation of property, plant and equipment	14	73,583	67,615
Depreciation of investment property	16	108	118
Amortization of intangible assets	15	5,122	4,391
Impairment of goodwill	15	-	412
Impairment of property, plant, and equipment and intangible assets		200	15,837
(Gains) losses on disposal of property, plant, and equipment		956	(5,810)
Change in provisions	27	1,482	(4,341)
(Gains) losses from disposal of subsidiaries	13	-	(189)
Dividends received, impairment losses and (gain) loss on sale of available-for-sale financial assets	13	(1,261)	126
Net foreign currency translation	13	644	6,422
Interest received	13	(2,605)	(2,514)
Interest paid	13	35,493	38,693
		140,519	72,165
Change in inventories		(23,530)	7,475
Change in trade and other receivables		(1,857)	(19,805)
Change in trade and other payables		(90,651)	24,000
		24,481	83,835
Interest paid	13	(35,493)	(38,693)
Income tax paid	18	(2,014)	(861)
Cash from operating activities		(13,026)	44,281
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired		(1,200)	-
Acquisition of property, plant and equipment and investment property	14, 16	(67,455)	(80,741)
Acquisition of intangible assets	15	(8,708)	(4,981)
Acquisitions of available-for-sale financial assets		(168)	-
Loans and bank deposits made		(10,407)	-
Proceeds from disposal of subsidiaries, net of cash disposals		-	550
Proceeds from sale of property, plant and equipment and investment property	14, 16	23,494	28,355
Proceeds from sale of available-for-sale financial assets	17	1,817	68
Interest received	13	2,605	2,514
Dividends received	13	50	29
Loans and deposits repayments received		-	14,347
Net cash used in investing activities		(59,972)	(39,859)
Cash flows from financing activities			
Repayment of non-current borrowings		(67,378)	(653,335)
Proceeds from non-current borrowings		18,946	841,877
Net proceeds (repayments) of current borrowings		106,226	(176,712)
Dividends paid		-	(3)
Net cash from (used in) financing activities		57,794	11,827
Net increase (decrease) in cash and cash equivalents		(15,204)	16,249
Cash and cash equivalents at beginning of the year		34,224	18,505
Effect of exchange rate fluctuations on cash and cash equivalents		(22)	(530)
Cash and cash equivalents as at the end of the year	23	18,998	34,224

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

Notes to consolidated financial statements

1. REPORTING COMPANY

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The consolidated financial statements of the Mercator Group as at and for year ended December 31, 2015 comprise the company Mercator, d.d., and its subsidiaries (together referred to as the "Group"). The company Mercator, d.d., is a subsidiary of the company Agrokor, d.d.; therefore, the Mercator Group is consolidated within the Agrokor Group. The consolidated financial statements of the the Agrokor Group are available at the registered office Agrokor, d.d., Trg Dražena Petrovića 3, Zagreb, Croatia. Mercator Group's core and predominant activity is retail and wholesale of fast-moving consumer good and home products; to a lesser extent, the Group's activities include also sales of sports and textile products and food industry.

2. BASIS FOR PREPARATION

(a) Statement of compliance

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and in compliance with the provisions of the Slovenian Companies Act. The financial statements were approved by the company Management Board on February 22, 2016.

(b) Basis of measurement

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

- available-for-sale financial assets at fair value;
- land measured using the revaluation model.

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

(i) Goodwill

Each year, impairment test is conducted by the Group concurrently with the preparation of financial statements. Upon acquisition, goodwill was allocated to groups of cash-generating units represented by clusters of comparable entities such as Mercator centers, hypermarkets, supermarkets, and smaller units. Recoverable amount of the cash-generating unit is specified based on the calculations of value in use, or fair value less the selling costs. Calculations include projections of cash flows based on the business plans adopted

by the Management Board for the following year, and on the expected operating results in the coming medium-term period, based on the assumptions and policies specified in the medium-term business plan for each company and therefore the Mercator Group as a whole. The Management Board has prepared projections based on the business performance record (history) and expectations with regard to development of the market. The discount rate applied is based on market rates adjusted to reflect the specific risks related to the business units.

(ii) Property, plant and equipment

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

(iii) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets, the Group, pursuant to IAS 23 Borrowing Costs (2007), capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Capitalization of interest expense is performed for major investments whose construction and preparation for use lasts more than 6 months. In 2014 and 2015, no investment meets the above criteria for capitalization of borrowing expenses.

(iv) Available-for-sale financial assets

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

(v) Trade and other receivables

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

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

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

Adjustments to other receivables are created individually.

(vi) Inventories

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

General rule (grocery and appliances programs inventories):

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

Exceptions:

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

Inventories adjustments based on fashion features are not carried out.

(vii) Provisions

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

Provisions for termination and jubilee benefits refer to estimated payments of termination benefits upon retirement and jubilee benefits as a result of long service, as at the balance sheet date, discounted to present value. They are recognized on the basis of actuarial calculation, approved by the parent company Management Board. Actuarial calculation is based on the assumptions and estimates applicable at the time of the calculation, which may differ in the future from the actual assumptions at the time due to changes. This refers mostly to determining of discount rate and estimates regarding staff turnover, mortality and salary growth. Due to the actuarial calculation complexity and long-term features of items, the liabilities for post-employment benefits are susceptible to changes in the discussed estimates.

In the future, the Group does not expect any events that would significantly influence the accounting estimates.

(viii) Deferred tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Business combinations

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

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

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

If the difference is negative, it is recognized as surplus (income) in the income statement.

The transferred acquisition does not include amounts of settlements regarding previously existing relations. These amounts are normally recognized in the income statement.

Acquisition costs, except for costs related to issue of equity or debt instruments related to the business combination, are recognized in the income statement as they are incurred.

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

(ii) Subsidiaries

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

(iii) Acquisition of non-controlling interests

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

(iv) Loss of control

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

(v) Transactions excluded from consolidation

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

(b) Foreign currency*(i) Foreign currency transactions*

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

(ii) Foreign operations

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

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

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

(ii) Non-derivative financial liabilities

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

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

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

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

Other financial liabilities comprise loans and operating and other liabilities.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits with maturity of up to 3 months.

(e) Share capital

Ordinary shares

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

Repurchase of own shares (treasury shares)

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

(f) Property, plant and equipment

(i) Reporting and measurement

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

The cost includes costs that are directly attributable to the acquisition of assets. Borrowing cost regarding acquisition or construction of relevant property, plant, or equipment are capitalized if they are related to the acquisition of a major asset and if construction or preparation for use lasts over 6 months. In 2015 and 2014, the Group did not carry out any investments that would meet the described criteria. Costs of property, plant and equipment manufactured within the Group include the costs of material, direct labor costs, and other costs that can be directly attributable to the asset's preparation for its intended use, costs of decomposition and removal of property, plant and equipment and reconstruction of the site where the item of assets was located, as well as capitalized borrowing costs.

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

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

a) Property fair value estimation

In line with the Accounting Rules, the Group periodically, at least every three years, reviews the fair values of its land. The appraisal was last carried out as at the end of 2014 by a certified appraiser pursuant to the International Valuation Standards and in relation to the International Financial Reporting Standards.

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

	2015	2014
Buildings	20-50 years	20-50 years
Plant and equipment	2-18 years	2-18 years

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

(g) Intangible assets*(i) Goodwill*

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

(ii) Other intangible assets

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

(iii) Subsequent costs

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

(iv) Amortization

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

	2015	2014
Brands/labels	unlimited	unlimited
Software and licenses	5-10 years	5-10 years

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

(h) Investment property

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

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

When the use of property changes so that it has to be reclassified under property, plant and equipment, the reclassification is carried out based on its historical cost.

(i) Assets leased

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

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

(j) Assets held for sale or disposal group

Assets held for sale or disposal group which includes assets and liabilities the largest share of which is expected to be repaid through sale are classified as held for sale. Right before the classification under assets held for sale, these assets or disposal groups are remeasured. Accordingly, a long-term asset or disposal group is recognized at the lower of carrying amount or fair value less costs to sell. Impairment loss upon reclassification of assets as held for sale and subsequent loss or gain upon remeasurement are disclosed in profit or loss. Gains are not recognized if in excess of the cumulative impairment loss. When intangible assets and property, plant and equipment are reclassified under held for sale or distribution, they are no longer amortized/depreciated.

(k) Inventories

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

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

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

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

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

(I) Impairment of assets

(i) Non-derivative financial assets

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

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

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

(ii) Non-financial assets

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

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

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

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

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

In the balance sheet, the Group recognized long-term provisions deriving from future liabilities to employees for long service awards, calculated in compliance with the collective labor agreement for this industry, and the mandatory retirement benefits as stipulated by the relevant act. There are no other existing pension liabilities. Provisions are created in the amount of estimated payment of termination and jubilee benefits, discounted as at the reporting date, for the employees in those countries where such payments are required by the local legislation. The calculation is based on the cost of severance pay upon retirement and of all jubilee benefits expected to be paid until retirement. Provisions are made using the projected unit credit method. Labor costs and interest expense are recognized in the income statement, while recalculated post-employment benefits or unrealized actuarial gains or losses are recognized in other comprehensive income.

(ii) Termination benefits

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

(iii) Short-term employee benefits

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

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

(n) Provisions

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

(i) Onerous contracts

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

(ii) Restructuring

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

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

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

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

(ii) Customer loyalty program

The Group issues credit and debit cards Pika to its customers for collecting bonus points at purchases. Bonus periods last six months. The first annual bonus period lasts from February 1 to July 31, the second bonus period from August 1 to January 31 of the following year. During the bonus period, customers collect bonus points. Depending on the amount of purchases and consequently the number of collected points, they can earn a 2 to 6-percent discount. During the year, the Group allocates potential discounts on the basis of collected points, whereas revenue from unrealized bonus points is allocated based on experience from previous bonus periods. Despite the fact that the second bonus period ends on January 31 of the following year, the Group in this way ensures that recorded revenues match expenditures that were necessary for their realization.

(iii) Revenue from services rendered

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

(iv) Rental income

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

(p) Government grants

Initially, all government grants are recognized as deferred revenue in the financial statements where an acceptable assurance exists that the Group will receive the grants and fulfil the conditions relating to them. Government grants, received for covering of costs, are recognized consistently as revenue in the periods when the relevant costs are incurred. Government grants related to assets are disclosed in the income statement consistently, under other operating revenue during the useful life of an individual asset.

(q) Leases

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

Interest payments made under financial leases are recognized in finance expenses and are allocated to periods of the lease term, in order to achieve a fixed interest rate on the remaining balance of the liability in each period.

Determining whether an arrangement includes a lease

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

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

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

(r) Finance income and expenses

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

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

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

(s) Corporate income tax

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is determined using the balance sheet liability method, taking into account temporary differences between the carrying amounts of assets and liabilities used for the purpose of financial and tax reporting. The following temporary differences are not considered:

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

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

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

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

(t) Earnings per share

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

4. USE OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**Initial use of new amendments to the existing standards and interpretations effective for the current financial period**

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

- **Amendments to various standards – ‘Improvements to IFRSs (2011-2013)’**, resulting from the annual project for improvement of IFRSs (IFRS 3, IFRS 13 and IAS 40) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on December 18, 2014 (the amendments will need to be applied for annual periods beginning on or after January 1, 2015),
- **IFRIC 21 ‘Levies’**, adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

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

Amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

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

- **Amendments to IFRS 11 ‘Joint arrangements’**, – Accounting for acquisitions of Interests in joint operations, adopted by the EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016),

- **Amendments to IAS 1 ‘Presentation of financial statements’** – Disclosure initiative, adopted by the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016),
- **Amendments to IAS 16 ‘Property, plant and equipment’ and IAS 38 ‘Intangible assets’** – Acceptable methods of depreciation and amortization, adopted by the EU on December 2, 2015 (effective for annual periods beginning on or after January 1, 2016),
- **Amendments to IAS 16 ‘Property, plant and equipment’ and IAS 41 ‘Agriculture’** – Agriculture: Bearer plants, as adopted by the EU on November 23, 2015 (effective for annual periods beginning on or after January 1, 2016),
- **Amendment to IAS 19 Employee Benefits** - Employee contributions to defined benefit plans, adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015),
- **Amendments to IAS 27 ‘Separate financial statements’** – Equity method in separate financial statements, adopted by the EU on December 1, 2015 (effective for annual periods beginning on or after January 1, 2016),
- **Amendments to various standards – ‘Improvements to IFRSs (2010-2012)’**, resulting from the annual project for improvement of IFRSs (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on December 17, 2014 (the amendments will need to be applied for annual periods beginning on or after February 1, 2015),
- **Amendments to various standards – ‘Improvements to IFRSs (2012-2014)’**, resulting from the annual project for improvement of IFRSs (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to remove inconsistencies and to clarify wording, adopted by the EU on December 15, 2015 (the amendments will need to be applied for annual periods beginning on or after January 1, 2016),

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, the IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except the following new standards and amendments to the existing standards, which were not endorsed for use in the EU as at December 31, 2015 (the effective dates indicated below apply for entire IFRS):

- **IFRS 9 ‘Financial instruments’** (effective for annual periods beginning on or after January 1, 2018),
- **IFRS 14 ‘Regulatory deferral accounts’** (effective for annual periods beginning on or after January 1, 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 15 ‘Revenue from contracts with customers’** and subsequent amendments (effective for annual periods beginning on or after January 1, 2018),
- **IFRS 16 ‘Leases’** (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IFRS 10 ‘Consolidated financial statements’, IFRS 12 ‘Disclosure of interests in other entities’ and IAS 28 ‘Investments in associates and joint ventures’**, – Investment entities: Applying the consolidation exception (effective for annual periods beginning on or after January 1, 2016),
- **Amendments to IFRS 10 ‘Consolidated financial statements’ and IAS 28 ‘Investments in associates and joint ventures’** – Sale or contribution of assets between an investor and its associate or joint venture, and subsequent amendments (the effective date has been postponed to a later date until the research project on capital method is concluded),
- **Amendments to IAS 12 ‘Income taxes’** – Recognition of deferred tax assets for unrealized losses (effective for annual periods starting on or after January 1, 2017).

The Group expects that the implementation IFRS 9, IFRS 15 and IFRS 16 will affect its financial statements. The Group has not yet assessed the impact. The implementation of new standards and amendments to the existing ones in the period of initial application will have no material impact on the Group’s financial statements.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted yet by the EU, is still unregulated.

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

5. FAIR VALUE MEASUREMENT

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

(a) Property, plant and equipment

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

(b) Intangible assets

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

(c) Investment property

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

If the current prices in an active market cannot be determined, the property investment value is measured based on the aggregate value of cash flows expected to be received from renting out the property. Yield reflecting specific risks is included in the calculation of the property value based on discounted net cash flows on annual basis.

Where appropriate, the property appraisal should be based on consideration of the following: the type of tenants currently residing in or responsible for meeting lease commitments or likely to become its tenants after the real estate is rented out, and overall picture of their credit rating; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining life of the investment property. When in reviewing or renewing the lease contract it is expected that subsequent increase in rent will occur due to restoring its original condition, it is deemed that all notices, and when appropriate counter-notices, have been served validly and on time.

(d) Inventories

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

(e) Investments in equity and debt securities

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

(f) Trade and other receivables

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

(g) Non-derivative financial liabilities

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

6. TAX POLICY

(a) Slovenia

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

Corporate income tax rate is at 17%.

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

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

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

In 2015, the companies recognized and reversed deferred income tax related to the following items:

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

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

(b) Serbia

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

Corporate income tax rate is at 15%.

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

- relief for investing in fixed assets in the amount exceeding one billion RSD, and
- employment of 100 new permanent employees who had not been employed at any of its subsidiaries,

In 2015, the company recognized and reversed deferred income taxes in relation to the following:

- differences between operating and tax depreciation and amortization,
- differences in inventories adjustments,
- differences in value of provisions,
- revaluation of property, plant and equipment to a higher value,
- tax losses,
- accounted for, outstanding government revenue.

The company is obliged to prepared transfer pricing documentation.

(c) Croatia

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

Taxable base is the profit calculated according to the accounting principles, from which tax recognized costs are subtracted, or to which non-recognized costs are added.

Corporate income tax rate is at 20 %.

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

- investment relief for promoting investments (under terms stated in the relevant act);
- investment relief for taxpayers in areas under special government protection;
- reinvested profit relief.

In 2015, the company recognized deferred taxes liabilities arising from revaluation to a higher value of fixed assets.

The company is obliged to prepared transfer pricing documentation.

(d) Bosnia and Herzegovina

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

Corporate income tax rate is at 10 %.

In the assessment of corporate income tax, companies in Bosnia and Herzegovina may exercise the following tax reliefs:

- investment relief for investments in production on the territory of Bosnia and Herzegovina (taxpayers investing at least BAM 20 million for 5 years in succession);
- relief for exports;
- relief for employment of disabled people.

In 2015, both companies recognized and reversed deferred income tax due to differences between business and tax deductible depreciation.

(e) Montenegro

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

Corporate income tax rate is at 9 %.

When assessing the income tax, the company can use a tax relief for employing new people who were registered with the Employment Service.

In 2015, the company recognized and reversed deferred income tax due to differences between business and tax deductible depreciation.

7. BUSINESS SEGMENTS

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

In 2015, the Mercator Group operated in five countries:

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

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

EUR thousand	Slovenia		Serbia		Croatia		Bosnia and Herzegovina		Montenegro		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenue from segment sales	1,497,123	1,542,556	930,209	620,906	63,956	250,067	25,676	155,411	116,191	109,463	2,633,154	2,678,421
Revenue from inter-segment sales	19,533	22,090	482	269	13	236	709	1,755	0	337	20,736	24,687
Amortization	(39,628)	(39,652)	(23,879)	(13,742)	(10,041)	(12,116)	(2,943)	(4,495)	(2,321)	(2,117)	(78,813)	(72,122)
Impairment of property, plant and equipment and intangible assets	(3,002)	(8,186)	(210)	(373)	(1,029)	(7,463)	(37)	(765)	(17)	(3)	(4,295)	(16,790)
Operating results per segment	60,491	9,828	11,403	10,643	(13,552)	(19,135)	1,338	2,840	1,831	(285)	61,510	3,946
Interest income	5,668	4,448	695	583	54	98	664	1,515	335	661	7,416	7,307
Interest expense	(23,192)	(28,606)	(8,147)	(4,809)	(7,494)	(7,756)	(1,328)	(1,947)	(143)	(355)	(40,304)	(43,485)
Income tax	(5,656)	4,635	(900)	(293)	-	-	(34)	(292)	(54)	(3)	(6,643)	4,046
Assets	1,334,325	1,312,280	570,279	518,091	320,964	366,814	118,223	128,325	61,116	56,854	2,404,906	2,382,365
Liabilities	1,003,451	1,014,729	427,654	378,958	269,135	291,173	41,951	49,765	28,280	26,063	1,770,472	1,760,688
Capital expenditure	41,761	17,078	29,617	65,373	1,498	1,100	541	720	3,946	1,451	77,363	85,722

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

EUR thousand	2015	2014
Total segment revenue	2,633,154	2,678,421
Elimination of inter-segment revenue	(20,736)	(24,686)
Consolidated revenue	2,612,418	2,653,735

Results from operating activities

EUR thousand	2015	2014
Total reportable segments results from operating activities	61,510	3,946
Elimination of inter-segment profits	-	-
Consolidated results from operating activities	61,510	3,946

Assets

EUR thousand	2015	2014
Total assets for reportable segments	2,404,906	2,382,365
Inter-segment elimination	(179,182)	(144,992)
Consolidated total assets	2,225,723	2,237,373

Liabilities

EUR thousand	2015	2014
Total liabilities for reportable segments	1,770,472	1,760,688
Inter-segment elimination	(179,182)	(144,992)
Consolidated total liabilities	1,591,290	1,615,696

Other material items in 2015

EUR thousand	Segments	Inter-segment eliminations	Consolidated totals
Interest income	7,416	(4,811)	2,605
Interest expense	(40,304)	4,811	(35,493)
Amortization/depreciation	(78,813)	-	(78,813)
Impairment of property, plant and equipment and intangible assets	(4,295)	-	(4,295)
Income tax	(6,643)	-	(6,643)
Investments in fixed assets	76,736	-	76,736

Other material items in 2014

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

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

As at December 31, 2015, the Mercator Group included the following companies (figures in EUR thousand are based on audited reporting packages by companies reporting to the parent company):

SLOVENIA					
Poslovni sistem Mercator, d.d.		Intersport ISI, d.o.o.		Mercator - Emba d.d.	
Slovenia		Slovenia		Slovenia	
equity	631,024	equity	19,315	equity	14,598
financial liabilities	620,566	financial liabilities	726	financial liabilities	459
net profit or loss	-3,800	net profit or loss	1,914	net profit or loss	5,477
net sales revenue	1,403,504	net sales revenue	55,899	net sales revenue	20,916
no. of employees as at balance sheet date	9,677	no. of employees as at balance sheet date	356	no. of employees as at balance sheet date	110
M - Energija, d.o.o.		Mercator IP, d.o.o.			
Slovenia		Slovenia			
equity	925	equity	5,070		
financial liabilities	6,098	financial liabilities	0		
net profit or loss	-1,149	net profit or loss	1,552		
net sales revenue	22,788	net sales revenue	12,034		
no. of employees as at balance sheet date	8	no. of employees as at balance sheet date	383		
SERBIA					
Mercator - S, d.o.o.					
Serbia					
equity	185,199				
financial liabilities	154,812				
net profit or loss	3,165				
net sales revenue	930,209				
no. of employees as at balance sheet date	8,844				
CROATIA					
Mercator - H, d.o.o.					
Croatia					
equity	51,829				
financial liabilities	224,740				
net profit or loss	-20,710				
net sales revenue	63,956				
no. of employees as at balance sheet date	558				
BOSNIA AND HERZEGOVINA					
Mercator - BH, d.o.o.		M - BL, d.o.o.			
Bosnia and Herzegovina		Bosnia and Herzegovina			
equity	37,574	equity	38,697		
financial liabilities	32,253	financial liabilities	5,519		
net profit or loss	10	net profit or loss	630		
net sales revenue	21,057	net sales revenue	4,619		
no. of employees as at balance sheet date	158	no. of employees as at balance sheet date	19		
MONTENEGRO					
Mercator - CG, d.o.o.					
Montenegro					
equity	32,835				
financial liabilities	3,901				
net profit or loss	1,969				
net sales revenue	116,191				
no. of employees as at balance sheet date	1,333				

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

8. BUSINESS COMBINATIONS AND REORGANISATION OF THE GROUP

Slovenia

On February 11, 2015, Mercator, d.d. and the company Era Good, d.o.o. concluded a contract on acquisition/transfer of a part of Era Good's activities to Mercator, d.d. in order to enter into ongoing relationship with the Era Good d.o.o. customers. The acquisition of this part of Era Good, d.o.o. activity means realization of strategic plans of Mercator, d.o.o. to focus on its core activity, i.e. sales of fast-moving consumer goods. The acquisition of that part of Era Good's activities, allowed Mercator to enhance the range and diversity of its products on the wholesale of fast-moving consumer goods market and at the same time helped to improve the company's operating efficiency and the competitiveness of its wholesale activity in Slovenia.

On April 16, 2015, Poslovni sistem Mercator, d.d., and družba Don don, d.o.o., entered into the purchase and sales agreement regarding a stake in the company Pekarna Grosuplje. This transaction was completed on September 30, 2015, while the ownership of Pekarna Grosuplje was transferred to Don don, d.o.o. on October 1, 2015. The sale of Pekarna Grosuplje's business activity is not disclosed as discontinued operation due to its immateriality for financial statements.

The company Ivero Trade, d.o.o., which is a related party of Franck, d.d., and Mercator - Emba, d.d. concluded the purchase and sales agreement regarding acquisition of ground coffee brands, Santana and Loka, on June 30, 2015.

On December 7, 2015, Poslovni sistem Mercator, d.d., and Kompas, d.d., entered into the contract on transfer of M Holidays' activity. In accordance with its mid-term strategic guidelines, Mercator sells the activity of touristic services M Holidays to the new strategic owner, while the sales of the activity represents on part of the company's restructuring process and focusing on its core activity of fast-moving consumer goods retailer. The sales of the tourist business activity M Holidays to a new strategic owner, the company Kompas, d.d., was completed on December 31, 2015, while the ownership of the activity was transferred to the new owner on January 1, 2016. The sales of the M holidays activity is not disclosed as discontinued operation due to its immateriality for financial statements.

For the purposes of real estate monetization, the following project firms were established in Slovenia on May 18, 2015: Platinum - A, d.o.o., Platinum - B, d.o.o., Platinum - C, d.o.o., Platinum - D, d.o.o., Platinum - E, d.o.o., Platinum - F, d.o.o.

Croatia and Bosnia and Hercegovina

In 2015, the company Mercator - H, d.o.o., following the commitments given to the Competition Protection Office, disposed of or dismissed the remainder of the grocery program sales units. The company continues with the activity of sales of sports and textile products.

At the end of 2015, Intersport H, d.o.o., Croatia and Intersport BH, d.o.o., Bosnia and Herzegovina were established, both as subsidiaries of the Slovenian company Intersport ISI, d.o.o.. Nevertheless, the newly founded companies did not launch with their operations until 2016. These two companies were founded so that the retail activity regarding sports products would be gradually transferred from Mercator companies on these markets. The main reason for the retail activity transfer to new companies in 2016, is improved local feedback on both markets, better adjustability to customer needs and increased operating efficiency.

Serbia and Montenegro

The group did not carry out any mergers or reorganizations on the Serbian, Bosnian or Montenegrin market in 2015.

9. REVENUE

Breakdown of revenue by categories:

EUR thousand	2015	2014
Sales of goods	2,406,266	2,507,314
Sales of services	187,121	135,681
Sales of products	16,825	16,791
Sales of materials	1,026	548
Expenses for discounts granted	1,179	(6,599)
Total	2,612,418	2,653,735

Revenue from the sales of goods is reduced also by the amount of discounts to customers - Mercator Pika card holders.

10. OTHER OPERATING REVENUE

EUR thousand	2015	2014
Profit from sales of property, plant and equipment	4,890	6,347
Reversal of real estate impairment	-	4
Revenue from reversal and utilization of provisions	2,888	6,121
Other operating revenue	40,980	13,998
Total	48,759	26,470

Gains from disposal of property, plant and equipment of EUR 4,890 thousand (2014: EUR 6,347 thousand) refers to the sales of equipment of the companies Pekarna Grosuplje and M Holidays and sale of other non-core assets in the amount of EUR 3,069 thousand.

Revenue from disposal and utilization of provisions in the amount of EUR 2,888 thousand (2014: EUR 6,121 thousand) refers to the reversal of provisions for legal claims in the amount of EUR 272 thousand; use of assigned assets for disability contributions in the amount of EUR 1,848 thousand, and reversal of provision for termination and jubilee benefits in the amount of EUR 746 thousand.

The remaining part of other operating revenue totaling EUR 40,980 thousand (2014: EUR 13,998 thousand) includes indemnities based on insurance premiums and other indemnities in the amount of EUR 4,286 thousand, income from bonuses for employing of disabled people in the amount of EUR 746 thousand and other operating revenue in the amount of EUR 35,948 thousand, the majority of which refers to the gains from the disposal of Pekarna Grosuplje and M Holidays activities and ground coffee brands, Santana and Loka.

11. EXPENSES BY TYPE

EUR thousand	2015	2014
Depreciation of property, plant and equipment	73,583	67,615
Amortization of intangible assets	5,122	4,391
Depreciation of investment property	108	118
Labour costs	256,848	272,487
Costs of material	69,868	66,399
Costs of services excl. rents	147,173	149,488
Rental/lease costs	77,434	57,959
Cost of provisions	254	2,904
Other costs	14,887	14,303
Impairment of property, plant and equipment, and intangible assets	200	16,249
Loss from disposal of property, plant and equipment	4,095	541
Change in the value of inventories	(77)	177
Other operating expenses	3,712	12,866
Cost of goods sold	1,946,459	2,010,763
Total cost of goods sold, selling costs and administrative expenses	2,599,667	2,676,259

Costs of goods sold and selling costs in the amount of EUR 2,513,048 thousand (2014: EUR 2,578,915 thousand) include production costs in the amount of EUR 19,897 thousand (2014: EUR 21,103 thousand), selling costs in the amount of EUR 543,056 thousand (2014: EUR 534,180 thousand), historical cost of goods sold in the amount of EUR 1,946,382 thousand (2014: EUR 2,010,766 thousand), and other operating expenses in the amount of EUR 3,713 thousand (2014: EUR 12,866 thousand).

Provisions in the amount of EUR 254 thousand were created in connection with legal actions and termination benefits.

Impairment of property, plant and equipment and intangible assets refers to impairment of certain equipment items.

Other operating expenses in 2015 are lower in relation to business year 2014, mostly as a result of expenses arising from allowance for receivables in the amount of EUR 1,705 thousand (2014: EUR 8,435 thousand), which in 2014 were classified as financial expenses, and were reclassified as operating expenses in the current year. Other operating expenses in the amount of EUR 7,444 thousand refer to penalties and damages.

In 2015, the Group discloses costs of audit in the amount of EUR 167 thousand (2014: EUR 180 thousand). Besides the financial statements audit, the auditor did not provide any other services for the Group.

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

12. LABOUR COSTS

EUR thousand	2015	2014
Salaries	183,858	197,392
Pension insurance costs	19,594	18,725
Health insurance costs	13,226	15,436
Other labor costs	40,170	40,934
Total	256,848	272,487
Number of employees as at December 31	21,459	22,643

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

Average number of employees in the Group during the year (calculated based on hours worked) amounts to 20,440 (2014: 20,803).

13. FINANCE INCOME AND EXPENSES

Recognized in the income statement

EUR thousand	2015	2014
Interest income	2,605	2,514
Gains from disposal of subsidiaries	-	191
Gains on disposal of available-for-sale financial assets	1,211	55
Dividend income	50	29
Other finance income	442	700
Finance income	4,308	3,489
Interest expense	(35,493)	(38,693)
Loss from disposal of subsidiaries	-	(2)
Losses on disposal and impairment of available-for-sale financial assets	-	(210)
Net currency translation differences	(644)	(6,422)
Other finance expense	(2,884)	(10,703)
Finance expenses	(39,021)	(56,030)
Net finance expense recognized in the income statement	(34,713)	(52,541)

The Group did not impair the rents paid in advance for leased units (2014: EUR 5,282 thousand), as impairment was not necessary.

In 2015, the Group reclassified EUR 1,705 thousand (2014: EUR 8,435 thousand) of expenses arising from allowance of receivables from finance expenses to other operating expenses.

Recognized in other comprehensive income (net)

EUR thousand	2015	2014
Foreign currency translation differences on consolidation	(452)	(8,593)
Net change in cash flow hedges	-	912
Net gains/loss recognized in revaluation surplus in relation to available-for-sale financial assets	(172)	154
Finance income (expenses) recognized directly in comprehensive income	(624)	(7,527)
Attributable to:		
Parent company shareholders	(625)	(7,526)
Non-controlling interest	1	(1)
Finance income (expenses) recognized in comprehensive income		
Recognized in:		
Fair value reserve	(172)	2,789
Retained earnings	-	(1,723)
Currency translation reserve	(453)	(8,592)
Non-controlling interest	1	(1)
Total	(624)	(7,527)

14. PROPERTY, PLANT, AND EQUIPMENT

EUR thousand		Land	Buildings	Production equipment	FA being acquired	Total
As at January 1, 2014						
Cost		556,755	1,501,423	448,406	18,780	2,525,364
Revaluation		-	(510,591)	(310,591)	-	(821,182)
Carrying amount		556,755	990,832	137,815	18,780	1,704,182
Year ended December 31, 2014						
Opening carrying amount		556,755	990,832	137,815	18,780	1,704,182
Effect of foreign exchange differences		(5,234)	(14,468)	(2,508)	(153)	(22,363)
Investments	15	-	0	0	80,710	80,710
Transfers*		1,426	39,938	43,998	(81,203)	4,159
Disposal		(3,077)	(5,595)	(13,716)	(1)	(22,389)
Depreciation	11	-	(40,353)	(27,262)	-	(67,615)
Impairment		(40,947)	(6,526)	(368)	-	(47,841)
Other changes		(10,004)	-	-	-	(10,004)
Closing carrying amount		498,919	963,828	137,959	18,133	1,618,839
As at December 31, 2014						
Cost		498,919	1,519,308	424,432	18,133	2,460,793
Revaluation		-	(555,480)	(286,474)	-	(841,954)
Carrying amount		498,919	963,828	137,958	18,133	1,618,839
Year ended December 31, 2015						
Opening carrying amount		498,919	963,828	137,958	18,133	1,618,839
Effect of foreign exchange differences		(50)	(461)	(223)	(61)	(795)
Investments		-	-	-	67,455	67,455
Transfers**	15	(57,514)	(134,719)	30,888	(53,544)	(214,889)
Disposal		(5,814)	(11,517)	(7,733)	(358)	(25,422)
Depreciation	11	-	(45,657)	(27,926)	-	(73,583)
Impairment		-	-	(200)	-	(200)
Closing carrying amount		435,541	771,474	132,764	31,626	1,371,405
As at December 31, 2015						
Cost		435,541	1,262,609	404,128	31,825	2,134,102
Revaluation		-	(491,134)	(271,364)	(199)	(762,697)
Carrying amount		435,541	771,474	132,764	31,626	1,371,405

*Mostly attributable to transfers between groups and other changes.

**Attributable to real estate transfer to assets held for sale and other transfers between groups.

Investments in property, plant and equipment, disclosed among investments in the amount of EUR 67,455 thousand, refer to:

EUR thousand	2015	2014
Purchase of equipment from Idea, d.o.o., in Serbia	120	58,016
Purchase of property, plant and equipment (new facilities)	13,714	2,665
Refurbishment of existing retail and wholesale units	47,420	16,274
Other	6,201	3,755
Total	67,455	80,710

Disposals of property, plant and equipment in the amount of EUR 25,422 thousand regard the sales of shop equipment to Konzum in Croatia and Bosnia and Herzegovina in the amount of EUR 1,905 thousand and sales of non-core assets and other disposals in the amount of EUR 23,517 thousand. Proceeds from disposal amounted to EUR 23,497 thousand, gains from disposal amounted to EUR 4,890 thousand, while losses from disposal amounted to EUR 2,965 thousand.

Land was last appraised as at October 31, 2014. As at December 31, 2015, property plant and equipment were tested for impairment; no impairment signs were identified.

Depreciation of property, plant and equipment totals EUR 73,583 thousand (2014: EUR 67,615 thousand).

The Group identified signs of impairment for certain equipment items, which were then impaired in the amount of EUR 200 thousand. No indications of impairment were identified for the property.

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

EUR thousand	2015	2014
Historical cost	296,661	356,615

Property, plant and equipment leased

Carrying amount of property, plant and equipment held under financial leases amounts to EUR 255,028 thousand (2014: EUR 257,124 thousand) and refers to land and buildings.

Insurance

As at December 31, 2015, the Group had EUR 664,952 thousand of pledged property (2014: EUR 701,982 thousand).

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

15. INTANGIBLE ASSETS

EUR thousand	Note	Goodwill	Trademarks, material rights and licenses	Total
As at January 1, 2014				
Cost		879	55,819	56,698
Revaluation		-	(39,291)	(39,291)
Carrying amount		879	16,528	17,407
Year ended December 31, 2014				
Opening carrying amount				
		879	16,528	17,407
Effect of foreign exchange differences		(4)	(817)	(821)
Investments		-	4,981	4,981
Impairment		(412)	-	(412)
Amortization	11	-	(4,391)	(4,391)
Closing carrying amount		463	16,301	16,764
As at December 31, 2014				
Cost		463	59,358	59,821
Revaluation		-	(43,057)	(43,057)
Carrying amount		463	16,301	16,764
Year ended December 31, 2015				
Opening carrying amount				
		463	16,301	16,764
Effect of foreign exchange differences		1	(34)	(33)
Increase upon business combinations		1,200	-	1,200
Investments		-	8,708	8,708
Disposals		-	(5)	(5)
Transfers		-	(1,975)	(1,975)
Amortization	11	-	(5,122)	(5,122)
Closing carrying amount		1,664	17,873	19,538
As at December 31, 2015				
Cost		1,664	65,783	67,447
Revaluation		-	(47,909)	(47,909)
Carrying amount		1,664	17,873	19,538

As at December 31, 2015, intangible assets being acquired amount to EUR 85 thousand (2014: EUR 51 thousand).

Intangible assets as at December 31, 2015 include rights, patents, licenses, trademarks and investments into software in the amount of EUR 17,873 thousand (2014: EUR 16,301 thousand) and goodwill in the amount of EUR 1,664 thousand (2014: EUR 463 thousand).

The trademark value as at December 31, 2015 amounts to EUR 3,700 thousand and refers to the trademark Roda in Serbia. The estimated useful life of the trademark is unlimited; as at December 31, 2015, it was tested for potential impairment, which was not identified.

In 2015, the Group did not identify any indicators of impairment of intangible assets.

Value of goodwill as at December 31, 2015 amounts to EUR 1,664 thousand. This amount includes EUR 463 thousand generated in previous periods upon the acquisition of Era Tornado, d.o.o, and Trgohit, d.o.o., in Croatia, and EUR 1,200 thousand that were realized when the Group took over the business activity of the Slovenian company Era Good d.o.o. in 2015.

Amortization of intangible assets in 2015 amounts to EUR 5,122 thousand (2014: EUR 4,391 thousand).

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

Goodwill impairment testing

Goodwill, which refers to the acquisition of the companies Era Tornado, d.o.o, and Trgohit, d.o.o., in Croatia in the amount of EUR 464 thousand, and of a part of the company Era Good, d.o.o. in Slovenia, was allocated to cash-generating units of the Group, defined according to the store format, and tested for impairment as at December 31, 2015. In 2015, goodwill was not impaired.

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

EUR thousand	31/12/2014	Exchange rate differences	Increase in 2015	Impairment in 2015	31/12/2015
Hypermarkets	-	-	-	-	-
Supermarkets	463	1	-	-	464
Markets	-	-	-	-	-
Other stores	-	-	1,200	-	1,200
Total	463	1	1,200	-	1,664

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

Upon acquisition of Croatian companies družb Presoflex, d.o.o., Era Tornado, d.o.o, and Trgohit, d.o.o., goodwill was created, the value of which was allocated to the acquired cash-generating units. For the purpose of financial reporting, the test for impairment of goodwill was carried out, which was based on the estimate of value in use of the acquired cash-generating units and is prepared in line with requirements under International Accounting Standards. The estimated value is based on the restructured business activity of the company Mercator - H, d.o.o., during the integration of operations with the company Konzum, d.d., which led to the transfer of the Mercator - H, d.o.o., retail activity to Konzum, d.d., and a material change of the company's core trade activity into real estate activity. Future operations projections are based on market rent, under which revenue and expenses arising from lease in line with the concluded lease agreements for each business unit, and policies for future medium-term period will be realized. Nominal rate of increase in revenue in the projection amounts to 2.5% (2014: 1%).

The quantity of required investments is estimated annually on the basis of necessary annual investments per square meter of sales surface assumed for such type of stores. The remaining value is calculated on the basis of gross cash flow as infinite series function, taking into account 2% increase rate. The discount rate used for this valuation is 69 %.

With the acquisition of Era Good, d.o.o. business activity in Slovenia in 2015, goodwill was created, the value of which was allocated to the acquired cash-generating units. For the purpose of financial reporting, goodwill was tested for impairment based on the estimate of value in use of the acquired cash-generating units. As the basis

for projections of operations in the future, the revenue from sales of goods, margin realized for covering the costs associated with operations of cash-generating units, and guidelines for future medium-term period were applied. The nominal rate of increase in revenue used in the projection stands at 1.5%, while the discount rate applied in valuation amounts to 8.7%.

It was determined that the recoverable amount of all cash-generating units exceeds their carrying amount, including the goodwill. As a result, goodwill was not impaired.

16. INVESTMENT PROPERTY

EUR thousand	2015	2014
As at January 1	3,494	2,791
Investment	-	31
Transfer from property, plant, and equipment	-	950
Disposals	(35)	(160)
Depreciation	(108)	(118)
As at December 31	3,351	3,494
Closing value		
Cost	6,877	6,948
Revaluation	(3,526)	(3,454)
Carrying amount	3,352	3,494

As at December 31, 2015, the estimated fair value of investment property totals EUR 3,352 thousand (2014: EUR 3,494 thousand) and is classified to Level 2 based on the method for measuring fair value.

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

EUR thousand	2015	2014
Rental income	187	169
Direct expenses arising from investment property generating rental income	(243)	(248)
Total	(56)	(79)

Depreciation of investment property in the amount of EUR 108 thousand was entirely included among the cost of sales.

The Group did not sell any of its investment property in 2015.

As at December 31, 2015, financial liabilities are not mortgaged with investment property.

17. AVAILABLE FOR SALE FINANCIAL ASSETS

EUR thousand	2015	2014
As at January 1	1,178	820
Foreign exchange differences	(1)	17
Purchase of shares and interests	168	-
Adjustment to market value	(6)	354
Disposals	(815)	(13)
As at December 31	524	1,178

The Group's available-for-sale financial assets include also assets that could not be valued at fair value; thus, these assets are measured at historical costs. Shares of these companies are not listed on the stock exchange.

EUR thousand	2015	2014
Available-for-sale financial assets measured at cost	408	603
Available-for-sale financial assets measured at fair value	116	575
Total investments in shares and interests	524	1,178

Available-for-sale financial assets are not pledged.

In 2015, the Group sold its Pivovarna Laško, d.d. and Pokojninska družba A, d.d. shares. Revaluation to fair value for available-for-sale financial assets is recognized in equity. Impairment of available-for-sale financial assets is recognized in the income statement.

18. TAXES**Taxes recognized in profit or loss**

EUR thousand	2015	2014
Current tax expense	1,990	861
Deferred tax	4,655	(4,909)
Tax	6,644	(4,048)

In 2015, income tax liability of the companies in the Mercator Group amounts to EUR 1,990 thousand.

Tax recognized in other comprehensive income

EUR thousand	2015		
	Value before tax	Tax	Value after tax
Net gains/losses recognized in revaluation surplus related to property, plant and equipment	-	134	134
Gains/(losses) recognized in revaluation surplus related to financial assets available for sale	(208)	36	(172)
Foreign currency translation differences on consolidation	(452)	-	(452)
Provisions for termination benefits	(3,730)	411	(3,319)
Other changes	(3,570)	(20)	(3,590)
Other comprehensive income	(7,960)	561	(7,399)

EUR thousand

2014

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

Reconciliation to effective tax rate

EUR thousand	2015	2014
Profit (loss) for the year	20,154	(44,547)
Tax	6,643	(4,048)
Profit before income tax	26,797	(48,595)
Tax calculated at 17% tax rate	4,555	(8,261)
Tax on income that increases the tax base	(572)	404
Tax on income that decreases the tax base	-	(503)
Tax of non-deductible expenses	4,065	4,183
Tax breaks	(2,064)	(556)
Effect of different tax rates and other	659	684
Total income tax expense	6,643	(4,048)
Effective tax rate	33.0%	-

Deferred income taxes are calculated on temporary differences on the basis of the balance sheet liability method using the tax rate applicable in individual countries where Mercator Group companies operate.

The movement in the deferred tax balances is as follows:

EUR thousand	2015	2014
At the beginning of year – net deferred tax (liabilities)	(8,091)	(19,925)
Exchange rate differences	8	(301)
Recognized in profit or loss	(4,628)	4,909
Recognized in other comprehensive income	561	4,562
Recognized in liabilities	261	2,664
At end of year – net deferred tax (liabilities)	(11,890)	(8,091)

Deferred tax assets and liabilities are attributable of the following:

Deferred tax liabilities

EUR thousand	Revaluation of property, plant and equipment	Revaluation of available-for-sale financial assets and derivatives	Depreciation of property, plant and equipment under EUR 500	Difference between tax recognized and business depreciation	Total
As at January 1, 2014	35,341	2	586	1,526	37,455
Exchange rates differences	(211)	-	-	(44)	(256)
Recognized in profit or loss	(60)	-	40	1,145	1,125
Recognized in other comprehensive income	(5,308)	39	-	-	(5,268)
Recognized in liabilities	(2,664)	-	-	-	(2,664)
As at December 31, 2014	27,098	41	626	2,627	30,392
Exchange rates differences	(6)	1	-	(5)	(10)
Recognized in profit or loss	(8)	-	186	(182)	(4)
Recognized in other comprehensive income	(134)	(36)	-	-	(170)
Recognized in liabilities	(261)	-	-	-	(261)
As at December 31, 2015	26,689	6	812	2,440	29,947

Deferred tax assets

EUR thousand	Provisions not recognized for tax purposes	Impairment of trade receivables	Tax loss	Impairment of merchandise inventory	Differences between tax recognized and business depreciation.	Revaluation of available-for-sale financial assets and derivatives	Other	Total
As at January 1, 2014	1,900	2,349	3,073	9	2,668	730	6,801	17,530
Exchange rate differences	(12)	-	(262)	(1)	(306)	-	25	(556)
Recognized in profit or loss	(380)	372	10,643	26	200	-	(4,827)	6,034
Recognized in other comprehensive income	-	-	-	-	-	(707)	-	(707)
As at December 31, 2014	1,508	2,721	13,455	34	2,562	23	1,998	22,301
Exchange rate differences	(1)	-	-	-	-	-	(1)	(2)
Recognized in profit or loss	(118)	(41)	(3,994)	11	78	(23)	(546)	(4,633)
Recognized in other comprehensive income	411	-	(20)	-	-	-	-	391
As at December 31, 2015	1,800	2,680	9,441	45	2,640	-	1,452	18,057

As at December 31, 2015, the Group holds unrecognized deferred assets from tax losses in the amount of EUR 26,580 thousand (2013: EUR 17,540 thousand). These pertain especially to tax losses of the companies Mercator - H, d.o.o., and M - Energija, d.o.o. Because sufficient taxable income is not expected in the future, these assets were not recognized.

In 2015, the Mercator Group companies recognized deferred tax liabilities as well as deferred tax assets. Deferred tax liabilities charged to the income statement decrease tax bases of individual companies of the Group in 2015, whereas the deferred tax assets increase them.

Deferred tax assets not recognized through profit or loss, pertaining to the impairment of equity investment into subsidiaries Mercator - H, d.o.o. amounted to EUR 5,625 thousand. These deferred tax assets were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

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

19. DISPOSAL GROUPS

EUR thousand	2015	2014
Land	77,843	-
Buildings	139,639	-
Total	217,482	-

As at December 31, 2015, the Group reallocated EUR 217,482 thousand of current assets to disposal groups. As real estate monetization is underway, the Group reclassified land and buildings subject to monetization and intended for sale in 2016 in line with IFRS 5. In 2015, the Group did not recognize gains or losses in relation to these assets.

20. INVENTORIES

EUR thousand	2015	2014
Merchandise	284,495	260,815
Material	6,364	5,180
Work-in-progress	25	27,797
Finished good	855	831
Decrease: revaluation adjustment of inventories	(10,886)	(9,531)
Total	280,853	257,323

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress, and finished products as at December 31, 2015 amounted to EUR 280,853 thousand, which is 9.1% more than at the end of previous period.

21. TRADE AND OTHER RECEIVABLES

EUR thousand	2015	2014
Trade and other receivables	221,925	230,004
Deferred costs	6,759	15,450
Accrued revenues	27,505	8,832
Total trade and other receivables	256,189	254,286

Trade and other receivables rose by EUR 1,903 thousand.

As at December 31, 2015 Mercator Group disclosed EUR 32,747 thousand of receivables from related parties.

Deferred costs in 2015 amount to EUR 6,759 thousand, which is EUR 8,691 thousand less than the year before. Uncharged revenue pertains to anticipated and included rebates and compensations.

Carrying amounts of all trade and other receivables are in materially relevant sums consistent with their respective fair values. Receivables are measured at amortized cost.

As at December 31, 2015, allowance for receivables amounts to EUR 36,569 thousand (2014: EUR 41,896 thousand). Changes in value adjustments of trade receivables are presented in Note 29 (Financial instruments).

22. LOANS AND DEPOSITS

EUR thousand	2015	2014
Deposits for rent payment	22,705	19,373
Loans to companies	9,566	8,024
Deposits in banks	6,398	865
Total loans and deposits	38,669	28,261

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

The average interest rate on loans given and deposits is 4.44%.

23. CASH AND CASH EQUIVALENTS

EUR thousand	2015	2014
Cash in banks	6,389	18,197
Cash in hand	12,609	16,027
Total cash and cash equivalents	18,998	34,224

Cash on hand in the amount of EUR 12,609 thousand includes cash in transit (daily proceeds of retail units), cash in hand, and cheques falling due in up to 90 days.

24. EQUITY

Share capital

Share capital of the company Mercator, d.d., amounts to EUR 254,175,051.39. It is divided into 6,090,943 ordinary, registered, no-par value shares (2014: 6,090,943), that are entered into the Companies Register as at December 31, 2015.

Conditional capital increase

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

Treasury shares

As at December 31, 2015, the company Mercator, d.d., held 42,192 treasury shares in the amount of EUR 3,235 thousand (2014: 42,192 treasury shares, EUR 3,235 thousand).

Reserves

Reserves consist of the share premium, revenue reserves, fair value reserve and currency translation reserve. None of those types of reserves can be used for the payment of dividends or other participations in profit.

As at December 31, 2015, *share premium* amounted to EUR 286,772 thousand (2014: EUR 286,772 thousand). It includes the excess over nominal value of paid-up shares and surplus that was created as the difference between purchase and sales values of disposed treasury shares. No changes occurred in share premium in 2015.

Revenue reserves, amounting to EUR 41,686 thousand as at December 31, 2015, include legal reserves, reserves for treasury shares, and other revenue reserves.

As at December 31, 2015, the Group holds legal reserves in the amount of EUR 13,389 thousand. Share premium and legal reserves can be used in surplus amount to increase the share capital from company assets, and for covering the net loss of the business year, or to cover the carried forward net loss, if revenue reserves are not used simultaneously to pay dividends to the shareholders.

As at December 31, 2015, the company Mercator, d.d., held 42,192 treasury shares in the amount of EUR 3,235 thousand. The reserve for treasury shares is reported among other revenue reserves.

Other revenue reserves as at December 31, 2015 amount to EUR 25,062 thousand. They include reallocated residuals of retained earnings from previous years. They can be used for any purpose, except for the amount of the reserve for treasury shares within other revenue reserves. In 2015, no changes were made in other revenue reserves.

Currency translation reserve, amounting to EUR -89,668 thousand as at December 31, 2015, has decreased by EUR 453 thousand in 2015, which is related to a decrease due to currency translation differences that occurred upon the integration of financial statements of foreign subsidiaries into the consolidated financial statements.

Fair value reserve which amounts to EUR 108,865 thousand as at December 31, 2015, includes fair value reserve for land, which is measured using the revaluation model, fair value reserve regarding available-for-sale financial assets and fair value reserve from actuarial gains or losses arising from creation of provisions for termination benefits.

Fair value reserve is shown in the table below:

EUR thousand	2015	2014
Property fair value reserve	112,190	115,206
Fair value reserve for available-for-sale financial assets	28	205
Fair value reserve for provisions for termination benefits	(3,353)	-
Total fair value reserve	108,865	115,411

Dividends

In 2015, the General Meeting did not decide on dividends payments, due to the disclosed loss of the company Mercator, d.d., in 2014.

Due to negative results of Mercator, d.d., in 2015, dividend payment is not planned for 2016.

Other comprehensive income

EUR thousand	Fair value reserve				Retained earnings	Currency translation reserve	Total other comprehensive income attributable to owners of the parent company	Non-controlling interest	Total other comprehensive income of the period
	Property fair value reserve	Fair value reserve for available-for-sale financial assets	Fair value reserve for provisions for retirement benefits						
2015									
Other changes in property, plant and equipment	(2,140)	-	-	-	2,140	-	-	-	-
Sales of revalued real estate	(1,020)	-	-	1,020	-	-	-	-	-
Gains (losses) recognized in revaluation surplus related to financial assets available for sale	-	(208)	-	-	-	(208)	-	(208)	
Actuarial gains (losses) from provisions for retirement benefits	-	-	(3,754)	24	-	(3,730)	-	(3,730)	
Other changes	-	-	-	(3,570)	-	(3,570)	-	(3,570)	
Deferred tax	134	36	411	(20)	-	561	-	561	
Exchange rate differences	-	-	-	-	(453)	(453)	1	(452)	
Total other comprehensive income	(3,026)	(172)	(3,343)	(2,546)	1,687	(7,400)	1	(7,399)	

EUR thousand	Fair value reserve				Retained earnings	Currency translation reserve	Total other comprehensive income attributable to owners of the parent company	Non-controlling interests	Total other comprehensive income of the period
	Property fair value reserve	Fair value reserve for available-for-sale financial assets	Fair value reserve for derivatives						
2014									
Net gains/losses recognized in revaluation surplus related to property, plant and equipment	(32,333)	-	-	-	-	(32,333)	(1)	(32,334)	
Other changes in property, plant and equipment	-	-	-	(10,002)	-	(10,002)	(2)	(10,004)	
Sales of revalued real estate	(922)	-	-	922	-	-	-	-	
Net gains (losses) recognized in revaluation surplus related to cash flow hedging	-	-	3,175	(1,723)	-	1,452	-	1,452	
Gains/(losses) recognized in revaluation surplus related to financial assets available for sale	-	360	-	-	-	360	-	360	
Provisions established for retirement benefits	-	-	-	(2,370)	-	(2,370)	-	(2,370)	
Other changes	-	-	-	(1,140)	-	(1,140)	(3)	(1,143)	
Deferred tax	5,308	(206)	(540)	-	-	4,562	-	4,562	
Exchange rates differences	-	-	-	-	(8,592)	(8,592)	(1)	(8,593)	
Total other comprehensive income	(27,947)	154	2,635	(14,313)	(8,592)	(48,063)	(7)	(48,070)	

The changes in equity in 2015 period refer to:

- the increase in equity by net profit of EUR 20,154 thousand in 2015,
- the decrease in equity due to actuarial losses from the creation of retirement benefits provisions in the amount of EUR 3,730 thousand,
- the decrease in equity due to currency translation differences from operations with foreign subsidiaries in the amount of EUR 452 thousand,
- the decrease in equity resulting from reversal of revaluation of available-for-sale financial assets due to their disposal in the amount of EUR 208 thousand,
- the decrease in equity due to other changes in the amount of EUR 3,569 thousand,
- the increase in equity due to deferred tax effect in the amount of EUR 561 thousand.

25. LOSS PER SHARE

Basic earnings (loss) per share are calculated by dividing the net profit (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of treasury shares.

	2015	2014
Profit attributable to the owners of the parent company (EUR thousand)	20,245	(44,453)
Weighted average number of ordinary shares	6,048,751	4,124,571
Basic net loss per share (EUR)	3.3	(10.8)

	2015	2014
Issued ordinary shares as at January 1	6,090,943	3,765,361
Effect of treasury shares	(42,192)	(42,192)
The effect of new issue	-	401,402
Weighted average number of ordinary shares as at December 31	6,048,751	4,124,571

Since the Group does not have any preference shares or convertible bonds, diluted net loss per share is the same as basic net loss per share.

26. BORROWINGS

EUR thousand	2015	2014
Long-term financial liabilities		
Loans from banks	621,330	627,759
Finance lease	115,250	158,881
Loans from other companies	1,628	-
Loans from related parties	20,000	20,000
Total	758,208	806,640
Short-term financial liabilities		
Loans from banks	43,002	20,353
Loans from other companies	40,469	3,009
Current portion of finance lease	48,198	17,134
Current portion of long-term bank loans	17,555	2,502
Total	149,224	42,998
Total financial liabilities	907,432	849,638

As at December 31, 2015, the Group had EUR 664,592 thousand of pledged property. Loans collateralized by a mortgage amounted to EUR 810,579 thousand as at December 31, 2015.

Effective interest rates as at the balance sheet date:

	2015	2014
Bank loans	3.17%	2.56%
Other loans	1.96%	1.87%

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

Finance lease

Finance lease liabilities - minimum lease payments:

EUR thousand	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2015	2015	2015	2014	2014	2014
Less than one year	50,900	2,702	48,198	20,398	3,264	17,134
Between one and five years	77,984	7,827	70,157	100,942	9,873	91,069
More than five years	48,025	2,932	45,093	72,627	4,815	67,812
Total	176,909	13,461	163,448	193,967	17,952	176,015

Mercator Group has also employed finance lease as a method of financing its major trade facilities in Slovenia and Croatia, and some land in Slovenia. Finance leases are signed for periods of 5 to 25 years; the last such lease is to expire in 2027.

Carrying amounts of all financial liabilities approximate their fair values. The share of long-term financial liabilities in total financial liabilities as at December 31, 2015 amounted to 84% (95% as at December 31, 2014).

27. PROVISIONS

EUR thousand	Provisions for restitution claims	Provisions for company reorganization costs	Legal claims	Retirement benefits and jubilee premiums provisions	Other provisions	Total
As at January 1, 2014	214	95	9,563	15,107	68	25,047
Creation	-	-	2,017	4,191	2,518	8,726
Utilization	(158)	(70)	(4,954)	(1,675)	(2,383)	(9,240)
Reversal	(56)	(22)	(3,420)	(240)	-	(3,738)
Exchange rates difference	-	-	(10)	(80)	-	(89)
As at December 31, 2014	-	3	3,197	17,304	202	20,706
Creation	-	-	49	8,777	2,102	10,928
Utilization	-	-	(179)	(2,648)	(1,848)	(4,675)
Reversal	-	-	(272)	(768)	-	(1,040)
Exchange rates difference	-	-	-	(1)	-	(1)
As at December 31, 2015	-	3	2,795	22,664	456	25,918

Compared to the end of 2014, total provisions increased by EUR 5,212 thousand. EUR 10,928 thousand of additional provisions were established (EUR 7,174 thousand debiting costs and expenses, EUR 3,754 thousand debiting other comprehensive income), provisions debiting the liabilities decreased by EUR 2,827; provisions crediting other operating income decreased by EUR 2,888 thousand. Net effect on the income statement amounted to EUR -4,690 thousand. The decrease of EUR one thousand refers to foreign exchange differences.

Provisions for company reorganization costs

As at December 31, 2015, provisions for reorganization costs amount to EUR 3 thousand and were not subject to any changes in relation to 2014.

Legal claims

In 2015, provisions for legal claims were decreased by EUR 402 thousand. Based on received legal claims and legal opinion, the Group created additional provisions in the total amount of EUR 49 thousand in 2015. Following the completion of legal proceedings decided in favor of Mercator, provisions in the amount of EUR 272 thousand were reversed, and EUR 179 thousand of liabilities were paid to plaintiffs.

Provisions for retirement and jubilee benefits

Retirement and jubilee benefits provisions were calculated applying the following methods and assumptions:

- actuarial projected unit credit method taking into account attribution of employment benefits on a straight-line basis;
- actuarial assumptions of mortality (0.1%-0.3%), staff fluctuation (1.3%-6.5%) and average employee age (37.1-46.7 years);
- retirement date was calculated on the basis of gender, date of birth, overall period of service as at December 31, 2015;
- the discount rate applied in calculations amounts to 1.62%-6.4%;
- applying average salary increase rate by individual countries from 0.8% to 2.5% and real growth from 0.0% to 0.5%;
- jubilee premiums are paid under the assumption that the liability arises upon the expiry of a 10, 20, 30 or 40-year employment in the company (where required so by the legislation);
- in the event of part-time contracts, the reason for part-time employment is taken into account (parenthood, disability) and used in eventual calculation of retirement benefits.

As at December 31, 2015, the value of provisions for retirement benefits and jubilee premiums amounted to EUR 22,664 thousand. Compared to the year before, provisions are higher by EUR 5,360 thousand. In 2015, additional provisions of EUR 8,777 thousand were created, of which EUR 5,023 thousand were recognized in labor costs and EUR 3,754 thousand in other comprehensive income. Payment of retirement and jubilee benefits has been debited to provisions in the total amount of EUR 2,648 thousand. Reversed provisions in the

amount of EUR 768 thousand were credited to operating income. The decrease of EUR one thousand refers to foreign exchange differences.

Other provisions

Other provisions refer to the provisions for improvement of working conditions of persons with disabilities at the companies Mercator, d.d., Mercator IP, d.o.o., and Intersport ISI, d.o.o. In 2015, they were increased by EUR 254 thousand. They were drawn pursuant to relevant legislation in the amount of EUR 1,848 thousand, to cover the labor costs of persons with disabilities, labor costs of employees helping the persons with disabilities, and investment in property, plant and equipment related to the work of persons with disabilities.

28. TRADE AND OTHER LIABILITIES

EUR thousand	2015	2014
Trade liabilities	510,210	607,802
Payables to employees	13,624	18,442
Social security and other taxes and duties	21,714	31,292
Other payables	44,768	15,845
Accrued costs and deferred revenues	36,154	41,041
Total	626,469	714,422
Trade and other payables include:		
Non-current/long-term liabilities	38,352	6,765
Current/short-term liabilities	588,117	707,657

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

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

Trade liabilities in 2015 are lower by EUR 87,979 thousand, resulting from improved liquidity due to the financial restructuring agreement, amended legislation in Slovenian and closure of core activities in Croatia and Bosnia and Herzegovina.

As at December 31, 2015, Mercator Group does not have any operating liabilities towards the members of the Supervisory Board, while the liabilities towards Management Board members and other employees include recognized undisbursed compensation for December 2015.

29. FINANCIAL INSTRUMENTS

Financial risk management

(a) Risk overview

The Group is monitoring and controlling different types of financial risks to which its operations are exposed:

- credit risk,
- liquidity risk,
- market risk.

Market risk management involves managing the interest rate and currency risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

This note presents the information on the Group's exposure to the risks listed above, as well as the goals, policies, and processes for measurement and management thereof and the Group's equity.

(b) Risk management policy

Active risk management at the Mercator Group pursues the objective of timely recognition and response to potential threats by developing appropriate measures to hedge against identified risks or to reduce risk exposure. The parent company manages interest rate, currency and liquidity risks centrally for the entire Group, whereas credit risks are managed as a rule by subsidiaries. Risk management measures are incorporated into daily operations at all companies of the Mercator Group.

Risk management activities at Mercator Group are the responsibility of the dedicated Risk Management Council. The council is managing a systematic risk management process which is laid down in the Rules of Procedure for Risk Management. Since the risks are monitored and managed from the aspect of several professional fields, Risk Management Committees, covering three main fields of risks, were founded to provide support to the Risk Management Council. Risk management is a central corporate function managed and coordinated by the company Mercator, d.d.

Mercator Group manages financial risks in the framework of adopted policy centrally at the parent company level which enters into interest rate swap contracts at market terms (arm's length principle) based on specific policies for managing specific risks.

Risks occurring in the process of compilation and development of financial statements are managed by employment of clear and concise accounting practices and their strict implementation; efficient organization of the accounting function; and regular internal and external audits and reviews of internal controls, business processes, and operations.

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

Internal audit has been in operation at the Mercator Group as an independent support function since 2000. The basic function of internal audit is perpetual development and monitoring of the internal control systems from the aspect of management, or hedging, of all sorts of operating and other risks to which the Group is exposed.

Quality performance of the supervisory function by the Supervisory Board of the company Mercator, d.d., is also supported by the Audit Committee which, among other duties, is in charge of supervising the operation of the risk management system, internal audit and the internal control system, and takes part in specifying the major auditing areas and proposes the selection of the independent third-party auditor for the Group companies.

At Mercator Group, we are constantly studying and analyzing the existing and potential new risks, and implementing measures to manage, or hedge them.

Risk management process includes risk identification, sensitivity analysis, determination of threshold for key risks, taking measures to control risks and the implementation of these in the everyday decision-making in individual areas.

Estimates of exposure to individual risk types are prepared according to the probability and an assessment of damages in case of certain events. Exposure to risks is assessed based on sensitivity analysis which identifies by how much the gross cash flow from operating activities at the level of the Group (EBITDA) or a particular company would drop in case of occurrence of a particular event taken as the basis for risk analysis. Probability is calculated based on analysis of data on past events, and expectations on the frequency of individual events in the year ahead. The analysis includes different effects and factors adjusted to particular types of risk.

Risks that cannot be quantified are assessed qualitatively. Estimated key risks, that exceed 1% of gross cash flow from operating activities (EBITDA) of the Group or individual company, and for them no measures have been taken so far or they are not hedged in a manner that the risk would be entirely controlled, are most closely monitored and managed with measures, that either minimize the damage at the occurrence of an event, or reduce the level of likelihood of occurrence of an event, thus mitigating the risk to an acceptable level. Implementation of the measures adopted for managing the key risks is reviewed by a special internal audit, and reported to the Audit Committee on a quarterly basis.

Similarly as in the recent years, Mercator Group performance in 2015 was considerably affected by aggravated conditions in global financial markets, which bore a negative impact on the entire economic environment both globally and in the markets of Mercator operations. This was reflected in a notable drop in retail demand, as well as in the persistence of the trend of uncertainty with regard to financial risks which were not common in the period before the crisis. In such harsh and uncertain environment, it was crucial for Mercator Group to carefully manage the risks that it faces in its business operations.

Credit risk

Credit risk is the risk that the Group will suffer financial loss if a party to an agreement defers a payment and later does not settle its obligations in full or not at all. Credit risk arises mainly from receivables to wholesale customers and receivables from Pika card.

Group's exposure to credit risk is particularly dependent on the characteristics of individual customers. However, Mercator Group's exposure to customers is highly dispersed. In accordance with the adopted policy for each new customer, an analysis of its creditworthiness is performed before the Group offers its standard payment terms. The analysis of the Group's credit rating includes external ratings and assessments, if they exist. Limits on purchases, which represent the maximum amount of open positions, are determined for each customer individually. Group's business with customers who do not meet the benchmark credit rating shall take place only on the basis of advance payments or subject to appropriate payment insurance.

The carrying amounts of financial assets (receivables and loans) represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

EUR thousand	2015	2014
Trade and other receivables	256,189	254,286
Deposits for rent payment	22,705	19,373
Loans to companies	9,566	8,024
Deposits in banks	6,398	865
Total	294,858	282,548

Trade receivables predominantly derive from wholesale of goods, material, and services, and sale of goods to individuals, Pika card holders. Both wholesale and retail customers are dispersed; hence, there is no major

exposure to an individual customer. The Group is also constantly monitoring customer payment defaults and checks the rating of external customers and Pika card holders.

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

Measures prepared in case of a considerable increase in risk include above all obtaining appropriate security, introduction of more strict control of customers in default, more active collecting procedures, and, if required, establishment of an expert rating department that would evaluate and monitor credit risk systematically.

Maximum exposure to credit risk for trade receivables and loans at the reporting date by geographic region was as follows:

EUR thousand	2015	2014
Slovenia	136,510	153,508
Foreign markets	158,348	129,040
Total	294,858	282,548

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

EUR thousand	2015	2014
Retail customers	27,593	30,521
Wholesale customers and related parties	182,605	178,035
Receivables from employees and the government, and other receivables	11,727	21,447
Deferred costs	6,759	15,450
Accrued revenues	27,505	8,832
Loans and deposits	38,669	28,262
Total	294,858	282,548

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

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

EUR thousand	2015	2014
Trade receivables	246,768	250,453
Secured receivables	60,889	71,057
Unsecured receivables	185,879	179,396
Other receivables and loans	84,660	73,991
Total	331,428	324,444

Trade receivables are secured with bank guarantees, paid collaterals, cash deposits, prime mortgages, and liabilities to these customers. Among other receivables, the Group reports receivables from the government, employees, as well as deferred costs and accrued expenses.

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

Impairment of receivables

Ageing of trade receivables and loans at the reporting date:

EUR thousand	Gross value 2015	Adjustment 2015	Gross value 2014	Adjustment 2014
Not past due	194,722	-	204,963	-
Past due 0-60 days	42,420	-	51,291	-
Past due 61-74 days	5,765	150	5,226	320
Past due 75-89 days	5,919	231	6,401	309
More than 90 days	82,602	36,189	56,563	41,267
Total	331,428	36,570	324,444	41,896

Changes in revaluation adjustment to receivables and loans:

EUR thousand	2015	2014
As at January 1	41,896	46,050
Effect of exchange rate movements	(13)	(552)
Impairment loss recognized during the year	3,844	9,505
Receivable write-off	(7,018)	(12,153)
Decrease of allowance for impairment during the year	(2,139)	(954)
As at December 31	36,570	41,896

The quality of receivables and loans is rated based on the policies specified by the Risk Management Council. Credit risk is monitored by classifying the trade receivables based on their characteristics.

Guarantees

Parent company is providing guarantees to its subsidiaries for borrowings from banks, in the amount of EUR 311,802 thousand.

Liquidity risk

Liquidity risk is the risk that the Group will in the course of its business activities encounter difficulties in settlement of its current liabilities which are settled in cash or with other financial assets. The Group ensures its liquidity so that it always has ample liquid assets to meet its obligations in due time, both in normal as well as challenging circumstances, without the occurrence of unacceptable losses or decline in the Group's reputation.

The Group has been actively managing liquidity risk in the scope of the established centralized cash management. The centralized cash management represents a system based on:

- specifically defined methodology of cash flow planning based on which every company from the Mercator Group makes weekly plans of the daily cash flow for 3 months in advance, which is reflected in the weekly updated short-term consolidated liquidity plan of the Mercator Group;
- standardized daily reporting systems about the cash flow generated on the previous day and the drafting of analyses of deviations from the cash flow plan;
- centralized alignment at various decision-making levels, meaning that an appropriate amount of cash is always available at the company to repay its liabilities;
- efficient working capital management encompassing monthly monitoring of companies' management of inventories, trade receivables and payables.

As at December 31, 2015 Mercator Group had access to the following liquidity lines:

EUR thousand	2015
Cash and cash equivalents	18,998
Bank deposits	6,398
Standby revolving credit lines	62,541
Total	87,937

Following is an overview of the contractual maturity of liabilities and estimated interest expenses: The future contractual due date of the principal and interest is given based on the loan agreements as at December 12, 2015

2015			Up to 6 months		6-12 months		1-3 years		3-5 years		Over 5 years	
EUR thousand	Carrying amount	Contractual cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Bank borrowings	681,887	788,540	41,380	4,080	19,177	4,416	52,881	35,464	153,024	40,506	415,425	22,187
Borrowings from related and other companies	62,097	62,097	-	-	40,469	-	1,628	-	-	-	20,000	-
Finance lease	163,448	176,909	40,009	1,376	8,189	1,326	27,530	4,710	42,627	3,117	45,093	2,932
Trade and other payables and current tax liabilities	627,993	627,993	589,641	-	-	-	38,352	-	-	-	-	-
Total	1,535,425	1,655,539	671,030	5,456	67,835	5,742	120,391	40,174	195,651	43,623	480,518	25,119
2014			Up to 6 months		6-12 months		1-3 years		3-5 years		Over 5 le years	
EUR thousand	Carrying amount	Contractual cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Bank borrowings	650,614	793,769	3,660	4,921	19,195	4,981	54,938	26,186	169,890	46,146	402,931	60,921
Borrowings from related and other companies	23,009	23,009	-	-	3,009	-	-	-	-	-	20,000	-
Finance lease	176,015	193,967	9,108	1,639	8,026	1,625	38,276	5,661	52,793	4,212	67,812	4,815
Trade and other payables and current tax liabilities	714,960	714,960	708,195	-	-	-	6,765	-	-	-	-	-
Total	1,564,598	1,725,705	720,963	6,560	30,230	6,606	99,979	31,847	222,683	50,358	490,743	65,736

Market risks

Market risk is risk that is common to the entire class of assets and liabilities. Market risk is deemed to exist when there is probability that the value of investments or financial assets in a certain period of time will decrease due to changes in economic environment or other events affecting the market.

The Group uses derivative financial instruments to hedge interest rate risk exposures. In these activities the Group employs hedge accounting.

Interest rate risk

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

The Group is exposed to interest rate risk as its liabilities and assets include such liabilities and assets that are sensitive to changes in interest rates, which mean that some of the financial liabilities are linked to the variable interest rate EURIBOR. EURIBOR is changing on a daily basis, as it is subject to market fluctuations; this can lead to increased finance expenses for the Group. Consequently, the Group is managing and controlling the increase of finance expenses in an appropriate centralized manner.

Exposure

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

EUR thousand	31/12/2015 Carrying amount	31/12/2014 Carrying amount
Fixed rate instruments		
Financial assets	37,498	27,332
Financial liabilities	(49,331)	(35,008)
Total	(11,833)	(7,676)
Floating rate instruments		
Financial assets	1,171	930
Financial liabilities	(858,101)	(814,630)
Total	(856,930)	(813,700)

Fair value sensitivity analysis for fixed rate instruments

The Group does not hold any fixed rate financial instruments at fair value through profit or loss, nor derivative financial instruments designated as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2014.

EUR thousand	Net profit or loss	
	100 bp increase	100 bp decrease or decrease to 0%
2015		
Variable rate instruments	(8,569)	-
Cash flow sensitivity (net)	(8,569)	-
2014		
Variable rate instruments	(8,137)	407
Cash flow sensitivity (net)	(8,137)	407

Currency risk

Mercator's operations in an international environment necessarily involve exposure to currency risk. Mercator Group is facing currency risk in the markets of Serbia and Croatia; exposure to risk has somewhat decreased on these two markets according to estimate.

In case of an increase in exposure to this type of risk, the Group has prepared a general policy of risk management that involves the following two steps:

- constant monitoring of macroeconomic background against which the movement of a particular exchange rate is taking place, and the related macroeconomic aspects and trends,
- adopting the operations based on the general trends and expectations, towards lesser exposure to currency risk.

In case of increased risk, the Group will decide with regard to implementation of any further measures based on the estimated level of exposure; needless to say, such measure will only be implemented following a thorough analysis and with consideration of the 'cost-benefit' principle. The type of measure will depend on its appropriateness or viability, the nature of exposure, planned Group operations, and anticipated economic effects. There are no effective instruments to hedge currency risk in the markets where Mercator is operating; therefore, the Group is currently primarily using so-called natural hedging or matching.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

December 31, 2015

EUR thousand	EUR*	HRK	RSD	BAM
Trade and other receivables	136,510	12,952	142,908	2,488
Available-for-sale financial assets	471	49	-	4
Cash and cash equivalents	11,046	866	6,193	893
Financial liabilities	(859,352)	(3,524)	(44,556)	-
Trade and other payables	(358,342)	(14,911)	(250,192)	(3,024)
Balance sheet exposure	(1,069,667)	(4,568)	(145,647)	361
Estimated sales	1,667,004	61,278	942,709	26,169
Estimated purchasing	(1,306,931)	(28,217)	(832,412)	(8,103)
Estimated transaction exposure	360,073	33,061	110,297	18,066
Forward exchange contracts	-	-	-	-
Net exposure	(709,594)	28,493	(35,350)	18,427

* EUR is the functional currency and it does not represent the exposure to currency risk; HRK (Croatian kuna), RSD (Serbian dinar), BAM (Bosnian convertible mark).

As at December 31, 2015 and December 31, 2014, Mercator Group does not hold any derivative financial instruments for currency risk hedging (forward exchange contracts).

December 31, 2014

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

*EUR is the functional currency and it does not represent the exposure to currency risk; HRK (Croatian kuna), RSD (Serbian dinar), BAM (Bosnian convertible mark).

The following significant exchange rates applied during the year:

Units per EUR	Average rate		Reporting date spot rate	
	2015	2014	2015	2014
HRK	7,614	7,634	7,638	7,658
RSD	120,557	116,868	121,230	120,600
BAM	1,956	1,956	1,956	1,956

Sensitivity analysis

A change in the exchange rate of local currencies against the Euro as at December 31 would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

EUR thousand	Change in exchange rate	(Estimated) transaction exposure		Balance sheet exposure	
		Net profit (loss)		Net profit (loss)	
2015					
HRK	+5%	1,740	(1,574)	(240)	218
RSD	+10%	12,255	(10,027)	(16,183)	13,241
BAM	+5%	951	(860)	19	(17)
2014					
HRK	+5%	1,770	(1,601)	(2,940)	2,660
RSD	+10%	14,039	(11,486)	(15,678)	12,828
BAM	+5%	674	(609)	(694)	628

Capital management

Policy of the Group is oriented to achieving adequate amount of capital so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Management Board therefore monitors on an ongoing basis the return on capital and capital structure.

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

EUR thousand	2015	2014
Financial liabilities and liabilities for derivative financial instruments	907,432	849,638
Less:		
Loans and deposits	38,669	28,262
Available-for-sale financial assets	524	1,178
Derivative financial instruments	-	-
Cash and cash equivalents	18,998	34,224
Net financial debt	849,241	785,974
Equity	634,433	621,677
Ratio between equity and net financial debt	1:1.3	1:1.3

As at December 31, 2015, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares (2014: 42,192 treasury shares).

Fair values

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

EUR thousand	31/12/2015		31/12/2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	256,189	256,189	254,286	254,286
Current tax assets	656	656	702	702
Loans and deposits	38,669	38,317	28,262	27,886
Available-for-sale financial assets	524	524	1,178	1,178
Cash and cash equivalents	18,998	18,998	34,224	34,224
Fixed rate bank borrowings	(49,331)	(48,882)	(35,008)	(34,542)
Floating rate bank borrowings	(632,556)	(632,556)	(615,606)	(615,606)
Borrowings from related and other companies	(62,097)	(62,097)	(23,009)	(23,009)
Finance lease	(163,448)	(163,448)	(176,015)	(176,015)
Trade and other payables	(626,469)	(626,469)	(714,422)	(714,422)

Fair values of non-derivative financial liabilities are not determined, as the carrying amount represents a reasonable approximation of fair value.

Fair value of loans (granted) and borrowings is calculated based on discounted cash flow of the principal and interest.

Fair value of financial assets measured at fair value on a recurring basis

The Group measures certain financial assets at fair value at the end of each reporting period. Calculation of fair value for the discussed financial instruments is presented in the table below.

2015

EUR thousand	Level 1	Valuation method
Available-for-sale financial assets	116	Quoted prices in active markets

2014

EUR thousand	Level 1	Valuation method
Available-for-sale financial assets	575	Quoted prices in active markets

Fair value of financial assets measured at fair value on a non-recurring basis

Based on the calculation of their fair value, financial instruments are divided into three levels:

- Level 1: quoted (stock) prices for assets or liabilities;
- Level 2: assets or liabilities not included within Level 1, the value of which is determined directly or indirectly based on comparable market data.
- Level 3: assets or liabilities, the value of which is not based on active market basis.

2015

EUR thousand	Level 1	Level 2	Level 3	Total
Loans and deposits	-	-	38,669	38,669
Trade and other receivables	-	-	256,189	256,189
Financial liabilities	-	-	(907,432)	(907,432)
Trade and other payables	-	-	(626,469)	(626,469)

2014

EUR thousand	Level 1	Level 2	Level 3	Total
Loans and deposits	-	-	38,669	38,669
Trade and other receivables	-	-	256,187	256,187
Financial liabilities	-	-	(907,436)	(907,436)
Trade and other payables	-	-	(626,444)	(626,444)

In 2015, available-for-sale financial assets included also investments valued at historical cost in the amount of EUR 408 thousand (2014: EUR 603 thousand).

Fair values of financial assets and liabilities classified in levels 2 and 3 were determined in lien with generally accepted valuation models, which are based on the DCF analysis, using the discount rate that reflect credit risk in relation to counterparties.

30. OPERATING LEASE

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

EUR thousand	2015	2014
Less than one year	61,868	47,097
Between one and five years	188,571	162,616
More than five years	146,999	172,657
Total	397,438	382,370

Rents are mostly agreed upon in fixed terms, i.e. their amount does not depend on the revenue generated in leased stores.

31. CAPITAL COMMITMENTS

Capital expenditures (investment into property, plant and equipment) agreed upon and specified in contracts and agreements, which were not yet recognized in the balance sheet as at the balance sheet date:

EUR thousand	2015	2014
Property, plant and equipment	5,929	3,081

32. CONTINGENCIES

Group contingencies also include guarantees provided in the amount of EUR 56,448 thousand (2014: EUR 16,917 thousand).

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

33. RELATED-PARTY TRANSACTIONS

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

Related parties of the Group are its management personnel and associated companies. Included in the management personnel are members of Management Boards and Supervisory Boards in the companies of Mercator Group.

As at the end of 2015, managerial staff held no shares of the company Mercator, d.d.

In 2015, the Group paid out the following compensation in gross amounts to Management Board members and Supervisory Board members of Group companies

EUR thousand	2015		2014	
	Amount	Number of recipients	Amount	Number of recipients
Members of Management Boards of companies in Mercator Group	2,315	15	2,057	15
Members of the Supervisory Board of the Mercator Group companies	97	10	161	14
Total	2,412	25	2,218	29

Members of Supervisory Boards at Mercator Group subsidiaries do not receive any compensation for their work; therefore the disclosed amounts refer solely to the parent company.

Gross payments to Management Board and Supervisory Board members of companies in Mercator Group represent 0.9% of total employee benefit expenses (2014: 0.8%).

Gross payments to Mercator, d.d., Management Board in 2015:

EUR thousand	First and last name	Total payments	Gross payment	Base salary	Performance bonuses	Other payments
	President of the Management Board Toni Balažič	415	386	344	42	29
	Member of the Management Board Drago Kavšek	284	271	229	42	13
	Member of the Management Board Igor Maroša	277	260	236	24	17
		976	917	809	108	59

Gross payments to Management Board and Supervisory Board members in 2015 represent 0.62% of total labor costs at the company Mercator, d.d. (2013: 0.57%).

Gross compensation paid to members of managerial and supervisory bodies at the parent company in 2015 are reported in the following two tables (disclosure pursuant to Article 294 of the Companies Act):

in EUR	Participation in profit	Options	Performance bonuses	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income	TOTAL
MANAGEMENT BOARD	-	-	107,662	2,581	365	-	55,882	166,490
Toni Balažič	-	-	41,250	856	122	-	28,633	70,861
Drago Kavšek	-	-	42,262	869	122	-	11,421	54,674
Igor Maroša	-	-	24,150	856	121	-	15,828	40,955

in EUR	GROSS PAYMENT	Payment for performance of duties	Session attendance fees	OTHER PAYMENTS	Participation in profit	Options	Other rewards	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income
SUPERVISORY BOARD	96,778	90,000	5,680	-	-	-	-	-	1.098	-	-
Todorić Ante	549	-	427	-	-	-	-	-	122	-	-
Lahovnik Matej	18,947	18,000	825	-	-	-	-	-	122	-	-
Crnjac Ivan	407	-	285	-	-	-	-	-	122	-	-
Kuštrak Damir	549	-	427	-	-	-	-	-	122	-	-
Knez Darko	407	-	285	-	-	-	-	-	122	-	-
Mudrinić Ivica	18,957	18,000	835	-	-	-	-	-	122	-	-
Stojanovič Vesna	18,947	18,000	825	-	-	-	-	-	122	-	-
Tatić Veljko	18,947	18,000	825	-	-	-	-	-	122	-	-
Valand Ivan	7,365	6,968	397	-	-	-	-	-	-	-	-
Grošelj Matjaž	11,703	11,032	549	-	-	-	-	-	122	-	-

in EUR	GROSS PAYMENT	Payment for performance of duties	Session attendance fees	OTHER PAYMENTS	Participation in profit	Options	Other rewards	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income
AUDIT COMMITTEE	10,100	9,000	1,100	-	-	-	-	-	-	-	-
Slapničar Sergeja	10,100	9,000	1,100	-	-	-	-	-	-	-	-
Crnjac Ivan	-	-	-	-	-	-	-	-	-	-	-
Kuštrak Damir	-	-	-	-	-	-	-	-	-	-	-

in EUR	GROSS PAYMENT	Payment for performance of duties	Session attendance fees	OTHER PAYMENTS	Participation in profit	Options	Other rewards	Cost/expenses reimbursement	Insurance premiums	Commissions	Other additional income
SUPERVISORY BOARD	19,444	18,000	1,444	-	-	-	-	-	-	-	-
Filipović Nenad	19,444	18,000	1,444	-	-	-	-	-	-	-	-

In 2015, no member of managerial and supervisory bodies of Mercator, d.d. received any payments for performance of tasks in subsidiary companies (disclosure pursuant to Article 294 of the Companies Act).

Sales to related parties

EUR thousand	2015
Konzum d.d.	12,842
Konzum d.o.o. Sarajevo	9,149
Frikom d.o.o.	2,485
Dijamant a.d.	2,037
Jamnica d.o.o. Beograd	724
Belje d.d.	608
PIK Vrbovec d.d.	417
Ledo d.o.o. Ljubljana	318
Agrokor-trgovina d.o.o.	305
Zvijezda d.o.o. Ljubljana	173
Jamnica d.o.o. Maribor	148
Ledo d.o.o. Podgorica	73
Kikindski mlin a.d.	35
Super kartica d.o.o. Beograd	22
Tisak d.d.	21
Super kartica d.o.o. BH	18
Ledo d.d.	10
Velpro-centar d.o.o.	10
Jamnica d.d.	5
Ledo d.o.o. Čitluk	5
PIK BH d.o.o. Laktaši	5
Agrolaguna d.d.	2
Idea d.o.o.	2
Kron a.d.	2
Nova sloga d.o.o.	2
Solana Pag d.d.	2
Ambalažni servis d.o.o. Srbija	1
Sarajevski kiseljak d.d.	(5)
Multiplus card d.o.o.	(98)
Total	29,318

Outstanding items related to sales/purchase to/from related parties**Operating receivables from related parties**

EUR thousand	2015
Konzum d.d.	13,517
Konzum d.o.o. Sarajevo	10,793
Agrokor d.d.	3,375
mStart d.o.o.	1,595
Idea d.o.o.	1,493
Super kartica d.o.o. Beograd	770
Dijamant a.d.	425
Frikom d.o.o.	350
Jamnica d.o.o. Beograd	141
Ledo d.o.o. Ljubljana	106
PIK Vrbovec d.d.	68
Zvijezda d.o.o. Ljubljana	46
Belje d.d.	15
Jamnica d.o.o. Maribor	12
Kikindski mlin a.d.	11
Velpro-centar d.o.o.	10
Super kartica d.o.o. BH	9
Tisak d.d.	8
Ambalažni servis d.o.o. Srbija	2
Kron a.d.	1
Total	32,747

Operating liabilities to related parties

EUR thousand	2015
Idea d.o.o.	37,695
Dijamant a.d.	12,351
Konzum d.d.	5,613
Frikom d.o.o.	3,275
Jamnica d.o.o. Beograd	3,010
Tisak d.d.	1,428
Kikinski mlin a.d.	891
Super kartica d.o.o. Beograd	806
PIK Vrbovec d.d.	731
mStart d.o.o.	689
Konzum d.o.o. Sarajevo	258
Zvijezda d.o.o. Ljubljana	55
Zvijezda d.d.	54
Multiplus card d.o.o.	37
Agrokor-trgovina d.o.o.	36
PIK BH d.o.o. Laktaši	20
Ledo d.o.o. Ljubljana	13
Belje d.d.	6
Super kartica d.o.o. BH	6
Ledo d.o.o. Podgorica	5
Jamnica d.d.	2
PIK Vinkovci d.d.	2
Zvijezda d.o.o Sarajevo	2
Total	66,985

Loans from related parties

EUR thousand	2015
Related party: Agrokor, d.d.	20,000

34. MAJOR EVENTS AFTER THE BALANCE SHEET DATE

The merger of the company Mercator - BL, d.o.o., with the company Mercator - BH, d.o.o., was successfully carried out on February 18, 2016. Accordingly, Mercator - BL, d.o.o., ceased to exist and was deleted from the Court Register.

Independent auditor's report



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INDEPENDENT AUDITORS REPORT to the owners of Poslovni sistem Mercator, d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Mercator group, which comprise the balance sheet as at 31.12.2015, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na www.deloitte.com/si/nasa-druzba.

Member of Deloitte Touche Tohmatsu Limited

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Mercator group as of 31.12.2015, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Maruša Tratnjek
Certified auditor



Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 11 March 2016

FOR TRANSLATION PURPOSES ONLY- ORIGINAL PREVAILS

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

Balance sheet

EUR thousand	Note	31/12/2015	31/12/2014
ASSETS			
Non-current assets			
Property, plant and equipment	13	643,311	877,304
Investment property	15	3,351	3,494
Intangible assets	14	10,844	9,244
Deferred tax assets	18	16,748	20,236
Trade and other receivables	21	419	-
Loans and deposits	22	7,057	9,925
Investment into equity of subsidiaries	16	352,045	386,169
Available-for-sale financial assets	17	352	1,053
		1,034,127	1,307,425
Current assets			
Disposal groups	19	217,482	-
Inventories	20	130,404	118,710
Trade and other receivables	21	105,229	99,519
Current tax assets		-	42
Loans and deposits	22	110,608	78,567
Cash and cash equivalents	23	10,046	18,571
		573,769	315,409
Total assets		1,607,896	1,622,834
EQUITY			
	24		
Share capital		254,175	254,175
Share premium		286,772	286,772
Treasury shares		(3,235)	(3,235)
Revenue reserves		16,624	16,624
Fair value reserve		79,869	84,865
Retained earnings		619	-
Profit (loss) for the year		(3,800)	-
		631,024	639,201
LIABILITIES			
Non-current liabilities			
Trade and other payables	28	17,715	5,354
Borrowings and other financial liabilities	26	526,865	559,758
Deferred tax liabilities	18	22,779	22,819
Provisions	27	22,162	16,577
		589,521	604,508
Current liabilities			
Trade and other payables	28	293,323	341,649
Current tax liabilities		327	-
Borrowings and other financial liabilities	26	93,701	37,476
		387,351	379,125
Total liabilities		976,872	983,633
Total equity and liabilities		1,607,896	1,622,834

Income statement

EUR thousand	Note	2015	2014
Revenue	8	1,403,504	1,455,212
Cost of goods sold and selling costs	10	(1,339,958)	(1,410,111)
Administrative expenses	10	(43,399)	(41,650)
Impairment of property, plant and equipment and intangible assets	10	-	(7,594)
Other income	9	30,930	9,232
Results from operating activities		51,077	5,089
Finance income	12	10,023	7,020
Finance expenses	12	(60,708)	(112,544)
Net finance expense		(50,685)	(105,524)
Profit (loss) before tax		392	(100,435)
Tax	18	(4,192)	5,324
Net profit (loss) for the year		(3,800)	(95,111)
Basic and diluted earnings (loss) per share (in EUR)	25	(0.6)	(23.1)

Statement of comprehensive income

EUR thousand	Note	2015	2014
Profit (loss) for the year		(3,800)	(95,111)
Other comprehensive income			
Items subsequently not reclassified to profit or loss		(4,204)	(44,531)
Net gains/losses recognized in revaluation surplus in relation to property, plant and equipment	13	-	(24,727)
Provisions for termination benefits		(4,586)	(2,021)
Losses on merger of subsidiaries		-	(12,522)
Other changes in property, plant and equipment	24	-	(9,465)
Corporate income tax for items not recognized in profit or loss	18	382	4,204
Items that may be reclassified subsequently to profit or loss		(173)	1,056
Net gains/losses recognized in revaluation surplus in relation to available-for-sale financial assets	17	(208)	347
<i>Gains (losses) recognized in revaluation surplus</i>	17	-	347
<i>Gains transferred from revaluation surplus to profit or loss</i>	17	(208)	-
Net gains recognized in revaluation surplus in relation to cash flow hedges (successful hedging)		-	1,453
Corporate income tax for items that may be reclassified subsequently to profit or loss	18	35	(744)
Other comprehensive income for the year		(4,377)	(43,475)
Total comprehensive income for the year		(8,177)	(138,586)

Statement of changes in equity

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Total equity
Balance as at January 1, 2014		157,129	198,872	(3,235)	121,595	103,426	-	-	577,787
Total comprehensive income for the year									
Net profit (loss) for the year		-	-	-	-	-	-	(95,111)	(95,111)
Other comprehensive income		-	-	-	-	(18,561)	(24,914)	-	(43,475)
Total comprehensive income for the year		-	-	-	-	(18,561)	(24,914)	(95,111)	(138,586)
Transactions with owners of the parent company directly recognized in equity									
Capital increase		97,046	102,954	-	-	-	-	-	200,000
Total transactions with owners		97,046	102,954	-	-	-	-	-	200,000
Contributions by and distributions to owners									
Distribution of reserves pursuant to Management Board decision	24	-	(15,054)	-	(104,971)	-	24,914	95,111	-
Balance as at December 31, 2014		254,175	286,772	(3,235)	16,624	84,865	-	-	639,201

Statement of changes in equity (continued)

EUR thousand	Note	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Net profit (loss) for the year	Total equity
Balance as at January 1, 2015		254,175	286,772	(3,235)	16,624	84,865	-	-	639,201
Total comprehensive income for the year									
Profit (loss) for the year		-	-	-	-	-	-	(3,800)	(3,800)
Other comprehensive income		-	-	-	-	(4,996)	619	-	(4,377)
Total comprehensive income for the year		-	-	-	-	(4,996)	619	(3,800)	(8,177)
Transactions with owners of the parent company directly recognized in equity									
Contributions by and distributions to owners		-	-	-	-	-	-	-	-
Balance as at December 31, 2015		254,175	286,772	(3,235)	16,624	79,869	619	(3,800)	631,024

Proposal on the allocation of distributable profit

Distributable profit for 2015 consists of the following:

(in EUR)	2015	2014
Loss for the year 2015	(3,799,693.81)	(95,110,864.40)
Retained earnings	619,317.70	(24,913,126.52)
Loss for the year and retained earnings covered from other revenue reserves	-	104,970,349.23
Loss for the year and retained earnings covered from share premium	-	15,053,641.69
Distributable profit for the year	(3,180,376.11)	-

The company suggests that the distributable profit remains uncovered.

Cash flow statement

EUR thousand	Note	2015	2014
Cash flows from operating activities			
Profit (loss) for the year		392	(100,435)
Adjustments:			
Depreciation of property, plant and equipment	13	33,298	33,422
Depreciation of investment property	15	108	118
Amortization of intangible assets	14	3,796	3,591
Impairment of property, plant, and equipment and intangible assets and (gains) losses on disposal of these assets	9,10	766	5,904
(Gains) losses from disposal of subsidiaries		34,168	79,558
(Gain)/loss on sale of available-for-sale financial assets		(1,204)	(2,046)
Dividends received, impairment of available-for-sale financial assets	12	(1,936)	(290)
Interest received	12	(5,542)	(4,107)
Interest paid	12	22,711	27,925
		86,557	43,640
Change in inventories	20	(11,694)	3,937
Change in trade and other receivables	21	(5,668)	55,778
Change in trade and other payables and provisions	28	(35,059)	(32,959)
Interest paid	12	(22,711)	(27,925)
Income tax paid	18	(327)	-
Cash from operating activities		11,098	42,471
Cash flows from investing activities			
Acquisition of subsidiaries and other business operations		(1,245)	(510)
Acquisition of property, plant and equipment and investment property	13,15	(34,766)	(13,419)
Acquisition of intangible assets	14	(4,199)	(3,283)
Acquisitions of available-for-sale financial assets	17	(119)	-
Loans and bank deposits made		14,148	(330,780)
Proceeds from disposal of subsidiaries		-	551
Proceeds from sale of property, plant and equipment and investment property	13,15	17,238	5,812
Proceeds from sale of intangible assets	14	14	-
Proceeds from sale of available-for-sale financial assets	17	1,817	68
Interest received	12	5,542	4,107
Dividends received	12	1,936	290
Loans and deposits repayments received		(43,321)	251,499
Net cash used in investing activities		(42,955)	(85,665)
Cash flows from financing activities			
Proceeds from (repayment of) non-current borrowings		(159,311)	(258,331)
Increase in non-current borrowings		194,100	397,173
(Repayment) increase in current borrowings	26	(11,457)	(83,092)
Dividends paid		-	(3)
Net cash from financing activities		23,332	55,747
Net increase (decrease) in cash and cash equivalents		(8,525)	12,553
Cash and cash equivalents at beginning of the year		18,571	6,018
Cash and cash equivalents as at the end of the year	23	10,046	18,571



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Let us stay in touch – our journey does not end here.

My
WEEKEND

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