

**Business plan of the Mercator Group
and the company
Poslovni sistem Mercator, d.d.,
for the year 2017**



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EXECUTIVE SUMMARY

Having successfully completed divestment processes in 2015 and 2016, Mercator Group remains focused on our core activity, pursuing its key goal of profitability improvement. Mercator Group revenue in 2017 is planned at EUR 2.4 billion.

Macroeconomic conditions in the region

In its autumn forecast, the European commission expects economic growth in the euro zone to be at 1.7% for 2016, while the forecasts for 2017 were slightly adjusted downwards (to 1.5%) due to the anticipated effects of Brexit. In Slovenia, the business and consumer confidence points to continuation of favourable developments in the last quarter. For Slovenia, the International Monetary Fund forecasts an average economic growth rate of 2.9% in 2016, and 2.0% in 2017. In commerce, sales of vehicles and non-alimentary products are on the rise, while retail has been growing steadily since the beginning of 2016. With changed shopping habits of consumers, food retail remained low and was the only segment that failed to exceed the figures from the year before. In Serbia and Montenegro, which are Mercator Group's key markets besides Slovenia, positive developments in gross domestic product are forecast, although unemployment remains high.

Successfully completed divestments of non-core activities

In 2015, the sale of the Grosuplje Bakery (Pekarna Grosuplje) and the tourist service M Holidays were successfully completed, and Santana and Loka ground coffee brands were divested as well. In 2016, Modiana operations were transferred to the new owner, and the company Intersport ISI, d.o.o., and its subsidiaries in Croatia, Serbia, Bosnia and Herzegovina, and Montenegro, were divested. With these successfully completed divestments, Mercator pursued its strategy of focusing on the core activity. In early 2017, we are planning to complete the first transaction of the monetization project.

Planned revenue lower than in 2016 due to loss of revenue from divested non-core operations

For 2017, Mercator Group is planning to generate revenue of EUR 2.4 billion, which is less than estimated for 2016. The drop in revenue is a result of divestment of non-core operations in 2016, which was not taken into account in the 2017 budgeting process (sales process for Modiana was completed in late September 2016, and the Intersport Group was divested in early December 2016). The drop of revenue will be the highest in Croatia and Bosnia and Herzegovina, as in these markets Mercator will only conduct its real estate operations in 2017.

Improvement in performance indicators to continue in the next year

Mercator Group has laid down attainable goals for 2017. Generating synergistic effects, closing down non-profitable markets, and a new strategy in March 2016 have already had a positive effect on performance, which is also seen in an improvement thereof. The performance improvement trend will continue in 2017.

EUR 68.5 million allocated for investment in 2017

In 2017, Mercator Group will allocate EUR 68.5 million to investment, the majority of which will be dedicated to the project of constructing a logistics and distribution centre in Ljubljana, scheduled for opening in 2019. Thus, Slovenia will account for the predominant part (72%) of total investment funding. Aside from the funds for the new logistics and distribution centre in Ljubljana, 39.7% of the remaining investment funds will be allocated to refurbishments and investment maintenance of the existing sales units, 34.4% will be dedicated to expansion of retail capacity, 19.2% for logistics, 4.6% for IT, and 2.1% will be invested into non-trade activities.

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

In defining and conducting our marketing activities, focusing on satisfying the needs of modern consumers and offering well-priced shopping remain the key policies. 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. In our aisles, we offer a selection of authentic, local Slovenian produce and products, paying particular attention to the design and orderliness of our stores, and to implementation of new technologies and services that allow faster shopping and a better overall shopping experience for the modern consumer.

INTRODUCTION

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. Poslovni sistem Mercator, d.d., headquartered in the Republic of Slovenia, is the parent company of the Mercator Group.

Poslovni sistem Mercator, d.d.	
Telephone	+386 1 560 10 00
E-address	info@mercator.si
Website	www.mercatorgroup.si
Company head office	Dunajska cesta 107, 1113 Ljubljana, Slovenia
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231000
VAT tax number	45884595
Company share capital as at November 30, 2016	EUR 254,175,051.39
Number of shares issued and paid-out as at November 30, 2016	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market , symbol MELR

Mercator Group composition

In 2017 Mercator Group will consist of following companies:

MERCATOR OPERATIONS SLOVENIA		MERCATOR REAL ESTATE	
POSLOVNI SISTEM MERCATOR, d.d., SLOVENIA		Mercator - H, d.o.o., Croatia	99.6%
Mercator - Velpro, d.o.o., Slovenia*	100.0%	Mercator - BH, d.o.o., Bosnia and Herzegovina	100.0%
Mercator IP, d.o.o., Slovenia	100.0%	Mercator Makedonija, d.o.o.e.l., Macedonia *	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%
MERCATOR OPERATIONS FOREIGN MARKETS			
Mercator - S, d.o.o., Serbia	100.0%		
Mercator - CG, d.o.o., Montenegro	100.0%		
OTHER OPERATING ACTIVITIES			
Mercator - Emba, d.d., Slovenia	100.0%		
M - Energija, d.o.o., Slovenia	100.0%		
Mercator - Maxi, d.o.o., Slovenia*	100.0%		

*The company does not conduct business operations in 2016.

Other Organizations

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

The company Mercator - S, d.o.o., is the founder of the Mercator Solidarity Foundation in Serbia, and Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro. The purpose of both is to provide solidarity aid to the employees in social or economic distress.

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

- Happy customers recognize Mercator as the best retailer.
- Motivated employees are the key competitive advantage.
- We enjoy trust from all stakeholders.

Strategy

We are fulfilling five key promises, or propositions, to our customers. Each proposition has a clear purpose and goals:

1. Value for money:

Day in, day out, Mercator fulfils the needs and expectations of its customers, and offers the best value for their money with innovative offer.

2. Local:

Mercator works closely with its environment and continues its local initiatives which are reflected in the most extensive network of stores that are closest to the customers.

3. The best offer:

In addition to the offer of renowned brands, Mercator's private label products offer customers solid quality and competitive pricing. Mercator introduces innovative products and adjusts the offer in each of its stores to customer needs.

4. The ultimate freshness:

Mercator offers its customers the broadest choice of innovative products that are relevant to them, with stable partnership with local and regional suppliers.

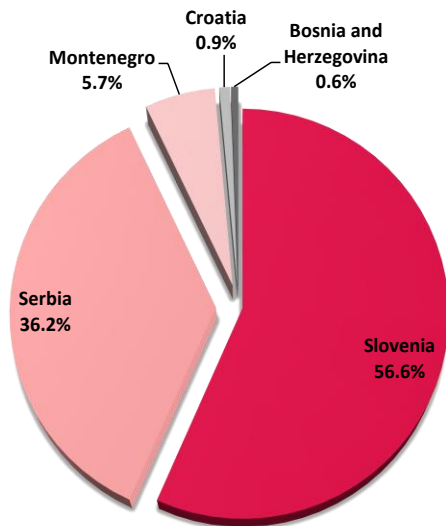
5. The best service:

With a friendly and amiable approach, Mercator employees are focused on the customers. With intensified refurbishment of its stores, Mercator offers its customers improved shopping experience in a pleasant ambiance.

MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN 2017

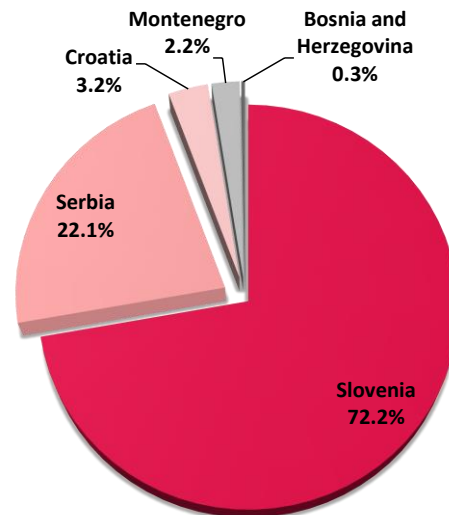


REVENUE BY COUNTRIES:



TOTAL REVENUE
EUR 2.4 bn

CAPITAL EXPENDITURE BY COUNTRIES:



TOTAL CAPITAL EXPENDITURE
EUR 68.5 mn

BUSINESS REPORT

EXPECTED ECONOMIC CONDITIONS AND COMPETITION IN MERCATOR GROUP MARKETS IN 2017

Economic conditions in the markets of Mercator operations in 2017¹

Economic growth in the euro zone continued in the third quarter of 2016, and moderate economic growth is expected in the last quarter as well. In its autumn forecast, European Commission anticipates economic growth in the euro zone at 1.7% in this year. Due to the anticipated effects of the Brexit, the forecasts for 2017 were slightly adjusted downwards (to 1.5%). ECB survey indicators point out that after two years of improvement, lending terms for corporates have remained unchanged, while they continue to improve for households. The main factor driving the improvement is greater competition between banks. With low interest rates, demand for all types of loans continues to increase.

SLOVENIA

Favourable developments have persisted in majority of activities. Real goods exports and processing industry output remained high during the summer months. Following growth in the second quarter, activity in the construction industry remained at the same level which, however, is still short by quite some margin of the figures from the last year's equivalent period. Revenue from market services is gradually improving. As conditions in the labour market improve, the revenue in some segments of trade and hospitality services is increasing as well; this, however, is also as an effect of higher spending by foreign tourists. Business and consumer confidence points to continuation of favourable developments in the last quarter. The International Monetary Fund forecasts an average economic growth rate of 2.9% in 2016, and 2.0% in 2017. Household consumption is expected to shrink slightly. Growth of household consumption is expected at 2.1% in 2016; in 2017 it is forecast to reach 1.7%. Annual inflation rate in 2017 is anticipated at 1.0%. In commerce, sales of vehicles and non-alimentary products continue to increase. In retail, which has been growing gradually since the start of the year, sales of motor fuels have increased in recent months, in addition to non-food products. With changes in the consumer behaviour, sales of food products have remained low as this was the only segment that failed to improve on the last year's figures.

SERBIA

Economy in Serbia is in recovery. GDP growth is forecast at 1.8% for 2016. For 2017, the forecast has been improved further, to 2.3%. Household consumption growth will increase, too, from the current 1.0% to 1.4% in 2017. Annual inflation rate will rise from 1.7% to 3.1%. Unemployment rate will remain on a par with the 2016 figure, which is at 18.1%.

MONTENEGRO

In Montenegro, economic growth will decline. After growing by 4.7% in 2016, the Montenegrin economy is expected to growth by 2.5% in 2017. Inflation rate will increase from the current 0.9% to 1.3% in 2017. Unemployment is at 17.7% in this year, and it is expected to decrease slightly in 2017. Services represent a predominant part of the country's economy, followed in a smaller scope by manufacturing and agriculture.

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

CROATIA

After a recession, Croatia is in gradual recovery. After growing by 1.6% in 2015 and by 1.9% in 2016, the Croatian economy is expected to grow by 2.1% in 2017. Growth of private consumption will decrease from the current 1.7% to 1.5% in 2017. Average inflation rate for the year is estimated at 0.4%. The forecast for 2017 is at 1.3%. Unemployment rate will decrease slightly from the current 16.4% to 15.9%.

BOSNIA AND HERZEGOVINA

Average economic growth rate in 2017 will increase from the current 3.0% to 3.2%. Moreover, growth of household consumption will increase, with the rate for 2017 anticipated at 2.6%. Average inflation rate will rise, too, from 0.7% in 2016 to 1.1% in 2017.

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

Favourable economic developments are expected to persist in 2017 in **Slovenia**. The dynamics of gross domestic product growth will rely in particular on government investments related to the drawing of EU funds. Expected improvement in the general economic situation and conditions in the labour market has had a positive effect on consumer confidence and it has provided an impetus to household consumption growth.

Similar trends are also estimated for **Serbia** and **Montenegro**. Positive developments are expected with regard to gross domestic product and household consumption, while unemployment rate remains high.

Consumer confidence improved in all markets in 2016; nevertheless, 60% of consumers in Slovenia still believe the country is in a recession. Majority of consumers (68%) do not expect any improvement in 2017².

According to research by the Statistical Office of the Republic of Slovenia, consumer confidence index in October 2016³ in **Slovenia** is higher by one percentage point on an annual level, and equal to the last year's average. Consumers in Slovenia are more optimistic regarding the unemployment rate and improvement of financial position of their households. The change on the annual level was negatively affected by expectations regarding savings (–6 percentage points). Expectations regarding financial position of households and economic situation in the country were the same as in October 2015. Nevertheless, the consumer will keep their changed shopping behaviour. As much as 54%² of consumers will save by opting for cheaper brands, and a somewhat lower percentage will save by saving on clothes and out-of-home entertainment.

In the markets of **Serbia** and **Montenegro**, consumer confidence has improved as well⁴. There will not be any major changes in consumption as consumers will continue to shop rationally. As many as 54% will save on out-of-home entertainment, and slightly fewer will save on clothes and by opting for cheaper brands. The consumers are rational and price-sensitive. They tend to plan their shopping and avoid major shopping sessions. They shop less and more frequently, with lower value of each shopping cart.

² Nielsen: Consumer Confidence Index, Q3 2016, Slovenia

³ Consumer survey, Slovenia, October 2016 – final data, SURS

⁴ Nielsen: Consumer Confidence Index, Q3 2016, Adriatic

SALES AND MARKETING

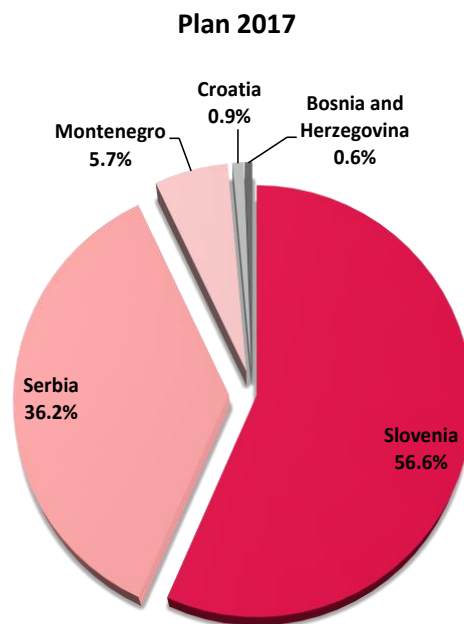
Sales

In its autumn forecast, the European commission expects economic growth in the euro zone to be at 1.7% for 2016, while the forecasts for 2017 were slightly adjusted downwards (to 1.5%) due to the anticipated effects of Brexit.

In Slovenia, the business and consumer confidence points to continuation of favourable developments in the last quarter. The International Monetary Fund forecasts an average economic growth rate of 2.9% in 2016, and 2.0% in 2017. In commerce, sales of vehicles and non-alimentary products are on the rise, while retail has been growing steadily since the beginning of 2016. With changed shopping habits of consumers, food retail remained low and was the only segment that failed to exceed the figures from the year before. In Serbia and Montenegro, key markets besides Slovenia, positive developments in gross domestic product are forecast, although unemployment remains high.

In 2017, Mercator Group is planning **sales revenue of EUR 2.4 billion**, which is less than estimated for 2016. The drop in revenue is **a result of divestment of non-core operations in 2016**, which was not taken into account in the 2017 budgeting process (sales process for Modiana was completed in late September 2016, and the Intersport Group was divested in early December 2016). The drop of revenue will be the highest in Croatia and Bosnia and Herzegovina, as in these markets Mercator will only conduct its real estate operations in 2017.

MERCATOR GROUP REVENUE BY GEOGRAPHICAL SEGMENTS:



Store formats, retail network development and category management

STORE FORMATS

As we already do, we shall continue to monitor in the years ahead the trends in retail in order to be better suited to tackle the challenges in this highly competitive activity. We shall respond to the changes in the environment and consumer shopping behaviour, and adjust the concepts of our stores accordingly. Innovation in implementation of new technological solutions will continue to play a major part. We shall continue to keep abreast of the new developments in the market and maintain Mercator's leading position in innovative technological solutions in retail.

The year 2017 will also be one of **intensive refurbishment of Mercator's retail network**. We are looking to offer our customers a shopping environment with modern design in as many locations as possible, and to provide a rich offer of products for everyday consumption, as we remain true to our slogan "Mercator: my best neighbour". On the other hand, we are also looking to optimize our operating revenue.

Refurbishments of **smaller store formats**, i.e. **supermarkets and neighbourhood stores**, will be given priority. In addition, construction of some new units is planned as well. In the coming years, we will also turn our attention to Mercator's largest format, the hypermarket, as several of these will be refurbished, too.

New store design and **new program mix and concept** (with emphasis on fresh produce departments, in particular fruits and vegetables, and a bakery shop) will stress our fundamental policy towards the consumers: to be the best provider of fresh and local produce, with the best choice of products; to offer the best value for money with many pricing benefits and rewards; to allow the best service; and above all, to be a local retailer in Slovenia – i.e. to be the best neighbour to our customers.

As a response to the general market trends that put convenience of shopping first, we will continue to introduce the "**grab&go**" modules that offer convenient products intended for immediate consumption at a single place, and allow fast and simple checkout.



CATEGORY MANAGEMENT AND PROCUREMENT

In 2015 and 2016, we completed the revision of the material operations processes. This will allow us to establish new, modern infrastructure and use it to more easily and much **more efficiently manage the range of retail units**, and to **make the work of employees at retail units easier**.

In 2017, we shall continue to actively support and **promote Slovenian and local offer** at Mercator stores. At the same time, we will provide the most sought-after and best-selling products, while remaining mindful of the locally specific aspects of the various Slovenian regions. We will be more efficient in our promotional activities. We shall introduce new features and maintain a neat and customer-friendly sales area. As to date, the focus will be on fresh meat raised in Slovenia, local fruit and vegetables, and local dairy products. We shall continue to educate our sales staff in fresh meat departments where we will guarantee meat quality, excellent service, and a convenient offer. In the bread and pastry department, we shall continue our efforts to improve the quality of service by offering a varied range of fresh products, with friendly expert staff. The offer of fruit and vegetables will be based on promotion of local produce, as well as on the quality of fruit and vegetables, and on introduction of proven market trends (e.g. expansion of offer in the bulk organic produce departments).

Marketing

Our key activities in 2017 will be focused on the benefits offered to our customers:

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

We offer the best fresh and local offer.

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

We offer our customers the best service, while also providing the most relevant and innovative offer of fast-moving consumer goods.



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

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

WE OFFER THE BEST FRESH AND LOCAL OFFER



In particular with fresh products and produce, the customers find it important to buy local. Therefore, we offer **the best selection of genuine local Slovenian products**, and our offer is constantly expanded and updated. In our offer, the customer can find in particular a broad and seasonally adjusted offer of Slovenian fruit and vegetables, and many varieties of genuine milk and dairy products made of 100% Slovenian milk. In addition, all meat in regular offer at our butcher's departments is sourced 100% from Slovenian suppliers and growers. Some types of Pekarna Grosuplje bread, only available at Mercator, are inspired by the traditional Slovenian bread-making heritage. Moreover, this bread is made of exclusively Slovenian wheat.

Preserving the tradition – homemade is the best. Therefore, over 300 Mercator stores across Slovenia include, as of May this year, special stands and shelves offering exclusively authentic local produce.

As we want your nearest Mercator store to be stocked with the best offer of local produce in a single place, we labelled with a red heart, on dedicated shelves, the **We Love Local** ("Radi imamo domače") products. This includes offer of authentic products and products from local farms, growers, and producers. Our broad family of partners, already numbering over 2,000 Slovenian growers, producers, and suppliers, has been further extended with new local suppliers and farmers. Thus, our broad offer of Slovenian products has been expanded with over 900 new types of authentic products from local farms.



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

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



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

We have been using the **Pika loyalty system** to reward our customers and to adapt to them for 17 years. Thus, it is hardly surprising that Pika card is recognized in Slovenia as the best customer loyalty card and the best customer loyalty program. Pika card affords the customers considerable savings through a number of benefits when shopping in Mercator's sales network and at partner companies. We will continue to expand the partner network in the Pika system to provide even more appealing offer, since complementary offer and special benefits from partner companies exclusively for Pika card holders certainly add value.

Benefits of the Pika Card customer loyalty system are known to virtually every household in Slovenia. Buyers can win and use the Pika points for virtually entire offer. They are also offered immediate 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.



In 2016, Pika card holders were offered another benefit: the **M Sken Mobile** service that allows them to use their smart phone to scan a product as they add it to their cart; as they check out at a dedicated express counter, all that is left is to pay for the products in the basket. The use of this application cuts short the waiting time at the checkout counter. Moreover, the products do not have to be placed on the conveyor at the checkout counter as customers can place them in the bag as they shop.

We shall continue to develop and upgrade the unique Pika customer loyalty system. Future projects in the Pika card system will be focused on the development and implementation of new functionality for the users and on delivering an offer that is adapted to our consumers and customized. For the segment of customers keen on shopping online, we will continue to upgrade the functionality of online payment for alimentary products and technical consumer goods by Mercator Pika card.



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

offer of a varied range of products for all occasions and in all price segments will allow the best choice at any time, for any occasion.

WE OFFER OUR CUSTOMERS THE BEST SERVICE

We meet our customers' high expectations and upgrade our standards. In 2017, we shall continue to develop the successfully refurbished **Mercator online store**. We were the first retailer in Slovenia and the broader region to implement the **M Sken Mobile** functionality – a mobile application to upgrade the **M Sken service**, and we will further expand it for easy and fast shopping. We shall also continue to offer excellent support to our customers. We will be available to them at toll-free number, by e-mail, and on social networks.



WE TAKE PRIDE IN HAVING THE BEST OFFER OF FAST-MOVING CONSUMER GOODS

We are certainly the retailer that boasts the most relevant and innovative offer that meets the wishes, needs, and expectations of our customers every day. In addition to the broad offer of renowned brands, Mercator's private label products offer customers solid quality and competitive pricing. Mercator introduces innovative products and adjusts the offer in each of its stores to customer needs.

EMPLOYEES

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

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

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

Making sure the right people are in the right places

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

Care for development

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

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

Motivation and rewards

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

Connecting our employees

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

KEY FINANCIAL OBJECTIVES

REVENUE

In 2017, Mercator Group will generate **sales revenue of EUR 2.4 billion**, which is less than estimated for 2016. Revenue will decline due to the loss of revenue resulting from the divestment of non-core operations in 2016. The drop of revenue will be the highest in Croatia and Bosnia and Herzegovina, as in these markets Mercator will only conduct its real estate operations in 2017.

INDEPTEDNESS

Mercator Group net financial debt as at the end of 2017 is planned at **EUR 784.4 million**. Cash flow to be generated by Mercator Group in 2017 will be largely allocated to **deleveraging or repayment of financial liabilities maturing in 2017**. In 2017, Mercator Group will continue to observe the covenants arising from the financial restructuring agreements, and well as those from other financial arrangements. The Mercator real property monetization project was started in mid-2015. However, the effects of this project were not included in the 2017 budget. If the monetization project is completed, the proceeds will be allocated to cover the costs and taxes, and the rest will be used for debt repayment.

WORKING CAPITAL

With regard to inventory management, Mercator Group is planning improvements for 2017 resulting from the organization of responsibility of the purchasing / sourcing function, responsibility for the level of inventory, and responsibility for inventory optimization at the level of products and retail units. In receivables management, activities will take place to improve the structure of receivables and to decrease overdue receivables, especially those towards wholesale customers. We are planning to decrease our trade payables.

CAPEX

In 2017, Mercator Group will allocate **EUR 68.5 million** to investment, the majority of which will be dedicated to the project of constructing a logistics and distribution centre in Ljubljana, scheduled for opening in 2019. Thus, Slovenia will account for the predominant part (72%) of total investment funding.

Aside from the funds for the new logistics and distribution centre in Ljubljana, 39.7% of the remaining investment funds will be allocated to refurbishments and investment maintenance of the existing sales units, 34.4% will be dedicated to expansion of retail capacity, 19.2% for logistics, 4.6% for IT, and 2.1% will be invested into non-trade activities.