



# MERCATOR GROUP CORPORATE GOVERNANCE POLICY



## TABLE OF CONTENTS

<b>MERCATOR GROUP PROFILE</b>	<b>3</b>
GENERAL INFORMATION	3
KEY BODIES OF CORPORATE GOVERNANCE AT MERCATOR, D.D.	3
SUBSIDIARIES	4
KEY CORPORATE GOVERNANCE POLICIES WITH RESPECT TO COMPANY GOALS AND VALUES	4
<b>REFERENCE CORPORATE GOVERNANCE CODE</b>	<b>6</b>
<b>GROUPS OF STAKEHOLDERS AND THE STRATEGY OF COMMUNICATION AND COOPERATION WITH THEM</b>	<b>6</b>
SHAREHOLDERS	6
CUSTOMERS / BUYERS	6
EMPLOYEES	7
SUPPLIERS – BUSINESS PARTNERS	7
FINANCIAL INSTITUTIONS	8
GOVERNMENT AND INTERNATIONAL ORGANIZATIONS	8
NATURAL ENVIRONMENT	8
SOCIAL ENVIRONMENT	9
<b>POLICY ON RELATED PARTY TRANSACTIONS</b>	<b>9</b>
<b>CORPORATE GOVERNANCE</b>	<b>10</b>
CORPORATE GOVERNANCE	10
GOVERNANCE, MANAGEMENT AND SUPERVISION AT THE PARENT COMPANY	10
GOVERNANCE, MANAGEMENT AND SUPERVISION AT SUBSIDIARIES	11
RISK MANAGEMENT AND EXTERNAL AUDIT AND FINANCIAL CONTROL	11
SUPERVISORY BOARD ACTIVITIES	12
MANAGEMENT BOARD ACTIVITIES	13
<b>COMMITMENT TO IDENTIFY CONFLICT OF INTEREST AND EVALUATE INDEPENDENCE OF SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS</b>	<b>14</b>
<b>SUPERVISORY BOARD COMMITMENT TO SELF-ASSESSMENT</b>	<b>14</b>
<b>ASSIGNMENT OF RESPONSIBILITY AND POWERS AMONG MEMBERS OF MANAGERIAL AND SUPERVISORY BODIES</b>	<b>15</b>
<b>COMMUNICATION</b>	<b>15</b>
COMMITMENT TO EQUAL TREATMENT OF SHAREHOLDERS AND THE INTERESTED SEGMENTS OF THE PUBLIC, AND PUBLIC ANNOUNCEMENTS	16
CONFIDENTIALITY OF INFORMATION AND INSIDER INFORMATION	17
<b>PROTECTING EMPLOYEE INTERESTS</b>	<b>17</b>
<b>FINAL PROVISIONS</b>	<b>18</b>

## MERCATOR GROUP PROFILE

Mercator Group is one of the largest trade chains in the Southeastern European region, the leading retail chain in Slovenia, and an increasingly established retail chain in the markets of Serbia, Croatia, Bosnia and Herzegovina, and Montenegro. In 2009, the Group entered two new markets: Bulgaria and Albania. Our vision is to be the consumers' first choice when shopping for fast-moving consumer goods.

### GENERAL INFORMATION

Poslovni sistem Mercator, d.d. (abbreviated: Mercator, d.d.), is a joint stock company and a profit-making corporation. Mercator Group is the actual corporate group in which the company Mercator, d.d., is the parent, or controlling company.

Business performance and development of the company Mercator, d.d., in an interweave of mutual relationship, are dependent on the key bodies of corporate governance at the company Mercator, d.d.; subsidiaries; and key interest groups or stakeholders.

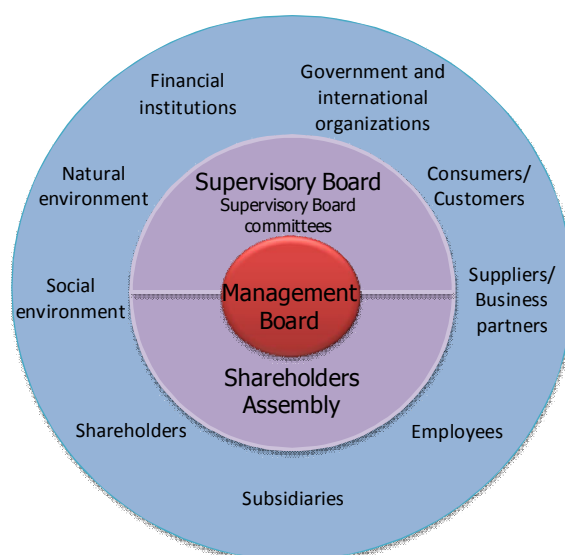


Chart: Key bodies of corporate governance at Mercator, d.d., and key interest groups or stakeholders.

### KEY BODIES OF CORPORATE GOVERNANCE AT MERCATOR, D.D.

#### Management Board

Management Board consists of a president and five members. The president submits to the Supervisory Board a proposal for the appointment of the remaining Management Board members, and the Supervisory Board appoints the entire Management Board for a five year term, with unlimited eligibility for re-election. The number of Management Board members and their respective fields of work and responsibilities are defined as proposed by the president of the Management Board and confirmed by the Supervisory Board with the adoption of the Management Board Act.

Based on a Supervisory Board resolution, the Management Board members sign contracts with the company to define the compensation for their work and any other kinds of reward. The Supervisory Board shall evaluate the work of the Management Board as a whole. The company shall disclose the compensation and rewards of the Management Board in compliance with the regulations relevant to this issue. Management Board members shall also perform supervisory duties at Mercator subsidiaries, for which they shall not receive any additional compensation.

#### Supervisory Board and Supervisory Board committees

The Supervisory Board consists of the representatives of capital, appointed by the Shareholders Assembly to represent the interests of the shareholders, and representatives of the employees, representing the interests of the workers. Pursuant to the company Articles of Association, one half of

the members are representatives of capital, and the other half are representatives of the employees. In order to ensure independence of the Supervisory Board in its efficient supervision of the Management Board, independence of the representatives of capital is ensured. Members of the Supervisory Board are elected for a four-year term and may be re-elected upon the expiration of their terms.

The Supervisory Board shall appoint the Audit Committee and any other Supervisory Board committee as deemed necessary (Appointment Committee, Compensation Committee, etc.) in order to improve the efficiency of the Supervisory Board's work and to assist in resolving more complex issues; however, the committees shall not decide on the issues that are within the Supervisory Board's authority.

### **Shareholders Assembly**

Shareholders Assembly is a body of governance through which the shareholders assert their rights with regard to the company affairs. Each shareholder is entitled to take part in the Shareholders Assembly meeting, to take part actively in discussions regarding the contents of the agenda, and to raise questions and submit proposals with regard to the Shareholders Assembly agenda. At the Shareholders Assembly, the Management Board shall provide the shareholders with reliable information on the affairs related to company and its subsidiaries, required for consideration and discussion on the items of the agenda, unless specified otherwise by relevant legislation.

## **SUBSIDIARIES**

Mercator Group comprises subsidiaries in which the controlling company Mercator, d.d., directly or indirectly holds a majority interest or the majority of voting rights, and those that are effectively managed by the company's single management. Mercator Group consists of the controlling company and the following subsidiaries:

- *Operations Slovenia:* Mercator IP, d.o.o.; M.COM, d.o.o.;
- *Operations SE Europe:* Mercator-S, d.o.o., Serbia; Mercator-H, d.o.o., Croatia; Mercator-BH, d.o.o., Bosnia and Herzegovina; M-BL, d.o.o., Bosnia and Herzegovina; Mercator-Mex, d.o.o., Montenegro; Mercator-B, e.o.o.d., Bulgaria; Mercator-A, sh.p.k., Albania; Mercator Macedonia, d.o.o.e.l., Macedonia; Mercator-K, d.o.o., Republic of Kosovo; Mercator-CG, d.o.o., Montenegro;
- *Real estate:* M-nepremičnine, d.o.o., Slovenia; Mercator-Optima, d.o.o., Slovenia; Investment International, d.o.o. e. l., Macedonia;
- *Other activities:* Eta, d.d., Slovenia; Mercator-Emba, d.d., Slovenia; Intersport ISI, d.o.o., Slovenia; Intersport S-ISI, d.o.o., Serbia; Intersport H, d.o.o., Croatia; Intersport BH, d.o.o., Bosnia and Herzegovina; Modiana, d.o.o., Slovenia; Modiana, d.o.o., Serbia; Modiana, d.o.o., Croatia; Modiana, d.o.o., Bosnia and Herzegovina.

## **KEY CORPORATE GOVERNANCE POLICIES WITH RESPECT TO COMPANY GOALS AND VALUES**

### **Vision**

**To be the consumers' first choice when shopping for fast moving consumer goods and home products.**

### **Mission**

Mercator's mission is summarized in four points:

- 1) To provide optimum value for the consumers with our service and offer of fast moving consumer goods and home products.
- 2) To provide consumers with the best possible service in a pleasant shopping environment, by offering expert support of highly motivated employees.
- 3) To provide returns for our shareholders through growth and efficient operation.
- 4) To manage our operations in a way that improves the quality of life in our social and natural environment.

## Corporate values

Following are Mercator's corporate values:

### Responsibility

Each employee is responsible for their work.

### Integrity

We work honestly and fairly.

### Respect

Each individual matters and deserves respect.

### Cooperation

What one person cannot do, we can accomplish together.

### Learning

We build on our knowledge and experience.

### Responsiveness

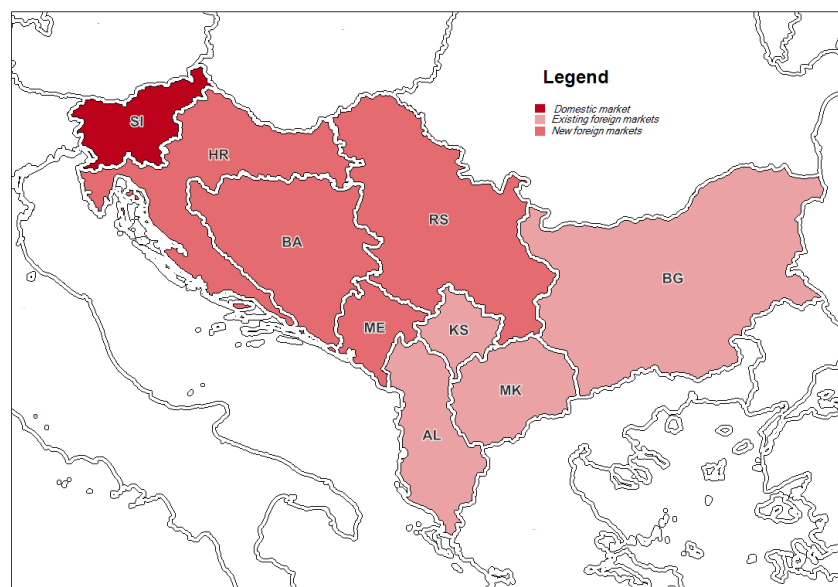
Prompt response is our advantage.

## Strategic objectives

Following are Mercator Group's fundamental strategic goals:

- 1) In our **domestic market** (Slovenia):
  - a. To retain the position of the leading fast moving consumer goods retailer.
  - b. To consolidate the position of the second largest retailer of home products.
  - c. To develop supplementary trade services related to our customer loyalty system.
- 2) In **existing foreign markets** (Serbia, Croatia, Bosnia and Herzegovina, Montenegro):
  - a. To consolidate or attain the position of the second largest fast moving consumer goods retailer.
  - b. To rank among the top three retailers of home products.
  - c. To develop supplementary trade services related to our customer loyalty system.
- 3) In **new foreign markets** (Bulgaria, Albania, Macedonia, Kosovo):
  - a. To rank among the top five retailers of fast moving consumer goods.

The strategic region of Mercator Group operations in the period 2011-2015 is graphically presented in the map below:



\* Markets where Mercator Group is conducting or intends to conduct FMCG and home product trade operations.

\*\* Markets where Mercator Group is conducting or intends to conduct FMCG trade operations.

---

## REFERENCE CORPORATE GOVERNANCE CODE

---

Management of the company Poslovni sistem Mercator, d.d., is based on legislation, sound business practice, and the principles of the Corporate Governance Code for Publicly Traded Companies adopted on December 8<sup>th</sup> 2009, which is the company's reference code. The Corporate Governance Code for Publicly Traded Companies is available in Slovenian and English on the Ljubljana Stock Exchange, d.d., website at [www.ljse.si](http://www.ljse.si).

Each year, the Management Board and Supervisory Board of the company Poslovni sistem Mercator, d.d., examine the compliance of corporate governance at the company Poslovni sistem Mercator, d.d., with the Code and prepare a relevant statements that presents the situation with regard to corporate governance at the company.

---

## GROUPS OF STAKEHOLDERS AND THE STRATEGY OF COMMUNICATION AND COOPERATION WITH THEM

---

In relation to interest groups, the company responsibly exercises its rights and delivers on assumed obligations and commitments in a way that is consistent with the company goals and which enables it to gain long-term benefits. This involves correct communication, and mutual protection of trade secrets and observance of sound business practices.

### SHAREHOLDERS

The company shall provide equal treatment of all shareholders holding shares of the same class, regardless of whether they are associated with the Group or not, minority or major shareholders, domestic or foreign. The company shall motivate all shareholders to actively and responsibly exercise their rights. Furthermore, representation of minor shareholders at the Assembly shall also be promoted indirectly through proxies (organized collection of proxy appointments/lodgings, announcement of information on proxies). The company motivates major shareholders and institutional investors to publicly disclose their investment policy at the company, e.g. their voting policy, level of activity in corporate governance and the methods thereof, and mechanisms and frequency of communication with the managerial bodies.

### Investor relations management

Mercator is reassuring the shareholders and consolidating their confidence by regular announcements providing information on company affairs and anything related to the company. The financial community is informed via the Ljubljana Stock Exchange electronic information dissemination system called SEOnet, and via Mercator website at [www.mercator.si](http://www.mercator.si).

The Management Board shall convene the Shareholders Assembly pursuant to effective legislation and the company Articles of Association. Convocation of the Shareholders Assembly shall be announced at least 30 days before the meeting, in the Delo daily paper, SEOnet - electronic information dissemination system of the Ljubljana Stock Exchange, d.d., and on company website. The use of information technology shall be provided at the Shareholders Assembly meetings.

Furthermore, Mercator shall organize for the shareholders regular meetings at the company headquarters, as well as press conferences at major business events and announcement of financial results, meetings with investors and analysts, presentational meetings, and conferences for investors at home and abroad.

### CUSTOMERS / BUYERS

The company's business activities create benefit for the consumers/customers by offering excellent trade services, high-quality goods, and competitive prices. Our customers include retail customers – end users, and wholesale customers.

## **Customer relationship management**

Mercator's goal is not only to convince a consumer to visit our stores; even more importantly, we are investing every effort to make our customers return to us, i.e. to retain them and to increase the level of their loyalty. We do so by developing a complex system of customer relationship management. Understanding customer requirements is the key to planning a successful service. Customer satisfaction is built upon the following elements of offer:

- a retail network that will best meet the needs, expectations, and desires of the customers, thus fostering their satisfaction and loyalty;
- a selection of products and pricing at Mercator retail stores that are attuned to the customers' expectations;
- development-minded approach and offer of high-quality service that will ensure customer satisfaction.

## **EMPLOYEES**

In a service industry like trade, employees are a priceless asset as they are the key to successful pursuit of Mercator's business strategy. At Mercator, we are striving to be a company that is friendly to the employees and their families as we are aware of the prove fact that a happy employee is more efficient at work, more loyal, and has a lower rate of illness-related absenteeism. A motivation-oriented reward system allows us to acknowledge the effort invested by the employees and their success, through variable part of the compensation as well as special rewards. At Mercator, we are creating and maintaining a friendly working environment with a particular focus on working mothers to whom, given the high percentage of women employed at our company, we dedicate extra care. Our care has been publicly acknowledged with the Family-friendly Company Certificate. Our international business network allows our employees to learn about different cultural and working environments and offers plenty of chances for career development. Employees who find themselves in serious economic hardship can turn to the Mercator Humanitarian Foundation for assistance. The Health Promotion project is a particularly focused way to take care of the health and wellness of our employees. The project includes numerous activities and measures to improve employee health; special care is paid to providing appropriate working conditions for our employees with reduced working capacity.

## **Employee relationship management**

Care for the employees is a major part of Mercator's corporate social responsibility. The Management Board is working with relevant services to establish conditions that allow the employees at all levels of our organization to contribute according to their abilities to the pursuit of the company's goals. Particular attention is paid to the following policies or aspects: development of leadership skills, dialogue with the employees and social partners, transfer of knowledge and experience, motivation and rewards, internal and external staffing and recruitment, recruitment and training of sales personnel, and occupational health and safety.

At Mercator, communication with the employees takes place in several ways. Meetings of key employees are held once per year; employees are kept up to date with all relevant information via website and an in-house newsletter.

## **Cooperation with the representative trade unions of Mercator workers**

The Management Board and the representative trade unions of Mercator, d.d., workers work together to negotiate and sign the corporate collective labor agreement for Poslovni sistem Mercator, d.d.

## **SUPPLIERS – BUSINESS PARTNERS**

Through solid performance, the company is generating benefit for the suppliers as it takes part in the development of quality and original products, offering the suppliers an opportunity to grow both in Slovenia and in foreign markets. Mercator suppliers are suppliers of trade goods and suppliers of non-traded goods and services. The company works with various business partners offering consulting, IT support, banking services, etc. Mercator is a trustworthy business partner with a clean record of settling its payables to suppliers. Suppliers are offered a permanent and solid partnership which involves a mutual effort to develop new products both under the Mercator private label and under suppliers' brands, according to perceived customer needs. Mercator is a creative partner in development. Mercator is adjusting its offer to local requirements of particular markets, thus offering development opportunities to smaller manufacturers, better suited to local supply needs. Sustainable

and environmentally friendly development concept of Mercator's offer motivates local farmers to adopt organic or ecologically sound and localized production of high-quality food products. Hence, Mercator motivates development of sustainable farming and retains the value and condition of natural landscape in the local environments in which the Group is present.

Customs Administration of the Republic of Slovenia, in charge of certification of compliance with the criteria for awarding the AEO status, granted the company Mercator, d.d., the status of an "Authorized Economic Operator". The AEO status means that Mercator is recognized throughout the European Union as a safe and reliable partner in international trade, particularly with regard to customs operations, and is eligible for several benefits throughout the Community.

### **Supplier and business partner relationship management**

Mercator's goal is to establish relations and rules with the suppliers which will ensure long-term stability in dealing with the most favorable supply sources given the size, for both trade goods and non-traded goods and services.

Creating new supply sources for trade goods and non-traded goods takes place based on procurement policy and provision of compliance of the products purchased with relevant requirements. Particular attention is paid to procedures of evaluating and selecting the suppliers, defining the assortments, information on the products, and pricing of trade goods, as well as category management. As a rule, companies of the Mercator Group do not work with legal entities that are involved in any kind of ongoing legal or other formal dispute.

Each year, Mercator Marketing Days are held to meet our suppliers and business partners. The meeting is an opportunity to define additional starting points for Mercator's following development cycle, in addition to presenting Mercator Group's strategic policies, development plans of Mercator's trade companies, and marketing strategy for particular sales programs.

### **FINANCIAL INSTITUTIONS**

Financial institutions include financial institutions of control and authority (Bank of Slovenia, Securities Market Agency, Insurance Supervision Agency), deposit financial institutions (commercial banks, savings banks, cooperatives), and non-deposit financial institutions (investment funds, mutual funds, investment companies, pension funds, insurance companies). Mercator's cooperation with financial institutions is correct and transparent.

#### **Managing relations with the financial institutions**

Financial institutions are working with the company by providing financial products and services.

Each year, the company organizes Mercator banking days that are attended by the invited financial institutions with whom the Group is working. Representatives of financial institutions are presented Mercator Group's strategic policies, performance, and the annual Business Plan. Furthermore, additional starting points for Mercator's further development are defined.

### **GOVERNMENT AND INTERNATIONAL ORGANIZATIONS**

The government and international organizations set requirements in the form of legislation or standards to be met by the company. In its operations, the company is making use of the infrastructure provided for the business entities by the government. Mercator is harnessing the vast potential of its highly trained employees to actively contribute to establishment of a development-minded business environment and to sustainable development of natural and social environments.

#### **Government relationship management**

Slovenian legislation, acts, standards, and EU directives are documents setting the legislative framework within which business processes of the Mercator Group are taking place. This framework is the foundation for internal legal acts of the company, which are managed in the Mercator Standards Collection.

### **NATURAL ENVIRONMENT**

Care for the natural environment, clean technologies and ecologically sound products, is incorporated into the company development strategy. We are constantly striving to improve the environmental aspects of our operations, particularly to reduce power and water consumption and the amount of waste generated.

## **Environmental management**

The company Management Board adopted the corporate environmental policy by which they made a commitment to constantly improve its environmental management and reduce pollution, and to comply with the legislation relevant to the company. The policy is a framework for setting and checking the general and operative goals.

Mercator has set up an environmental management system in compliance with the requirements of the ISO 14001 international standard.

## **SOCIAL ENVIRONMENT**

Mercator supports humanitarian, cultural, healthcare, educational, scientific, and sports projects and institutions that contribute notable to the development of our social environment. We build human relationships, we develop them, and we support the activities of local and national importance at various levels and in various fields of social life. We aid those in need and contribute where we believe it is beneficial for all. Each year, Mercator is involved in over 1,800 projects relevant for the development of the broader social environment both in the field of humanitarian activities and in the fields of sports, education, and culture.

Mercator's care for the natural environment was acknowledged by the ISO 14001 certificate.

### **Managing relations with the social environment**

Mercator is fostering the economic and social development of the local environment in which it operates. Integration into local environments generates broader economic and social effects: it contributes to shaping friendly and neat environments for consumers and employees, and elevates the quality of the offer of goods and services. Adapting the offer to the needs of the consumers and their lifestyles, an ear for the needs of the environment, and care for the future are the fundamental values deeply embedded in the development policies that are pursued through socially accountable action.

Donations and sponsorships are distributed to build human relationships, to develop them and to boost the activities of local and national importance in various fields of social life. We support humanitarian, cultural, healthcare, educational, scientific, and sports projects and institutions that contribute notable to the development of our social environment.

Reaping success and making a name in the fields of culture, science, sports, and entertainment, builds personality, recognition and distinction, and reputation – not only of the sponsors, but also of our country.

---

## **POLICY ON RELATED PARTY TRANSACTIONS**

---

The company has two groups of related parties: subsidiaries and management staff.

### **1. TRANSACTIONS WITH SUBSIDIARIES**

The company Poslovni sistem Mercator, d.d., as the controlling or parent company of the Mercator Group, operates by the principles of improving business performance in each subsidiary and the Group as a whole, common harmonized development of the Group, optimal supply of fast-moving consumer goods and services in all markets of Group's operations, constantly improved competitiveness, efficient allocation and coordination of material flows, harmonized and coordinated presence in upstream and downstream markets 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 addition to its core trade activity, the company also performs various Group-level duties for the companies of the Mercator Group.

As a rule, every company of the Mercator Group incurs costs and expenses required to generate company revenues. Costs of group activities are charged to the controlling company. In transactions between companies within the Group, the arm's length principle is strictly and consistently applied; hence, reported results of each company actually reflects truly and fairly its business performance.

Companies of the Mercator Group appoint special task forces to prepare a transfer pricing report for each year. The report is compiled based on a list of transactions effected in the current year between companies of the Mercator Group. For the most part, the transactions, consistently with the procurement policies of respective companies, are planned in advance; the same applies to pricing

policy. Project group for each type of transactions effected within the Group prepare appropriate analyses of comparability. The results of these analyses are the basis for tax treatment of each individual transaction. In this regard, the company is applying the recommendations from the OECD guidelines.

## 2. TRANSACTIONS WITH MANAGEMENT STAFF

Management staff includes members of Management Boards and Supervisory Boards at the companies of the Mercator Group. They receive compensation for their work, as specified in the relevant legislation, internal company acts, and signed contracts. The company regularly reports on the rewards received by the management staff in Annual Reports and at Shareholders Assembly meetings.

---

# CORPORATE GOVERNANCE

---

## Corporate governance

### GOVERNANCE, MANAGEMENT AND SUPERVISION AT THE PARENT COMPANY

#### Parent company management

- ☑ Subject to confirmation of the Supervisory Board, the company Management Board shall adopt the Mercator Group Business Strategy which defines the vision, mission, values, and strategic policies and goals of the Mercator Group. The Management Board shall make sure that all stakeholders are informed of the business strategy and that they participate in its pursuit.
- ☑ The Management Board shall delegate responsibilities and authorities to executive workers through employment contracts, consistently with organization and job (workplace) systemization and the company's internal acts. Responsibilities of managerial personnel shall include performing functions or processes for which they were appointed; coordination within their respective functions or processes at the Mercator Group level; and management, sourcing, and supervision of their respective organizational units.
- ☑ The Management Board shall make sure that operations are compliant with the locally effective legislation, EU Directives, and standards implemented by the company. Upon this basis, internal legal acts of the company are drawn up and managed within the "Mercator Standards" database.
- ☑ The company shall carry out corporate and marketing communication by emphasizing the corporate values related to the Mercator brand. Mercator is a partner to Slovenian manufacturing and manufacturing in foreign markets, with an ear for the needs of the local environment in which it operates. A satisfied customer remains in the spotlight of Mercator's operations.

#### Supervision at the parent company

- ☑ The Supervisory Board shall supervise the management of company affairs. Supervisory Board tasks and responsibilities are defined by relevant legislation and the company Articles of Association. Methods of work, convocation of meetings, and other issues of importance for the work of the company Supervisory Board, are defined in the Rules of Procedure for the Supervisory Board. Following are the key authorities of the Supervisory Board:
  - In relation to the Management Board, Supervisory Board shall supervise operations and adopt reports. They shall appoint and recall Management Board members. They shall give their consent to decisions and development strategy. They define the compensation and rewards for the company Management Board members.
  - In relation to the Shareholders Assembly: the Supervisory Board may convene the Shareholders Assembly to submit the report on the results of Annual Report audit, and to submit, together with the Management Board, proposal for the allocation of distributable profit, as well to state its opinion to the Management Board's report on relations with other companies in the Group and submit this opinion to the Shareholders Assembly.
  - To adopt and confirm the Annual Report and prepare the Report on Annual Report audit.

- In relation to the company: the Supervisory Board shall approve the contracts signed between individual Supervisory Board members and the company;
- With regard to company Articles of Association: the Supervisory Board is in charge of coordinating and harmonizing the wording of the Articles with effective Shareholders Assembly resolutions.
- To decide on any other issues defined by the legislation, Articles of Association, and general acts of the company.

### **Parent company management**

- ☑ The Management Board shall manage the company, with the following authority:
  - to manage the company independently and at own responsibility, for the benefit of the company;
  - to provide compliance with all contractual obligations of the company and associated companies, and compliance with all legislation, delegated legislation (statutory instruments), and generally established standards;
  - to develop the strategy, in cooperation with the Supervisory Board, and to manage its implementation;
  - to provide appropriate risk management within the company;
  - to manage company affairs with the diligence of a fair manager and to protect the company trade secrets;
  - to be jointly liable to the company for any damage resulting from a breach of Management Board's duties unless proven that their duties and responsibilities were performed fairly and diligently.
- ☑ Management Board members shall also supervise the operations at the Mercator Group subsidiaries.

## **GOVERNANCE, MANAGEMENT AND SUPERVISION AT SUBSIDIARIES**

### **Subsidiary management**

- ☑ The Management Board declares that the relations within the Mercator Group are managed in a transparent manner. Any contracts on control, transfer of profit, and other agreements that are, by nature, enterprise contracts, shall be signed and registered in the mandatory way, i.e. in compliance with relevant legislation and any other rules and regulations.
- ☑ Management of each subsidiary shall prepare a transparent report and comply with all relevant legislation. Subsidiary's report shall present in a true and fair manner all transactions effected due to the parent company's influence, their economic impact, and potential harm.

### **Supervision of subsidiaries**

- ☑ The Management Board shall be responsible for strategic management of the entire Mercator Group. It shall supervise the operations of all subsidiaries, manage investments into subsidiaries, and assume responsibility for long-term performance of the Group as a whole. It shall provide appropriate human resources for the bodies of corporate governance at subsidiaries, appointing managers who are familiar with the strategy and corporate governance standards.
- ☑ The Supervisory Board shall supervise the operations of the entire Mercator Group through Management Board's reports. The Supervisory Board may request from the Management Board at any time a report on operations and performance of a particular subsidiary; however, such reports cannot be requested directly from the management or employees at the relevant subsidiary.

### **Management of subsidiaries**

Subsidiaries shall be managed by respective Management Boards or directors of subsidiaries.

## **RISK MANAGEMENT AND EXTERNAL AUDIT AND FINANCIAL CONTROL**

### **Risk management Council**

- ☑ The Management Board established and appointed the members of the permanent council called Risk Management Council. The purpose of this council is to define and implement the risk management policy at Mercator Group, and the committees in charge of key areas of risk: Business Risk Committee, Financial Risk Committee, and Operational Risk Committee.

- ☑ Risk management process is documented and it represents methodological instructions for risk management at the Mercator Group, including distribution of responsibility between individual stakeholders in this process. By systematic monitoring, analysis, and management of risks, we efficiently perceive the critical aspects that may appear or do appear in all processes of the company's operations, particularly in critical processes.

### **Independent audit procedures**

- ☑ An independent, or external, auditor performs the audit in compliance with the expert and professional ethics principles of audit, relevant legislation, and other rules and regulations on auditing. Independent auditor is, as a rule, present at the company Shareholders Assembly, Audit Committee meetings, and Supervisory Board meetings at which decisions related to the Annual Report or the internal control and risk management systems are made.

### **Internal audit procedures**

- ☑ The fundamental goal of internal audit is to provide quality business information and to contribute as much as possible to better management of the Mercator Group and the company Mercator, d.d. Employees of the internal audit service are trained for internal auditing at the Group, and they work in compliance with the rules and regulations of internal auditing.

### **Inspection**

- ☑ An inspector shall perform the inspection independently; he or she shall also run the administrative proceedings and issue decisions and resolutions in these proceedings. Inspection includes an examination in compliance with the Inspection Act, as to whether legislation and relevant rules and regulations are complied with.

### **External assessment**

- ☑ External assessment takes place through certified assessment organizations which assess the compliance with the requirements of the ISO standards implemented and certified by the company.

## **Supervisory Board activities**

The Supervisory Board shall hold five to six meetings per year. At the meetings, the Supervisory Board shall discuss business performance including annual Business Plan and the company Annual Report, and other issues within the authority of the Supervisory Board pursuant to relevant legislation and the company Articles of Association.

Supervisory Board members representing capital shall represent the interests of all shareholders; while the representatives of workers shall represent the interests of all workers; all Supervisory Board members shall do so within the powers and authorities assigned to the Supervisory Board. In their work, individual Supervisory Board members may not be excessively tied to the opinions or instructions by those that appointed them or proposed them for appointment; rather, each Supervisory Board shall be personally fully responsible and accountable for their function. All Supervisory Board members shall have equal rights and obligations, regardless of who they were elected, proposed, or appointed by. Each Supervisory Board member shall, under any circumstances, pursue full independence in analysis, decision-making, and actions. From the beginning of the term, each Supervisory Board member must act in compliance with the criteria of a diligent, concerned, and fair manager.

The Supervisory Board shall work with the Audit Committee to propose an auditor to perform the audit in an independent and unbiased manner, in compliance with the rules and regulations on auditing. The Supervisory Board shall not propose for appointment an auditing company that is providing any consulting services for the company, nor an auditing company in which the compensation for the auditing services rendered to the company would amount to 30 percent or more of the auditing company's total revenue. The auditor may be present at all Supervisory Board meetings at which decisions related to the Annual Report or the internal control system and risk management are adopted. Before the appointment of the auditor at the Shareholders Assembly, the shareholders shall be informed of any other service rendered by the auditor, currently or previously, in expert areas related to auditing; as well as of any other fact that could cause a conflict of interest on the part of the auditor.

The Supervisory Board shall consist of up to 12 members. The number of Supervisory Board members shall be defined by the Shareholders Assembly by adopting the Act on the Appointment of Supervisory Board. All candidates for Supervisory Board members must, as a general rule, meet the general conditions, as follows: completed level of education equivalent to at least the second Bologna cycle, and at least 5 years of experience in business administration. Furthermore, the candidates must, as a rule, meet the following specific conditions:

- relevant expert and professional knowledge required for efficient performance of the term, and comprehensive knowledge of business administration;
- familiarity with the trade industry in Slovenia and in the markets of Southeastern Europe;
- relevant documents and certificates of knowledge and qualification, proving the candidate's fitness to work in a Supervisory Board;
- a strong sense of business ethics and personal integrity;
- sufficient time available.

At least one Supervisory Board member should have expert knowledge in finance and accounting.

A Supervisory Board member cannot be:

- member of the Management Board or Supervisory Board of a subsidiary of the company;
- company officer with statutory authority / holder of procuration;
- Management Board member at another company at which a Management Board member of this company is a Supervisory Board member;
- a person who is a Supervisory Board or Management Board member at three other companies;
- a person employed at a competitive company or performing business activity that could be defined as competition to the operating activities of the company;
- a person for whom the circumstances provided in paragraph 2, Article 255 of the Companies Act apply.

Supervisory Board members are appointed for a term of four years and they are eligible for re-election.

Throughout the term, Supervisory Board members must further their education and develop their skills in the areas relevant to quality and efficient performance of their duties. Training and education of Supervisory Board members is motivated, organized, and financed by the company, in compliance with the estimated requirements of the company and the Supervisory Board.

Entire work of the Supervisory Board, except for Supervisory Board resolutions, is subject to the rules on business confidentiality unless the Supervisory Board, subject to consulting with the Management Board, expressly decides that particular material may be made available to the internal or broad public. The Management Board may inform the internal public about the work of the Supervisory Board; however, in doing so, the Management Board may not breach any provision of the Rules of Procedure regarding business confidentiality or trade secrets. Each Supervisory Board member is liable to protect confidential information and trade secrets and to act loyally to the company.

## **Management Board activities**

Until the end of its current term, i.e. until December 31<sup>st</sup> 2015, the Management Board of the company Poslovni sistem Mercator, d.d., consists of the President and five members. The number of the Management Board members and distribution of responsibilities is consistent with the macro-organizational structure of the Mercator Group, implemented in the beginning of 2010.

The Management Board Council in its current composition allows adopting decisions for diligent and responsible pursuit and attainment of company goals. The Management Board Council operates in compliance with high ethical standards and considers the interests of all groups of stakeholders. Members of the Management Board Council enjoy mutual trust and they are always open to honest and straight discussion and acceptance of difference in opinion. Responsibilities of the members and the methods of work for this several member body of governance are defined in the Management Board Act of the Mercator Group and the Rules of Procedure for the Mercator Group Management Board Council.

The system of reward, or compensation program, currently in place at the company allows motivating appropriate and adequate human resources for performing the duties of corporate governance

consistently with the needs of the company. At the same time, it aligns the interests of the Management Board with the long-term interests of the company.

Company Management Board Council shall hold regular meetings every 14 days. Preparations for the meetings, meeting progress, and announcement of the decisions adopted are regulated by a standard procedure supported by an electronic application.

In addition to the conditions provided by the legislation, Articles of Association, and other company acts, president of the Management Board Council should also possess leadership and work organization skills, and enjoy a reputation of an excellent businessman in the broader social environment.

Each member of the Management Board Council shall immediately report to the Supervisory Board about the existence of a potential conflict of interest and inform other members of the Management Board Council thereof. Management Board Council member may accept membership in Supervisory Boards or Management Boards of companies not related to the company only after informing the Supervisory Board Chairperson in writing about such intent.

Throughout their terms, each Management Board Council member shall observe the non-compete clause, which means that they may not perform for-profit activity in the same industry as the company, nor effect transactions for own account or on behalf of a third party, without prior consent by the Supervisory Board.

---

## **COMMITMENT TO IDENTIFY CONFLICT OF INTEREST AND EVALUATE INDEPENDENCE OF SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS**

---

Supervisory Board and Management Board members shall make their decisions independently. In their work and decision-making, members of the Supervisory or Management Board shall give priority to the goals of the company, rendering any other personal and particular interests of third parties, the Management Board, shareholders, the public, or the government, subordinate to them. All Supervisory Board members shall be considered equal in their decision-making, except in the case of a voting stalemate in which case the vote of the chairperson shall decide the outcome.

Supervisory and Management Board members shall inform the Supervisory Board of any conflict of interest that has occurred or could occur in or with regard to performance of their duties. Furthermore, each Supervisory or Management Board member shall inform the Supervisory Board of any membership in Supervisory Boards or Management Boards or other companies. In case of a conflict of interest on the part of a Supervisory Board member, the member shall explain the conflict at the Supervisory Board session and abstain from voting.

Management Board member may only accept membership in a Supervisory Board or a Management Board in another company, unassociated with Mercator, after informing in writing the Supervisory Board chairperson.

Before the Shareholders Assembly meeting in which the shareholders are to decide on the appointment of the Supervisory Board members, shareholders shall be presented the candidates and any conflicts of interest shall be disclosed.

---

## **SUPERVISORY BOARD COMMITMENT TO SELF-ASSESSMENT**

---

The Supervisory Board shall evaluate once per year their composition, operations, potential conflict of interests on the part of individual members, and performance of both individual members and the Supervisory Board as a whole, including cooperation with the company Management Board. Supervisory Board self-assessment shall also include an evaluation of the work of the audit committee.

---

## ASSIGNMENT OF RESPONSIBILITY AND POWERS AMONG MEMBERS OF MANAGERIAL AND SUPERVISORY BODIES

---

The company shall be managed by the Management Board to the benefit of the company, independently and at their own responsibility; the Supervisory Board shall supervise the activities and the way in which company affairs are managed. Both Management and Supervisory Board shall work together closely to the benefit of the company. Division of powers and responsibilities between the Management and Supervisory Board is compliant with the relevant legislation and laid out in detail in the company Articles of Association, Rules of Procedure for the Supervisory Board, and Rules of Procedure for the Mercator Group Management Board Council where the manner of cooperation between the two bodies is also defined.

When adopting major decisions for the company, which could bear a notable effect on the business, financial, or legal position of the company, the Management Board shall inform the Supervisory Board of such decision-making in order to reach mutual consent on the issues at hand. In case of events relevant for the evaluation of the situation and consequences, as well as for company governance and management, the Supervisory Board chairperson may convene an extraordinary meeting if deemed necessary. Once per year, the Supervisory Board shall define the contents and the deadlines which the Management Board shall observe in their regular and extraordinary reporting and communication.

---

## COMMUNICATION

---

Communication Guidelines of the Mercator Group (hereinafter referred to as Guidelines) are a document providing the foundation for communication activities of the company Poslovni sistem Mercator, d.d., and its subsidiaries. They include high-quality standards of compilation and announcement of financial and non-financial information. Compilation and control over implementation thereof is the responsibility of the Public Relations Sector at the parent company.

By implementing the provisions of the Mercator Group Communication Guidelines, the company is preventing the occurrence of a situation that would allow insider trading with securities (illegal insider trading). To this end, the company Management Board has adopted Rules and Regulations on Protecting Trade Secrets and Insider Information for the members of managerial and supervisory bodies and for other persons with access to insider information during their respective terms or thereafter. These Rules and Regulations define classification and methods of protection of such information, as well as penalties in case of a breach. The Rules and Regulations on Protecting Trade Secrets and Insider Information also defines the flow, recording, and control of access to insider information from their occurrence to public announcement, including warnings that the information has not yet been publicly announced and is therefore classified as insider information. Moreover, the said Rules and Regulations specify which persons are in charge of communication with particular segments of the public. Mechanisms of efficient information barriers (Chinese wall) are in place at the company. These mechanisms prevent leakage of information in case of extraordinary events, as such leakages could result in some persons having access to insider information. Communication Guidelines also define the contents and procedures of communicating with the public, as well as the company's planned response in case of rumors or articles related to the company or its operations.

The Guidelines include the following two fundamental parts:

- commitment to equal treatment of all interested groups and protection of their rights to information;
- planned and efficient communication that supports the company business plans and contributes to the benefit of all stakeholders of the company and the Mercator Group.

Communication Guidelines define the interest groups and basic guidelines for work with individual interest groups, persons in charge of informing the public, flow and control of particularly important and price-sensitive information from their occurrence to public announcement, protection of trade secrets, and contents and procedures of communication with the public.

The Guidelines assume that the company Mercator, d.d. and the companies of the Mercator Group perform the function of public communication and relations according to the principle of integrated and comprehensive communication. Effective Guidelines are observed in all documents, plans, and activities pertaining to or taking place in the field of communication.

## **COMMITMENT TO EQUAL TREATMENT OF SHAREHOLDERS AND THE INTERESTED SEGMENTS OF THE PUBLIC, AND PUBLIC ANNOUNCEMENTS**

Stock of the company Poslovni sistem Mercator, d.d., is listed on the Ljubljana Stock Exchange. Therefore, the company observes in its public communication all procedures and rules stipulated by the stock market in order to provide equal treatment of shareholders and the interested segments of the public.

The company shall inform the public in an up-to-date and comprehensive manner on all major decisions that are or will be required due to major development, business, ownership, or other changes at the company.

Current and comprehensive information is provided to the public by a proactive communication policy applied by the company, which includes public announcements and preparation of publications and informative materials for individual segments of the public and interest groups. Upon major business events, the company holds press conferences and other information events for individual interested groups of the public.

Mercator Group Annual Report and interim reports have a special role among the forms, or channels, of informing the public. The company is also striving to set up and keep a transparent and up-to-date website. The website offers key information on the company and its operations. Provision of regular information on our operations to public includes announcements of annual financial statements, summaries of Semiannual and Annual Report and quarterly results, evaluations of past performance, annual plans of the corporate group, and any deviations from the forecasts on future operations.

These announcements and announcements of other information allow the interested segments of the public to be informed of the financial position of the company and of the plans for the future.

### **Persons in charge of public announcements**

At the level of Mercator, d.d., head of strategic controlling, Group accounting, and internal audit shall be responsible for organization of required internal procedures for notifying the shareholders, while the Director of Public Relations sector shall be responsible for informing the media and other interested segments of the public.

### **Priority announcement of important news by the parent company**

Initial announcements and communication of strategic plans, changes, or decisions related to the companies of the Mercator Group or strategic activities shall be the responsibility of the parent company Mercator, d.d., while other information related to the Group operations shall be the responsibility of a particular company within the Mercator Group and the Executive Field of Coordination of Marketing and Public Relations of Mercator Trade in Southeastern Europe.

Time of announcement of major news: the parent company Mercator, d.d., shall invest every effort to publicly announce all relevant information as soon as possible. Until such information is publicly announced, its confidentiality shall be effectively maintained.

Major information may be available at company website only after public announcement in electronic form, through the stock market information system (SEOnet) has been made.

In communicating their business performance, companies of the Mercator Group shall be restricted in that they shall not be allowed to announce or comment the results independently before the results are announced by the parent company.

The principle of protecting our trade secrets and maintaining confidentiality in order to protect our competitive advantages shall have priority over the principle of public disclosure of information or the public's right to information.

Mercator shall not comment rumors. Mercator shall respond to any insinuations about potential major business events that could affect the stock price or cause material or non-material damage to the company or the Mercator Group by public announcement of relevant facts.

## CONFIDENTIALITY OF INFORMATION AND INSIDER INFORMATION

### Maintaining confidentiality of information

- ☑ The company has appointed particular persons who communicate with the public, and clearly defined the flow and control over insider information. Furthermore, the company has laid out the Rules and Regulations on Protecting Trade Secrets which clearly defines and regulates particular issues with regard to maintaining the confidentiality of information.
- ☑ We have defined our policy and system for protecting data and information.

### Preventing abuse of insider information – illegal insider trading

- ☑ Rules on trading restrictions and trading disclosure regarding the company stock and shares of associated companies have been clearly laid out, including an accurate list of persons for whom such restriction shall apply.

---

## PROTECTING EMPLOYEE INTERESTS

---

Mercator Group complies consistently with the relevant employment legislation that protects the interests of the employees. In respective countries of Mercator's operations, social partnership is at different development levels. Where such development is in a higher stage, employees are organized in trade unions. Worker representatives assert and pursue the social and economic interests of the employees and perform supervisory function.

At Mercator, the foundations for protecting the employee interests are provided above all by the Collective Labor Agreement for the Poslovni sistem Mercator, d.d.; Employee Code of Conduct; Mercator's Human Resource Strategy.

Collective Labor Agreement is an agreement between representative trade unions and the employer, which defines the rights and obligations particularly in the following fields: establishment of employment relationship, employment contract, placement, compensation and rewards (receipts) from employment, working hours, training and education, discipline and damage liability, exercising and protecting the rights, obligations, and responsibilities from employment, conditions for the work of the trade union.

Employee Code of Conduct defines the rules and standards for employee conduct at Mercator, based on the Group's corporate values. In particular, it refers to the standards of work and expected conduct of employees in retail, logistics, and administrative services, as well as the attitude of leaders to their peers and subordinates.

Human Resource Strategy defines the priority tasks in relation to employees, as follows:

- ☑ Development of leadership  
Leaders are the key employees in the Mercator Group. They must be role models for their fellow employees. In addition to knowledge and experience, their personal traits are of key importance. Particular attention is paid to development of the soft skills of leadership. When evaluating performance and competence of leaders, very high criteria are applied. Systematic development of leaders provides employee satisfaction.
- ☑ Dialogue with employees and social partners  
Internal communication is focused on striking the right balance between personal (annual interviews) and mass communication (internal magazines). Development of the intranet will yield another vehicle of fast, efficient, and open communication with the employees. Dialogue with social partners is also taken very seriously as they are regularly informed and included in major human resource management projects when necessary.
- ☑ Transfer of knowledge and experience  
At Mercator, learning is not merely a strategic policy, but a fundamental corporate value. Education and training are based on individual needs of the employees and competences of key employees. The richness of knowledge and experience of Mercator employees is formalized in the system of internal educators, which promotes our best lecturers, trainers, mentors, and instructors. Knowledge is transferred between services, sectors, and markets. Particular attention is paid to the transfer of knowledge between generations (Y, X, and baby boom) as the number of

elder employees with vast experience is increasing, while younger employees with different views with regard to the company are coming forward as well.

☑ Motivation and rewards

Salary and rewards are an important source of motivation, and motivation is a key element of successful work. Rewards are used to distinguish the best from the good. Financial reward, or motivation, takes the form of promotions, as well as annual and project rewards. Non-financial, or intrinsic, forms of motivation include education, commendation (awards), confidence, and professional and personal development. Striking a balance between financial and non-financial, personal and collective forms of reward is a continuous challenge.

☑ Internal and external staffing and recruitment

As one of the major employers in the region, we offer our current and prospective employees a plethora of career opportunities. We are focused both on employing new talent seeking first employment, as well as on signing experienced experts and leaders. Colleagues coming from outside our Group introduce fresh knowledge to Mercator, while internal staffing fosters exchange of experience and cooperation between sectors. Successful employees who have performed well in a certain area for four or more years, are motivated and offered changes in employment within the company.

☑ Recruitment and training of sales personnel

Good sales personnel is hard to get; yet, they are the key to satisfied customers and our major competitive advantage. Great attention is paid to the development of training network, a central form of sales personnel training by trainers. We are also analyzing the use of flexible employment arrangements introduced by the structural changes in the labor market.

☑ Occupational health and safety

Average age of our employees will inevitably rise. As a result, employee health – physical and mental – will play an important role in providing a good service for the customers. In countries with higher average age of the employees, the rate of illness-related absenteeism is greater. Furthermore, sick leaves at Mercator are related to the fact that majority of employees are women who decide to take a maternity leave to care for their children after birth. The Health Promotion project is developed in various forms such as sports activities, balanced nutrition, and stress alleviation. Employees in acute social and economic distress and employees who are seriously ill will still have the option to turn to Mercator Humanitarian Foundation for aid.

Mercator IP, d.o.o., in which the parent company holds a 100-percent interest, is a special interest enterprise which offers its employees safe working environment and a possibility of personal and professional development. It represents Mercator Group's notable contribution to the pursuit of corporate social responsibility to the employees and the society in broader terms. Operations of the social enterprise are based on experience and sound business practices, and cooperation with relevant disability related and other organizations and the government of the Republic of Slovenia.

---

## FINAL PROVISIONS

---

Corporate Governance Policy shall be effective as the day it is adopted by the Management Board and the Supervisory Board of the company Poslovni sistem Mercator, d.d. As of the day of its adoption, provisions of the Corporate Governance Policy shall be mandatory for all companies of the Mercator Group.

Corporate Governance Policy shall be published in Slovenian and English language on company website at [www.mercator.si](http://www.mercator.si) and on public information systems SEOnet and INFOhramba where it shall be available to all shareholders and the interested public.

Žiga Debeljak  
Management Board President

Robert Šega  
Supervisory Board Chairman