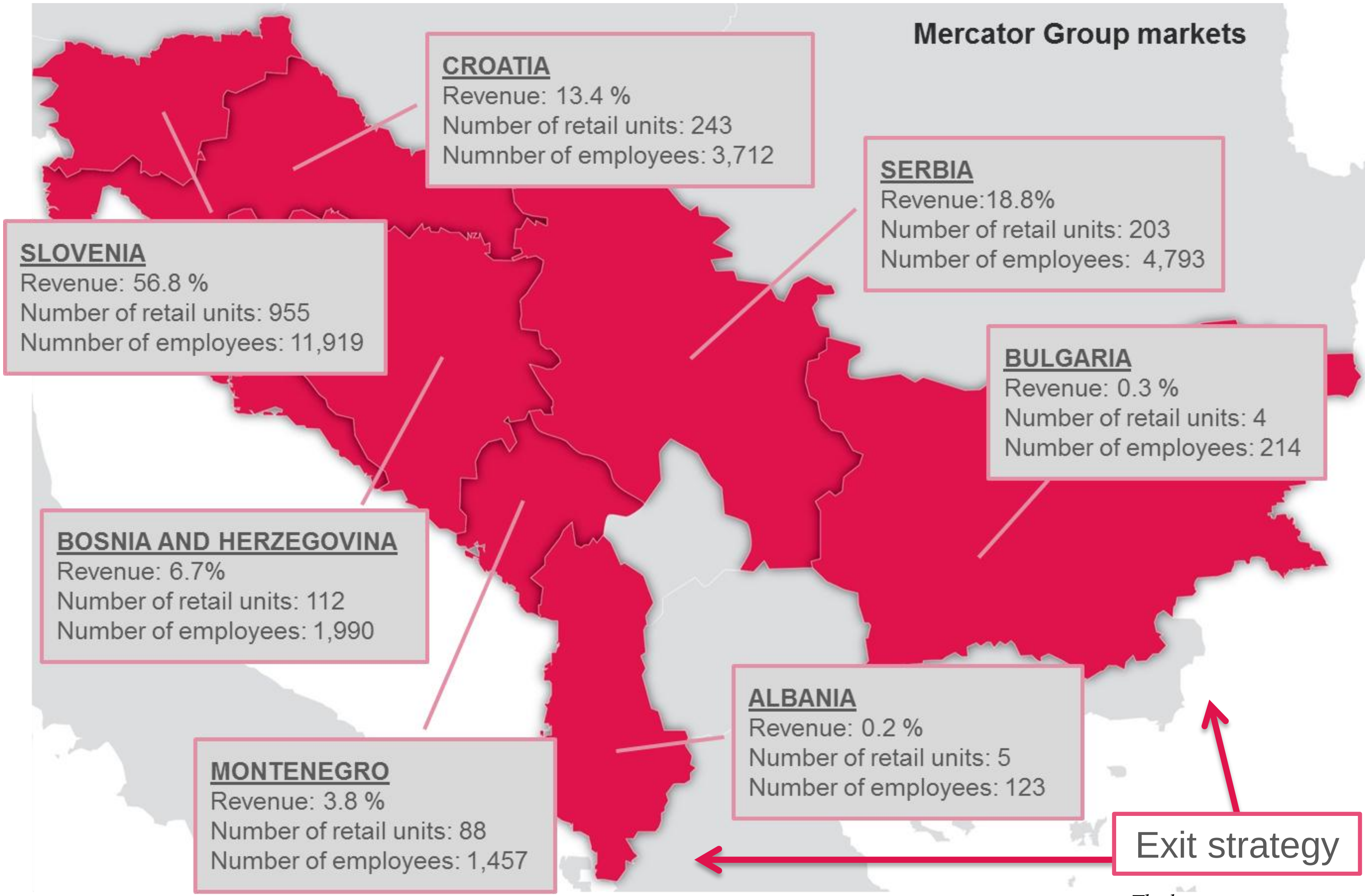
Mercator Group Company profile

Ljubljana, January 2013

Mercator
The best at every step

Introduction to Mercator Group



Source for market shares market research and own calculations.

The consumer industry in a fast changing environment

- **FMCG industry has been affected by the economic crisis in the most recent years, despite its non-cyclic character**
- In 2012 GDP growth contracts in most markets Mercator operates in and is forecast to decline further in 2013 leading ultimately to consumers which increasingly feel the recession
- In consequence negative development of shopping habits and future buying behaviour is expected
- In this context demand has also dropped for essential goods such as food and beverages
- **Consolidation and internalization are major drivers of industry development: European players integrate CEE markets and mainly develop activities in the following areas:**

1 Assortment and Price Competitiveness

- Optimizing assortment, improve price perception and competitiveness
- Private label development
- Optimization of promotions

2 Private Label

- Increasing the share of total turnover, more shelf-space, improvement in quality, marketing and packaging
- Consumer involvement in product selection process

3 Store Formats

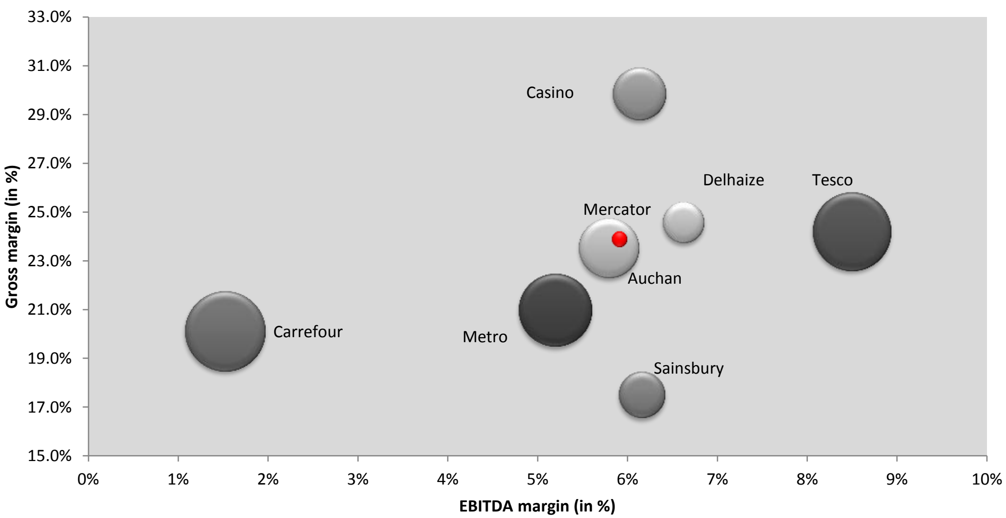
- Differentiation of formats: revitalization of existing and development of new ones

4 Loyalty Program

- One of the key elements of marketing strategies
- More value for the consumer, adjustment of the offer

Mercator‘s performance relative to European competitors

EBITDA and gross margin of biggest European retailers 2011



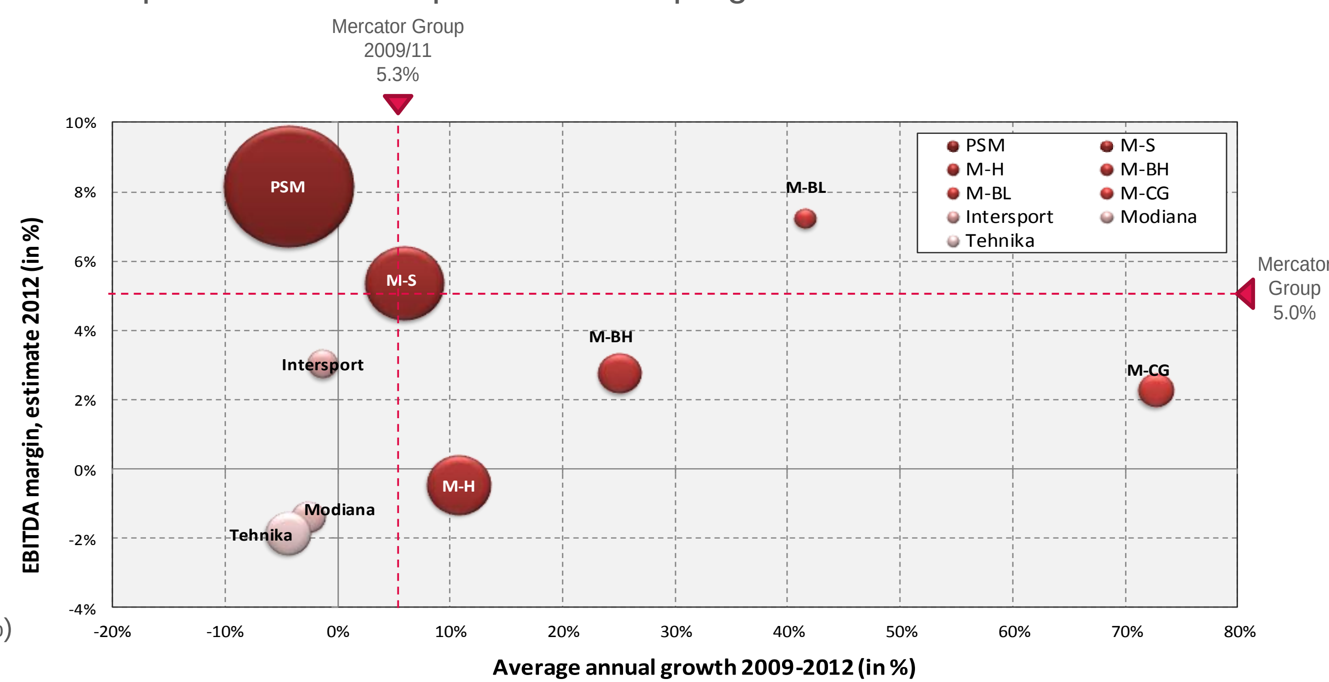
	EBITDA margin (%)	Gross margin (%)
Tesco	8.5%	24.2%
Delhaize	6.6%	24.6%
Sainsbury	6.2%	17.5%
Casino	6.1%	29.9%
Mercator	**5.9%**	**23.9%**
Auchan	5.8%	23.5%
Metro	5.2%	21.0%
Carrefour	1.5%	20.1%

Comments

- Mercator‘s revenue growth was in line with its peers
- Growth remains an essential element for retail players to achieve proper bargaining power
- Mercator reached relatively high gross margin (top 3) which however did not yet translate into an adequate EBITDA margin (top 5)
- Low EBITDA margin can mainly be attributed to:
  - lower productivity
  - cost inefficiency
  - current market conditions

Complex business across various markets led to low growth and failure to achieve adequate level of profitability

- **EBITDA margins varies among Mercator Group companies due to differences in market development**
- Mercator, d.d., reached the highest EBITDA margin as a result of high market share, but faced decreasing revenue growth due to its presence in the most developed country of Mercator Group, and relatively saturated Slovenian market
- We see large potential in selected markets, Montenegro in particular, which achieved the highest revenue growth. While in more mature markets, like Croatia, we face more saturation and a stronger competitive landscape, which eventually results in lower growth rates
- Companies operating in some specific programs (home, sportswear, apparel) have structurally lower annual growth and inferior performance compared to other programs



* x axis average annual growth rate (%)
** y axis EBITDA margin (%)
*** Size of the circle represents the revenue from sales by individual programs/markets.

Overview of key management appointed on 1.6.2012

Toni Balažič
Company Management Board President
since May 18, 2012

- Experience with business strategies, business models and consulting
- **Previous employers:** Žito, d.d., Fructal, d.d., AT Kearney consulting, d.o.o., Petrol, d.d., Spem, d.o.o.

Drago Kavšek
Senior Vice President for Strategic Finance and IT
since May 28, 2012

- Experience with finance accounting, restructuring and investment banking
- **Previous employers**, Fructal, d.d., Publilkum, d.d., Peugeot Slovenija, Deloitte

Igor Maroša
Senior Vice President for Mercator Trade Slovenia and Croatia
since May 28, 2012

- Experience with retail and consulting
- **Previous employers:** A.T. Kearney consulting, d.o.o., Group Pulsar, Krona in Proxy BPD

Stanka Pejanović
Senior Vice President for Mercator Operations SE Europe
since March 30, 2010

- Experience with finance and retail
- **Previous employers:** Rodić, d.o.o., Univerzal

Summary of current situation

Current Market Environment

- The FMCG industry has been adversely affected by the economic crisis within the most recent years, especially in the CEE region
- Consolidation led to entry of European competitors into CEE market and expansion of hard discounters as new discounters entered the market as well as existing discounters increased their activities
- Mercator‘s performance has suffered due to the economic recession and the prospects of the countries Mercator is active in
- GDP growth contracted in 2012 in most markets Mercator operates in and is forecast to further decline in 2013 resulting in lower demand for grocery products
- Revenues in the FMCG industry therefore are under pressure as a result of the current market situation

Mercator‘s Performance

- Despite these market conditions, Mercator achieved increasing revenues over the last years
- Revenue growth continues to be a key factor for the business model in order to improve bargaining power with suppliers
- Mercator achieved a relatively high gross margin but could cannot realize an adequate EBITDA margin in the current market environment

Next Steps

- In light of the current situation and below par operating performance, Mercator has decided to implement operational measures to counter the adverse market conditions
- Some operating measures have already been implemented in 2012
- Measures are designed to improve operating performance in four key areas
- Various options are being considered of dealing with currently challenging refinancing markets

MERCATOR'S MID-TERM BUSINESS STRATEGY 2013-2016

Our vison for the future

We are faced with the challenges from the past, but we are confident that we have right answers.

Complex business in many markets is reflected in low growth and in low profitability.

Mercator Group's strategy till 2016 contains specific projects with quantified effects and clear objectives regarding the execution.

The aim is not only the best neighbour but the **BEST COMPANY** in the Balkan region.

Mercator will be the largest, the most successful and the most efficient retailer in the region.

A satisfied customer recognizes us as the best retailer that offers everything a discount store can offer, and much more.

Employees with smiles on their faces and sparkles in their eyes are our key competitive advantage. They will be able to develop their potential in a stable environment.

We are striving towards a stable ownership structure that will support the company development based on merit and results.

Mercator is striving to win the confidence of all stakeholders.

Four pillars based strategy

Optimization

- Simplify the organization and processes
- Achieving the target productivity
- Optimization of total costs
- Investing part of savings in the market and employees
- Financial stability

Focusing

- Region: focus on countries with growth potential and short-term profitability
- Consumer: to return trust and satisfaction, increase understanding of the needs, constantly adapting
- Activities: the core activity

Strategy

Profitability

- We have to ensure profitable business
- Adequate return for shareholders

Growth

- The size is important in our industry, so we need to continue to grow, mainly organically and through targeted smaller acquisitions

Optimisation

Project	Description and effects
Organization and processes	• Reorganisation of the Group and renovation of key and support processes. • Suspension of subsidiaries on some SEE markets. • Increase productivity, reduce overhead.
Optimisation of all costs	Optimization of costs in the medium term: • materials and non-tradeable goods, • services, • IT with • Insourcing services in IP.
Investment in the market and employees	Increasing the level of service in stores, modernization of the reward system aimed at increasing customer and employee satisfaction.
Financial stability	• Sales of real estate and leaseback (project is put on hold). • Improvement of working capital management. • Disinvestment. • Deleveraging.

Profitability

Project	Description and effects
Exchange rate differences	Project to mitigate FX risk with a goal to minimize unexpected negative effect of translation differences. Activities are already in progress.
Mercator H	Improving the business and exploit synergies with the PSM.
Gross margin	• Establishing global supply. • Consolidation of suppliers. • Improving category management.
EBITDA	• Cost management. • Optimization of the distribution network. • Restructuring of markets / companies.
Return for shareholders	• Restructuring of funding with the deleveraging. • Increased equity value.

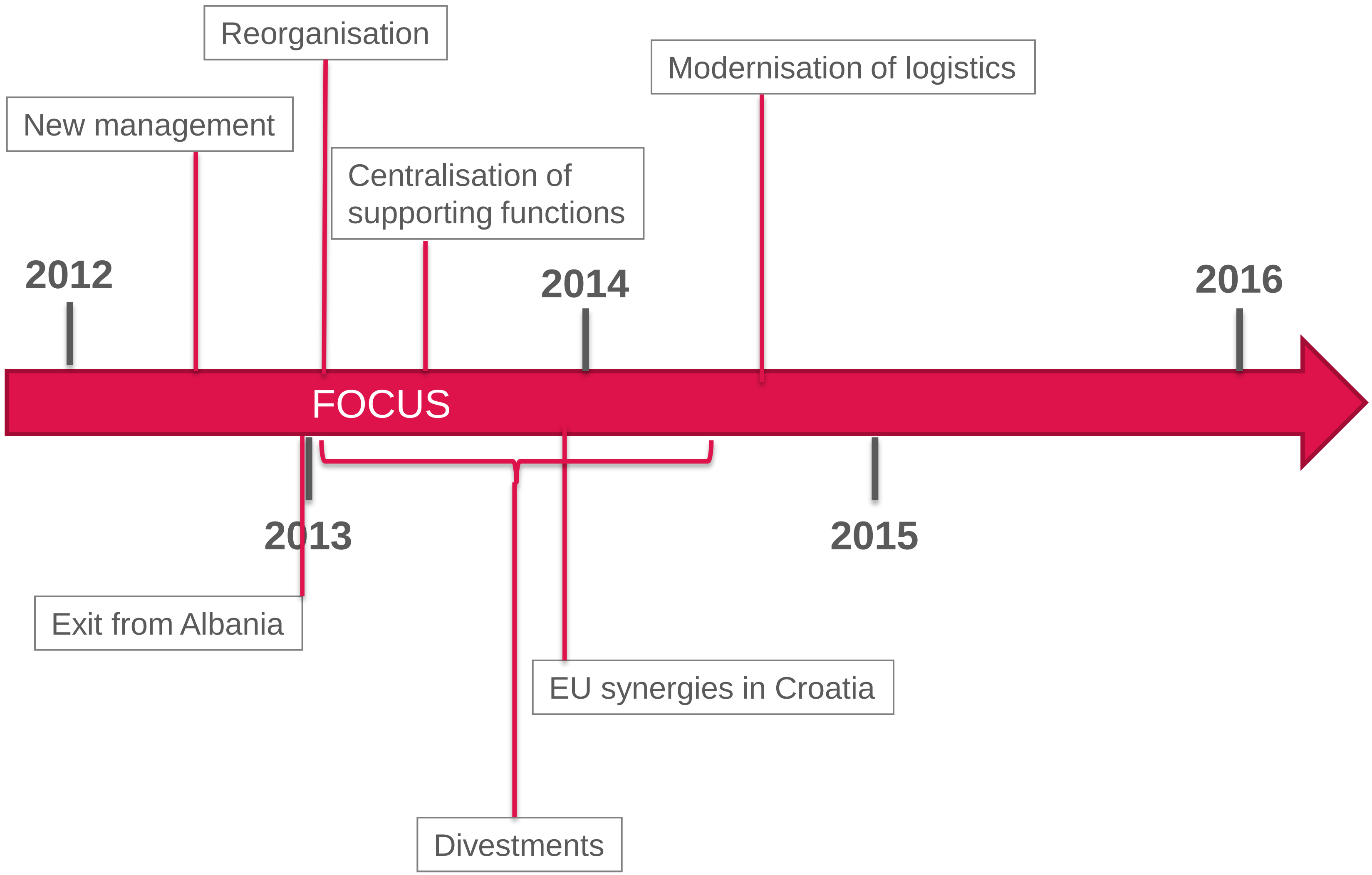
Focus

Project	Description and effects
Region	• Exit Albania and Bulgaria market.
Region	• Restructuring of Croatia.
Consumer	• Understanding the needs of local customers and improved loyalty scheme with stabilization and growth of commercial activities in Slovenia, improvement of price perception and improved service.
Activities	• Restructuring of programmes M Tehnika, Modiana, M Energija. Integration of support activities. • Managing banners.

Growth

Project	Description and effects
Organic growth	Target management with customer segments, categories and formats aimed at stopping a decreasing trend in the market of Slovenia and Croatia and growth in Southeastern markets.
Capex	Priority investments with most growth potential and profit.
Mergers and acquisitions	Target, smaller formats, minimal investments, growth potential, capacitity to improve the market position and capacity to create sinergies.

Implementing key projects



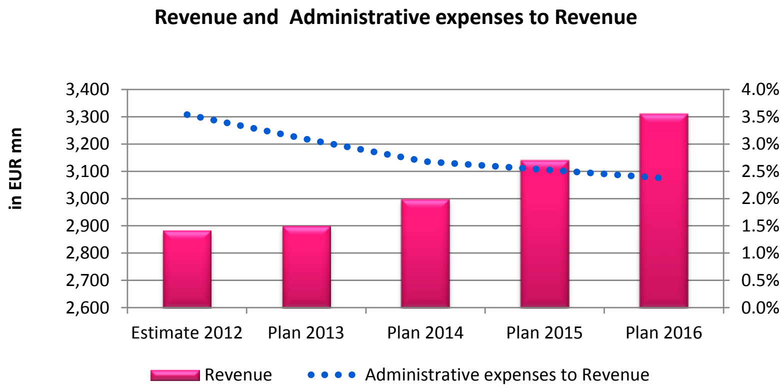
Operational measures: Implementing key

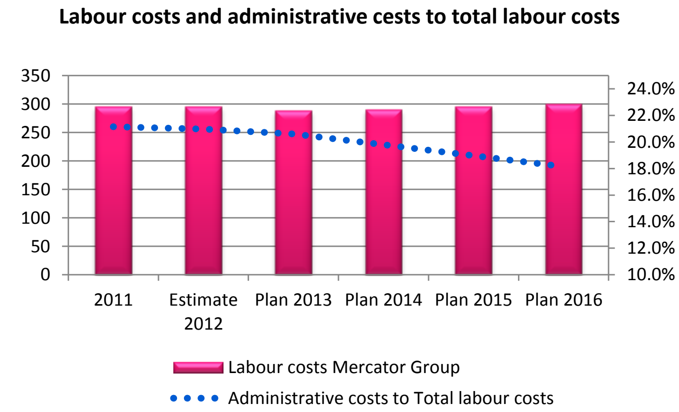
Measures	Description of Operational Measures
1. Growth	• Focus on organic growth in key markets • Priority investments selected for highest growth potential and profit • Total CapEx amount restricted to 50% of annual EBITDA • Only small M&A acquisitions with significant growth potential, capacity to improve market position and ability to create synergies
2. Profitability	• Cost management and exploitation of synergies • Optimization of the distribution network, restructuring of markets, consolidation of suppliers and improving category management • Mitigating FX risk in Serbia
3. Optimization	• Simplification of organizational structure and processes to deliver cost savings • Re-investing part of savings in better pricing and employee rewards to boost competitiveness • Management of working capital
4. Focus	• Regional focus on growth countries • Better understanding customer needs and constant adaptation to changing customer preferences • Concentration on core activities

EBITDA margin to reach level of large European peers as Operational Measures deliver improvement from 4.3% to 6.3%

*EBITDA effect calculated as profitability improvement attributable to increase of revenues

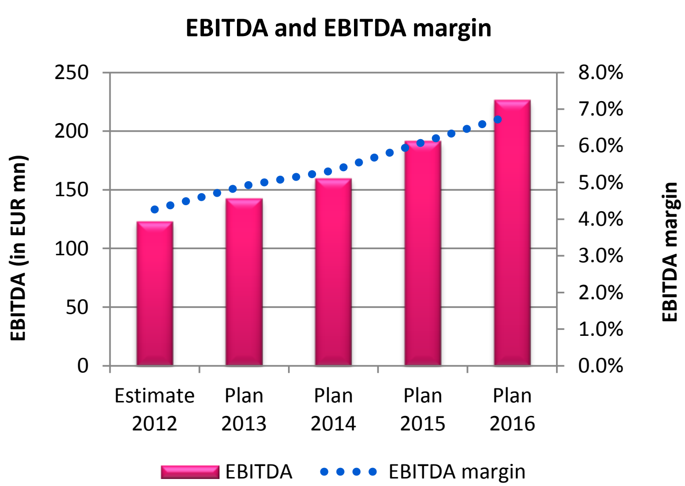
Cost-effectiveness will be increased by reducing administrative activities and optimizing overhead.

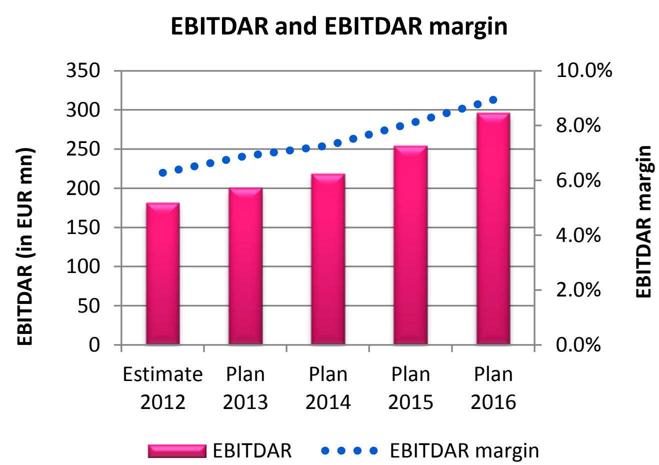




Implementation of cost rationalization measures will reduce administrative expenses.

Optimization of the overhead departments will be affected by the reduction in labour costs.





Obtaining new retail areas in operating lease will effect in higher cost efficiency

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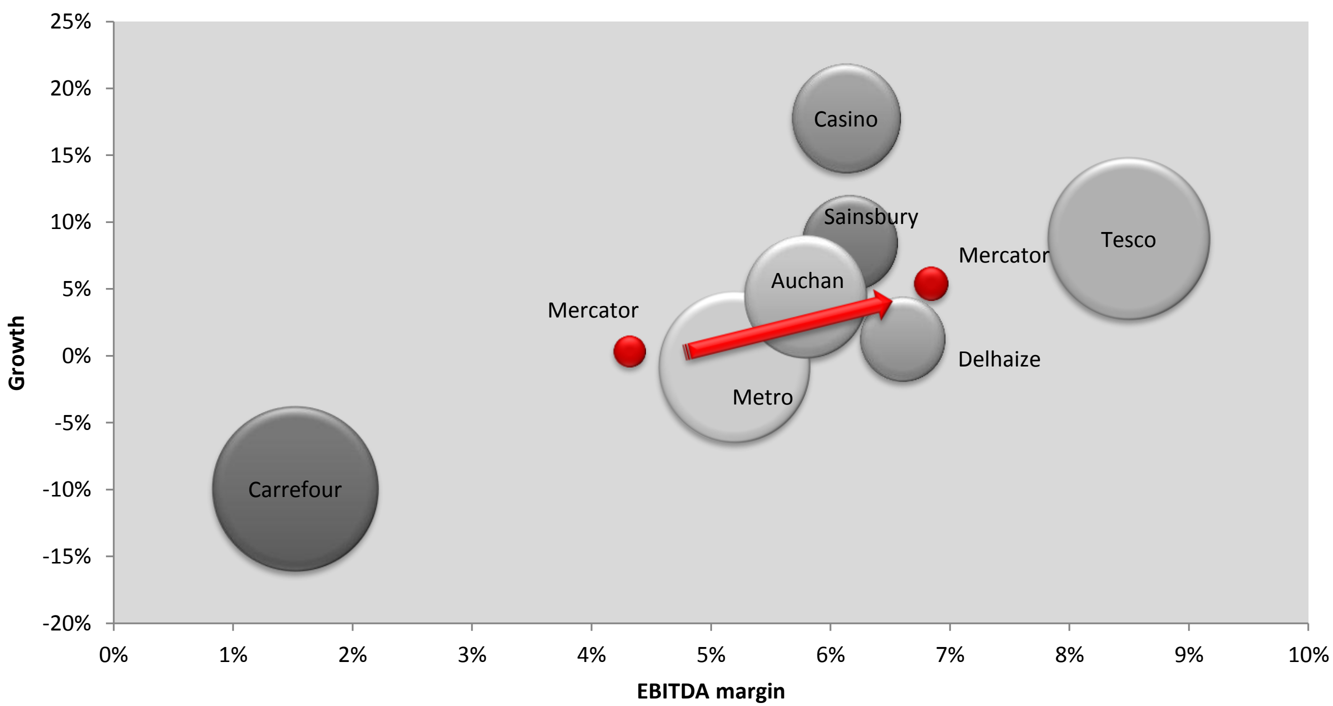
The measures identified will result in growth of sales and EBITDA margin in line with the European peer group benchmarks

- Compared to European competitors, Mercator Group is generating lower EBITDA margin and lower growth in revenue than average.
- By 2016, Mercator will improve EBITDA margin and meet higher growth in revenue, which will improve it‘s competitiveness.

Comparison of the Mercator Group with European competitors



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MEASURES ALREADY IMPLEMENTED

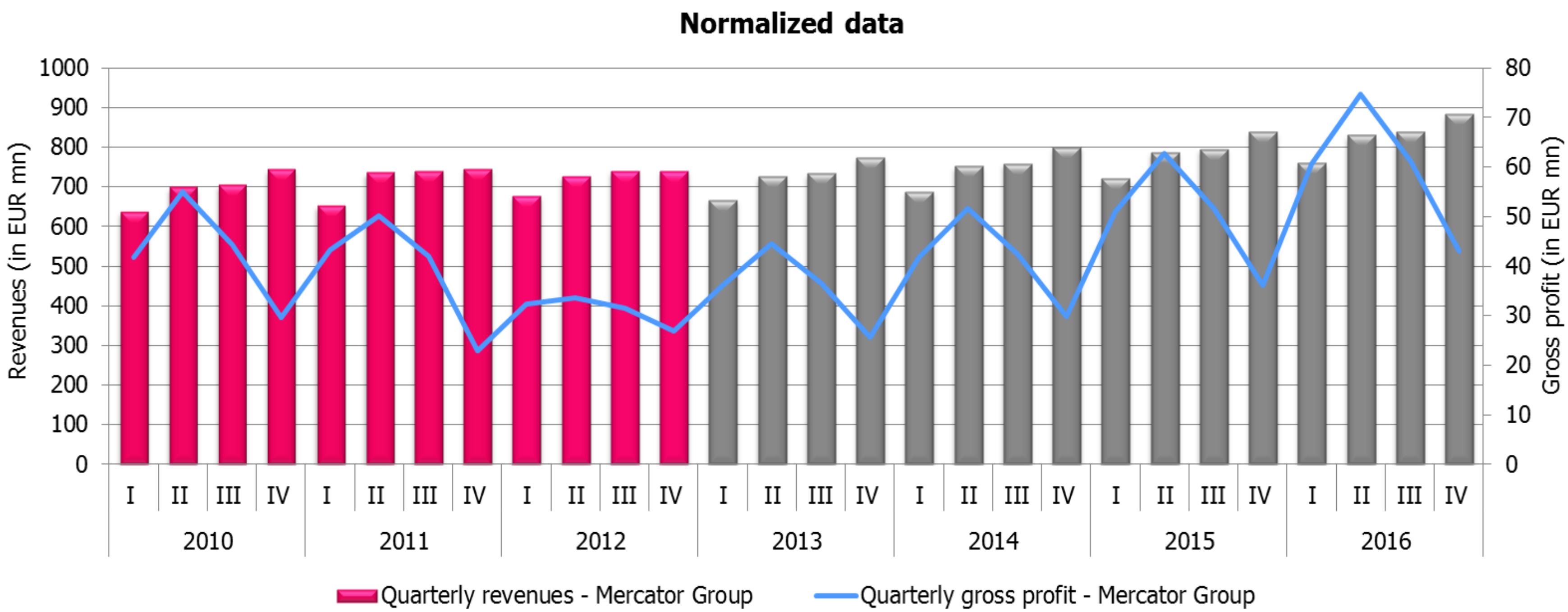
Realized effects from measures already implemented by new management during 2012

Short-term Cost Measures	• Since new Management Board took over in 2012, EUR 4m of cost savings have already been realized in Q3 2012 • Additional cost savings of EUR 7m will realized in Q4 2012
Exit from Albanian Market	• Mercator decided to exit from the Albanian market due to poor performance and low exit costs • Exit costs are below negative operating results expected in case of continuation
Working Capital Optimization	• In 2012 a project team was set-up and till end of year working capital was reduced by EUR 106m, resulting in significantly increased operating cash flow
Reduced Investment Activity	• New investment activities are exclusively focused on maintaining and improving market positions • Focused divestment of non-business related assets, eg unnecessary and non-viable property • More optimistic proceeds can reasonably only be expected once market conditions improve • Further potential lies also in selling some of the existing non core businesses
Decreasing leverage	• Mercator decreased financial liabilities in 2012 for €86m (outstanding amount as of December 31st 2012* €1,098m= • Furthermore, Mercator was able to pay interest of €52m in 2012
Mitigating Negative Trends	• Investments in improving our customers offer enabled us to change the negative trends that were present in last 4 years, in spite-off generally negative consumption trends

Net financial debt

in EUR thousand	Sep. 30, 2012	Dec. 31, 2011	Sep. 30, 2011	Index Sep. 30, 2012/ Sep. 30, 2011
Non-current financial liabilities	705,583	822,145	855,660	82.5
Current financial liabilities	425,010	362,588	320,594	132.6
Derivative financial instruments (liabilities)	4,975	4,562	4,224	117.8
Financial liabilities including derivative financial instruments	**1,135,567**	**1,189,295**	**1,180,479**	**96.2**
Cash and cash equivalents	30,668	27,540	15,283	200.7
Derivative financial instruments (assets)	8	158	225	3.4
Available-for-sale financial assets	1,285	2,628	3,851	33.4
Loans and deposits	65,212	67,824	67,797	96.2
Financial assets	**97,173**	**98,150**	**87,155**	**111.5**
NET FINANCIAL DEBT	**1,038,394**	**1,091,145**	**1,093,323**	**95.0**

Stop the declining trend of gross profit in the last quarter of year 2012



Last quarter of 2012 reflects the estimated business performance.

Monetization project planned for 2012
Currently on hold after reaching advanced stage

- Monetization project was one of the key projects on the agenda for 2012
- Following encouraging non-binding bids this comprehensive project reached a very advanced stage
  - Complete information memorandum for investors distributed
  - Due diligence completed, including real estate and environmental
  - Complete set of legal documentation prepared
  - Mandated lead arranger for debt nominated
  - Debt term sheet prepared
- However, bids from the second stage shortlisted investors did not meet expectations of Mercator and were not comprehensive

- Key reasons for such outcome:
  - Deteriorating macroeconomic environment since initiation of dialogue with investors
  - Conflict with the anticipated selling process of Mercator shares
  - Indicated terms and conditions for debt package below expectations of investors

- The impact of monetization project is therefore excluded from the revised financial projections

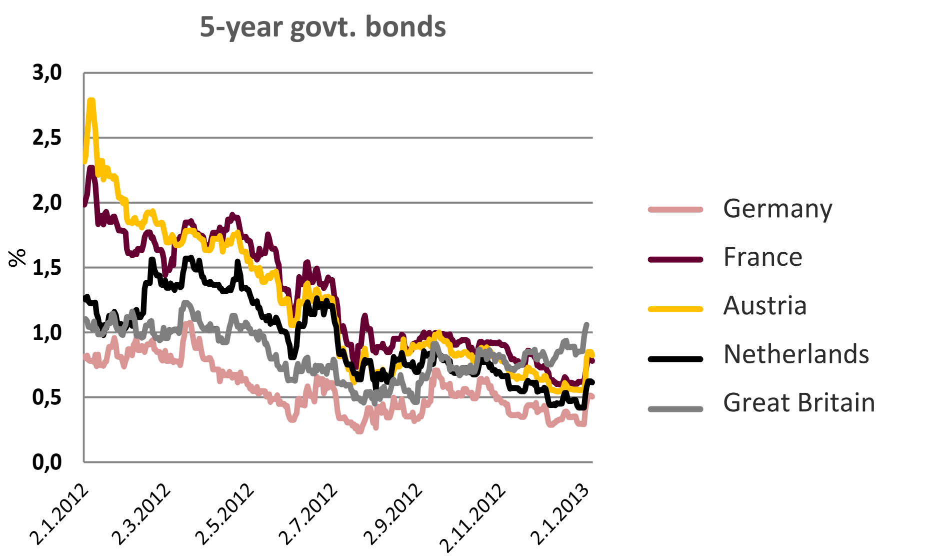
- Nevertheless, the project can be re-launched on short notice and implemented quickly once circumstances improve, which would positively effect the deleveraging process

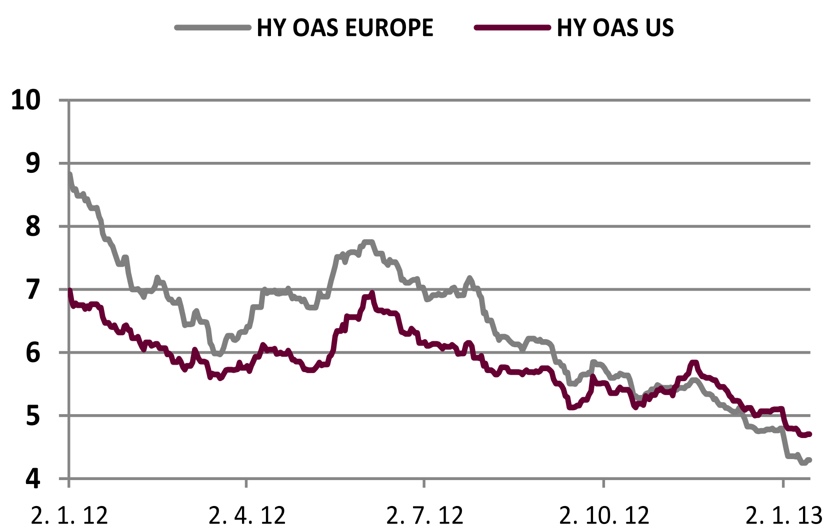
PRESENTATION OF COMMERCIAL PAPERS OF MERCATOR, D.D.

ALTA
NOVA NALOŽBENA KULTURA

Changes in interest rates in Europe

- **As a result of the measures introduced by the central banks around the globe, interest rates have dropped to record lows**, which allowed many European companies to take out new loans or to refinance their debt at a lower interest rate.





- This **also applies to companies with higher risk whose debt today can be classified as high-yield debt securities.**

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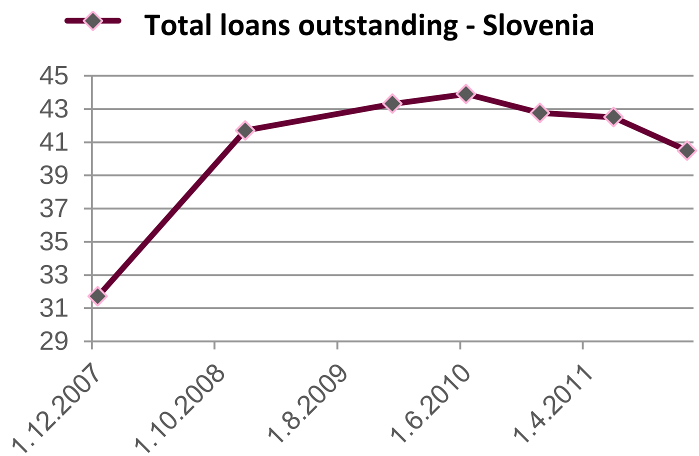
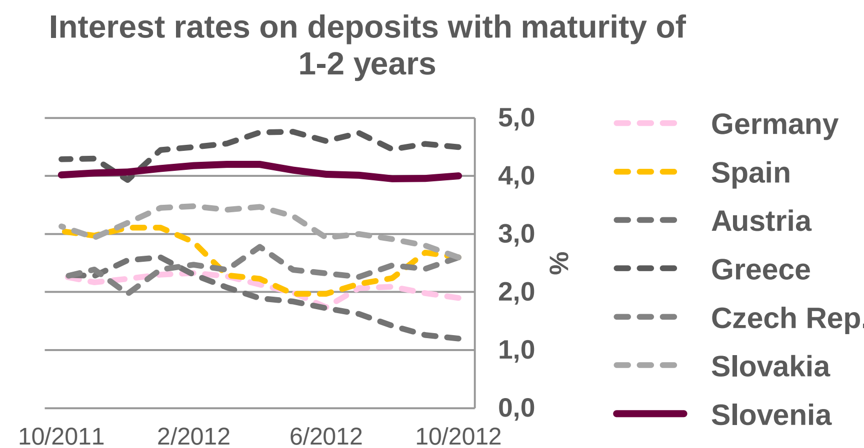
Interest rates in Slovenia are high

- **Limited options of lending by banks ...**



- **High interest rates on deposits ...**

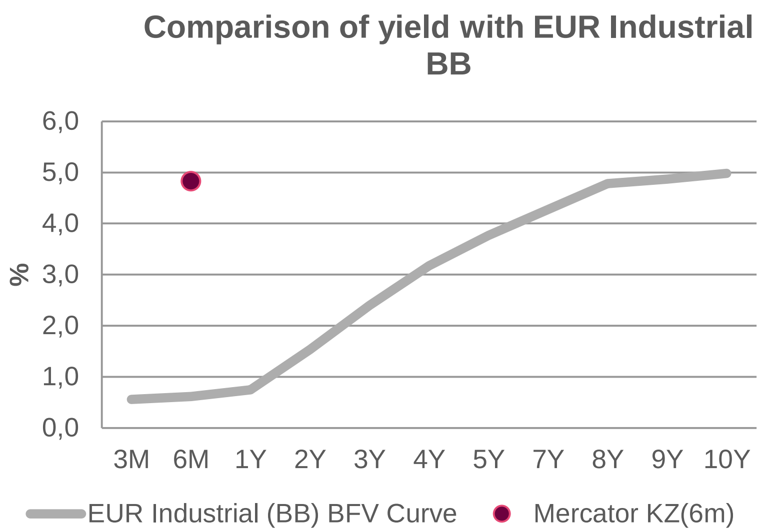


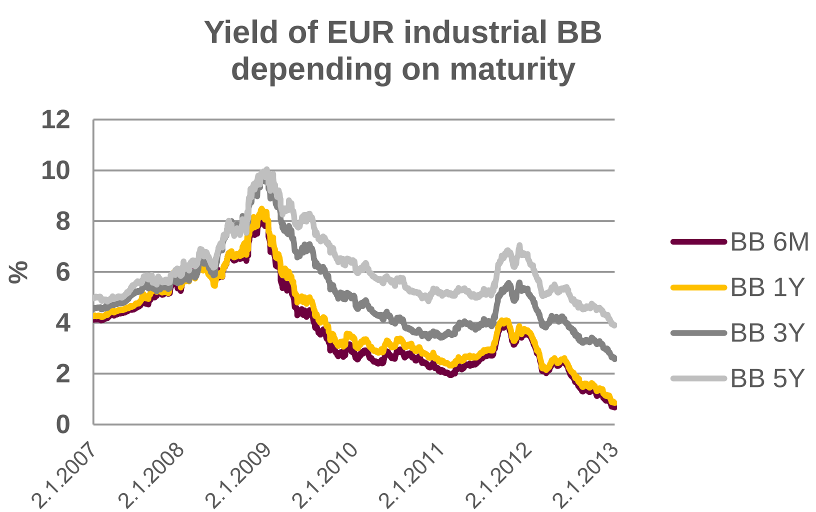
- **Underdeveloped alternative financing sources ...**

- **Due to specific circumstances in the economy, lower interest rates cannot be enjoyed in Slovenia;** the companies looking for debt financing are still required to pay high interest rates.

COMPARISON OF RETURNS

- Mercator's 6-month commercial paper offers an interest rate of **450 b.p. + 6m EURIBOR**.
- **Issuers included in the benchmark EUR Industrial BB offer such yields only for maturity over 7 years.**





- **On the other hand, yield of 6-month instruments by these issuers is lower than 0.5%.**

Commercial paper information

- **ALTA Invest, d.d., shall organize the issue and offering/sale of commercial papers for the Slovenian stock-exchange-listed company Mercator, d.d.**

- Commercial papers will most likely be offered with the following terms:

Instrument type	MONEY MARKET INSTRUMENT – COMMERCIAL PAPER
Indicative price*	TO BE SPECIFIED UPON ISSUE
Yield to maturity	450 b.p. + 6M EURIBOR
Maturity	6 MONTHS
Coupon type	DISCOUNT
Currency	EUR
Expected value of issue	EUR 20,000,000.00
Nominal value	EUR 1,000
Security/collateral	NONE
Date of issue	January 29, 2013
Date of maturity	July 30, 2013
Number of days	182

Commercial paper offering procedure:

- ALTA INVEST, d.d., and MERCATOR, d.d. ALLOW THE SUBSCRIBERS FLEXIBILITY IN SALE OF COMMERCIAL PAPERS

1. IN THE FIRST STAGE, OFFERING OF COMMERCIAL PAPER WILL TAKE PLACE AT THE START OF INTEREST ACCRUAL PERIOD
    - **Commercial papers will be available on the first day of the interest accrual period on January 29, 2013.**

2. IN THE SECOND STAGE, COMMERCIAL PAPERS WILL BE OFFERED IN 30 DAYS AFTER JANUARY 29, 2013
    - **Price of commercial papers will be adjusted accordingly.**

- THERE WILL BE AN OPTION OF SIGNING REPURCHASE AGREEMENTS WITH THE ISSUER IN BOTH STAGES.
    - Signing a repurchase agreement allows adjusting the maturity of the investment!
    - The contents of the repurchase agreement will be specified according to the agreement between the investor and the issuer.
    - Repurchase agreement will be effected on behalf of and for the account Mercator, d.d., by Alta Invest d.d.

Thank you!

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