Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2013

Ljubljana, May 2013

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SUMMARY

Mercator Group's revenue in the first quarter of 2013 amounted to EUR 658 million, which is 2.6% less than in the corresponding period of the year before.

Persistently negative economic trends

After a rather optimistic European Commission autumn forecast of minimum, yet positive economic growth for 2013, the current forecast involves another decline of economic activity in the euro area. For Slovenia, the projected drop in gross domestic product is even higher than that of the entire euro zone. Moreover, the anticipated decrease in household consumption is also higher for Slovenia than for the euro zone. Other markets of Mercator's operations can expect a positive economic growth and, on average, a lower inflation rate than in 2012.

In Slovenia, the negative effects of the economic crisis are felt by an increasing number of consumers. As a result, their behaviour remains very rational and their consumption is conservative with a higher propensity to save. Other markets of Mercator operations also remain negatively affected by the economic crisis, which is manifested in a lower purchasing power.

Lower Group revenue, growth in Serbia and Bosnia and Herzegovina

Mercator Group revenue in the period 1-3 2013 amounted to EUR 658,417 thousand, which is 22.7% of the planned figure for the entire year 2013 and 2.6% below the revenue from the equivalent period last year. Relative to the period 1-3 2012, revenue in Slovenia dropped by 3.0%. Unlike in recent years, revenue in foreign markets also declined, by 2.1%.

The trend of increasing sales of fast-moving consumer goods relative to sales of home products, textile, and sportswear persisted in the first quarter of 2013. The trend indicates that consumers are still very conservative regarding the purchase of durables. Furthermore, they are rationalizing their consumption of fast-moving consumer goods, which has lead to a decrease in Mercator Group revenue.

Marketing activities

Our store format development activities in the period 1-3 2013 included the launch of revision of the store format concept in order to adapt to particular target segments of consumers and to their shopping behaviour and their needs. The stress is on the refurbishment of neighbourhood stores, our main competitive advantages.

As of February 1, 2013 we launched the new Pika card customer loyalty system. The consumers responded well to the changes. The number of newly issued Pika cards, especially in foreign markets, as well as the share of revenue generated with Pika card purchases increased.

New development policies in real estate management

In the period 1-3 2013, Mercator Group invested EUR 4.5 million into retail network development, obtaining 1,147 square meters of new gross area. The funds were mostly allocated for update of the existing retail network and development of facilities obtained through operating lease. We also prepared in the period 1-3 2013 a new overview of real property in order to specify the property to be divested. We also carried on the activities to update our shopping centers and to include in them internationally renowned lessees offering their services.

Financial performance

Mercator signed an agreement with the banks, which is the basis for negotiations on the long-term Mercator Group financing structure. Final agreement is expected to be finalized by June 30, 2013.

Cost rationalization alleviates the negative effects of harsh economic conditions on our operations

Persistently negative trends in consumption and restricted access to financing sources continued to affect the operations and performance of the entire Mercator Group in the period 1-3 2013. Hence, the Group wrapped up the first quarter of 2013 with a net loss of EUR 8,634 thousand. Cost rationalization measures regarding the cost of material and services allowed the Mercator Group to curb the negative effects of the current economic conditions. New reorganization at the level of the entire Group, implemented as of March 1, 2013, will decrease labour costs and improve efficiency. In real estate management, we stopped all non-essential investments and allocated the available funds to refurbishment of the existing retail units.

INTRODUCTION

MERCATOR GROUP PROFILE

Company profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. 19 of the companies comprising the Group are headquartered in Slovenia, while 17 more subsidiaries operate in other markets of Southeastern Europe. Poslovni sistem Mercator, d.d., headquartered in Slovenia, is the parent company of the Group.

Poslovni sistem Mercator, d.d.

Telephone	+3861 560 10 00
E-address	info@mercator.si
Website	www.mercator.si
Headquarter	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT number	45884595
Company share capital as at March 31, 2013	EUR 157,128,514.53
Number of shares issued and paid-out as at March 31, 2013	3,765,361
Share listing	Ljubljana Stock Exchange, d.d., official market, prime market, symbol MELR

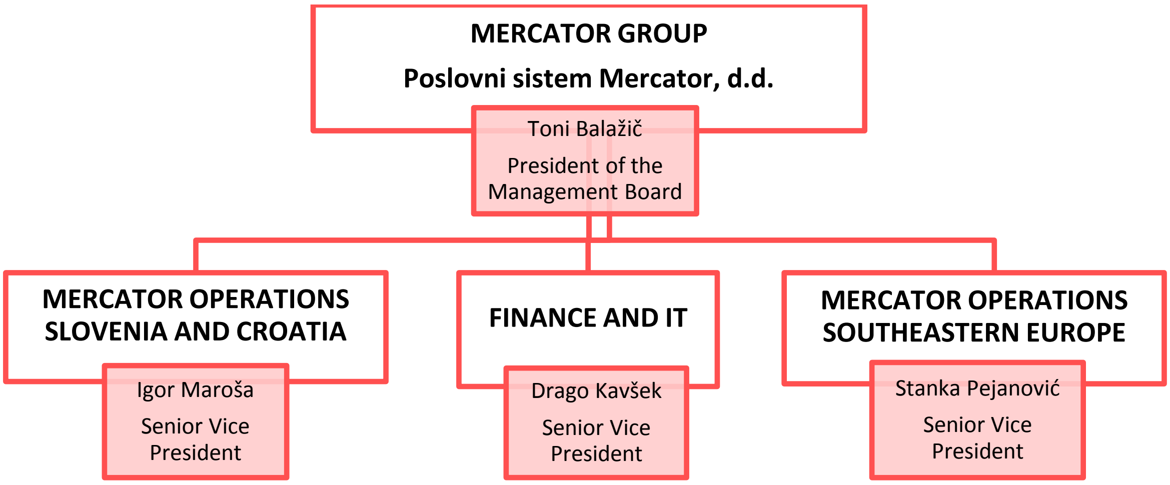
Corporate governance

Supervisory Board of the company Poslovni sistem Mercator, d.d., held two sessions in the period 1-3 2013. At the 12th session held on January 29, 2013, the Supervisory Board was presented the Mercator Group's unaudited business report for 2012, with the report on the effects of revaluation of property and impairment of some other assets held by Mercator Group companies as at December 31, 2012.

At the 13th session held on March 6, 2013, the Supervisory Board confirmed the Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2012, acknowledged the decision of Mercator, d.d., Management Board to waive the performance bonus for the year 2012, and received an update regarding the process of sale of the majority block of shares of the company Mercator, d.d. The Supervisory Board also received information about the process of negotiations with the banking partners on the refinancing of debt, confirmed the values and categories of performance indicators for Mercator, d.d., Management Board for the fiscal year 2013, adopted the report on the merger of the company M - Tehnika, d.d., to the company Mercator, d.d., and received information on the current situation regarding Mercator's exit from the markets of Albania and Bulgaria.

Organizational structure of the company Poslovni sistem Mercator, d.d.

As of March 1, 2013, the new Mercator Group organizational structure took effect. As of this date, the Group Management Board, headed by the President of the Management Board, is in charge of the following fields: **Mercator operations Slovenia and Croatia, Mercator operations Southeastern Europe**, and **Finance and IT**.



Mercator Group Composition

As at March 31, 2013, Mercator Group included following companies:

MERCATOR GROUP

MERCATOR OPERATIONS SLOVENIA AND CROATIA

Poslovni sistem Mercator, d.d., Slovenia
Mercator - H, d.o.o., Croatia (99.9%)
M - Tehnika, d.d., Slovenia (100.0%)
- Mercator centar tehnike d.o.o. za trgovinu i usluge, Croatia (100.0%)

Mercator IP, d.o.o., Slovenia (100.0%)
M - Energija, d.o.o., Slovenia (100.0%)
M.COM, d.o.o., Slovenia (100.0%)*

MERCATOR REAL ESTATE

Mercator - Optima, d.o.o., Slovenia (100.0%)**
M - nepremičnine, d.o.o., Slovenia (100.0%)
Argentum - A, d.o.o., Slovenia (100.0%)***
Argentum - B, d.o.o., Slovenia (100.0%)***
Argentum - C, d.o.o., Slovenia (100.0%)***
Argentum - D, d.o.o., Slovenia (100.0%)***
Argentum - E, d.o.o., Slovenia (100.0%)***
Argentum - F, d.o.o., Slovenia (100.0%)***
Argentum - G, d.o.o., Slovenia (100.0%)***
Argentum - H, d.o.o., Slovenia (100.0%)***
Argentum - I, d.o.o., Slovenia (100.0%)***
Investment Internacional, d.o.o.e.l., Macedonia (100.0%)*

MERCATOR OPERATIONS SOUTHEASTERN EUROPE

Mercator - S, d.o.o., Serbia (100.0%)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0%)
M - BL, d.o.o., Bosnia and Herzegovina (100.0%)
Mercator - CG, d.o.o., Montenegro (100.0%)
Mercator - B, e.o.o.d., Bulgaria (100.0%)
Mercator - A, sh.p.k., Albania (100.0%)
Mercator Makedonija, d.o.o.e.l., Macedonia (100.0%)*
Mercator - K, l.l.c., Republic of Kosovo (100.0%)**

OTHER OPERATING ACTIVITIES

Intersport ISI, d.o.o., Slovenia (100.0%)
- Intersport S-ISI, d.o.o., Serbia (100.0%)
- Intersport H, d.o.o., Croatia (100.0%)
- Intersport BH, d.o.o., Bosnia and Herzegovina (100.0%)

Modiana, d.o.o., Slovenia (100.0%)
- Modiana, d.o.o., Serbia (100.0%)
- Modiana, d.o.o., Croatia (100.0%)
- Modiana, d.o.o., Bosnia and Herzegovina (100.0%)

Mercator - Emba, d.d., Slovenia (100.0%)

* The company does not conduct business operations.
** The company is in the liquidation proceedings.
*** The company is in the fast-tracked winding-up procedure without liquidation.

Branch Offices
As at March 31, 2013, Mercator Group companies did not have any branch offices.

Other Organizations
The company Poslovni sistem Mercator, d.d., is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees.
The company Mercator - S, d.o.o., is the founder of the Mercator Solidarity Foundation in Serbia, and the company Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro. Organizations are intended for solidary support of socially handicapped employees.

MERCATOR GROUP BUSINESS STRATEGY

Vision

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

Mission

- 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**.

Principles of corporate governance

Our work shall be:

Motivated

Elementarily simple

Rational

Common goal oriented

Ambitious

Thorough

Oriented on profitability and development

Rapturous

MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1-3 2013

	1-3 2013	1-3 2012 comparable*	Index 1-3 2013/ 1-3 2012 comparable*
Revenue (EUR thousand)	658,417	676,101	97.4
Results from operating activities (EUR thousand)	983	13,802	7.1
Profit before income tax (EUR thousand)	-8,634	-6,659	129.7
Profit for the financial period (EUR thousand)	-8,634	-9,098	94.9
EBITDA (EUR thousand)	21,607	34,217	63.1
EBITDAR (EUR thousand)	36,650	48,194	76.0
Capital expenditure (EUR thousand)	4,490	13,015	34.5
Return on sales	-1.3%	-1.3%	97.5
EBITDA / revenue	3.3%	5.1%	64.8
EBITDAR / revenue	5.6%	7.1%	78.1
Number of employees based on hours worked	21,385	22,983	93.0
Number of employees as at the end of the period	23,590	24,279	97.2

* Pursuant to the changes in delineation of costs within the fiscal year 2012, costs for the period 1-3 2012 were adjusted for comparability with the year 2013 and presented in the same way as they are in the current year, i.e. without interim delineation based on functional use of funds. Detailed explanation is provided in the financial report.

HIGHLIGHTS OF THE PERIOD 1-3 2013

Retail network development

Following are the highlights for the first quarter of 2013:

- we invested EUR 4,490 thousand,
- our divestments totalled at EUR 693 thousand,
- we acquired 4 new units spanning a gross area of 1,147 square meters, which includes real estate owned by Mercator and operating leases.

Changes in the composition of the Mercator Group

Consistently with the strategy laid down in the medium-term plan for the period 2013-2016, activities of the companies Intersport, Modiana, and Tehnika in the markets of Serbia and Croatia were transferred in the first quarter of 2013 to the their respective parent companies. Merger of activities of the companies Intersport BH, d.o.o., and Modiana, d.o.o., in the market of Bosnia and Herzegovina, and merger of the activities of M - Tehnika, d.d., in the Slovenian market will be carried out in the second quarter of 2013.

Corporate activities

In late January 2013, Management Board of the company Poslovni sistem Mercator, d.d., presented the unaudited Group results for the year 2012 at the Supervisory Board session and the press conference that followed the session. Audited results for the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2012 were discussed at the Supervisory Board session held in March 2013.

On January 17, 2013 Mercator took part in a roadshow, i.e. a corporate presentation for investors and financial partners. The presentation included all information regarding the issue of commercial papers of the company Mercator, d.d.

The company Mercator, d.d., announced on February 15, 2013 a call for candidacy applications for a new Supervisory Board member. After the appointment of the new Supervisory Board member, the Supervisory Board will be complete as specified in the company Articles of Association.

As of March 1, 2013 the new Mercator Group organizational structure was implemented. It covers the following three main fields: **Mercator operations Slovenia and Croatia, Mercator operations Southeastern Europe**, and **Finance and IT**.

Awards received

In the Trusted Brand survey conducted by the Reader's Digest magazine, Mercator was ranked among the brands that are the most trusted by consumers. Slovenian subscribers of the Reader's Digest magazine were asked to choose 40 most trustworthy brands – 20 global and 20 local. Mercator was voted in the top twenty among the local brands as **the most trustworthy shopping center**. According to the survey, consumers highly appreciated tradition.

Pekarna Grosuplje received gold medals for **the best bakery products of excellent quality** for the tenth year. Pekarna Grosuplje was awarded gold medals for all types of bread applied for the contest. These medals are deemed the most reputable awards in the bakery industry in Slovenia.

BUSINESS REPORT

EFFECT OF ECONOMIC AND OTHER CONDITIONS ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1-3 2013

Economic conditions in the markets of Mercator operations in the period 1-3 2013[1]

After a very harsh year 2012 some indicators point to slight improvement of macroeconomic conditions (increase in manufacturing output, modestly stronger consumer confidence); however, key indicators still fail to instil optimism. In the European Commission's 2013 winter forecast, the key indicators for the European, as well as Slovenia, are even lower than in the autumn 2012 forecast. Rather than minuscule growth, the euro zone is expected to see a decline in GDP in 2013 by 0.3% (in Slovenia, the GDP is expected to fall by 2.0%), while the drop in household consumption is expected at 0.7% in place of previously anticipated 0.4% (in Slovenia 3.1% instead of 2.0%).

Commercial bank ratings continue to deteriorate and the yield of Slovenian bonds increased steeply in the period 1-3 2013, having approached the psychological threshold of 7% towards the end of the quarter.

The European Central Bank has kept the main refinancing operations interest rate at a record low of 0.75%, which means that the 6-month EURIBOR is also low. After a rise in January, EURIBOR returned to the rate from the start of the year. In the period 1-3 2013, the 6-month EURIBOR averaged at 0.345%.

The overview of economic conditions and forecasts for the coming periods presented below is based on local data from respective countries. For comparability, EBRD data on GDP is also cited as it employs the same methodology for all countries. The most recent EBRD estimate on which the data is based was prepared on January 11, 2013.

[1] Economic conditions are commented based on the following data sources: IMAD (Institute of Macroeconomic Analysis and Development); ECB (European Central Bank); S&P (Standard&Poor's ratings services); and statistical offices or bureaus of individual countries.

Country ratings are taken from the Standard & Poor's rating agency data.

Slovenia

According to the forecasts by the Institute of Macroeconomic Analysis and Development (IMAD), GDP will dwindle by 1.9% in 2013, especially due to slower growth of foreign demand and the drop in domestic consumption. For 2013, gross domestic product is anticipated to fall again, this time by -1.4%. The trend is only expected to reverse in 2014 when economic growth will presumably return to 0.9%. The EBRD forecast negative economic growth of -2.0% for 2013. According to the Statistical Office of the Republic of Slovenia, inflation rate in 2012 amounted to 2.7%, which is 0.7 percentage point more than in 2011. Assuming persistently weak economic activity and absence of major pricing shocks from the international environment, IMAD expects the inflation rate to be around 2% in the following two years. Rating of the Republic of Slovenia continued to drop in 2012 and in early 2013. Currently, it is at A–, with stable outlook. In August, we also saw the highest average spread on 10-year Slovenian bonds in 2012 (average spread in August was at 6.81% while the August average in the euro zone was at 4.03%); the high of August and early September even exceeded the psychological mark of 7%, only to start declining thereafter.

Serbia

According to the Statistical Office of the Republic of Serbia, GDP growth in the country will be positive in 2013 at 1.5%, while the EBRD estimates 2.1-percent growth. There was a considerable surge in the inflation rate in 2012 as it reached 13.0% at the annual level (7.0% in 2011). For 2013, the Serbian National Bank anticipates an inflation rate of 5.5%. Average exchange rate of the Serbian dinar in the period 1-3 2013 stood at RSD 111.70 per 1 EUR, while the average rate in the same period of the last year was RSD 108.11 per 1 EUR, which means it rose by 11.0%. As at December 31, 2012, the exchange rate was at RSD 113.7183 per 1 EUR. According to estimates, the rate will not exceed RSD 125 per 1 EUR in 2013. Serbia's rating dropped in 2012 to BB–, with negative outlook.

Croatia

According to the estimates by the Croatian central bank (HNB), GDP growth will be positive in 2013 at 0.3%. The EBRD forecasts the GDP to grow by 0.8%. Inflation rate rose considerably again: after staying at 2.3% in 2011, it jumped to 3.5% in 2012. In 2013, it is expected to drop slightly to 3.2%. Average exchange rate of the Croatian kuna was HRK 7.55 per 1 EUR in the period 1–3 2012; in the corresponding period of year 2013, it is HRK 7.58 per 1 EUR. Croatia's rating in 2012 was downgraded to BB+, with stable outlook.

Bosnia and Herzegovina

According to the central bank of Bosnia and Herzegovina, GDP growth will continue in 2013, reaching 1.0%. EBRD estimate for GDP growth in this country is at 0.6%. The exchange rate of the convertible mark is pegged to euro at the rate of KM 1.95583 per 1 EUR. Inflation in 2013 is expected at 2.0%, which is similar as in the year before. Very high unemployed rate standing at 28% is a major problem in Bosnia and Herzegovina. In March 2013, the rating of Bosnia and Herzegovina remained at B; however, the outlook was changed from negative to stable.

Montenegro

In 2013, economic growth is expected at 1.0% while the inflation rate is anticipated at 2.4% after reaching as much as 6.5% in 2012. The EBRD expects economic growth in 2013 to be at 0.8%. Montenegrin official currency is the euro. Montenegro's rating did not change in the first quarter of 2013 and it remains at BB–, with negative outlook.

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

The economic crisis continued to affect the markets of Mercator's operations in the period 1-3 2013. As a reaction to bleak forecasts for the future, consumer's **expectations are pessimistic**. Customers shop more **rationally and they have a higher propensity to save**.

Consumers in the **Slovenian market** are affected by the harsh economic conditions and they have adjusted their shopping behaviour accordingly. The trend of rationalization in consumption persists in Slovenia. According to market research[2], the effect of economic crisis is felt by 82% of Slovenian consumers, which is 2 percentage points more than in autumn 2012. Rational consumption, foregoing certain goods and cutting back on "unnecessary" costs are the predominant strategies to combat the economic hardship. In addition, the share of respondents who shop at discount stores is constantly increasing.

Consumers in Mercator's **international markets** are also fighting the negative effects of the economic crisis. Stagnant economy, rising unemployment, and low wages have kept consumer purchasing power low.

[2] Marketing Monitor of the Slovenian Marketing Association (DMS): Consumer Survey, Spring 2013

SALES AND MARKETING

Sales

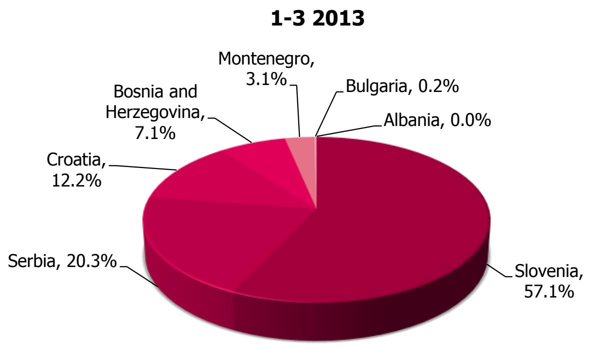
In the period 1-3 2013, Mercator Group generated EUR 658,417 thousand of revenue, which is 2.6 percent less relative to the period 1-3 2012.

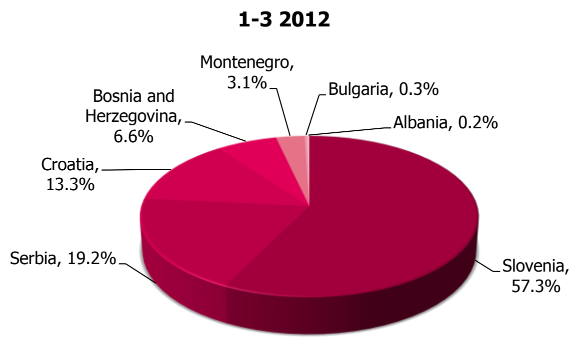
Majority of Group revenue is generated by sale of goods, material, and products, mostly retail and wholesale of trade goods.

Compared to the equivalent period of the year before, revenue in Slovenian market dropped by 3.0%. Contrary to the previous periods, revenue also fell in foreign markets – by 2.1%.

Group revenue was lower than in the preceding periods as a result of increasingly worse economic conditions, as well as changes in the Pika card benefit terms and conditions with regard to purchase of some products (e.g. cigarettes) and lower sale of beer due to lower temperatures in the first quarter of 2013.

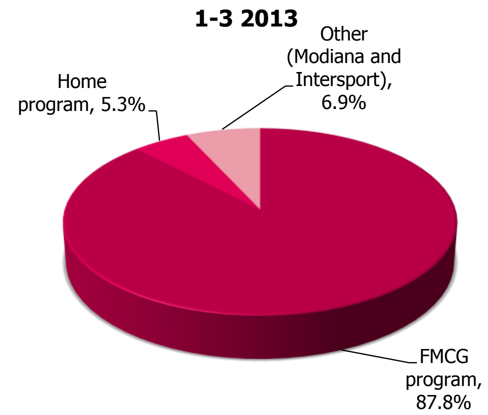
Mercator Group revenue by geographical segments:

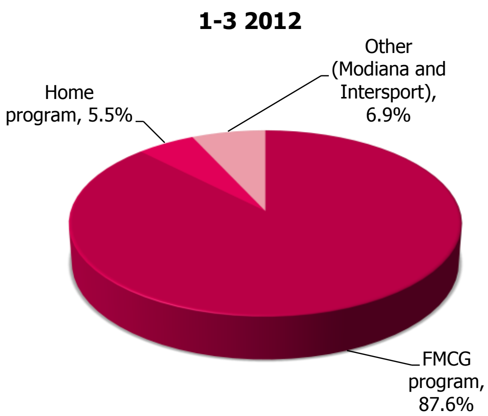




Mercator Group revenue from trade operations by programs:

In the period 1-3 2013, the majority of Mercator Group revenue resulted from sales of fast-moving consumer goods which accounted for 87.8% of the total figure; revenue from other specialized programs amounted to 12.2%.





Three-dimensional marketing approach

Late in 2012 we implemented the three-dimensional marketing approach which includes coordinated management of categories, customer segments, and store formats and services in order to please every customer at every Mercator store.

Store Formats

Mercator Group's retail units are present in six markets. Due to different levels of economic maturity in these markets, operations have to be adapted to the needs of the customers in each of them. To this end, Mercator has put in place a multi-level strategy of store brands and a multi-format strategy with a broad range of store formats. These are intended to allow both major, previously planned shopping sessions, as well as minor, daily or occasional shopping for fast-moving consumer goods, technical consumer goods, cosmetics, sportswear, tourist services, and fuel at petrol stations.

Development of New Store Concepts

Changes in consumer behaviour, manifest in higher price sensitivity, smaller shopping baskets, more frequent shopping, shopping at several different retailers and store formats, and less impulsive and more rational shopping, have led most global retailers to make some changes. After years of expansion of large store formats, they shifted their focus to **small box** formats as they **reinvented their existing retail networks** (i.e. new concepts in existing locations). The key advantages of the smaller stores are convenience (location, specially tailored offer) and economy (longer opening hours, simpler and faster shopping path). They are intended to quickly cater to the needs of the customers, and to save time and effort required for shopping. In addition to the trend of small box format development, the **trend of intensive e-commerce development** can also be perceived, with traditional stores taking the role of pick-up centers for online orders. **Diversification of store formats** remains the key strategy of retailers. In 2013, we shall particularly focus on **redefining the neighbourhood store concept: Mercator NEIGHBOUR**.

Since neighbourhood store are **Mercator's most important format** in terms of the number of units and number of customers, and considering the fact that they represent **Mercator's competitive advantage** owing to their excellent locations and wide regional coverage, Mercator has developed a **redefinition of the store format concept** in order to adapt to particular target customer segments and their shopping behaviour or shopping needs:

- by setting up the right offer that will meet the daily needs of the consumers (top-up offer, with focus on fresh program);
- by segmented pricing within a particular category or segment;
- by transparent and focused market communication;
- by innovative and future-minded technological and digital solutions.

Activities to implement the new concept have already included **development of a set of test stores** for a comprehensive overhaul.

Composition of retail units as at March 31, 2013:

COUNTRY	SLOVENIA	SERBIA		CROATIA		BOSNIA AND HERZEGOVINA		MONTENEGRO		BULGARIA	MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Mercator	Getro	Mercator	Drvopromet	Mercator	Roda	Roda			
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	23	3	14	12	2	6	1	1	1	2	65	301,300	196,636
Supermarkets	129	-	47	27	4	18	13	3	6	1	248	268,691	173,966
Neighbourhood stores	333	-	53	42	16	3	45	3	67	-	562	199,087	115,838
Comfort stores	1	1	-	1	-	1	-	-	-	-	4	8,648	5,070
Convenience stores	1	-	-	-	-	-	-	-	-	-	1	159	83
Cash & Carry	13	-	5	-	16	-	-	-	1	-	35	115,883	79,586
Hard discount stores	6	-	-	-	-	-	-	-	-	-	6	3,670	2,625
Restaurants	22	8	-	-	-	2	-	-	1	-	33	9,013	6,016
TOTAL FMCG program	**528**	**12**	**119**	**82**	**38**	**30**	**59**	**7**	**76**	**3**	**954**	**906,451**	**579,819**
Home program	53	13	1	13	-	-	-	-	-	-	80	112,560	73,966
Furniture program	10	-	-	-	-	-	-	-	1	-	11	13,382	10,028
TOTAL home program	**63**	**13**	**1**	**13**	**-**	**-**	**-**	**-**	**1**	**-**	**91**	**125,942**	**83,993**
Clothing program and drugstores	**80**	**14**	**-**	**34**	**-**	**12**	**-**	**-**	**-**	**-**	**140**	**66,293**	**55,266**
Clothing program	64	8	-	34	-	8	-	-	-	-	114	63,276	52,688
Drugstores and perfumeries	16	6	-	-	-	4	-	-	-	-	26	3,017	2,578
Intersport	**32**	**10**	**-**	**27**	**-**	**9**	**-**	**2**	**-**	**-**	**80**	**49,843**	**38,415**
M holidays	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**242**	**242**
TOTAL specialised programs	**125**	**24**	**-**	**61**	**-**	**21**	**-**	**2**	**-**	**-**	**233**	**116,377**	**93,923**
TOTAL retail units under management	**716**	**49**	**120**	**156**	**38**	**51**	**59**	**9**	**77**	**3**	**1,278**	**1,148,770**	**757,735**
Franchise stores	**225**	**-**	**30**	**35**	**-**	**-**	**-**	**-**	**-**	**-**	**290**	**54,323**	**35,995**
TOTAL	**941**	**49**	**150**	**191**	**38**	**51**	**59**	**9**	**77**	**3**	**1,568**	**1,203,093**	**793,730**

Customer segments

We are looking to offer our products and services to all segments of our customers. We take care to provide offer for each segment exactly where it is in demand. A typical case of adapted communication is the communication campaign for the launch of the new customer loyalty system. We designed messages for each segment separately and thus selectively stressed the advantages of the revised system according to the segment for which the message was intended.

On the first day of the new benefit period on February 1, 2013, we launched in all countries simultaneously the revised Pika card customer loyalty system.

In Croatia, the Pika card system was also introduced at Getro Cash&Carry stores, and in Bosnia and Herzegovina, it was introduced in the DP Marketi stores. Revision of the system was supported by media communication and a sizeable investment into staff training and education, as this represents the foundation of the relations with our customers. Hence, we made sure our employees are able to confidently help Pika card holders understand the changes in the system.

The consumers responded well to the changes. In the first two months following the revision, over 100,000 new Pika card holders signed up in the entire Mercator Group. In addition, the number of Pika card holders who shopped at least once in a month rose by 17% in Slovenia and by over 60% in other countries where the Pika card system is in place. The share of revenue generated with Pika card at the Mercator Group level rose by 11 percentage points.

Category management

Category management at Mercator depends on the store format and customer segment. It is aimed at pleasing each customer at each Mercator store. Our goal within each category is to build a quality multi-level offer of both branded and private label products, to provide competitive prices for branded and private label products, to include attractive offer in our sales promotion activities, to efficiently manage our store area at the level of each product, and to provide adequate in-store sales service.

In the first quarter of 2013, category management was focused on the following key activities:

- change in the concept of promotions which now include "top offer", with emphasis on fresh program and seasonal products;
- "grown in Slovenia" – label for fresh meet at our stores;
- revised placement of products within some categories;
- shrinkage or adjustment of assortment within some categories;
- varied offer of regular and special-offer seasonal products.

Marketing

In the period 1-3 2013, Mercator Group further strengthened its four-pillar strategy: focus on the consumer and core activity; project optimization; selection of the right, profitable projects; and searching for opportunities for growth and improvement of the market position.

Focus

Looking to effectively respond to the changes in consumer needs, a **revised Pika customer loyalty system** was put into place after many consumer surveys and focus group studies. The novelties introduced based on consumer opinion allowed us to pursue even more closely our policy of placing the customer at the heart of our operations and to successfully adapt to the effects from the environment.

Pika benefits:	**1 EUR = 1 Pika point**,
	Pika points are also awarded when customers pay with bank or credit cards,
	more than EUR 300 of annual savings,
	customers may **collect the Pika points and cash them in for products of their choice**,
	extra Pika points for some brands or categories,
	a broader array of products within the **Pika savings** activity,
	payment in instalments with zero interest rate,
	Pika is **a deferred payment card**.

We consolidated the relations with our suppliers in the project **"Iz domačih krajev"** ("Locally Produced") and reached an agreement on higher volumes of Slovenian fruit and vegetables. With this project, Mercator is contributing to the preservation of the environment and tradition while offering small growers and producers a quicker way to our stores.

In persistently harsh economic conditions, we adjusted the contents and appearance of our special offer flyers to communicate above all the good prices in a clearly laid out way, and designed a special offer for the entire network and for the supermarket and hypermarket formats. Even more effort was made to provide favourable offer for the Pika card holders.

Optimization

Modern consumers appreciate convenience. Therefore, they tend to prefer smaller store formats. For better clarity, we carried on the process of adapting the store area and the products offered at our neighbourhood stores, specified the list of stores to be further refurbished, redesigned the non-alimentary departments in larger stores, and clearly labelled departments with seasonal and special offer.

Profitability

Private label products are an increasingly powerful tools used by retailers to boost customer loyalty. The retailers also have a strong influence on and control of the entire supply chain, which allows them to adjust their costs and final product price.

Consistently with the strategy of the central private label **Mercator**, we carried on the revision of product design. Above all, we were focused on the strategies for optimization and improvement of the private label assortment in each category in order to improve the competitiveness of our offer in terms of assortment and pricing.

The **ProMagic** brand offers a comprehensive range of home and household cleaning products. In March, we supported this label with market communication activities to promote the quality and affordable pricing of ProMagic products available exclusively at Mercator stores.

We are intensively preparing a revision of the **Bonus Plus** economy line of private label products. We have revised the assortment of products, their quality and pricing, as well as the name and design of the line in all markets of our operations.

Pekarna Grosuplje received gold medals for the best bakery products of excellent quality for the tenth year. All eleven award-winning types of bread are additive-free and made of high quality ingredients, prepared by traditional procedures. Pekarna Grosuplje had the highest number of award-winning types of bread this year and it was awarded gold medals for excellent quality for all of its entries at the ˝13th gold medal contest for the best bakery products in 2013˝ as organized by the Chamber of Commerce and Industry of Slovenia. The medals are the most coveted awards in the baking industry in Slovenia.

Pursuing the idea of our renowned ethnologist Prof. Janez Bogataj, Pekarna Grosuplje prepared especially for the Easter holidays the **Easter Tarragon Bread** – an almost forgotten unique traditional treat. Hand-rolled dough rolled into a large spiral was welcomed with great enthusiasm by our customers.

Growth

At Mercator, we are aware that **digital communication** is the quickest way to modern consumers today. In the first quarter of 2013, we revised Mercator's web store for the customers who appreciate convenience, making it even friendlier. In addition to our web store, we also revised the www.mercator.si website, shifting the stress on special offers and benefits for our customers. Furthermore, prize contests are prepared regularly for our online visitors. The website is being effectively transformed into an activity portal that will offer something new each day, for example news, benefits, contests, recipes, and announcements of events at our shopping centers.

The revised Mercator profile allows the users to select which Mercator applications to use (e.g. web store, club membership). Moreover, the www.maxi.si website has been refreshed, too.

Keeping up with the trends, we have started to employ more comprehensively and more systematically the system of e-mail marketing to inform our customers regularly on current news and special offers.

In March, we published the new annual **M holidays** catalogue. In addition, we carried out the activity that involved offering a 50-percent discount on six select arrangements each time a customer purchased more than EUR 25 worth of products at any Mercator FMCG store.

In Slovenia, the activity of offering discounts on fuel at the **Maxen** petrol stations was extended to 158 Mercator FMCG stores across Slovenia.

INVESTMENT AND RETAIL NETWORK DEVELOPMENT

In the first quarter of 2013, Mercator Group conducted tasks consistently with the adopted strategy in real property management, subject to conditions prevalent in the domestic and international financial markets. In investment, we prefer leasing real property and refurbishment of our existing stores. A new concept of neighbourhood store redesign has been developed, according to which we shall refurbish seven FMCG stores this year.

There were no Mercator-run construction activities in the period 1-3 2013. Investment funds were used for refurbishment and update of the existing retail network and completion and equipping of leased store area.

In the period 1-3 2013 we prepared a new overview of real estate portfolio, classifying it by the fields of use. Our goal is to divest as much non-core and underperforming assets as possible and to expand our network in areas with the highest return on investment.

We have carried on the refurbishment of Mercator shopping centers. In addition, they will feature new internationally renowned retailers offering their products and services. We have also started to redesign and update our smaller neighbourhood stores.

Following are Mercator key goals in real estate management:

Summary of total gross retail area as at March 31, 2013:

Gross retail area in m²	Used for own operations	Leased out	Total as at March 31, 2013
Owned retail area	790,128	191,699	981,827
Leased retail area	358,643	27,557	386,199
Total retail area	**1,148,770**	**219,256**	**1,368,026**
Owned warehouse capacity	136,586	575	137,161
Leased warehouse capacity	50,687	0	50,687
Total warehouse capacity	**187,273**	**575**	**187,848**
Owned commercial facilities	28,079	2,191	30,270
Leased commercial facilities	6,108	43	6,151
Total commercial facilities	**34,188**	**2,234**	**36,422**
GROSS AREA UNDER MANAGEMENT	**1,370,231**	**222,065**	**1,592,296**
- of which owned	954,793	194,465	1,149,258
- of which leased	415,438	27,600	443,038

Investment and Divestment

In the period 1-3 2013, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 4.5 million. Of this amount, 34.88% was invested in Slovenia, and 65.12% was invested internationally.

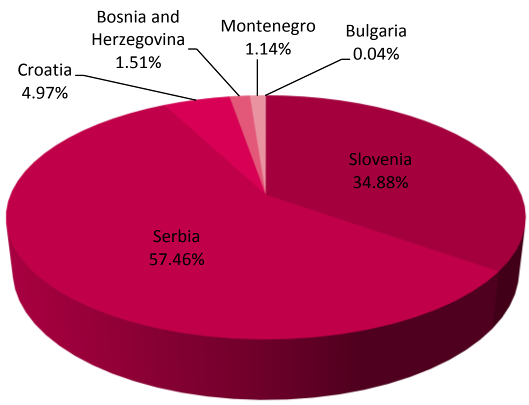
	Capital expenditure in period 1-3 2013 (in EUR thousand)	Composition (in %)
Slovenia	1,566	34.88%
Serbia	2,580	57.46%
Croatia	223	4.97%
Bosnia and Herzegovina	68	1.51%
Montenegro	51	1.14%
Bulgaria	2	0.04%
TOTAL	**4,490**	**100.00%**

Investments in expansion of retail facilities (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 57.5% of total investments; 14.8% was allocated for refurbishment of the existing facilities; and the remaining 27.7% was invested into logistics, IT, and non-trade activities.

In the first quarter of 2013, Mercator Group newly acquired 1,147 square meters of gross area, of which 71% was acquired through operating lease and 29% was acquired by refurbishment of existing units.

In the period 1-3 2013, Mercator Group divested EUR 0.7 million worth of property, plant and equipment.

Share of investments by markets



SUMMARY OF RETAIL UNIT LAUNCHES BY MARKETS

SLOVENIA
Area of new facilities: 216 m^2
Number of new retail units: 1
Openings:
Intersport in MC Ravne

SERBIA
Area of new facilities: 551 m^2
Number of new retail units: 2
Openings:
Supermarket Kruševac

MONTENEGRO
Area of new facilities: 380 m^2
Number of new retail units: 1
Openings:
Superette Budva

RISK MANAGEMENT

Management of key risks in the period 1-3 2013

Risk, defined as uncertainty regarding future business events, can strongly affect the attainment of the specified business goals. Mercator Group is managing the risks involved in its operations in a planned and carefully though-out manner. Thus, potential risks and relevant threats are perceived in a timely manner and effective measures are introduced to mitigate our exposure.

In the period 1-3 2013, unemployment rate rose in most markets of Mercator operations. In addition, economic growth was low or negative and demand in retail dwindled. Fluctuations in fuel market prices were not very high, which means that the prices depending on them were relatively stable.

Business Risks

Business risks are related to company operations and our core activity.

Risks in the operations of trade companies increase as a result of the changes in the shopping behaviour of the consumers, and particularly due to a drop in their purchasing power. Unemployment rate, a key indicator of the purchasing power and a sense of security on the part of the consumers, has been very high in the key markets of Mercator's operations in recent years.

Risk of a decline in purchasing power

Assessment of the risk of a decline in purchasing power (size of market) due to challenging economic conditions.

The risk of a decline in purchasing power is related to the rate of economic growth, unemployment rate, increase in personal income, and changes in the prices of essentials. In Slovenia, gross domestic product is expected to fall by around 2% in 2013 and that conditions in the labour market will worsen. In key international markets of Mercator's operations, unemployment rate is even higher than in Slovenia and it continues to rise. In Mercator's international markets, average income is notably lower than in Slovenia. In the long run, we may expect these markets to converge and close in on the gap in development; however, considering the current economic conditions, a considerable increase in purchasing power cannot be expected even in the medium run. Increase in wages has been low in all markets and its effect has been neutralized by the increase in the consumer prices.

Risks in the supply process

Assessment of global and local impact on Mercator's supply processes.

In the period 1-3 2013, our cooperation with suppliers was transparent to allow timely identification of any problems faced by the suppliers in the currently harsh economic conditions, and prompt adjustment, which reduces the probability of delivery failures. Regular monitoring and checking of supplier solvency allows timely redirection to new supply sources. Carefully thought out procurement policy and choice of different suppliers for each category will reduce or disperse the risk.

Since wasn't any pronounced fluctuation in fuel prices in the first quarter of 2013, we do not expect any upward pressure on the prices of products dependent on such changes.

Synergy effects of joint purchasing, i.e. lower purchasing prices and better terms are attained by combining our procurement operations with those of the company Mercator-H, d.o.o., and our subsidiaries in Southeastern Europe. We seek to mitigate local effects on the supply processes by managing the risks of delivery failures. Control takes place on a monthly basis. Moreover, corrective measures are put into place to mitigate the risk.

Risks of sub-optimum marketing mix and effects of the competitive environment

Assessment of risk based on market conditions and Mercator's position in the Group's target markets.

At Mercator Group, we are regularly surveying the perception of the key elements of the marketing mix. In the period 1-3 2013, we actively implemented measures to hedge the risk of suboptimal marketing mix and effects of the competitive environment.

Marketing mix is being adjusted as a part of the refurbishments of neighbourhood stores. In the period 1-3 2013, we continued to establish new unified assortments that include the best-selling products at our stores at all times. Sales assortment is regularly monitored and updated or extended as necessary.

Major progress has been made in terms of improvement of private label product quality as well.

Risks of failure to attain the planned profit margin

Assessment of the risk of failure to attain the planned profit margin.

Transition to net-net pricing and FIFO inventory valuation method in retail has pointed out the need for efficiency. This is attained by daily management of regular and special-offer retail prices. This risk is being managed particularly by monitoring all key performance indicators on a weekly basis. Due to aggravation of the economic situation and a drop in purchasing power of consumers, we were focused on promoting sales by various marketing activities (Good Price project, higher special offer discounts, revision of the private label lines) in the first quarter of 2013.

Financial risks

Financial risks are those risks that may negatively affect the ability to generate cash flows, management of cash flows, maintaining the value of financial assets, and managing financial liabilities.

Conditions are partly improving in the global financial markets; however, they are still worsening in the Slovenian market and this has also had a negative effect on Mercator's operations and performance. Further drop in GDP is expected in Slovenia, with the rate of decline much higher than in other countries of the European Union. Inflation rate is dropping in the euro zone, but unemployment is on the rise. The European Central Bank is carrying on the policy of low interest rates; however, access to financing sources will remain restricted – among other reasons also due to the credit rating downgrades of Slovenia and Slovenian banks.

Credit risk in wholesale

Assessment of the risk that receivables from business partners resulting from deferred payment will only be settled partly or not at all.

In the period 1-3 2013, we saw an increase in payment defaults with some of our wholesale customers, which was mainly a result of tighter credit, or impeded financing, for them.

In order to manage the credit risk in wholesale, Mercator Group has limited exposure to individual buyers. An external agency was hired to collect some of the overdue outstanding receivables, and the number of offsetting/netting operations, both multilateral and bilateral, increased. Mercator Group demanded first-rate insurance from customers with a weaker rating. In addition, we are constantly monitoring exposure to individual buyers. Target overdue receivables that require special measures are in decline. Contracts signed with new wholesale customers included clauses on obligatory netting/offsetting, and annexes were signed in this regard with the existing customers. Mercator, d.d., has also significantly reduced credit risk in wholesale to certain wholesale customers who are late in paying their liabilities so that the portion of receivables has been taken over by one of Slovenian banks.

Mercator Pika card credit risk

Assessment of the Pika card credit risks (possibility that receivables from customers, resulting from deferred payment, shall only be settled partly or not at all).

In the period 1-3 2013, we continued to monitor daily the changes in receivables and credit risk pertaining to the Pika card, and continued to implement other measures to hedge this risk, including the following:

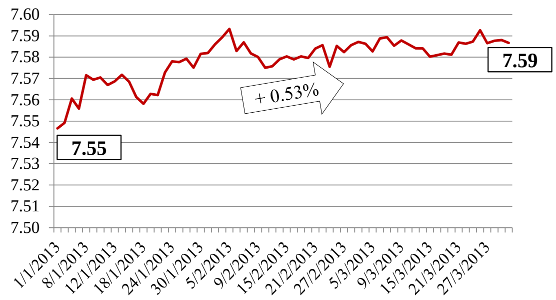
- even more active collection of receivables from the Pika card holders;
- starting notification over the telephone earlier than previously,
- SMS (text message) notices;
- regular monitoring of Pika card operations.

Currency risk

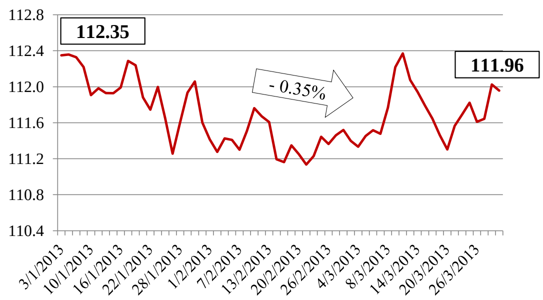
<u>Assessment of the loss of economic benefit due to changes in exchange rate.</u>

Currency risk exposure is relevant especially at companies in Croatia and in Serbia where fluctuations in exchange rates have been considerable. After a long period of growth, the Serbian dinar saw a slight decrease. In the period 1-3 2013, the average exchange rate of the Croatian kuna was HRK 7.58 per 1 EUR; in the period 1-3 2012, the exchange rate was at HRK 7.55 per 1 EUR. Average exchange rate for the Serbian dinar in the first quarter of 2013 was at RSD 111.70 per 1 EUR; average rate of the Serbian dinar in the period 1-3 2012 was at RSD 108.11 per 1 EUR. In order to manage currency risk, we seek to adapt our operation to avoid currency risk, whenever possible. Aside from the measures already in place, no additional measures to hedge the foreign currency risk were required.

EUR/HRK movement in the period 1-3 2013



EUR/RSD movement in the period 1-3 2013



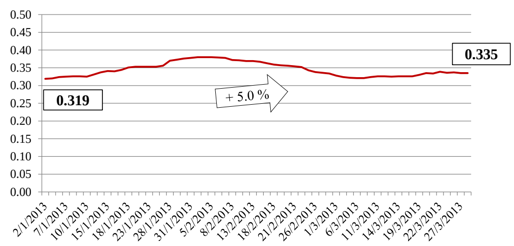
Interest rate risk

<u>EURIBOR interest rate is subject to market fluctuations and it is changing on a daily basis, which can lead to increased financing costs.</u>

In the period 1-3 2013, variable 6M EURIBOR rose from 0.319% to 0.335%. Average 6-month EURIBOR in the period 1-3 2013 was at 0.345% which is more than 74% below the rate from the equivalent period of last year when it averaged at 1.338%.

In case of announcement of an increase of interest rates, Mercator Group examines the possibilities of signing additional derivative financial instruments in order to hedge the interest rate risk. In order to control the interest rate risk, at least 50% of all financial liabilities used to finance non-current assets and at least 25% of total financial liabilities are hedged at any moment.

6m Euribor movement in period 1-3 2013



Liquidity risk

<u>Assessment of the risk that at a certain moment, the company will not have enough liquid assets to settle its current liabilities.</u>

The ratio between non-current and current financial liabilities as at March 31, 2013 stood at 42.3:57.7; at the end of last year, the ratio was at 54.2:45.8.

The most important measure aimed at managing the liquidity risk in this period was the adoption of the Pre-negotiation agreement, which is the basis for negotiations on the long-term Mercator Group financing structure. The agreement lays down also an agreement to postpone the maturity of principals of all finance liabilities to banks included in the agreement, which are due until June 30, 2013.

Operational risks

Operational risks affect the ability to conduct business processes and to attain the goals laid down, and the cost efficiency of Mercator Group operations. Nine key risks were identified in the process of operational risk analysis for the period 1-3 2013. These risks are grouped into four categories.

Category management operational risks

Seasonal effect, delivery failure, increase in tradable commodity prices.

Increasingly worse economic situation and higher unemployment have led to changes in shopping behaviour and a drop in the purchasing power of consumer in the segment of seasonal products. We regularly adapt our offer to lower demand. We monitor diligently the sales and inventories of our seasonal products and act in a timely manner. Sales of seasonal products are also affected by the weather. Cold weather, atypical of March, had a negative impact on beer sales.

Our purchasing and sourcing activities involve close monitoring of the prices of raw materials, on which the prices of our products are heavily dependent. Since commodity market changes affect the prices of all products in a category, loss of sales and profit margin cannot be recovered by the use of substitutes. In the first quarter, we felt the upward pressure on the prices in the following categories: mead produce, canned meat, and fish. As a result of increase of prices of raw materials and fuels in the last quarter of 2012, prices of established branded products in the categories of dairy products and cosmetics and cleaners had a tendency to increase.

Core activity operational risks

Failure of the refrigeration system and electrical wiring.

In warehouses in Zalog and Bohova, measurements were conducted last year on electrical wiring which has shown inadequate results in some cases. The following resolutions were adopted in the first quarter of 2013 in order to deal with this non-compliance:

- reparation of electrical wiring; and
- repeating the measurements after the repairs.

IT risks

Failure of the central information systems (SAP, GOLD, Login, e-mail etc.), inaccurate data in central or retail systems, and failure of central data systems.

At most companies, there were no major activities in the first quarter of 2013, which would lead to any changes in IT risks.

Business applications of the company M - Energija, d.o.o., were transferred to the data centers of the company Mercator, d.d., thereby migrating to a neat and controlled IT environment. All internet connections to petrol stations were integrated into Mercator's telecommunication network. We view these changes as positive developments that can mitigate IT risks.

Environmental risks

Inefficient use of electric energy and/or heating fuel.

The following measures were carried out in the first quarter of 2013 in order to guarantee efficient use of energy and to improve the cost efficiency and optimize our business activities.

- In March, we successfully completed the RetailCare pilot project at four selected units (MC Ljubljana, TC Ajdovščina, TC Idrija, and SM Poljanska). It was determined by the service provider that introduction of RetailCare system which optimized the operation of refrigeration equipment reduced power consumption of this equipment by an average of 15% at all four units in the course of the project, and that temperature conditions for maintaining freshness of food in the refrigeration chests, cabinets, and counters according to HACCP were improved on average by 28%.
- Consistently with the confirmed investment plan for 2013, we will start the scheduled repairs of boiler rooms, as well as the transition to cleaner sources of energy. These investments also include obtaining grants.
- The project of replacing the existing fluorescent lighting with LED luminaires at the garages and in indoor and outdoor lightboxes is in the final stage. This part of lighting was changed entirely in March at the units MC Domžale, MC Kamnik, MC Kranj Primskovo, and MC Ljubljana Šiška.

FINANCIAL MANAGEMENT

Net financial debt

Compared to the end of 2012, Mercator Group's finance liabilities remained at roughly the same level in the first quarter of 2013. The Group's net financial debt also remained relatively unchanged, amounting to EUR 1,009,803 thousand as at March 31, 2013, which is 0.2 percent more than as at the end of December 31, 2012.

in EUR thousand	March 31, 2013	Dec 31, 2012	Index March 31, 2013/ Dec 31, 2012
Non-current financial liabilities	463,742	593,841	78.1
Current financial liabilities	633,204	500,879	126.4
Derivative financial instruments (liabilities)	4,117	5,269	78.1
Financial liabilities including derivative financial instruments	**1,101,063**	**1,099,989**	**100.1**
Cash and cash equivalents	36,036	38,012	94.8
Derivative financial instruments (assets)	39	1	3,937.3
Available-for-sale financial assets	1,065	1,069	99.7
Loans and deposits	54,120	52,873	102.4
Financial assets	**91,260**	**91,955**	**99.2**
NET FINANCIAL DEBT	**1,009,803**	**1,008,034**	**100.2**

Diversifying the sources of financing

In 2013, Mercator carried on the issue of 6-month commercial papers. The sixth tranche issued in January 2013 was the largest to date, amounting to a total of EUR 20 million. Commercial papers were bought by 52 investors, which considerably improved the diversification of financing sources.

Signing of the pre-negotiation agreement

On February 26, 2013 the pre-negotiation agreement came into effect, signed by all Mercator Group companies and 38 creditor banks. The agreement lays down the basis for negotiations on the long-term Mercator Group financing structure. According to this agreement, the final agreement on the long-term financing structure is expected to be signed by June 30, 2013. Also a part of this document is an agreement to postpone the maturity of principals of all finance liabilities to these banks, which are due until June 30, 2013, to the specified date.

Financing costs

In the period 1-3 2013, the 6-month EURIBOR averaged at 0.345%. At the end of the period, it was at 0.335%. Compared to the previous three-month period (10-12 2012) when the 6-month EURIBOR averaged at 0.368%, this rate fell by 0.023 percentage point.

Debt to equity and financial liability ratio

As at March 31, 2013 Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.53. The ratio is a quotient between equity and net financial debt.

In the period 1-3 2013, Mercator Group's composition of financial liabilities by maturity slightly worsened. The share of non-current financial liabilities as at March 31, 2013, amounted to 42.3% (54.2% as at December 31, 2012).

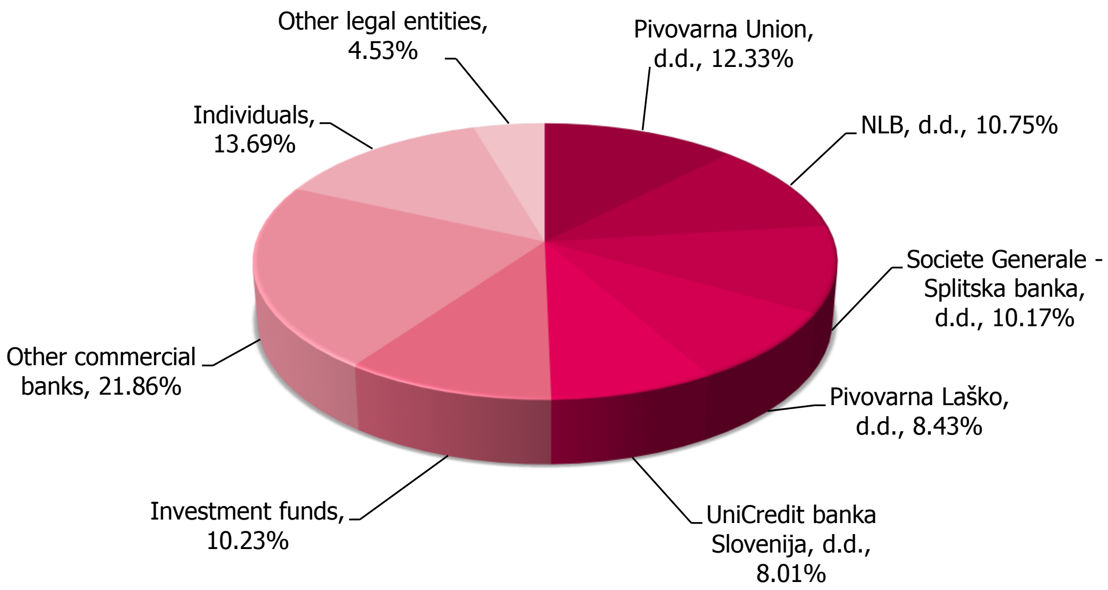
As at March 31, 2013, the ratio between variable and fixed or hedged financial liabilities at the Mercator Group amounted to 48.8:51.2.

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at March 31, 2013:

Symbol	MELR
Type	Ordinary share
Listing	Prime market of Ljubljana Stock Exchange, d.d.
Share capital	EUR 157,128,514.53
Number of shares	3,765,361
Number of treasury shares	42,192
Number of shareholders	14,331

Ownership structure of the company Poslovni sistem Mercator, d.d., as at March 31, 2013:



Major Shareholders

As at March 31, 2013, the following ten largest shareholders combined owned **69.05 percent** of the company.

	Major shareholders	Country	Number of shares	Share
1	Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2	NLB d.d.	Slovenia	404,832	10.75%
3	Societe Generale-Splitska banka, d.d.	Croatia	382,827	10.17%
4	Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
5	UniCredit banka Slovenija, d.d.	Slovenia	301,437	8.01%
6	Nova KBM d.d.	Slovenia	197,274	5.24%
7	HYPO Alpe-Adria bank d.d.	Croatia	165,539	4.40%
8	GB d.d., Kranj	Slovenia	142,920	3.80%
9	Prvi faktor - faktoring, d.o.o., Belgrade	Serbia	125,963	3.35%
10	Radenska, d.d.	Slovenia	96,952	2.57%
		Total	**2,599,632**	**69.05%**

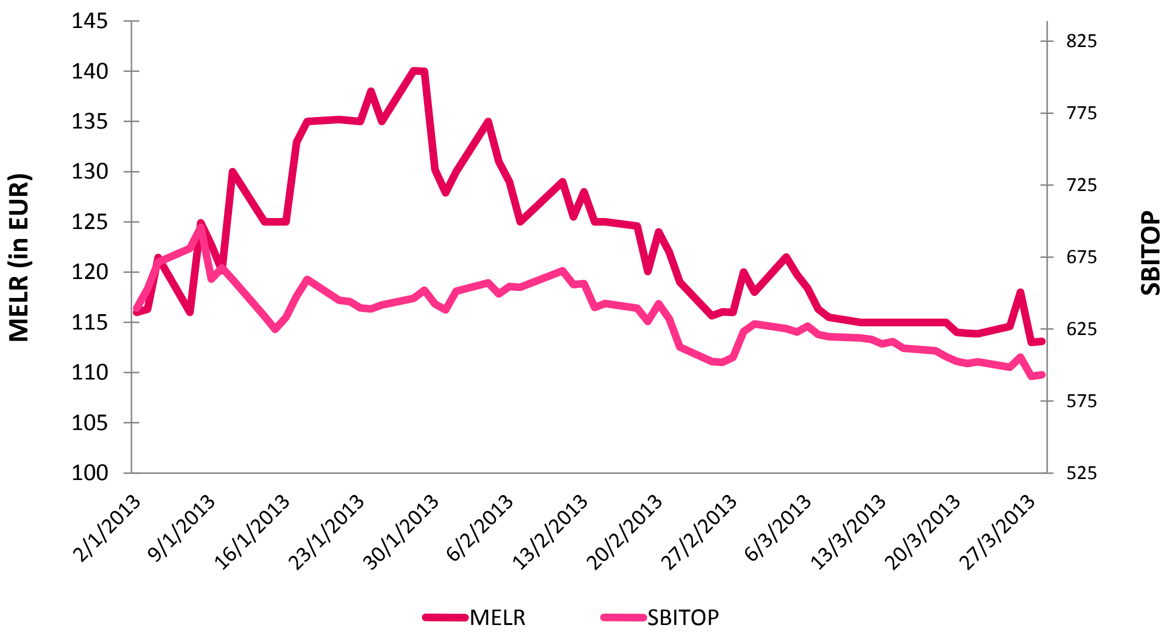
Foreign shareholders

As at March 31, 2013, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **24.69 percent**, which is 1.2 percentage point more than at the end of 2012.

Shares held by Management and Supervisory Board Members as at March 31, 2013

	First and last name	Position	Number of shares	Share
	Management Board			
1	Toni Balažič	Management Board President	0	0.0000%
2	Stanka Pejanović	Senior Vice President	0	0.0000%
3	Drago Kavšek	Senior Vice President	0	0.0000%
4	Igor Maroša	Senior Vice President	0	0.0000%
		Total	**0**	**0.0000%**
	Supervisory Board			
1	Matej Lahovnik	Supervisory Board Chairman	0	0.0000%
2	Rok Rozman	Deputy Supervisory Board Chairman	0	0.0000%
3	Boris Galić	Supervisory Board member	0	0.0000%
4	Zdenko Podlesnik	Supervisory Board member	0	0.0000%
5	Marjeta Zevnik	Supervisory Board member	0	0.0000%
6	Mateja Širec	Supervisory Board member	36	0.0010%
7	Sandi Leban	Supervisory Board member	0	0.0000%
8	Ivan Valand	Supervisory Board member	0	0.0000%
		Total	**36**	**0.0010%**

Movement of closing price per MELR share in the period 1-3 2013, compared to the movement of the SBITOP index



Key information for the shareholders

	March 31, 2013	Dec 31, 2012	Index
Number of shares registered in Court Register	3,765,361	3,765,361	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	425,862,329	429,251,154	99.2
Market value of share (in EUR)	113.10	114.00	99.2
Book value per share (in EUR)	199.78	198.82	100.5
Minimum close rate in the period (in EUR)	113.00	111.00	101.8
Maximum close rate in the period (in EUR)	140.05	151.95	92.2
Average close rate in the period (in EUR)	122.98	123.46	99.6

Market capitalization is calculated by multiplying the number of shares entered into the court register as at the end of the period with market price per share as at the end of the period.

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

Dividend policy

As at 18th regular Shareholders Assembly held on March 30, 2012, the resolution on the payment of dividends for year 2011 in the amount of **EUR 6.00** per share was adopted.

Treasury shares

As at March 31, 2013, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In period 1-3 2013, the company neither acquired nor disposed of treasury shares.

SUSTAINABILITY REPORT

We continued to develop all aspects of the sustainable development concept, taking into account the harsh economic conditions in the period 1-3 2013.

We were particularly focused on the activities to cut costs and expand Slovenian and locally sourced offer for our customers.

RESPONSIBILITY TO CUSTOMERS

Care for food safety

Responsibility to the customers is of key importance for Mercator. The key medium-term goals in responsibility to customers are to provide efficient internal control over each unit and appointment of a permanent expert team for control of quality and safety of the Mercator private label.

In the period 1-3 2013, we thus carried out 171 regular and 1 extraordinary controls at our stores. In order to offer our consumers safe and quality food, we analyzed 195 samples of private label products and monitored 251 samples in open departments.

Introduction of new standards and environmentally friendly technologies

Refurbishment of our stores included introducing more efficient refrigeration equipment to the stores in which comprehensive store overhaul, or replacement of the entire refrigeration equipment were planned. To date, we installed closed refrigeration chests and cabinets in over 50 stores. Since the start of introduction of such equipment, this has resulted in **savings of over EUR 700 thousand** in power consumption for refrigeration equipment.

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

We are pursuing the goal of consistent use of new communication solutions for environmentally friendly offer and services especially in stores and in digital media. We continued to provide offer within the project *"Iz domačih krajev"* (locally sourced) and introduced a new product, the Easter Tarragon Bread.

RESPONSIBILITY TO EMPLOYEES

Human resource management was focused in the first quarter of 2013 on the processes of restructuring and reorganization aimed at the implementation of more efficient work processes, cutting of administration costs, and cutting of labour costs. Administration at all trade companies was reorganized in this period. In Croatia and markets of Southeastern Europe, workers from Modiana, Intersport, and Tehnika stores are being transferred to respective trade companies in those markets.

Number of employees

MARKET	Number of employees as at March 31, 2013	Number of employees as at Dec 31, 2012	Index Number of employees March 31, 2013/ Dec 31, 2012	Number of employees based on hours worked in the period 1-3 2013
Slovenia	11,728	11,794	99.4	10,842
Serbia	4,774	4,764	100.2	4,009
Croatia	3,542	3,627	97.7	3,198
Bosnia and Herzegovina	1,970	2,004	98.3	1,865
Montenegro	1,349	1,417	95.2	1,261
Bulgaria	176	205	85.9	159
Albania	51	109	46.8	50
TOTAL	**23,590**	**23,920**	**98.6**	**21,385**

Despite these processes, we remain a responsible employer for our employees, fostering their development with different activities.

Caring for development, motivating, and connecting our employees

In Slovenia, we started the *Deputy Store Manager School* and the *2nd Mercator School for Stock Assistants*. As a novelty, the *Telephone Operator Academy* was launched this year to train employees at our call center. Workshops are held for all leaders to improve their leadership skills that are based on rating of leadership competencies.

The *first regional school for wholesale managers* and the *third regional school for shop managers of the field Mercator operations Southeastern Europe* on Kopaonik took place. It was attended by leaders from retail and wholesale of Mercator companies in Serbia, Montenegro, and Bosnia and Herzegovina.

In Slovenia, we prepared an e-seminar for all employees in retail, titled *Excellent Communication for Excellent Service*. E-seminar *Get to Know Yourself (SDI)* was held for over 70 participants. We also entirely revised the electronic material on *Safety and Health at Work (Occupational Safety and Health)* and *Fire Safety*, which is now a part of our e-classroom.

At Mercator, d.d., 15 internal *coaches* successfully completed their training. They prepared the material for a general workshop on management and 5 sets of material for individual competencies – a total of 48 academic hour's worth of material. The first workshops have been started. They will be attended by 450 shop managers.

Professional development of leaders and development of leadership skills in order to refresh the competencies is already being provided through the *coaching* program – including in the region of Southeastern Europe. A manual was prepared for the coaches; preparation meetings and trainings of coaches were held; and a program of work was adopted for underperforming leaders. The first workshops have also been held as well.

Intensive training of retail employees took part in all markets following the introduction of the revised Pika card.

Employees in Croatia are preparing for the country's accession to the European Union. They are trained for the implementation of new regulations and changes in legislation. In order to provide the transfer of knowledge within Mercator Group, we allowed access to the e-classroom to our employees from Croatia.

In Slovenia, Mercator Humanitarian Foundation provided a total of nearly EUR 20 thousand of aid to 29 employees that were ill or in social distress.

Mercator Solidarity Foundations were founded in Serbia and Montenegro, to which employees contribute funds to aid their colleagues in need.

RESPONSIBILITY TO NATURAL ENVIRONMENT

Reducing power consumption and heating fuel

In March, we completed a year-long pilot project of central control and monitoring of refrigeration equipment, which resulted in a decrease of power consumption for this type of equipment by 15%, and in improvement of storage temperature conditions according to HACCP by 28%.

Consistently with the confirmed investment plan for 2013, we started the scheduled repairs of boiler rooms, as well as the transition to cleaner sources of energy for which we are planning to obtain grants.

The project of replacing the existing fluorescent lighting with LED luminaires at the garages and in indoor and outdoor lightboxes is in the final stage. This measure is expected to result in savings in lighting costs of up to 72%.

Cutting the use of natural resources and waste generation

We have prepared and announced the internal document Hazardous Liquid Handling Plan. The purpose of the document is to provide instructions and recommendations to the employees on how to reduce the probability of an extraordinary event of a hazardous liquid spill and how to act in order to prevent and reduce the negative effect on the environment.

The study of life cycle of plastic shopping bags was conducted, presenting the life cycles of two plastic bags and one biodegradable bag. The comparison of the effect of all three bags on the natural environment will provide the basis for advice to consumers on how to use the bags to minimize the impact on the natural environment.

Training for coaches who are in charge of training the employees through a coaching network, included education on environment protection.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Donations and sponsorships

In 2013, Mercator Group continues to provide sponsorships and donations in order to be actively involved in the local environment in which we operate. We also respond to numerous requests by societies, clubs, and other organizations. Our contributions support the individuals and entities active in culture, education, and ecology. Moreover, particular care is paid to humanitarian and sports organizations. We provide donations and sponsorships to improve the current social conditions.

Major projects completed in the first quarter of 2013 include the following:

- donating vouchers to the Friends of the Youth Association Moste Polje for families in social distress, to White Ring of Slovenia to aid the victims of violence, and the "Tinkerbell" ("Palčica") Shelter Home in Grosuplje;
- donation of food to the Food Bank of Montenegro;
- donation of 5 tons of fruit and vegetables to homes for juvenile orphans in Croatia;
- donation of food packages for 90 families across Croatia;
- sponsoring the finals of the ski jumping World Cup in Planica 2013;
- sponsoring the Krim Mercator Handball Club,
- sponsoring the Ski Association of Slovenia,
- sponsoring the wheelchair basketball team of the Society of Paraplegics of the Ljubljana Region;
- sponsoring Mateja Pintar, wheelchair table tennis player;
- sponsoring Nejc Žnidaršič, whitewater kayaker;
- sponsoring Manca Notar, stand-up paddle surfer;
- sponsoring the "kurentovanje" carnival in Ptuj;
- sponsoring the Golden Subscription at the Cankarjev Dom;
- sponsoring the international FineWine&GoddFood show in Sarajevo;
- sponsoring the regional conference Agrobiznis in Belgrade;
- sponsoring the national competition in sales techniques for high school students, taking place in Slovenj Gradec.

RESPONSIBILITY TO SUPPLIERS

Relations with suppliers

Upon signing their contracts for 2013, the suppliers again signed statements of safety and quality of products, and compliance of food and materials.

We signed supply agreement with Slovenian farmers and small growers for 2013, which will allow us to increase the purchase of Slovenian fruit and vegetable by 5% relative to the year 2012. We signed long-term agreements with 25 suppliers and cooperatives on planned purchase volumes of Slovenian vegetables.

Slovenian suppliers, farmers, and small growers are included in sustainability projects, as described below.

- Offer of fruit and vegetable at Mercator farmer's markets also include over 100 small growers and farmers' cooperatives. In the winter period of the first quarter, Slovenian seasonal vegetables were offered to customers at Mercator farmer's markets. In the Easter period, we included in our offer fresh horseradish by five Slovenian growers.
- The call for proposals on our website continuously invites Slovenian farmers and smaller growers to take part. To make sure their products reach our customers faster and appropriately packaged, we are offering standardized packaging for fruit and vegetables, made of environmentally friendly raw materials, at good prices.
- In March, we signed an agreement with eleven top Slovenian suppliers of meat on continuous delivery of fresh pork, beef, veal, and poultry grown in Slovenia. The meat is available as of mid April. This will provide traceability and higher quality of meat from the aspect of compliance with health standards, as well as contribute to the share of self-sufficiency of food supplies.

RESPONSIBILITY AND CARE FOR QUALITY

Maintenance, implementation, and certification of international quality management systems

Mercator Group currently holds 14 active quality certificates.

We are conducting activities to prepare for the external audits. Two audits were completed in March; further audits will take place in May.

Management of documents, records, non-compliance, and measures

Mercator Standards collection currently includes **3,102** valid documents. In the period 1-3 2013, we published **163** new or revised documents; **33** documents were archived.

Application for managing non-compliance, recommendations and praises, and corrective and preventive measures received **191** entries of which **148** were resolved. **33** entries are currently being resolved, of which the resolution of **13** entries is overdue.

Systemic monitoring of quality management processes

In the period 1-3 2013, we monitored and analyzed environmental indicators for individual environmental aspects at Mercator Group companies.

In the period 1-3 2013, the following applies to the 9 companies of the Mercator Group:

- cost of energy amounted to EUR 12 million; specific energy cost was EUR 6.80 per square meter;
- carbon dioxide emissions from fuel and energy consumed amounted to 94,410 tons of CO_2; specific emission was 54 kg of CO_2 per square meter;
- Electric energy consumption amounted to 91.72 GWh; specific power consumption stood at 52 kWh per square meter.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2013 have been prepared in compliance with International Financial Reporting Standards and are unaudited.

Hereinafter are presented comparative statements for the prior period 1-3 2012 in connection with the recognition of costs that are in the comparative statements the same as actually realized in the period 1-3 2012. In the published statements 1-3 2012 costs were deferred because of their alignment with generated economic benefits (revenue) within the fiscal year in accordance with the seasonal dynamics.

In the comparative statements for 1-3 2012 actually incurred exchange rate differences are also included, while in the published statements 1-3 2012 they were partially deferred due to interim fluctuations in foreign exchange rates.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Condensed consolidated financial statements for the period 1-3 2013 comprise the company Mercator, d.d., and its subsidiaries, as follows:

- in Slovenia: Intersport ISI, d.o.o., Modiana, d.o.o., M - Tehnika, d.d., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Mercator IP, d.o.o., M.COM, d.o.o., M - nepremičnine, d.o.o., M - Energija, d.o.o., Argentum - A, d.o.o., Argentum - B, d.o.o., Argentum - C, d.o.o., Argentum - D, d.o.o., Argentum - E, d.o.o., Argentum - F, d.o.o., Argentum - G, d.o.o., Argentum - H, d.o.o., in Argentum - I, d.o.o.;
- abroad: Mercator - H, d.o.o., Croatia, Intersport H, d.o.o., Croatia, Modiana, d.o.o., Croatia, Mercator centar tehnike, d.o.o., za trgovinu i usluge, Croatia, Mercator - S, d.o.o., Serbia, Intersport S - ISI, d.o.o., Serbia, Modiana, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Intersport BH, d.o.o., Bosnia and Herzegovina, Modiana, d.o.o., Bosnia and Herzegovina, Mercator - CG, d.o.o., Montenegro, Mercator - K, l.l.c., Republic of Kosovo, Mercator Makedonija, d.o.o.e.l., Macedonia, Investment Internacional, d.o.o.e.l., Macedonia, Mercator - B, e.o.o.d., Bulgaria and Mercator - A, sh.p.k., Albania;

(hereinafter referred to as »Mercator Group«). Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

Condensed consolidated statement of financial position

EUR thousand	March 31, 2013	Dec 31, 2012	Index March 31, 2013/ Dec 31,2012
ASSETS			
Non-current assets			
Property, plant and equipment	1,862,601	1,874,735	99.4
Investment property	3,114	3,194	97.5
Intangible assets	17,394	18,387	94.6
Deferred tax assets	20,371	20,378	100.0
Loans and deposits	48,885	50,034	97.7
Available-for-sale financial assets	1,065	1,069	99.6
	1,953,430	**1,967,797**	**99.3**
Current assets			
Inventories	251,546	267,711	94.0
Trade and other receivables	281,050	239,998	117.1
Current tax assets	1,603	6,462	24.8
Loans and deposits	5,235	2,839	184.4
Derivative financial instruments	39	1	3,900.0
Cash and cash equivalents	36,036	38,012	94.8
	575,509	**555,023**	**103.7**
Total assets	**2,528,939**	**2,522,820**	**100.2**
EQUITY			
Share capital	157,129	157,129	100.0
Share premium	198,872	198,872	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	197,045	197,045	100.0
Fair value reserve	241,868	240,762	100.5
Retained earnings	(48,667)	(21,714)	224.1
Profit (loss) for the period	(8,626)	(26,953)	32.0
Currency translation reserve	(76,612)	(78,819)	97.2
Total equity attributable to equity owners of the Company	**657,774**	**663,087**	**99.2**
Non-controlling interests	**153**	**162**	**94.4**
Total equity	**657,927**	**663,249**	**99.2**
LIABILITIES			
Non-current liabilities			
Trade and other payables	2,346	2,462	95.3
Financial liabilities	463,742	593,841	78.1
Deferred tax liabilities	52,655	52,640	100.0
Provisions	29,766	31,459	94.6
	548,509	**680,402**	**80.6**
Current liabilities			
Trade and other payables	685,140	672,858	101.8
Current tax liabilities	42	163	25.8
Financial liabilities	633,204	500,879	126.4
Derivative financial instruments	4,117	5,269	78.1
	1,322,503	**1,179,169**	**112.2**
Total liabilities	**1,871,012**	**1,859,571**	**100.6**
Total equity and liabilities	**2,528,939**	**2,522,820**	**100.2**

Condensed consolidated income statement

EUR thousand	1-3 2013	Plan 2013	1-3 2012 Comparable	1-3 2012	Index 1-3 2013/ 1-3 2012 Comparable	Index 1-3 2013/ Plan 2013
Revenue	658,417	2,900,231	676,101	676,101	97.4	22.7
Cost of goods sold and selling costs	(637,249)	(2,774,675)	(643,819)	(638,710)	99.0	23.0
Administrative expenses	(23,735)	(89,171)	(24,645)	(24,053)	96.3	26.6
Impairment of property, plant and equipment and intangible assets	(14)	(92)	(325)	(325)	4.3	15.2
Other income	3,564	11,644	6,490	6,490	54.9	30.6
Results from operating activities	**983**	**47,937**	**13,802**	**19,503**	**7.1**	**2.1**
Finance income	2,968	4,695	1,571	1,571	188.9	63.2
Finance expenses	(12,585)	(46,019)	(22,032)	(17,919)	57.1	27.3
Net finance expense	**(9,617)**	**(41,324)**	**(20,461)**	**(16,348)**	**47.0**	**23.3**
Profit (loss) before tax	**(8,634)**	**6,613**	**(6,659)**	**3,155**	**129.7**	**-**
Tax expense	-	(3,587)	(2,439)	(2,439)	-	-
Profit (loss) for the period	**(8,634)**	**3,025**	**(9,098)**	**716**	**94.9**	**-**
Profit (loss) for the period attributable to:						
Owners of the parent company	(8,626)	3,025	(9,091)	723	94.9	-
Non-controlling interests	(8)	-	(7)	(7)	114.3	-

Condensed consolidated statement of comprehensive income

EUR thousand	**1-3 2013**	**1-3 2012 Comparable**	**1-3 2012**	**Index 1-3 2013/ 1-3 2012 Comparable**
Profit (loss) for the period	**(8,634)**	**(9,098)**	**716**	**94.9**
Other comprehensive income				
Foreign currency translation differences - foreign operations	2,206	(13,912)	(13,912)	-
Change in fair value of cash flow hedges	1,106	(600)	(600)	-
Deferred taxes	-	17	17	-
Other comprehensive income for the period	**3,312**	**(14,495)**	**(14,495)**	**-**
Total comprehensive income for the period	**(5,322)**	**(23,593)**	**(13,779)**	**22.6**
Total comprehensive income for the period attributable to:				
Owners of the parent company	(5,313)	(23,587)	(13,773)	22.5
Non-controlling interests	(9)	(6)	(6)	150.0

Condensed consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Restated balance at January 1, 2012	**157,129**	**198,872**	**(3,235)**	**260,104**	**192,209**	**10,294**	**7,983**	**(60,275)**	**763,081**	**224**	**763,305**
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	723	-	723	(7)	716
Other comprehensive income	-	-	-	-	(778)	195	-	(13,913)	(14,496)	1	(14,495)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(778)**	**195**	**723**	**(13,913)**	**(13,773)**	**(6)**	**(13,779)**
Transactions with owners of the parent company directly recognized in equity											
Dividends to equity holders	-	-	-	-	-	(22,339)	-	-	(22,339)	-	(22,339)
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	7,983	(7,983)	-	-	-	-
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(14,356)**	**(7,983)**	**-**	**(22,339)**	**-**	**(22,339)**
Balance at March 31, 2012	**157,129**	**198,872**	**(3,235)**	**260,104**	**191,431**	**(3,867)**	**723**	**(74,188)**	**726,969**	**218**	**727,187**

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**240,762**	**(21,714)**	**(26,953)**	**(78,819)**	**663,087**	**162**	**663,249**
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(8,626)	-	(8,626)	(8)	(8,634)
Other comprehensive income	-	-	-	-	1,106	-	-	2,207	3,313	(1)	3,312
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,106**	**-**	**(8,626)**	**2,207**	**(5,313)**	**(9)**	**(5,322)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	(26,953)	26,953	-	-	-	-
Balance at March 31, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**241,868**	**(48,667)**	**(8,626)**	**(76,612)**	**657,774**	**153**	**657,927**

Condensed consolidated statement of cash flows

EUR thousand	1-3 2013	1-3 2012 Comparable	1-3 2012	Index 1-3 2013/ 1-3 2012 Comparable
Cash flows from operating activities				
Gross cash flows from operating activities	**21,010**	**29,033**	**33,960**	**72.4**
Change in inventories	16,165	22,216	21,579	72.8
Change in trade and other receivables	(36,193)	(22,000)	(22,000)	164.5
Change in trade and other payables	10,225	(4,158)	(8,448)	-
	11,207	**25,091**	**25,091**	**44.7**
Interest paid	(11,494)	(13,705)	(13,705)	83.9
Income tax paid	-	(2,434)	(2,434)	-
Net cash from operating activities	**(287)**	**8,952**	**8,952**	**-**
Cash flows from investing activities				
Acquisition of subsidiaries and business operations, net of cash acquired	-	(481)	(481)	-
Acquisition of property, plant and equipment and investment property	(3,854)	(12,579)	(12,579)	30.6
Acquisition of intangible assets	(636)	(436)	(436)	146.0
Loans and bank deposits made	(2,395)	-	-	-
Proceeds from sale of property, plant and equipment and investment property	693	1,161	1,161	59.7
Proceeds from sale of intangible assets	-	3	3	-
Interest received	811	983	983	82.5
Loans and deposits repayments received	1,149	3,565	3,565	32.2
				-
Net cash used in investing activities	**(4,233)**	**(7,784)**	**(7,784)**	**54.4**
Cash flows from financing activities				
Increase (repayment) in borrowings	2,227	(6,148)	(6,148)	-
Dividends paid	(3)	(265)	(265)	1.1
Net cash from (used in) financing activities	**2,225**	**(6,413)**	**(6,413)**	**-**
Net (decrease) increase in cash and cash equivalents	**(2,295)**	**(5,245)**	**(5,245)**	43.7
Cash and cash equivalents at the beginning of the year	38,012	27,540	27,540	138.0
Effect of exchange rate fluctuations on cash and cash equivalents held	319	(778)	(778)	-
				-
Cash and cash equivalents as at the end of the period	**36,036**	**21,517**	**21,517**	**167.5**

Notes to condensed consolidated interim financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1-3 2013, Mercator Group generated EUR 658,417 thousand of revenue, which is 2.6 percent less relative to the period 1-3 2012. Revenue dropped by 3% in Slovenia and by 2.1% in international markets. In Slovenia, the largest drop in revenue relative to the equivalent period of last year was seen in home product program, apparel program, and Intersport. Fast-moving consumer goods retail revenue also declined by 3.4% while wholesale remained at the last year's figures. In Slovenia, there were hardly any investments into the retail network this year as a result of the harsh economic conditions. In foreign markets, the change in revenue relative to the corresponding period of the year before differs from one country to the other. Overall decrease, however, is a result of lower sales in Croatia and exit from the markets of Bulgaria and Albania.

Cost of goods sold and selling costs

Mercator Group costs of sales which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 637,249 thousand in the period 1-3 2013, which is a 1-percent decrease on the same period of last year.

Cost of goods sold was lower by 0.8% relative to last year. In the period 1-3 2013, early payment discounts were also lower by approximately EUR 0.9 million as the Group made less early payments because of worsened situation in the financial markets. Other expenses in the first quarter of 2013 remained approximately the same as in the corresponding period last year.

Administrative expenses

Mercator Group's administrative expenses in the period 1-3 2013 amounted to EUR 23,735 thousand, which is 3.7 percent less than in the equivalent period last year.

The Management Board of Mercator, d.d., continued the extensive efforts to rationalize all types of costs in the first quarter of 2013. As much as EUR 4,286 thousand was saved in the period at hand.

Total expenses, consisting of selling costs, production costs (included in costs of goods sold and selling costs), and administrative expenses amounted to EUR 166,819 thousand in the period 1-3 2013, an decrease of 2.5 % on the last year's figure for such period. All costs were cut except depreciation and amortisation, and rents since Mercator expanded its retail network through operating lease. Costs of material were slashed by 6.3%. Contributing the most to the decrease are costs of energy, additional material, and write-off of petty supplies. Costs of services excluding rents were lower by 4.9%, especially insurance premiums, labour-related compensations and reimbursements, and costs of intellectual and personal services. Labour costs were cut by 3.9% in the period 1-3 2013 relative to the last year's comparable period.

Results from operating activities

In the period 1-3 2013, Mercator Group's results from operating activities reached EUR 983 thousand, which is 7.1% of the figure for the same period last year. The decline in results from operating activities in this year is a result of the negative effects of the economic situation on the consumption in both FMCG program and in other programs. To some extent, it is also a consequence of lower other income than in last year, which is due to lower revenue from provision reversals and other non-recurring events.

Net finance expense

Net finance expense are lower by EUR 10,844 thousand relative to the last year's equivalent period, which is mostly the result of currency translation differences pertaining to the Serbian dinar, lower interest expense (lower EURIBOR) and lower revaluation adjustments related to receivables.

Profit before income tax

In the period 1-3 2013, Mercator Group's profit before income tax was negative at EUR 8,634 thousand.

Profit for the period

Mercator Group's net loss for the period 1-3 2013 amounts to EUR 8,634 thousand.

EBITDA

Mercator Group EBITDA in the period 1-3 2013 amounts to EUR 21,607 thousand which is lower by 36.9% than in the equivalent period of last year, for the same reasons that are listed with regard to lower results from operating activities.

EBITDAR

Mercator Group EBITDAR in the period 1-3 2013 amounts to EUR 36,650 thousand which is lower by 24.0% than in the equivalent period of last year. It is also lower than EBITDA due to the increase of operating lease.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at March 31, 2013 amounted to EUR 2,528,939 thousand, which is EUR 6,119 thousand more than at the end of 2012, mostly due to higher receivables and accrued income or deferred expenses.

As at March 31, 2013, the value of Mercator Group non-current assets amounted to EUR 1,953,430 thousand, which is EUR 14,367 thousand less than as at December 31, 2012. The largest share of non-current assets (96.4% or EUR 1,883,109 thousand) is represented by fixed assets, the value of which was EUR 13,207 thousand lower than as at the end of 2012 as a result of lower investment which was lower than depreciation.

As at March 31, 2013 the value of Mercator Group current assets amounts to EUR 575,509 thousand, which is EUR 20,486 thousand more than a the end of 2012. Trade and other receivables represent the largest portion of total current assets (48.8%), followed by inventories (43.7%). Trade and other receivables rose in the first quarter due to year-on-year records of accrued income or deferred expenses, and due to promotion of wholesale. Regarding the inventory, the Group continues to pursue the policy of efficient management so that the inventory in the first quarter dropped by EUR 16,165 thousand.

Equity and liabilities

As at March 31 2013, Mercator Group equity amounted to EUR 657,927 thousand, which is EUR 5,322 thousand, or 0.8%, less than as at the end of 2012. The decrease is a result of the loss in the amount of EUR -8,634 thousand; other changes in equity were actually increases totalling at EUR 3,312 thousand and pertaining to positive currency translation differences and changes in fair value of risk hedging instruments.

As at March 31, 2013 total financial liabilities amount to EUR 1,096,946 thousand, which is EUR 2,226 thousand more than as at the end of 2012; hence, the Group's debt did not change considerably. Net financial debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets, amounted to EUR 1,009,803 thousand as at March 31, 2013 (December 31, 2012: EUR 1,008,034 thousand).

As at March 31, 2013 provisions amounted to EUR 29,766 thousand. Compared to the end of 2012, provisions decreased by EUR 1,693 thousand, mostly due to partial reversal of provisions for reorganization expenses.

Trade and other payables as at March 31, 2013 amounted to EUR 687,486 thousand, which is EUR 12,166 thousand more than at the end of 2012. The increase in trade payables is a result of year-on-year dynamics in the retail industry; in addition, it is related to the balancing of debt.

As at March 31, 2013 long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 61.8%, which is 6.5 percentage points less than as at the end of 2012.

FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

Mercator, d.d., is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The company Mercator, d.d., is the parent company of a group of related companies headquartered in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria, Albania, Republic of Kosovo, and Macedonia.

The company has a double role: it is predominantly engaged in fast-moving consumer goods retail and wholesale; however, it also performs various group-related corporate tasks for the companies included in the Mercator Group. Hence, employing the financial statements of the company Poslovni sistem Mercator, d.d., for economic analysis of Mercator Group's operation is inappropriate. For such analysis, it is appropriate to apply above all the consolidated financial statements that present an account of the performance of the Mercator Group as a uniform business entity.

Condensed statement of financial position

EUR thousand	March 31, 2013	Dec 31, 2012	Index March 31, 2013/ Dec 31, 2012
ASSETS			
Non-current assets			
Property, plant and equipment	1,026,809	1,035,658	99.1
Investment property	3,162	3,194	99.0
Intangible assets	9,247	9,570	96.6
Deferred tax assets	19,200	19,200	100.0
Loans and deposits	265	268	98.9
Investment into equity of subsidiaries	573,482	557,881	102.8
Available-for-sale financial assets	928	928	100.0
	1,633,093	**1,626,699**	**100.4**
Current assets			
Inventories	78,308	84,225	93.0
Trade and other receivables	163,191	138,532	117.8
Current tax assets	4	4,962	0.1
Loans and deposits	46,895	54,206	86.5
Derivative financial instruments	39	1	3,900.0
Cash and cash equivalents	8,493	11,611	73.1
	296,930	**293,537**	**101.2**
Total assets	**1,930,023**	**1,920,236**	**100.5**
EQUITY			
Share capital	157,129	157,129	100.0
Share premium	198,872	198,872	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	171,984	171,984	100.0
Fair value reserve	216,601	215,494	100.5
Retained earnings	-	-	-
Profit (loss) for the period	2,475	-	-
Equity	**743,826**	**740,244**	**100.5**
LIABILITIES			
Non-current liabilities			
Trade and other payables	1,599	1,599	100.0
Financial liabilities	316,420	436,941	72.4
Deferred tax liabilities	40,869	40,870	100.0
Provisions	42,643	44,101	96.7
	401,531	**523,511**	**76.7**
Current liabilities			
Trade and other payables	326,162	324,733	100.4
Financial liabilities	454,387	326,479	139.2
Derivative financial instruments	4,117	5,269	78.1
	784,666	**656,481**	**119.5**
Total liabilities	**1,186,197**	**1,179,992**	**100.5**
Total equity and liabilities	**1,930,023**	**1,920,236**	**100.5**

Condensed income statement

EUR thousand	1-3 2013	Plan 2013	1-3 2012 Comparable	1-3 2012	Index 1-3 2013/ 1-3 2012 Comparable	Index 1-3 2013/ Plan 2013
Revenue	327,625	1,444,753	340,804	369,306	96.1	22.7
Cost of goods sold and selling costs	(305,789)	(1,344,854)	(310,852)	(337,345)	98.4	22.7
Administrative expenses	(14,005)	(42,087)	(14,425)	(14,144)	97.1	33.3
Other income	1,219	6,392	4,258	4,258	28.6	19.1
Results from operating activities	**9,050**	**64,204**	**19,785**	**22,075**	**45.7**	**14.1**
Finance income	1,485	4,285	1,341	1,341	110.7	34.7
Finance expenses	(8,060)	(37,289)	(11,737)	(11,737)	68.7	21.6
Net finance expense	**(6,575)**	**(33,004)**	**(10,396)**	**(10,396)**	**63.2**	**19.9**
Profit (loss) before tax	**2,475**	**31,200**	**9,389**	**11,679**	**26.4**	**7.9**
Tax expense	-	(2,892)	(2,336)	(2,336)	-	-
Profit (loss) for the period	**2,475**	**28,308**	**7,053**	**9,343**	**35.1**	**8.7**

Condensed statement of comprehensive income

EUR thousand	1-3 2013	1-3 2012 Comparable	1-3 2012	Index 1-3 2013/ 1-3 2012 Comparable
Profit (loss) for the period	**2,475**	**7,053**	**9,343**	**35.1**
Other comprehensive income				
Change in fair value of cash flow hedges	1,107	(600)	(600)	(184.5)
Disposal of investment in subsidiary	-	3,246	3,246	-
Other comprehensive income for the period	**1,107**	**2,646**	**2,646**	**41.8**
Total comprehensive income for the period	**3,582**	**9,699**	**11,989**	**36.9**

Condensed statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Total equity
Restated balance at January 1, 2012	**157,129**	**198,872**	**(3,235)**	**236,312**	**190,650**	**13,246**	**15,574**	**808,548**
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	9,343	9,343
Other comprehensive income	-	-	-	-	2,646		-	2,646
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**2,646**	**-**	**9,343**	**11,989**
Transactions with owners of the parent company directly recognized in equity								
Dividends to equity holders	-	-	-	-	-	(22,339)	-	(22,339)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(22,339)**	**-**	**(22,339)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	(26,953)	26,953	-
Balance at March 31, 2012	**157,129**	**198,872**	**(3,235)**	**236,312**	**193,297**	**6,481**	**9,343**	**798,199**

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Total equity
Balance at January 1, 2013	**157,129**	**198,872**	**(3,235)**	**171,984**	**215,494**	**-**	**-**	**740,244**
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	2,475	2,475
Other comprehensive income	-	-	-	-	1,107		-	1,107
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,107**	**-**	**2,475**	**3,582**
Balance at March 31, 2013	**157,129**	**198,872**	**(3,235)**	**171,984**	**216,601**	**-**	**2,475**	**743,826**

Condensed statement of cash flows

EUR thousand	1-3 2013	1-3 2012 Comparable	1-3 2012	Index 1-3 2013/ 1-3 2012 Comparable
Cash flows from operating activities				
Gross cash flows from operating activities	**19,231**	**25,930**	**28,220**	**74.2**
Change in inventories	5,916	43,916	43,916	13.5
Change in trade and other receivables	(17,136)	(42,094)	(44,384)	40.7
Change in trade and other payables	**(2,440)**	**(39,762)**	**(39,762)**	**6.1**
	5,571	**(12,010)**	**(12,010)**	(46.4)
Interest paid	(8,013)	(9,738)	(9,738)	82.3
Income tax paid	-	(2,336)	(2,336)	-
Net cash from operating activities	**(2,442)**	**(24,084)**	**(24,084)**	**10.1**
Cash flows from investing activities				
Acquisition of subsidiaries and business operations, net of cash acquired	(15,601)	(14,481)	(14,481)	107.7
Acquisition of property, plant and equipment and investment property	(576)	(6,519)	(6,519)	8.8
Acquisition of intangible assets	(566)	(336)	(336)	168.5
Loans and bank deposits made	-	(1,082)	(1,082)	-
Disposal of subsidiaries, net of cash disposed of	-	11,282	11,282	-
Proceeds from sale of property, plant and equipment and investment property	110	2,156	2,156	5.1
Proceeds from sale of intangible assets	-	4	4	-
Interest received	1,259	1,027	1,027	122.6
Loans and deposits repayments received	7,314	-	-	-
Net cash used in investing activities	**(8,061)**	**(7,949)**	**(7,949)**	**101.4**
Cash flows from financing activities				
Increase (repayment) in borrowings	7,388	29,721	29,721	24.9
Dividends paid	(3)	(265)	(265)	1.1
Net cash from (used in) financing activities	**7,385**	**29,456**	**29,456**	**25.1**
Net (decrease) increase in cash and cash equivalents	**(3,118)**	**(2,577)**	**(2,577)**	**121.0**
Cash and cash equivalents at the beginning of the year	11,611	10,068	10,068	115.3
Cash and cash equivalents as at the end of the period	**8,493**	**7,491**	**7,491**	**113.4**

Notes to interim financial statements

Notes to condensed income statement

Revenue

In the period 1-3 2013, the company Mercator, d.d., generated EUR 327,625 thousand of revenue, which is 3.9 percent less relative to the period 1-3 2012. Majority of company revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods.

Cost of goods sold and selling costs

Mercator, d.d., costs of sales which include the cost of goods sold, selling and marketing costs, and other expenses, amounted to EUR 305,789 thousand in the period 1-3 2013, which is a 1.6-percent decrease on the same period of last year.

Cost of goods sold was lower by 1.4% relative to last year. Other expenses in the first quarter of 2013 stayed at approximately the same level as in the equivalent period last year.

Administrative expenses

Mercator, d.d., administrative expenses in the period 1-3 2013 amounted to EUR 14,005 thousand, which is 2.9 percent less than in the equivalent period last year.

Total expenses, consisting of selling costs (included in costs of sales), and administrative expenses amounted to EUR 82,385 thousand in the first quarter of 2013, an decrease of 2.6% on the last year's figure for such period. The highest drop was seen in costs of material (by 9.4%) and costs of services (by 5.0%).

Results from operating activities

In the period 1-3 2013, results from operating activities of the company Mercator, d.d., reached EUR 9,050 thousand, which is 54.3% less than in the equivalent period of the last year. The decline in results from operating activities in this year is especially a result of the negative effects of the economic situation on the consumption.

Net finance expense

Net finance expense are lower by EUR 3,821 thousand relative to the last year's equivalent period, which is mostly the result of lower interest expense and lower revaluation adjustments related to receivables.

Profit before income tax

The company's profit before income tax for the period 1-3 2013 amounts to EUR 2,475 thousand, which is 26.4% of the figure from the comparable period of last year.

Profit for the period

Mercator, d.d., profit for the period 1-3 2013 amounts to EUR 2,475 thousand.

EBITDA

Mercator, d.d., EBITDA in the period 1-3 2013 amounts to EUR 19,231 thousand which is 25.8% lower than in the equivalent period of last year, for the same reasons that are listed with regard to lower results from operating activities.

EBITDAR

Mercator, d.d., EBITDAR in the period 1-3 2013 amounts to EUR 22,312 thousand which is 22.2% lower than in the equivalent period of last year.

Notes to condensed statement of financial position

Assets

Mercator, d.d., assets as at March 31, 2013 amounted to EUR 1,930,023 thousand, which is EUR 9,787 thousand more than at the end of 2012, mostly due to higher trade and other receivables and participation in equity of group companies.

As at March 31, 2013 the value of the company's non-current assets amounted to EUR 1,633,093 thousand, which is EUR 6,394 thousand more than as at December 31, 2012. The largest share of non-current assets (63.6% or EUR 1,039,218 thousand) is represented by property, plant, and equipment, the value of which was EUR 9,204 thousand lower than as at the end of 2012 as a result of lower investment which was lower than depreciation.

As at March 31, 2013 the value of the company's current assets amounts to EUR 296,930 thousand, which is EUR 3,393 thousand more than as the end of 2012. Trade and other receivables represent the largest portion of total current assets (55.0%), followed by inventories (26.4%). In the first quarter of 2013, the company intensively implemented the measures for efficient working capital management. As a result, inventories dropped by EUR 5,917 thousand.

Equity and liabilities

As at March 31, 2013 equity of the company Mercator, d.d., amounted to EUR 743,826 thousand, which is EUR 3,582 thousand, or 0.5%, more than as at the end of 2012. The increase includes the profit of EUR 2,475 thousand and equity increase of EUR 1,107 thousand as a result of the change in the value of derivative financial instruments.

As at March 31, 2013 total financial liabilities amount to EUR 770,807 thousand, which is EUR 7,387 thousand more than as at the end of 2012.

As at March 31, 2013 provisions amounted to EUR 42,643 thousand. Compared to the end of 2012, provisions decreased by EUR 1,458 thousand, mostly due to partial reversal of provisions for exit from the markets of Bulgaria and Albania.

Trade and other payables as at March 31, 2013 amounted to EUR 327,761 thousand, which is EUR 1,429 thousand more than at the end of 2012. The increase in trade payables is a result of year-on-year dynamics in the retail industry; in addition, it is related to the reduction of debt.

MANAGEMENT BOARD STATEMENT PURSUANT TO ARTICLE 113 OF THE MARKET IN FINANCIAL INSTRUMENTS ACT

The Management Board hereby confirms that to their best knowledge, the summary of the financial report of the company Poslovni sistem Mercator, d.d., and the Mercator Group is compiled in compliance with the appropriate framework of financial reporting and that it presents a true and fair account of assets and liabilities, financial position, and the income of the company Poslovni sistem Mercator, d.d., and other companies included in the consolidated statements. The business report includes a fair account of information on relevant transactions with related parties, and it is compiled in compliance with the relevant accounting standards.

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, May 14, 2013