Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-6 2013

Ljubljana, August 2013

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SUMMARY

In the first half of 2013, Mercator Group revenue amounted to EUR 1.4 billion.

Economic activity remains feeble

Economic activity has remained sluggish in the first half of 2013 in the entire euro zone. Forecasts and estimates on economic recovery in the second half of 2013 and in 2014 were adjusted downward as well. Low or even negative economic growth persisted in Mercator's target markets. In Slovenia, conditions were particularly harsh in the labour market and in the banking system; further slowdown of economic activity is expected. In other markets, the economy saw a slight growth, while unemployment rate was on the rise and consumer purchasing power has been dwindling. Croatia's accession to the European Union is expected to have a positive effect on the macroeconomic position of this country.

Mercator Group revenue amounted to almost EUR 1.4 billion

In the period 1-6, 2013 Mercator Group generated revenue in the amount of EUR 1,356 million, which is 3.3% below the figure for the first half of last year. Lower revenue is in particular a result of slow economic activity and lower sale of seasonal products due to uncharacteristic weather during the first months of this year's spring. Mercator Group saw a drop in revenue both in Slovenian market (3.8%) and in some markets abroad. The decrease in revenue was the most severe in Croatia and in the markets from which we are withdrawing, i.e. Albania and Bulgaria; in Serbia, revenue rose by 4.2%.

Marketing activities focused on adjustment to customer preferences

In the first half of 2013, one of the most important projects was revision of the Pika customer loyalty system, which was carried out in all markets of our operations. First results confirm the success of the revision. Great emphasise was placed on adjusting the entire offer of the Mercator Group to the wishes and needs of our customers. We expanded the offer with fresh produce, in Slovenia and Croatia we provided a wide offer of products of local origin, regularly carried out activities in the field of price competitiveness offer, and carried out several activities to promote recognition and sales of private label products. Our response to the shift to life in the fast lane was an adjustment in the offer through our web store and the Click and Collect service.

Laying down new goals in real estate management

After stopping the monetization project, we prepared an overview of our real estate portfolio and decided to dispose of as much non-core property as possible, and to expand our retail network where the payback period for our investments is the shortest. Argentum companies founded in order to carry out the monetization project were thus wound up. In the period 1-6 2013 we invested EUR 10.2 million, of which 38.8% was invested into new retail units.

Further negotiations on long-term financing structure

Mercator Group companies signed a changed and amended pre-negotiation agreement with the creditor banks to extend the maturity of principal payments for all credit liabilities until December 31, 2013. By this date, an agreement on long-term financing structure for the Mercator Group is expected as well.

Changes in Mercator, d.d., corporate governance

At the 19th regular Shareholders Assembly of Mercator, d. d., Mr Bojan Brank was appointed as a new Supervisory Board member representing shareholders, while Mr Sandi Leben was relieved of duty to be succeeded by Mrs Vesna Stojanović as the Supervisory Board member representing the employees.

Despite harsh economic conditions, Mercator Group results from operating activities reached EUR 11.3 million

Result from operating activities of the Mercator Group in the period 1-6 2013 amounted to EUR 11.3 million. The decrease in operating profit compared to equal period last year is mainly a result of lower revenue that could not be entirely offset by the measures implemented to cut operating costs. Despite the lower revenue, positive results from operating activities stands witness to a healthy condition of Mercator's core activity, i.e. fast-moving consumer goods retail. Further implementation of cost rationalization measures allowed us to notably decrease the costs in the period at hand to at least partially compensate for the poorer performance resulting from lower sales. The latter had an impact on negative result for the period 1–6 2013, amounting to EUR -15.1 million.

INTRODUCTION

MERCATOR GROUP PROFILE

Company profile

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

Poslovni sistem Mercator, d.d.

Telephone	+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 June 30, 2013	EUR 157,128,514.53
Number of shares issued and paid-out as at June 30, 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 four sessions in the period 1-6 2013.

At the 12th session held on January 29, 2013, the Supervisory Board was presented the Mercator Group's unaudited business report for 2012 complete with the report on the effects of revaluation of property and impairment of investments in equity of subsidiaries to fair value and of an impairment of certain assets held by Mercator Group companies as at December 31, 2012.

At the 13th session held on March 6, 2013, the Supervisory Board confirmed and adopted the Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the fiscal 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 status regarding Mercator's exit from the markets of Albania and Bulgaria.

At the 14th and 15th session, the Supervisory Board was informed about the progress of sale of the majority block of Mercator shares and the progress of negotiations with banking partners on debt refinancing. The Supervisory Board was also presented the information on the status of Mercator's exit activities in the markets of Albania and Bulgaria. The Board confirmed the Report on Compliance with Commitments regarding the proceedings related to alleged cartel conduct based on the decision of the Competition Protection Office of the Republic of Slovenia, and the Report on Compliance with the Commitments regarding the proceedings related to alleged abuse of dominant position, based on the decision of the Competition Protection Office of the Republic of Slovenia.

On June 18, 2013 Mercator, d.d., Shareholders Assembly appointed a new Supervisory Board member representing the interests of the shareholders, Mr Bojan Brank.

At their session held on July 3, 2013 the Works Council relieved Mr Sandi Leban, the Supervisory Board member representing the interests of the Shareholders, of his duties and appointed Mrs Vesna Stojanović as his successor.

Mercator Group Composition

As at June 30, 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 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%)

MERCATOR REAL ESTATE

Mercator - Optima, d.o.o., Slovenia (100.0%)**
M - nepremičnine, d.o.o., Slovenia (100.0%)
Investment Internacional, d.o.o.e.l., Macedonia (100.0%)*

* The company does not conduct business operations.
** The company is in the liquidation proceedings.
*** The company was merged with the company Poslovni sistem Mercator, d.d., as of July 1, 2013.
**** The company was merged with the company Mercator - H, d.o.o., as of July 5, 2013.
***** The company was merged with the company Mercator - S, d.o.o., as of August 15, 2013.

Branch Offices
As at June 30, 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 Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro. The purpose of these two organizations is to provide solidarity aid to employees in social or economic distress.

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 1-6 2013

	1-6 2013	1-6 2012 comparable*	Index 1-6 2013/ 1-6 2012 comparable*
Revenue (EUR thousand)	1,356,426	1,402,022	96.7
Results from operating activities (EUR thousand)	11,346	22,161	51.2
Profit before income tax (EUR thousand)	-15,067	-15,661	96.2
Profit for the financial period (EUR thousand)	-15,149	-18,879	80.2
EBITDA (EUR thousand)	52,709	62,816	83.9
EBITDAR (EUR thousand)	82,651	91,290	90.5
Capital expenditure (EUR thousand)	10,174	37,281	27.3
Return on sales	-1.1%	-1.3%	82.9
EBITDA / revenue	3.9%	4.5%	86.7
EBITDAR / revenue	6.1%	6.5%	93.6
Number of employees based on hours worked	22,031	22,998	95.8
Number of employees as at the end of the period	23,531	24,414	96.4

* Pursuant to the changes in delineation of costs within the fiscal year 2012, costs for the period 1-6 2012 were adjusted for comparability with the year 2013 and presented in the same way as in the period 1-6 2013, i.e. without interim delineation based on functional use of funds. Detailed explanation is provided in the financial report.

HIGHLIGHTS IN THE PERIOD 1-6 2013

Retail network development

Following are the highlights for the first half of 2013:

- we invested EUR 10,174 thousand,
- our divestments totalled at EUR 2,980 thousand,
- we acquired 11 new units spanning a gross area of 9,675 square meters, which include 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 (technical consumer goods) in the markets of Serbia, Croatia, and Bosnia and Herzegovina were transferred in the first half of 2013 to the their respective parent companies. In Slovenia, the company M - Tehnika, d.d., was merged as of July 1, 2013 with the company Poslovni sistem Mercator, d.d. The companies Intersport H, d.o.o., Modiana, d.o.o., Croatia, and Mercator centar tehnike, d.o.o., Croatia, were merged with the company Mercator - H, d.o.o., as of July 5, 2013. The companies Intersport S-ISI, d.o.o., and Modiana, d.o.o., Serbia, were merged with the company Mercator - S, d.o.o., as of August 15, 2013. In Bosnia and Herzegovina, the procedure of merger to the parent companies is still under way.

As the project of Mercator real estate monetization was stopped, the companies Argentum whose sole shareholder was the company Poslovni sistem Mercator, d.d., were deleted from the court register.

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 also information regarding the issue of commercial papers of the company Mercator, d.d.

On February 26, 2013 the pre-negotiation agreement came into effect, signed by all Mercator Group companies and the creditor banks. On June 28, 2013, a changed and amended pre-negotiation agreement was signed, according to which the maturity of principal payments was extended to December 31, 2013. Pursuant to this agreement, the final agreement with the banks is expected to be completed by December 31, 2013.

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**.

On April 18, 2013 Mercator took part in the investor's conference of the Ljubljana Stock Exchange, the purpose of which was to keep and boost confidence among investors and stock companies. The conference was attended, apart from Mercator, by eight companies from the Ljubljana Stock Exchange prime market, and nine domestic and four international institutional investors.

At the 19th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., which took place on June 18, 2013 Mr Bojan Brank was appointed as the new Supervisory Board member representing the interests of shareholders. The shareholders also appointed auditing company Deloitte revizija, d.o.o., as the auditor of the company Mercator, d.d., and the Mercator Group for the year 2013.

On July 3, 2013, Mrs Vesna Stojanović was appointed new Supervisory Board member representing the interests of the employees.

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 1-6 2013

Economic conditions in the markets of Mercator operations in the period 1-6 2013[1]

Short-term indicators point to persistently sluggish economic activity and rather shaky confidence throughout the euro zone. Similar applies to Slovenia where economic activity continued to slow down while conditions remain harsh in the labour market and in the banking sector. This is expected to result in a further drop of private and government spending, while investment is expected to remain at last year's level.

Forecasts on economic activity in the euro zone and with our main trade partners saw a negative adjusted compared to the Spring forecast. In the first quarter of 2013, gross domestic product in the euro zone was 0.2% lower than in the quarter before and 1.1% lower than in the equivalent period last year, which is worse than forecasted by the international institutions. Also worse are the expectations regarding the rate of anticipated recovery in the second half of this year. Therefore, the European Commission and the OECD adjusted their forecast of economic growth for this and the following year downwards.

The European Central Bank further decreased the interest rate for the main refinancing operations to 0.50%. This is a record low which has also resulted in a record low for the 6-month Euribor. At the end of June 2013, the latter rate rose relative to the rate from the start of the year, but it is still very low. Average 6-month Euribor rate in the period 1-6 2013 was 0.330%, which is much lower than in the corresponding period last year when it stood at 1.163%.

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

Slovenia

Inflation rate in 2013 is anticipated at 2.0%. Higher inflation is a result of steadying of year-on-year decrease in the prices of industrial products, which in turn was a consequence of higher year-on-year growth in prices of motor fuels and lower seasonal discounts on garments and footwear. GDP is estimated to shrink by 1.9% this year, and further decrease (-0.2%) is expected in 2014. Relatively higher drop in GDP in this year is mostly the result of lower investment, especially lower plans for government investment. Somewhat higher decrease in household consumption (-4.0%) is expected due to harsher conditions in the labour market and more conservative shopping behaviour of consumers. Government consumption (-2.9%) will decrease more than last year; its further drop is related to efforts to consolidate public finance. Rating of the Republic of Slovenia was downgraded again in early 2013. Currently, it is at A– with stable outlook. Government deficit in 2013 is forecast at 5% of the national GDP in 2013 (in 2012 it was at 4% of GDP).

Serbia

According to the National Bank of Serbia, GDP growth in the country will be positive in 2013 at 2.0%, while the EBRD estimates 2.2-percent growth. There was a considerable surge in the inflation rate in 2013 and it is expected to reach 9.8% at the annual level (11.9% in 2012). Average exchange rate of the Serbian dinar in the period 1-6 2013 stood at RSD 111.93 per 1 EUR, while the average rate in the equivalent period last year 2011 was RSD 110.92 per 1 EUR, which means it rose by 1%. As at December 31, 2012, the exchange rate was at RSD 113.72 per 1 EUR. According to estimates, the rate will not exceed RSD 118 per 1 EUR in 2013. Serbia's rating dropped in 2012 to BB– with negative outlook.

Croatia

In July 2013, Croatia entered the European Union, which is expected to have a positive impact on the macroeconomic situation in this country. The EBRD is estimating the GDP to grow by 1.9%. Inflation rate in 2013 is expected at 3.1%. Average exchange rate of the Croatian kuna was HRK 7.54 per 1 EUR in the period 1-6 2012; in the corresponding period of this year, it was HRK 7.57 per 1 EUR. Croatia's rating in 2012 was downgraded to BB+ with stable outlook.

Bosnia and Herzegovina

According to the EBRD estimates, GDP growth in 2013 will be minimal at 0.1%. 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 1.7%, which is similar as in the year before. Very high unemployed rate of 40% is a major problem in Bosnia and Herzegovina. In March 2012, the rating of Bosnia and Herzegovina remained at B; however, the outlook was changed from negative to stable.

Montenegro

According to the EBRD, economic growth in 2013 is expected at 0.8%. Inflation rate is anticipated at 2.7% after reaching as much as 3.6% in 2012. Montenegrin official currency is the euro. Montenegro's rating did not change in the first half of 2013 and it remains at BB– with negative outlook.

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

In the period 1-6 2013, negative impact of the economic crisis was felt in the target markets of Mercator's operations. Bleak outlook goes hand in hand with **pessimistic expectations** of the consumers who tend to shop **more rationally and conservatively and have a higher propensity to save**.

The trend of rationalization of spending, or private consumption, in **Slovenia** has persisted in this year. 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. The most common responses to counter the crisis are rational consumption, giving up some goods, and cutting "unnecessary" expenses. The share of shoppers at discount stores is constantly increasing as well. Average unemployment rate in Slovenia is increasing and it currently exceeds 13%.

Consumers in Mercator's **international markets** are also facing the negative impact of the economic crisis. Purchasing power is still low; unemployment is on the rise; and the economy is still stagnant. Compared to the same period of last year, unemployment rate in Serbia dropped slightly, but remains at a very high 24.1%. Unemployment rate is somewhat lower but still high in Croatia and Montenegro while in Bosnia and Herzegovina it is the highest in the region at well over 40%.

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

SALES AND MARKETING

Sales

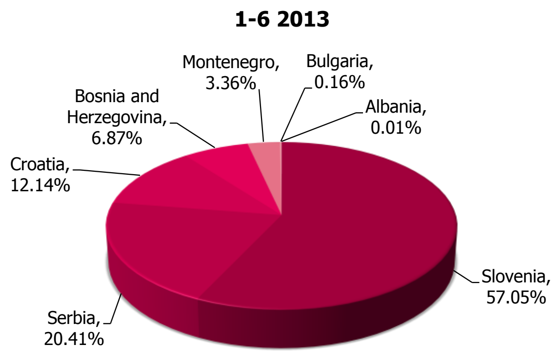
In the period 1-6 2013, Mercator Group generated EUR 1,356,426 thousand of revenue, which is 3.3 percent less relative to the period 1-6 2012.

Compared to the equivalent period of the year before, revenue in Slovenian market dropped by 3.8%. Contrary to the equivalent period of the last year, revenue also fell in foreign markets – by 2.6%. Lower revenue abroad is particularly a result of exit from Albania and Bulgaria, and poorer performance in Croatia.

Group revenue was lower than in the corresponding period last year 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 seasonal products due to lower temperatures in the first quarter of 2013, uncharacteristic for spring and summer.

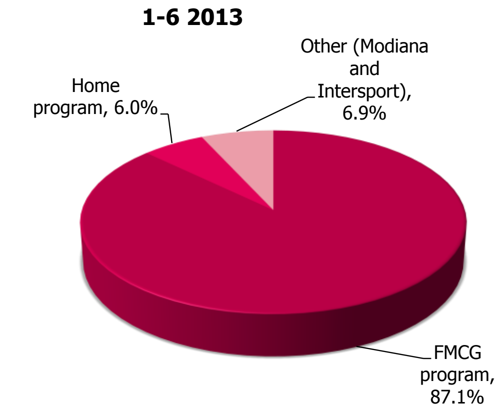
Majority of Group revenue is generated by sale of goods, material, and products, mostly retail and wholesale of trade goods.

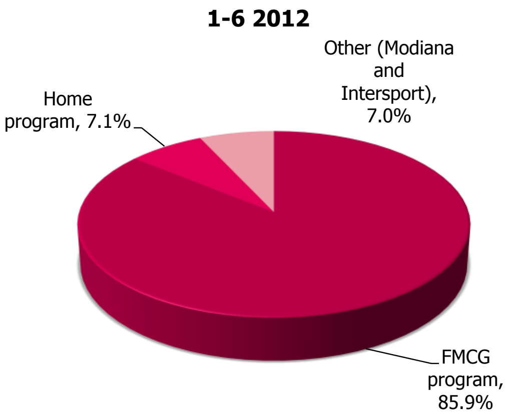
Mercator Group revenues by geographical segments:



Mercator Group revenues from trade operations by programs:

In the period 1-6 2013, the majority of Mercator Group revenue resulted from sales of fast-moving consumer goods which accounted for 87.1% of the total figure; revenue from other specialized programs amounted to 12.9%.





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.

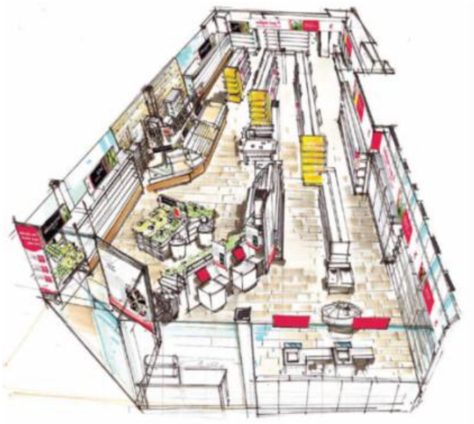
Development of New Store Concepts

In recent years, shopping behaviour of consumers has changed considerably as a result of various trends and impacts from the environment, such as ageing of the population, higher share of employed women, longer working hours, longer commutes, smaller households, changes in dietary habits, expansion of e-commerce, development of new technologies that make shopping easier, recession, market saturation, rising fuel prices etc.

Consumers are more sensitive to pricing; the value of their average shopping cart is lower and they shop less frequently; they tend to distribute their shopping to several retailers and store formats, avoid longer drives when planning shopping trips, shop less impulsively, they are more rational when buying non-alimentary products of higher value etc.

Like most leading global retailers, Mercator is seeking to adjust to these changes as much as possible. After years of expansion of large stores, **small box stores** are again coming to the forefront. Moreover, **redesign of the existing retail networks**, i.e. new concepts at existing locations, is increasingly important, along with **intensive development of e-commerce** in which conventional brick-and-mortar stores take the role of pick-up points for orders placed over the internet. **Diversification of store formats** remains the key strategy of retailers.

In 2013, we shall particularly focus on **redefining the neighbourhood store concept: Mercator NEIGHBOUR**.



In Croatia, activities to **revise the existing store concept** of the Getro (Cash&Carry) banner were under way. Previously, these stores were mostly targeted at wholesale customers; recently, there has been a shift towards the retail customers. The goal of concept revision was to establish a shopping environment in which price sensitive retail customers will feel well. Therefore, changes pertain both to the layout (shopping path, distribution of different categories of products in the store), in-store communication, as well as adjustment of the program mix and assortment. The first refurbished unit, Getro Vrbani, was opened in July 2013.

Composition of retail units as at June 30, 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	15	12	1	6	1	1	1	1	64	294,342	192,772
Supermarkets	129	-	47	27	3	19	13	1	7	-	246	269,261	173,675
Neighbourhood stores	334	-	54	42	18	3	45	2	68	-	566	200,177	116,741
Comfort stores	1	1	-	1	-	1	-	-	-	-	4	8,521	5,070
Convenience stores	1	-	-	-	-	-	-	-	-	-	1	159	83
Cash & Carry	13	-	5	-	16	-	-	-	1	-	35	115,841	79,586
Hard discount stores	5	-	-	-	-	-	-	-	-	-	5	3,223	2,276
Restaurants	22	9	-	-	-	2	-	-	-	-	33	9,428	6,446
TOTAL FMCG program	**528**	**13**	**121**	**82**	**38**	**31**	**59**	**4**	**77**	**1**	**954**	**900,952**	**576,649**
Home program	52	14	-	13	-	-	-	-	-	-	79	111,086	71,150
Furniture program	3	-	-	-	-	-	-	1	-	-	4	4,761	3,038
TOTAL home program	**55**	**14**	**-**	**13**	**-**	**-**	**-**	**1**	**-**	**-**	**83**	**115,847**	**74,188**
Clothing program and drugstores	**79**	**14**	**-**	**34**	**-**	**12**	**-**	**-**	**-**	**-**	**139**	**66,083**	**55,048**
Clothing program	64	8	-	34	-	8	-	-	-	-	114	63,185	52,573
Drugstores and perfumeries	15	6	-	-	-	4	-	-	-	-	25	2,898	2,475
Intersport	**33**	**11**	**-**	**27**	**-**	**9**	**-**	**2**	**-**	**-**	**82**	**53,134**	**40,604**
M holidays	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**242**	**242**
TOTAL specialised programs	**125**	**25**	**-**	**61**	**-**	**21**	**-**	**2**	**-**	**-**	**234**	**119,459**	**95,893**
TOTAL retail units under management	**708**	**52**	**121**	**156**	**38**	**52**	**59**	**7**	**77**	**1**	**1,271**	**1,136,259**	**746,730**
Franchise stores	**224**	**-**	**36**	**48**	**-**	**-**	**-**	**-**	**-**	**-**	**308**	**58,385**	**38,515**
TOTAL	**932**	**52**	**157**	**204**	**38**	**52**	**59**	**7**	**77**	**1**	**1,579**	**1,194,644**	**785,245**

* Retail unit in Bulgaria was closed as of July 1, 2013.

Customer segments

We are looking to offer our products and services to all segments of our customers. We make sure the offer is prepared for customers of each segment exactly where they are looking for it. 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. From February to June, a total of 227,000 new Pika card holders signed at the Group level. In addition, the number of Pika card holders who shopped at least once in a month rose by 18% in Slovenia and by over 70% in other countries where the Pika card system is in place. The share of revenue generated with Pika card checkouts at the Mercator Group level rose by 11 percentage points.

Category management

In category management, 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.

Key activities in the first half of 2013 were focused on the following:

- change in the concept of promotions which are now focused on fresh program and seasonal products;
- "Iz domačih krajev" ("local produce", or "locally grown" – labelling of fresh meat produce at the stores, 100% guarantee of regular offer or fresh meat grown in Slovenia; "freshly made every two hours" – ensuring freshly cooked products wherever the equipment for finishing partly pre-baked bread and pastry is available; "fresh fruit and vegetables" – expanding the offer of Slovenian fresh fruit and vegetables;
- regular adjustment of assortment by categories, and new product placement in some categories;

- varied offer of regular and special-offer seasonal products.

Marketing

In the first half of 2013, Mercator Group operations were focused on strategic activities related to the four pillars:

- focus on the consumer and our core activity;
- project optimization;
- selection of profitable projects; and
- identifying opportunities for growth and improvement of our market position.

Focus

We have introduced a new way to present Mercator's novelties and benefits: "Neighbour's News" ("Sosedove novice") platform features Mercator employees and actual customers in leading roles.

We continued to successfully introduce the **revised Pika customer loyalty system** in all markets. In Slovenia and Bosnia and Herzegovina, attention of the consumers was additionally roused by the Pika per million prize competition which included giving away a total of one million bonus points in Slovenia, and 600 thousand in Bosnia and Herzegovina, to the lucky winners. The Pika customer loyalty system remains a key advantage for Mercator as customer loyalty is rewarded and it allows us to constantly adjust to the changes in their shopping habits.

In Montenegro and Serbia, an extensive communication campaign was held to advertise the advantages of the Roda banner. This also included a competition to select the best Roda sales assistant.

As a part of the project "Iz domačih krajev" ("Locally Grown"), we communicated to Slovenian customers the activities that are in place in order to reach the highest quality of three major fresh program categories. In the butcher's departments, we guarantee that all fresh meat we serve is grown in Slovenia. At the bakery departments, fresh bread and pastry from the Grosuplje Bakery (Pekarna Grosuplje) is offered every two hours as pre-baked products are finished at the store; at the fruit and vegetables department, quality control is conducted every two hours.

By employing agreements on purchase volumes for Slovenian fruit and vegetables, Mercator is allowing smaller growers to plan their crop, while nurturing tradition and contributing to the preservation of the environment.

In Croatia, the campaign **Taste the Homemade** included presenting products, recipes, and services at the butcher's departments in which 80% of the fresh meat served over the counter is of domestic origin. Regular quality control is in place at fruit and vegetables departments and local suppliers are presented.

In Slovenia, Mercator allocates as much as 70% of the store area to high-quality Slovenian products, offering a wide variety of domestic offer in a single place. At the end of June, we launched the activity **Slovenian Basket** which involves guaranteeing the lowest prices in the Slovenian market for thirty renowned and high-quality Slovenian products, subject to a money-back guarantee. Lowest prices are also guaranteed as a part of individual projects in other countries: **Lowest Price** in Croatia, **Attention, Low Price** in Montenegro (a group of 30 products with the lowest prices in the market), **Lowest Prices in Town** in Serbia for all critical locations, and **Price of the Day** in Bosnia and Herzegovina.

Responding to persistent pressure on household budgets and the increase in the value-added tax rate, we introduced in late June the **Locked Price** project in Slovenia, within which the prices of over 2,000 fast-moving consumer goods were locked until September 1.

Before Croatia's accession to the European Union on July 1, 2013, we distributed a catalogue to present to our customers the very reasonably priced products made in the European Union.

Optimization

The trend of more frequent shopping and preference of more convenient store formats remains strong. Hence, Mercator has continued to adjust the offer in smaller store formats to improve the shopping experience for the customers and to make shopping more convenient. We have refurbished several smaller stores, and we are preparing to adjust to the changes in consumer behaviour with regard to non-alimentary products at major stores.

In all markets, we conducted activities to increase the appeal of the shopping centers and our larger store formats, either by organizing events or by launching special promotion activities (e.g. double Pika bonus points, bundled purchases or deals, days of discounts, night-time shopping etc.).

Profitability

Mercator's private label products are aimed at building distinctiveness and boosting loyalty of the consumers as these products are only available in Mercator's retail network. Mercator private label lines offer a variety of products for all occasions, at all price segments.

In Serbia and Bosnia and Herzegovina Mercator private label promotion campaign was carried out, titled "It Means Trust".

In the main private label line **Mercator**, revision of design has been carried on. We remain focused on improving the competitiveness of our offer of products in all categories.

ProMagic brand of home cleaning products includes affordably priced quality products which the buyers can find exclusively at Mercator stores. In March, we held intensive promotions of these products to present them to the broadest possible group of consumers.

Grosuplje Bakery won 11 prominent awards for the best high-quality bakery products in Slovenia this year. Krjavelj, Sosed, Malnar and other breads from the family of those without additives are made of superior ingredients, following traditional procedures.

Before the summer, which is a time of socializing and picnics, we launched a new product, the **Picnic ciabatta**. It is made according to a traditional, long method. Its core is randomly bubbly and highly aromatic, while the crust is rustic in appearance, golden brown in colour, and very crunchy. It requires no cutting as it is best torn.

Consumers committed to a healthy diet appreciate Mercator's **Bio** line. In June, we promoted more intensively the Bio herbal drinks. Nutritious and tasty beverages are entirely of herbal (fruit and vegetable) origin, suitable for vegans, made of whole grains, and without any added sugar.

For our youngest customers, we launched a campaign with the **Lumpi** ice cream just before the summer.

Growth

Retailers worldwide generate growth by making use of the modern channels of reaching their customers. Hence, **digital communication** is an increasingly important tool for direct communication with the customers. Early in this year, the Mercator web store was revised to be opened in April when it was presented with the option of **home delivery** as well as the **Click and**

Collect service that allows the user to place an online order and collect the products at one of the collection points. This year, we also revised the www.mercator.si web portal and upgraded it to an activity portal that presents benefits, competitions, recipes, and events at our shopping centers.

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 Mercator's international markets, we launched intensive communication about double Pika bonus points and other Pika benefits via SMS text messages. We redesigned Mercator's websites in Croatia and Serbia, and set up a parallel website for customers of DP Marketi. In Banja Luka, we held a fashion show for children and adults, featuring models selected in a Facebook competition. Recipients of invitations to the fashion show also received an additional discount on all textile products. In Croatia, the activity 5 per Day included a flash mob public experiment at the Zagreb hypermarket.

In addition to publishing the annual **M Holidays** catalogue, we carried out a bundled deal activity in Slovenia in March and May, in which our customers spending over EUR 20 at any Mercator fast-moving consumer goods store received a coupon for discount on travel arrangements to select destinations. In May, the activity also included shopping in the Mercator web store. In May, M Holidays resumed communication of the most appealing offers via e-newsletter.

In Slovenia, the activity of offering discounts on fuel at the **Maxen** petrol stations was extended to 158 Mercator FMCG stores across the country. In April, we launched the competition "A Step to Free Gas". The prizes include EUR 2,000 with of fuel.

INVESTMENT AND RETAIL NETWORK DEVELOPMENT

In the first half 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 our existing stores. A new concept of neighbourhood store redesign has been developed, according to which we shall refurbish four FMCG stores this year.

There were no Mercator-run construction activities in the period 1-6 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 1-6 2013 we prepared a new overview of real estate portfolio, classifying it by the fields of use. Two goals have been laid down: the first one is to dispose of as much non-core property as possible and in this respect, we have listed 84 pieces of property for sale; the other one is to expand our retail network in the areas with the shortest investment payback period.

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.

Mercator's key goals in real estate management:

Summary of total gross retail area as at June 30, 2013:

Gross retail area in m²	Used for own operations	Leased out	Total as at June 30, 2013
Owned retail area	779,388	190,632	970,020
Leased retail area	356,872	30,731	387,603
Total retail area	**1,136,260**	**221,363**	**1,357,623**
Owned warehouse capacity	141,885	575	142,460
Leased warehouse capacity	53,369	0	53,369
Total warehouse capacity	**195,254**	**575**	**195,829**
Owned commercial facilities	27,569	2,129	29,698
Leased commercial facilities	6,108	43	6,151
Total commercial facilities	**33,677**	**2,172**	**35,849**
GROSS AREA UNDER MANAGEMENT	**1,365,191**	**224,110**	**1,589,301**
- of which owned	948,842	193,336	1,142,178
- of which leased	416,349	30,774	447,123

Investment and Divestment

In the period 1-6 2013, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 10.2 million. Of this amount, 45.13% was invested in Slovenia, and 54.87% was invested internationally.

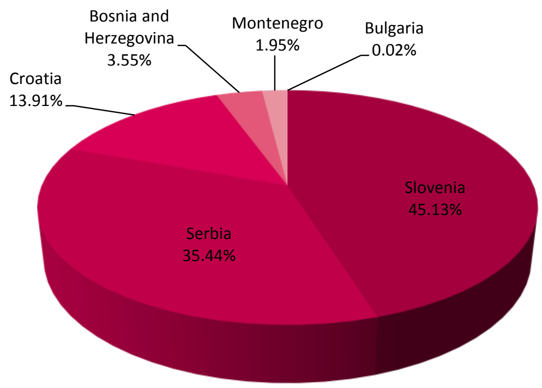
	Capital expenditure in period 1-6 2013 (in EUR thousand)	Composition (in %)
Slovenia	4,592	45.13%
Serbia	3,606	35.44%
Croatia	1,415	13.91%
Bosnia and Herzegovina	361	3.55%
Montenegro	198	1.95%
Bulgaria	2	0.02%
TOTAL	**10,174**	**100.00%**

Investments in expansion of retail facilities (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 38.8% of total investments; 22.6% was allocated for refurbishment of the existing facilities; and the remaining 38.6% was invested into logistics, IT, and non-trade activities.

In the first half of 2013, Mercator Group newly acquired 9,675 square meters of gross store area, of which 97% was acquired through operating lease and 3% was acquired by refurbishment of existing units.

In the period 1-6 2013, Mercator Group divested EUR 3.0 million worth of property, plant and equipment.

Share of investments by markets



Summary of retail unit launches by markets

SLOVENIA
Area of new facilities: 2,564 m^2
Number of new retail units: 2
Openings:
Intersport MC Ravne, Intesport BTC Ljubljana

SERBIA
Area of new facilities: 6,243 m^2
Number of new retail units: 6
Openings:
Supermarket Kruševac, hypermarket and Intersport in NC Stadion center Voždovac in Belgrade, market Kej in Novi Sad

CROATIA
Area of new facilities: 38 m^2
Number of new retail units: 1
Openings:
Modiana Novigrad

BOSNIA AND HERZEGOVINA
Area of new facilities: 450 m^2
Number of new retail units: 1
Openings:
Supermarket Starčevica 2 in Banja Luka

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

RISK MANAGEMENT

Management of key risks in the period 1-6 2013

Carefully planned and deliberated risk management with timely response to previously identified risks are of key importance for effective mitigation of risk exposure. In the period 1-6 2013, Mercator Group approached risk management by taking the following steps: specifying the risk management policy, specifying the types of risks, measuring exposure, selecting the risk hedging measures, and measuring risk management performance.

In most markets of Mercator's operations, the trend of high unemployment and low to negative GDP growth persisted in the period 1-6 2013, while low wage growth resulted in lower demand. We saw strong pressure on milk and dairy product prices; similar developments are expected in the meat and meat produce category in the coming months.

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 more than 2% in 2013, that conditions in the labour market will worsen, and that real wages per employee will decrease. In key foreign markets of Mercator's operations, unemployment rate is even higher than in Slovenia and it continues to rise. In Mercator's foreign markets, average salaries are 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.

Carefully thought out procurement policy, i.e. choice of different suppliers within each category will reduce or disperse the risk. Positive 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.

In the period 1-6 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.

We seek to mitigate local effects on the supply processes by managing the risks of delivery failures. Supply processes are supervised on monthly basis and corrective measures are adopted to reduce such risks.

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 1-6 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 1-6 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.

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 in the global financial markets are partly improving; however, economic activity remains feeble, which has a negative impact on the performance of businesses. 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 continues to implement 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 1-6 2013, we saw an increase in payment defaults and delinquency with some of our wholesale customers, which was mainly a result of 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 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. Overdue receivables that require special measures are in decline. Contracts signed with new wholesale customers included clauses on obligatory netting, and annexes were signed in this regard with the existing customers. The company Mercator, d.d., also notably decreased its credit risk exposure to some wholesale customers who were delinquent on payments of their liabilities, by factoring these receivables to 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).

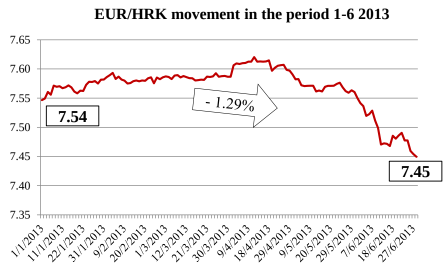
In the period 1-6 2013, we continued to monitor daily the changes in receivables and credit risk pertaining to the Pika card, and continued to implement other measures to hedge this risk, including the following:

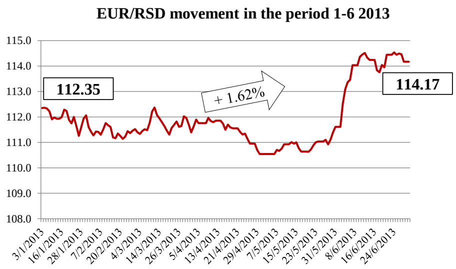
- even more active collection of receivables from the Pika card holders;
- starting notification over the telephone earlier than previously;
- SMS (text message) notices;
- regular monitoring of Pika card operations.

Currency risk

Assessment of the loss of economic benefit due to changes in exchange rate.

Currency risk exposure is relevant especially at companies in Croatia and in Serbia where fluctuations in exchange rates have been considerable in the past. After a period of slight appreciation, the Serbian dinar depreciated yet again. Average exchange rate for the Serbian dinar in the first half of 2013 was at RSD 111.93 per 1 EUR; average rate of the Serbian dinar in the period 1-6 2012 was at RSD 110.92 per 1 EUR. Croatian kuna appreciated in the last six months, especially due to higher demand during the tourist season. In the period 1-6 2013, the average exchange rate of the Croatian kuna was HRK 7.57 per 1 EUR; in the period 1-6 2012, the exchange rate was at HRK 7.54 per 1 EUR. In order to hedge the currency risk, we are looking to steer our operations in such way to avoid the currency risk whenever possible. Aside from the measures already in place, no additional measures to hedge the foreign currency risk were required.

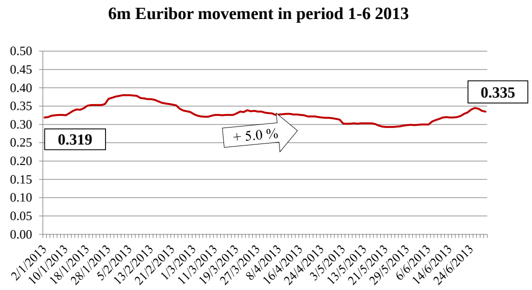




Interest rate risk

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

In the period 1-6 2013, variable 6M EURIBOR rose from 0.319% to 0.335%. Average 6-month EURIBOR in the period 1-6 2013 was at 0.330% which is more than 71% below the rate from the equivalent period of last year when it averaged at 1.163%.



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.

Liquidity risk

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

The ratio between long-term and short-term financial liabilities as at June 30, 2013 stood at 40.3: 59.7; at the end of 2012, it was at 54.2:45.8.

The key measure in this period implemented to manage the liquidity risk was the adoption of the Pre-negotiation agreement, which shall be the basis for negotiations on the long-term Mercator Group financing structure. The agreement also stipulates an extension of the maturity of all principal repayments to banks involved in the agreement until December 31, 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 1–6 2013. These risks are grouped into four categories.

Category management operational risks

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

Harsh economic situation and higher unemployment have resulted in changes in consumer behaviour and a drop in purchasing power of consumers in the segment of seasonal products. The offer at Mercator is being adjusted to lower demand as we diligently monitor sales and inventory of seasonal products and timely take required measures. Sales of seasonal products are also affected by the weather. Cold weather, uncharacteristic for May and June, affected sales of non-alcoholic beverages, meat for grilling, beer, ice cream, and other seasonal products.

Our purchasing and sourcing activities involve close monitoring of the prices of raw materials, on which the prices of our products are heavily dependent. Due to relocation of sales channels for dairy products to the Far East and Russia, there is a strong pressure to increase the prices in the category of milk and dairy products. In the second quarter of 2013, commodity prices of meat in Austria rose; as a result, we expect upward pressure on the prices in the category of meat and meat produce. In purchasing of fresh fruit and vegetables, we ensure stability of prices through agreements on long-term purchase.

Core activity operational risks

Failure of the refrigeration system and electrical wiring.

In warehouses in Zalog and on Bohova street, 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.

In the second quarter of 2013, we obtained the bids and ordered restoration which was completed in June. Follow-up measurements were conducted in July.

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.

There were no major activities in the first half 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 period 1-6 2013 in order to guarantee efficient use of energy and to improve the cost efficiency and optimize our business activities.

- We confirmed the introduction of monitoring of the operation of refrigeration equipment (Retail Care) at 51 hypermarkets and supermarkets.
- We confirmed the pilot project of remote power consumption control with three service providers.
- We replaced the existing fluorescent lighting with LED lighting at seven select facilities, including 4 garages and 7 outdoor and indoor lightboxes providing Mercator's visual identity.
- Five new combined heat and power devices were installed.
- Restoration of two boiler rooms includes preparing an application for grants through the "GEN I" program.
- Also in progress are discussions about the restoration of the heating oil and liquefied petroleum gas boiler rooms or replacement with heat pumps, by employing the energy performance contracting method.

FINANCIAL MANAGEMENT

Net financial debt

Compared to the end of 2012, Mercator Group's finance liabilities decreased by EUR 12.4 million in the first half of 2013. Net financial debt of the Mercator Group as at June 30, 2013 amounts to EUR 990,405 thousand, which is 1.7% or EUR 17.6 million less than as at December 31, 2012.

in EUR thousand	June 30, 2013	Dec 31, 2012	Index June 30, 2013/ Dec 31, 2012
Non-current financial liabilities	437,453	593,841	73.7
Current financial liabilities	646,883	500,879	129.1
Derivative financial instruments (liabilities)	3,250	5,269	61.7
Financial liabilities including derivative financial instruments	**1,087,586**	**1,099,989**	**98.9**
Cash and cash equivalents	36,999	38,012	97.3
Derivative financial instruments (assets)	77	1	7,712.0
Available-for-sale financial assets	1,057	1,069	98.9
Loans and deposits	59,047	52,873	111.7
Financial assets	**97,180**	**91,955**	**105.7**
NET FINANCIAL DEBT	**990,406**	**1,008,034**	**98.3**

Diversifying the sources of financing

In 2013, Mercator continued to issue commercial papers. On July 31, 2013, 5-month commercial papers were issued with a total value of EUR 6.552 million. Commercial papers were purchased by 27 investors.

Signing of the pre-negotiation agreement

On February 26, 2013 the pre-negotiation agreement came into effect, signed by all Mercator Group companies and the creditor banks. 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. On June 28, 2013, a changed and amended pre-negotiation agreement was signed, according to which the maturity of principal payments was extended to December 31, 2013. The agreements lay down a solid 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 December 31, 2013.

Financing costs

In the period 1-6 2013, the 6-month EURIBOR averaged at 0.330%. At the end of the period, it was at 0.335%. Interest expense in the period 1-6 2013 amounted to EUR 23,498 thousand, which is 11.6% less than in the corresponding period of last year when they amounted to EUR 26,569 thousand.

Debt to equity and financial liability ratio

As at June 30, 2013 Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.51. The ratio is a quotient between share capital and net financial debt.

In the period 1-6 2013, Mercator Group's composition of financial liabilities by maturity slightly worsened. The share of long-term financial liabilities as at June 30, 2013 amounted to 40.3% (54.2% as at December 31, 2012).

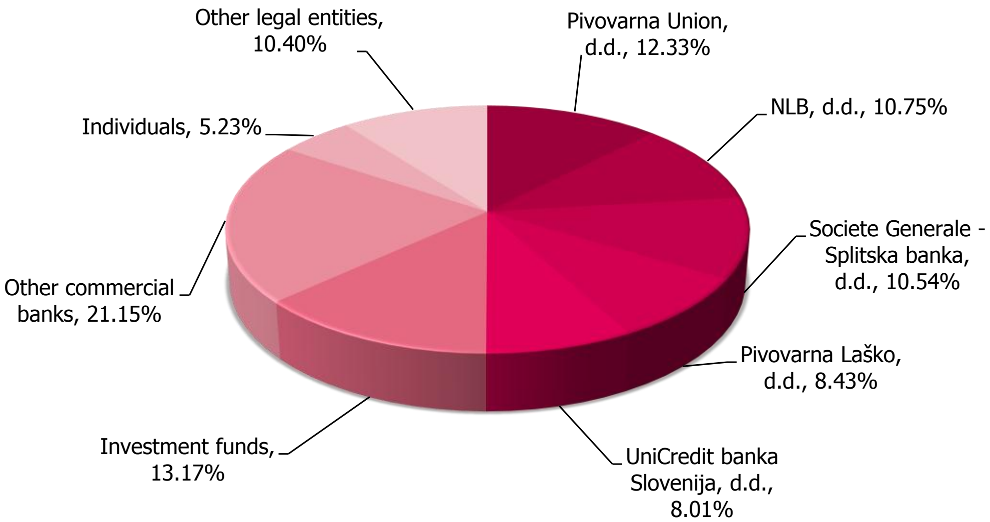
As at June 30, 2013, the ratio between variable and fixed or hedged financial liabilities at the Mercator Group stood at 48:52.

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at June 30, 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	13,612

Ownership structure of the company Poslovni sistem Mercator, d.d., as at June 30, 2013:



Major Shareholders

As at June 30, 2013, the following ten largest shareholders combined owned **69.42 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	396,707	10.54%
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	165,845	4.40%
8	GB d.d., Kranj	Slovenia	142,920	3.80%
9	Prvi faktor - faktoring, d.o.o., Beograd	Serbia	125,963	3.35%
10	Radenska, d.d.	Slovenia	96,952	2.57%
		Total	**2,613,818**	**69,42%**

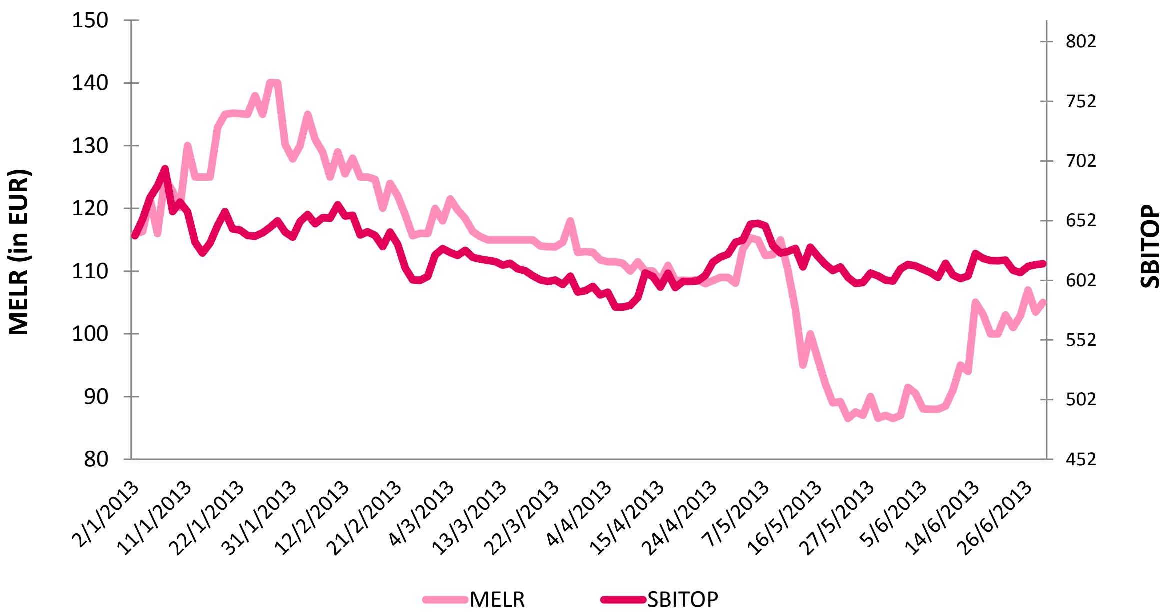
Foreign shareholders

As at June 30, 2013, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **25.27 percent**, which is 1.78 percentage point more than at the end of 2012.

Shares held by Management and Supervisory Board Members as at June 30, 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	Bojan Brank	Supervisory Board member	0	0.0000%
7	Mateja Širec	Supervisory Board member	36	0.0010%
8	Vesna Stojanović	Supervisory Board member	36	0.0010%
9	Ivan Valand	Supervisory Board member	0	0.0000%
		Total	**72**	**0.0020%**

Movement of closing price per MELR share in the period 1-6 2013, compared to the movement of the SBITOP index



Key information for the shareholders

	June 30, 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)	395,362,905	429,251,154	92.1
Market value of share (in EUR)	105.00	114.00	92.1
Book value per share (in EUR)	200.29	198.82	100.7
Minimum close rate in the period (in EUR)	86.50	111.00	77.9
Maximum close rate in the period (in EUR)	140.05	151.95	92.2
Average close rate in the period (in EUR)	112.30	123.46	91.0

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

At the 19th regular Shareholders Assembly held on June 18, 2012, the shareholders did not vote on any proposal regarding the dividend payment for 2012, because the net income of the company Mercator, d.d., was negative.

Treasury shares

As at June 30, 2013 the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1-6 2013, the company Poslovni sistem Mercator, d. d., neither acquired nor disposed of treasury shares.

The signing of the agreement between the consortium of sellers and Agrokor

After the agreement on the sale of 53-percent share of the company Mercator, d.d., has been reached, on June 14, 2013 the consortium of Mercator shareholders signed an agreement on the sale of the said shareholding.

SUSTAINABILITY REPORT

Our sustainability efforts in the first half of 2013 included strengthening the effects of cost-cutting activities at Mercator Group and expanding the offer of local suppliers 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 control of quality and safety of the Mercator private label and other sales assortment.

In the period 1-6 2013, we thus carried out 327 regular and 4 extraordinary controls at our stores. In order to offer safe and quality products to our consumers, we analyzed 321 specimens or samples from our private label line, conducted monitoring on 450 samples in our open departments, and carried out 201 other analyses (government control, in-house production, own imports etc.).

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.

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

We consolidated the relations with our suppliers in the project "Iz domačih krajev" ("Locally Grown") 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.

We continue to pursue the goal of consistent use of new communication solutions for environmentally friendly offer and services especially in stores and in digital media. A strong emphasis is placed on the following:

- local Slovenian offer of fruit and vegetables;
- offer of different types of bread with traditional regional characteristics;
- expanded offer of regionally characteristic meat produce.

Since April, our butcher's departments offer exclusively freshly served meat from regular offer, grown in Slovenia.

RESPONSIBILITY TO EMPLOYEES

In the first half of 2013, human resource management was focused 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 Slovenia, we took over the employees from the company M - Tehnika, d.d., which had been merged with the parent company. In Croatia and markets of Southeastern Europe, workers from Modiana, Intersport, and Tehnika stores are being transferred to respective trade companies in those markets.

In June 2013, hiring was boosted in units on the Slovenian coast due to seasonal effects.

Number of employees

MARKET	Number of employees as at June 30, 2013	Number of employees as at Dec 31, 2012	Index Number of employees June 30, 2013/ Dec 31, 2012	Number of employees based on hours worked in the period 1-6 2013
Slovenia	11,720	11,794	99.4	11,056
Serbia	4,771	4,764	100.1	4,612
Croatia	3,602	3,627	99.3	3,311
Bosnia and Herzegovina	1,984	2,004	99.0	1,647
Montenegro	1,394	1,417	98.4	1,279
Bulgaria	57	205	27.8	123
Albania	3	109	2.8	3
TOTAL	**23,531**	**23,920**	**98.4**	**22,031**

Caring for development, motivating, and connecting our employees

In Slovenia, we completed the Deputy Store Manager School; a total of 22 groups completed the training, including 344 participants taking a combined total of 5,504 hours. Moreover, the 2nd generation of Mercator's School for Stock Assistants completed their training.

The *Third Regional School for Shop Managers* of the field Mercator operations Southeastern Europe and the *First Regional School for Wholesale Managers* were completed on Kopaonik. It was attended by leaders from retail and wholesale of Mercator companies in Serbia, Montenegro, and Bosnia and Herzegovina.

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

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. Three new e-seminars were added to the e-classroom: Introduction to project management, How to successfully manage stress, and Tick-borne aseptic meningitis.

Coaching system is being implemented in all markets. Our internal coaches are already at work.

On May 22, 2013 the traditional *13th Mercator Internal Instructor Convention* was held at the Ljubljana Exhibition and Convention Center.

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

At Mercator - S, d.o.o., training courses were held in order to improve the quality of service and to develop selling skills of the employees in technical consumer goods retail units.

Employees from the Intersport ISI, d. o. o., retail were trained as a part of the project "Permanent Career Orientation for Employers and Employees", co-financed by the Public Fund of the Republic of Slovenia for Development of Human Resources and Scholarships.

A new editorial board was appointed for MercatorNet, the intranet service of Mercator, d.d.

At Intersport ISI, d.o.o., five top employees in retail and six top employees in logistics are rewarded each month. At Mercator - S, d.o.o., and Mercator - CG, d.o.o., we selected 10 best sales assistants – representatives of the campaign "Roda – a Good Sign" (20th anniversary of Roda operations in the market), which were seen as being the best in promoting the friendliness and corporate values.

In Slovenia, two *cooking team-building* sessions were held, intended for the best teams as a form of non-cash reward. We also launched the *team-building workshops* on Vogel. At Mercator - BH, d.o.o., we held a *motivational team-building* session for leaders and the best employees in administration. They visited Hutovo blato, Počitelj, and Mostar.

In Slovenia, we carried out the healthcare campaign Measurement of Arterial Circulatory System. The measurements took place at 24 Mercator units across Slovenia; they were conducted on 978 employees. We also organized a "Safe Work Week" – a week without cuts.

On June 30, 2013, Mercator Society of Sports and Culture had 460 members.

for aid to employees in social and economic distress.

In Serbia, the Mercator Solidarity Foundation provided aid to 9 employees in the total sum of EUR 4,500. In Montenegro, the Solidarity Foundation helped 19 employees by providing aid in the total value of EUR 4,400. In Slovenia, Mercator Humanitarian Foundation provided a total of nearly EUR 24 thousand of aid to 44 employees requiring assistance.

Solidarity foundations were established at Mercator - S, d.o.o., and Mercator - CG, d.o.o. Employees will contribute funds to the foundation

RESPONSIBILITY TO NATURAL ENVIRONMENT

Reducing power consumption and heating fuel

Based on positive results of the pilot project of "Retail Care" central control and management of refrigeration equipment, the project to implement such central control at 51 major stores was confirmed.

A pilot project for energy savings through energy contacting is being prepared with three selected partners; energy savings of up to 5% are expected.

We replaced the existing fluorescent lighting with LED lighting at seven select facilities, including 4 garages and 7 outdoor and indoor lightboxes.

Five new combined heat and power devices were installed; restoration of two boiler rooms includes preparing an application for grants through the "GEN I" program; and discussions about the restoration of the heating oil and liquefied petroleum gas boiler rooms or replacement with heat pumps, by employing the energy performance contracting method, are also in progress.

Cutting the use of natural resources and waste generation

In order to increase the amount of waste sorted at the source, we upgraded the waste sorting system for our employees at the administration offices on Dunajska cesta and Slovenčeva ulica. We also installed new waste sorting islands for separate collection of waste paper, packaging, organic waste, and other waste in the hallways of our administration buildings.

In five stores, we are taking measures to reduce noise emissions into the environment. At one location, we made repairs to the HVAC system to decrease the noise generated.

We successfully completed the external audit of our environmental management system according to the ISO 14001 standard.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Donations and sponsorships

Despite the harsh economic conditions, Mercator Group continues to provide sponsorships and donations in 2013 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 as we are looking to contribute to the improvement of the current social conditions by supporting them. **Over 800 projects** were supported in the first half of year 2013.

Our humanitarian efforts included donations to:

- Friends of the Youth Association Moste Polje for families in social distress, to White Ring of Slovenia to aid the victims of violence, the Tinkerbell (Palčica) Shelter Home in Grosuplje, and Shelter Home in Pilštanj;
- Okrešelj Foundation for the children of fatally injured rescue team members;
- Food Bank in Montenegro;
- homes for juvenile orphans in Croatia (to which we donated 5 tons of fruit and vegetables);
- charitable organizations in Zagreb by donating bread;
- 90 families in Croatia by donating food packages.

In sports, we sponsored:

- finals of the ski jumping World Cup in Planica 2013;
- team handball clubs Krim Mercator and Celje Pivovarna Laško;
- Ski Association of Slovenia;
- hike along the wire around occupied Ljubljana;
- Tour of Slovenia bicycle race;
- wheelchair basketball team of the Society of Paraplegics of the Ljubljana Region;
- Mateja Pintar, a para (wheelchair) table tennis player; Nejc Žnidaršič, whitewater kayaker; Manca Notar, stand-up paddle surfer.

We sponsored the following cultural events:

- "Kurentovanje" carnival in Ptuj;
- Dragon's Children's Games Festival in Novi Sad;
- the Golden Subscription at the Cankarjev Dom;
- the international FineWine&GoodFood show in Sarajevo.

In education, we sponsored:

- regional conference Agrobiznis in Belgrade; and
- national competition in sales techniques for high school students, taking place in Slovenj Gradec.

RESPONSIBILITY TO SUPPLIERS

Inclusion of suppliers into expansion of Slovenian and local offer for our customers

Fresh fruit and vegetables of Slovenian origins

Our strategy in this field is to purchase as much fruit and vegetables of Slovenian origin as possible. Excess of demand for Slovenian vegetables over supply in this year is addressed by long-term agreements on planned purchase volumes, which are signed with Slovenian farmers, small growers, and cooperatives.

Slovenian suppliers, farmers, and small growers are included in sustainability projects. Offer of fruit and vegetable at Mercator farmer's markets already includes over 100 small growers and 12 farmers' cooperatives.

In June, we offered our customers Slovenian seasonal vegetables: tomatoes, several types of lettuce, cucumbers, zucchini, fresh garlic, black (Spanish) radish, radish, kohlrabi, apples, strawberries, as well as baby potatoes and fresh cabbage. During the summer when fruit and vegetable crops are the most abundant, we offer our customers over 40 sorts of fruit and vegetables from all over Slovenia.

Locally grown fresh meat

In the second half of 2013, eleven top Slovenian meat producers started to supply fresh pork, beef, veal, and poultry grown in Slovenia. By including the meat grown in Slovenia in to our regular offer, we are ensuring traceability and better quality of meat from the aspect of attaining the healthcare standards and increasing the share of self-sufficiency.

OUR RESPONSIBILITY AND CARE FOR QUALITY

Maintenance, implementation, and certification of international quality management systems

Mercator Group currently holds 13 active quality certificates.

We are conducting activities to prepare for the external/independent audits. Five external audits were carried out in the period 1-6 2013; subsequent audits will take place in September.

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

Mercator Standards collection currently includes **3,123** valid documents. In the period 1-6 2013, we published **362** new or revised documents; **94** documents were archived.

Application for managing non-compliance, recommendations and praises, and corrective and preventive measures received **364** entries of which **277** were resolved. **87** entries are currently being resolved, of which the resolution of **12** entries is overdue.

Systemic monitoring of quality management processes

In the period 1-6 2013, we monitored and analyzed environmental indicators for individual environmental aspects at Mercator Group companies.

In the period 1-6 2013, the following applies to the 9 companies of the Mercator Group:

- cost of energy amounted to EUR 18.61 million; specific energy cost was EUR 11.79 per square meter;
- carbon dioxide emissions from fuel and energy consumed amounted to 140,565 tons of CO_2; specific emission was 89.02 kg of CO_2/m^2;
- Electric energy consumption amounted to 158.45 GWh; specific power consumption stood at 100.34 kWh/m^2.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d. d., for the period 1-6 2013 have been prepared in compliance with International Financial Reporting Standards and they are unaudited.

Following are the comparable statements for the period 1-6, 2012 in terms of recognition of the expenses that are equal in the comparable statements to the actually incurred expenses in the period 1-6 2012. In the statements disclosed for the period 1-6, 2012, the expenses were accrued or deferred within the year in order to be brought into line with the generated economic benefit (revenue) during the year, considering the seasonal dynamics.

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 1-6 2013 include 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.;
- 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 Macedonia, 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 the "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	June 30, 2013	Dec. 31, 2012	June 30, 2012 comparable	Index June 30, 2013/ Dec. 31, 2012	Index June 30, 2013/ June 30, 2012 comparable
ASSETS					
Non-current assets					
Property, plant and equipment	1,849,617	1,874,735	1,870,958	98.7	98.9
Investment property	2,369	3,194	3,506	74.2	67.6
Intangible assets	17,626	18,387	43,584	95.9	40.4
Deferred tax assets	20,250	20,378	9,141	99.4	221.5
Loans and deposits	56,744	50,034	65,385	113.4	86.8
Available-for-sale financial assets	1,057	1,069	2,704	98.9	39.1
	1,947,663	**1,967,797**	**1,995,278**	**99.0**	**97.6**
Current assets					
Inventories	244,254	267,711	274,553	91.2	89.0
Trade and other receivables	278,367	239,998	274,772	116.0	101.3
Current tax assets	1,269	6,462	3,948	19.6	32.1
Loans and deposits	2,303	2,839	1,573	81.1	146.4
Derivative financial instruments	77	1	27	7,700.0	285.2
Cash and cash equivalents	36,999	38,012	24,898	97.3	148.6
	563,269	**555,023**	**579,771**	**101.5**	**97.2**
Total assets	**2,510,932**	**2,522,820**	**2,575,049**	**99.5**	**97.5**
EQUITY					
Share capital	157,129	157,129	157,129	100.0	100.0
Share premium	198,872	198,872	198,872	100.0	100.0
Treasury shares	(3,235)	(3,235)	(3,235)	100.0	100.0
Revenue reserves	197,045	197,045	260,552	100.0	75.6
Fair value reserve	239,808	240,762	193,059	99.6	124.2
Retained earnings	(45,399)	(21,714)	(2,010)	209.1	2,258.7
Profit (loss) for the period	(15,135)	(26,953)	(18,866)	56.2	80.2
Currency translation reserve	(75,496)	(78,819)	(84,924)	95.8	88.9
Total equity attributable to equity owners of the Company	**653,589**	**663,087**	**700,577**	**98.6**	**93.3**
Non-controlling interests	**150**	**162**	**209**	**92.6**	**71.8**
Total equity	**653,739**	**663,249**	**700,786**	**98.6**	**93.3**
LIABILITIES					
Non-current liabilities					
Trade and other payables	2,349	2,462	3,566	95.4	65.9
Financial liabilities	437,453	593,841	743,889	73.7	58.8
Deferred tax liabilities	51,910	52,640	45,596	98.6	113.8
Provisions	29,817	31,459	29,805	94.8	100.0
	521,529	**680,402**	**822,856**	**76.7**	**63.4**
Current liabilities					
Trade and other payables	685,520	672,858	669,191	101.9	102.4
Current tax liabilities	11	163	3,059	6.7	0.4
Financial liabilities	646,883	500,879	373,782	129.1	173.1
Derivative financial instruments	3,250	5,269	5,375	61.7	60.5
	1,335,664	**1,179,169**	**1,051,407**	**113.3**	**127.0**
Total liabilities	**1,857,193**	**1,859,571**	**1,874,263**	**99.9**	**99.1**
Total equity and liabilities	**2,510,932**	**2,522,820**	**2,575,049**	**99.5**	**97.5**

Condensed consolidated income statement

EUR thousand	1-6 2013	Plan 2013	1-6 2012 comparable	1-6 2012	Index 1-6 2013/ 1-6 2012 comparable	Index 1-6 2013/ Plan 2013
Revenue	1,356,426	2,900,526	1,402,022	1,402,022	96.7	46.8
Cost of goods sold and selling costs	(1,308,404)	(2,757,602)	(1,335,773)	(1,333,714)	98.0	47.4
Administrative expenses	(47,294)	(89,633)	(55,326)	(55,042)	85.5	52.8
Other income	10,619	11,456	11,238	11,238	94.5	92.7
Results from operating activities	**11,346**	**64,747**	**22,161**	**24,504**	**51.2**	**17.5**
Finance income	2,306	4,062	2,170	2,170	106.3	56.8
Finance expenses	(28,720)	(62,739)	(39,992)	(39,992)	71.8	45.8
Net finance expense	**(26,414)**	**(58,677)**	**(37,822)**	**(37,822)**	**69.8**	**45.0**
Profit (loss) before tax	**(15,067)**	**6,070**	**(15,661)**	**(13,318)**	**96.2**	**-**
Tax expense	(82)	(3,045)	(3,218)	(3,218)	2.5	2.7
Profit (loss) for the period	**(15,149)**	**3,025**	**(18,879)**	**(16,536)**	**80.2**	**-**
Profit (loss) for the period attributable to:						
Owners of the parent company	(15,135)	3,025	(18,866)	(16,523)	80.2	-
Non-controlling interests	(14)	-	(13)	(13)	107.7	-

Condensed consolidated statement of comprehensive income

EUR thousand	1-6 2013	1-6 2012 comparable	1-6 2012	Index 1-6 2013/ 1-6 2012 comparable
Profit (loss) for the period	**(15,149)**	**(18,879)**	**(16,536)**	**80.2**
Other comprehensive income				
Foreign currency translation differences - foreign operations	3,325	(24,648)	(24,648)	-
Change in fair value of cash flow hedges	2,011	(945)	(945)	-
Deferred taxes	303	3,847	3,847	7.9
Other comprehensive income for the period	**5,639**	**(21,746)**	**(21,746)**	**-**
Total comprehensive income for the period	**(9,510)**	**(40,625)**	**(38,282)**	**23.4**
Total comprehensive income for the period attributable to:				
Owners of the parent company	(9,498)	(40,613)	(38,270)	23.4
Non-controlling interests	(12)	(12)	(12)	100.0

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
Balance at January 1, 2012	**157,129**	**198,872**	**(3,235)**	**260,552**	**192,209**	**10,294**	**7,983**	**(60,275)**	**763,529**	**221**	**763,750**
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(18,866)	-	(18,866)	(13)	(18,879)
Other comprehensive income	-	-	-	-	850	2,052	-	(24,649)	(21,747)	1	(21,746)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**850**	**2,052**	**(18,866)**	**(24,649)**	**(40,613)**	**(12)**	**(40,625)**
Transactions with owners of the parent company directly recognized in equity											
Dividends to equity holders	-	-	-	-	-	(22,339)	-	-	(22,339)	-	(22,339)
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**-**	**(22,339)**	**-**	**-**	**(22,339)**	**-**	**(22,339)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	7,983	(7,983)	-	-	-	-
Balance at June 30, 2012 (comparable)	**157,129**	**198,872**	**(3,235)**	**260,552**	**193,059**	**(2,010)**	**(18,866)**	**(84,924)**	**700,577**	**209**	**700,786**

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	-	-	-	-	-	-	(15,135)	-	(15,135)	(14)	(15,149)
Other comprehensive income	-	-	-	-	(954)	3,268	-	3,323	5,637	2	5,639
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(954)**	**3,268**	**(15,135)**	**3,323**	**(9,498)**	**(12)**	**(9,510)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	(26,953)	26,953	-	-	-	-
Balance at June 30, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**239,808**	**(45,399)**	**(15,135)**	**(75,496)**	**653,589**	**150**	**653,739**

Condensed consolidated statement of cash flows

EUR thousand	1-6 2013	1-6 2012 comparable	1-6 2012	Index 1-6 2013/ 1-6 2012 comparable
Cash flows from operating activities				
Gross cash flows from operating activities	**48,859**	**57,812**	**59,241**	**84.5**
Change in inventories	23,457	35,717	35,717	65.7
Change in trade and other receivables	(39,886)	(31,201)	(31,201)	127.8
Change in trade and other payables	6,826	89,443	88,014	7.6
	39,257	**151,771**	**151,771**	**25.9**
Interest paid	(24,371)	(26,569)	(26,569)	91.7
Income tax paid	(501)	(2,747)	(2,747)	18.2
Net cash from operating activities	**14,385**	**122,455**	**122,455**	**11.7**
Cash flows from investing activities				
Acquisition of subsidiaries and business operations, net of cash acquired	-	(442)	(442)	-
Acquisition of property, plant and equipment and investment property	(7,545)	(35,163)	(35,163)	21.5
Acquisition of intangible assets	(2,629)	(2,119)	(2,119)	124.1
Acquisition of available-for-sale financial assets	-	(5)	(5)	-
Proceeds from sale of property, plant and equipment and investment property	2,980	1,067	1,067	279.3
Proceeds from sale of intangible assets	-	12	12	-
Proceeds from sale of available-for-sale financial assets	9	-	-	-
Interest received	1,482	1,422	1,422	104.2
Dividends income	-	94	94	-
Loans and deposits repayments received	536	837	837	64.1
				-
Net cash used in investing activities	**(5,167)**	**(34,297)**	**(34,297)**	**15.1**
Cash flows from financing activities				
Increase (repayment) in borrowings	(10,384)	(68,046)	(68,046)	15.3
Dividends paid	(6)	(21,336)	(21,336)	0.0
Net cash from (used in) financing activities	**(10,390)**	**(89,382)**	**(89,382)**	**11.6**
Net (decrease) increase in cash and cash equivalents	**(1,172)**	**(1,224)**	**(1,224)**	95.8
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	159	(1,418)	(1,418)	-
				-
Cash and cash equivalents as at the end of the period	**36,999**	**24,898**	**24,898**	**148.6**

Notes to condensed consolidated interim financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1-6 2013, Mercator Group generated EUR 1,356,426 thousand of revenue, which is 3.3 percent less relative to the period 1-6 2012. Revenue dropped by 3.8% in Slovenia and by 2.6% in foreign markets. In Slovenia, the largest drop in revenue relative to the equivalent period of last year was seen in home product program and textile/apparel program. Fast-moving consumer goods retail revenue also declined by 3.8% while wholesale remained at roughly 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 cost of goods sold and selling costs which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,308,404 thousand in the period 1-6 2013, which is a 2-percent decrease on the same period of last year.

Cost of goods sold was lower by 1.8% relative to last year. In the period 1-6 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.

Administrative expenses

Mercator Group's administrative expenses in the period 1-6 2013 amounted to EUR 47,294 thousand, which is 14.5 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 half of 2013. As much as EUR 18,580 thousand was saved in the period at hand.

Total expenses, consisting of selling and marketing costs, production costs (included in costs of goods sold and selling costs), and administrative expenses amounted to EUR 331,815 thousand in the period 1-6 2013, an decrease of 4.6% 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 4.8%. Contributing the most to the decrease are costs of energy and write-off of petty supplies. Costs of services excluding rents were lower by 12.6%, especially insurance premiums, labour-related compensations and reimbursements, and costs of intellectual and personal services. Labour costs were cut by 3.4% in the period 1-6 2013 relative to the last year's comparable period.

Results from operating activities

In the period 1-6 2013, Mercator Group's results from operating activities reached EUR 11,346 thousand, which is 51.2% of the figure for the first half of 2012. 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 26,414 thousand relative to the last year's equivalent period, which is mostly a result of currency translation differences pertaining to the Serbian dinar, and lower interest expense due to lower EURIBOR.

Profit before income tax

In the period 1-6 2013, Mercator Group's profit before income tax was negative at EUR -15,067 thousand.

Profit for the financial period

Mercator Group's net loss for the period 1-6 2013 amounts to EUR -15,149 thousand.

EBITDA

Mercator Group EBITDA in the period 1-6 2013 amounts to EUR 52,709 thousand which is lower by 16.1% 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 1-6 2013 amounts to EUR 82,651 thousand which is lower by

9.5% 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 June 30, 2013 amounted to EUR 2,510,932 thousand, which is EUR 11,888 thousand less than at the end of 2012, mostly due to lower inventories and lower property, plant, and equipment.

As at June 30, 2013 the value of Mercator Group non-current assets amounted to EUR 1,947,663 thousand, which is EUR 20,134 thousand less than as at December 31, 2012. The largest share of non-current assets (96.0% or EUR 1,869,612 thousand) is represented by fixed assets, the value of which was EUR 26,704 thousand lower than as at the end of 2012 as a result of lower investment which was lower than depreciation.

Increase of long-term loans granted and deposits in the first half of 2013 by EUR 6,710 thousand pertains to re-classification of advance payments on rents from trade and other receivables.

As at June 30, 2013 the value of Mercator Group current assets amounts to EUR 563,269 thousand, which is EUR 8,246 thousand more than at the end of 2012. Trade and other receivables represent the largest portion of total current assets (49.4%), followed by inventories (43.4%). Trade and other receivables rose in the first half 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 half dropped by EUR 23,457 thousand.

Equity and liabilities

As at June 30, 2013 Mercator Group equity amounted to EUR 653,739 thousand, which is EUR 9,510 thousand, or 1.4%, less than as at the end of 2012. The decrease is a result of the loss in the amount of EUR -15,135 thousand; other changes in equity were actually increases totalling at EUR 5,640 thousand and pertaining to positive currency translation differences, changes in fair value of risk hedging instruments and deferred taxes.

As at June 30, 2013 total financial liabilities amounted to EUR 1,084,336 thousand, which is EUR 10,384 thousand less than as at the end of 2012. Net financial debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets, amounted to EUR 990,406 thousand as at June 30, 2013 (December 31, 2012: EUR 1,008,034 thousand).

As at June 30, 2013 provisions amounted to EUR 29,817 thousand. Compared to the end of 2012, provisions decreased by EUR 1,642 thousand, mostly due to partial reversal of provisions for reorganization expenses.

Trade and other payables as at June 30, 2013 amounted to EUR 687,869 thousand, which is EUR 12,549 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 June 30, 2013 long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 60.3%, which is 8.0 percentage points less than as at the end of 2012.

CONDENSED 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 associated companies headquartered in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria, Albania, 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 more sensible to apply above all the consolidated financial statements that present an account of the performance of the Mercator Group as a uniform business entity.

Due to the takeover of operations of the company M - Tehnika, d.d., as of June 1, 2013 the financial statements of the company Poslovni sistem Mercator, d.d., are not fully comparable between periods.

Condensed statement of financial position

EUR thousand	June 30, 2013	Dec. 31, 2012	June 30, 2012	Index June 30, 2013/ Dec. 31, 2012	Index June 30, 2013/ June 30, 2012
ASSETS					
Non-current assets					
Property, plant and equipment	1,017,852	1,035,658	1,005,357	98.3	101.2
Investment property	2,369	3,194	3,372	74.2	70.3
Intangible assets	9,821	9,570	10,007	102.6	98.1
Deferred tax assets	18,824	19,200	8,018	98.0	234.8
Loans and deposits	239	268	789	89.2	30.3
Investment into equity of subsidiaries	585,768	557,881	633,617	105.0	92.4
Available-for-sale financial assets	928	928	2,404	100.0	38.6
	1,635,801	**1,626,699**	**1,663,564**	**100.6**	**98.3**
Current assets					
Inventories	100,181	84,225	90,431	118.9	110.8
Trade and other receivables	180,937	138,532	172,947	130.6	104.6
Current tax assets	7	4,962	3,257	0.1	0.2
Loans and deposits	19,981	54,206	58,231	36.9	34.3
Derivative financial instruments	77	1	27	7.700.0	285.2
Cash and cash equivalents	14,436	11,611	8,029	124.3	179.8
	315,619	**293,537**	**332,922**	**107.5**	**94.8**
Total assets	**1,951,420**	**1,920,236**	**1,996,486**	**101.6**	**97.7**
EQUITY					
Share capital	157,129	157,129	157,129	100.0	100.0
Share premium	198,872	198,872	198,872	100.0	100.0
Treasury shares	(3,235)	(3,235)	(3,235)	100.0	100.0
Revenue reserves	171,984	171,984	236,312	100.0	72.8
Fair value reserve	215,096	215,494	194,997	99.8	110.3
Retained earnings	2,557	-	8,240	-	31.0
Profit (loss) for the period	3,321	-	13,249	-	25.1
Equity	**745,724**	**740,244**	**805,564**	**100.7**	**92.6**
LIABILITIES					
Non-current liabilities					
Trade and other payables	1,599	1,599	2,023	100.0	79.0
Financial liabilities	297,449	436,941	566,518	68.1	52.5
Deferred tax liabilities	40,372	40,870	35,501	98.8	113.7
Provisions	41,362	44,101	24,311	93.8	170.1
	380,782	**523,511**	**628,353**	**72.7**	**60.6**
Current liabilities					
Trade and other payables	362,101	324,733	340,757	111.5	106.3
Current tax liabilities	-	-	2,623	-	0.0
Financial liabilities	459,563	326,479	213,814	140.8	214.9
Derivative financial instruments	3,250	5,269	5,375	61.7	60.5
	824,914	**656,481**	**562,569**	**125.7**	**146.6**
Total liabilities	**1,205,696**	**1,179,992**	**1,190,922**	**102.2**	**101.2**
Total equity and liabilities	**1,951,420**	**1,920,236**	**1,996,486**	**101.6**	**97.7**

Condensed income statement

EUR thousand	1-6 2013	Plan 2013	1-6 2012	Index 1-6 2013/ 1-6 2012	Index 1-6 2013/ plan 2013
Revenue	682,370	1,444,753	724,149	94.2	47.2
Cost of goods sold and selling costs	(643,564)	(1,344,854)	(668,657)	96.2	47.9
Administrative expenses	(23,938)	(42,087)	(28,690)	83.4	56.9
Other income	3,868	6,392	6,561	59.0	60.5
Results from operating activities	**18,736**	**64,204**	**33,363**	**56.2**	**29.2**
Finance income	2,790	4,285	3,860	72.3	65.1
Finance expenses	(18,178)	(37,289)	(20,958)	86.7	48.7
Net finance expense	**(15,388)**	**(33,004)**	**(17,098)**	**90.0**	**46.6**
Profit (loss) before tax	**3,348**	**31,200**	**16,265**	**20.6**	**10.7**
Tax expense	(27)	(2,892)	(3,016)	0.9	0.9
Profit (loss) for the period	**3,321**	**28,308**	**13,249**	**25.1**	**11.7**

Condensed statement of comprehensive income

EUR thousand	1-6 2013	1-6 2012	Index 1-6 2013/ 1-6 2012
Profit (loss) for the period	**3,321**	**13,249**	**25.1**
Other comprehensive income			
Change in fair value of cash flow hedges	2,011	(944)	-
Deferred taxes	148	3,803	3.9
Disposal of investment in subsidiary	-	3,246	-
Other comprehensive income for the period	**2,159**	**6,105**	**35.4**
Total comprehensive income for the period	**5,480**	**19,354**	**28.3**

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
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	-	-	-	-	-	-	13,249	13,249
Other comprehensive income	-	-	-	-	4,346	1,759	-	6,105
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**4,346**	**1,759**	**13,249**	**19,354**
Transactions with owners of the parent company directly recognized in equity								
Contributions by and distributions to owners								
Dividends to equity holders	-	-	-	-	-	(22,339)	-	(22,339)
Total transactions with holders	**-**	**-**	**-**	**-**	**-**	**(22,339)**	**-**	**(22,339)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	15,574	(15,574)	-
Balance at June 30, 2012	**157,129**	**198,872**	**(3,235)**	**236,312**	**194,997**	**8,240**	**13,249**	**805,564**

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	-	-	-	-	-	-	3,321	3,321
Other comprehensive income	-	-	-	-	(398)	2,557	-	2,159
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(398)**	**2,557**	**3,321**	**5,480**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**			
Balance at June 30, 2013	**157,129**	**198,872**	**(3,235)**	**171,984**	**215,096**	**2,557**	**3,321**	**745,724**

Condensed statement of cash flows

EUR thousand	1-6 2013	1-6 2012	Index 1-6 2013/ 1-6 2012
Cash flows from operating activities			
Gross cash flows from operating activities	**37,689**	**49,871**	**75.6**
Change in inventories	(15,956)	45,572	-
Change in trade and other receivables	(42,405)	(9,829)	431.4
Change in trade and other payables	39,740	36,841	**107.9**
	19,068	**122,455**	15.6
Net exchange rate differences from financing	(2)	**-**	-
Interest paid	(16,872)	(18,777)	89.9
Income tax paid	-	(2,625)	-
Net cash from operating activities	**2,194**	**101,053**	**2.2**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	(27,963)	(14,481)	193.1
Acquisition of property, plant and equipment and investment property	(1,344)	(23,071)	5.8
Acquisition of intangible assets	(2,049)	(1,355)	151.2
Acquisition of available-for-sale financial assets	-	(5)	-
Loans and bank deposits made	-	(23,574)	-
Disposal of subsidiaries, net of cash disposed of	73	17,967	0.4
Proceeds from sale of property, plant and equipment and investment property	1,693	4,068	41.6
Proceeds from sale of intangible assets	-	12	-
Interest received	2,382	1,853	128.5
Dividends income	-	93	-
Loans and deposits repayments received	34,253	-	-
Net cash used in investing activities	**7,045**	**(38,493)**	**-**
Cash flows from financing activities			
Increase (repayment) in borrowings	(6,408)	(43,263)	14.8
Dividends paid	(6)	(21,336)	0.0
Net cash from (used in) financing activities	**(6,414)**	**(64,599)**	**9.9**
Net (decrease) increase in cash and cash equivalents	**2,825**	**(2,039)**	**-**
Cash and cash equivalents at the beginning of the year	11,611	10,068	115.3
Cash and cash equivalents as at the end of the period	**14,436**	**8,029**	**179.8**

Notes to interim financial statements

Notes to condensed income statement

Due to the takeover of operations of the company M - Tehnika, d.d., as of June 1, 2013 the financial statements of the company Poslovni sistem Mercator, d.d., are not fully comparable between periods.

Revenue

In the period 1-6 2013, the company Mercator, d.d., generated EUR 682,370 thousand of revenue, which is 5.8 percent less relative to the period 1-6 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 goods sold and selling costs which include the cost of goods sold, selling and marketing costs, and other expenses, amounted to EUR 643,564 thousand in the period 1-6 2013, which is a 3.8-percent decrease on the same period of last year.

Cost of goods sold was lower by 4.5% relative to last year. Other expenses were lower by 64.1% in the period 1-6 2013.

Administrative expenses

Administrative expenses of the company in the period 1-6 2013 amounted to EUR 23,938 thousand, which is 16.6 percent less than in the equivalent period last year.

Total expenses, consisting of selling and marketing costs (included in costs of sales), and administrative expenses amounted to EUR 166,331 thousand in the first half of 2013, a decrease of 3.4% on the last year's figure for such period. The highest drop was seen in costs of services (by 9.7%) and costs of material (by 7.4%).

Results from operating activities

In the period 1-6 2013, results from operating activities of the company Mercator, d.d., reached EUR 18,736 thousand, which is 43.8% 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 1,710 thousand relative to the last year's equivalent period, which is mostly a result of lower interest expenses.

Profit before income tax

The company's profit before income tax for the period 1-6 2013 amounts to EUR 3,348 thousand, which is 20.6% of the figure from the comparable period of last year.

Profit for the financial period

The company's net loss for the period 1-6 2013 amounts to EUR 3,321 thousand.

EBITDA

Mercator, d.d., EBITDA in the period 1-6 2013 amounts to EUR 39,253 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 1-6 2013 amounts to EUR 45,376 thousand which is 22.4% lower than in the equivalent period of last year.

Notes to condensed statement of financial position

Assets

Mercator, d.d., assets as at June 30, 2013 amounted to EUR 1,951,420 thousand, which is EUR 31,184 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 June 30, 2013 the value of the company's non-current assets amounted to EUR 1,635,801 thousand, which is EUR 9,102 thousand more than as at December 31, 2012. The largest share of non-current assets (63.0% or EUR 1,030,042 thousand) is represented by fixed assets, the value of which was EUR 18,380 thousand lower than as at the end of 2012 as a result of lower investment which was lower than depreciation.

As at June 30, 2013 the value of the company's current assets amounts to EUR 315,619 thousand, which is EUR 22,082 thousand more than as the end of 2012. Trade and other receivables represent the largest portion of total current assets (57.3%), followed by inventories (31.7%). In the first half of 2013, the company continued intensive implementation of the measures for efficient working capital management. As at June 30, 2013, inventory is higher than as at the end of last year by EUR 15,956 thousand, which is a result of the takeover of the company M - Tehnika, d.d.

Equity and liabilities

As at June 30, 2013 equity of the company Poslovni sistem Mercator, d.d., amounted to EUR 745,724 thousand, which is EUR 5,480 thousand, or 0.7%, more than as at the end of 2012. The increase includes the profit for the period of EUR 3,321 thousand and equity increase of EUR 2,159 thousand as a result of the change in the value of derivative financial instruments and deferred taxes.

As at June 30, 2013 total financial liabilities amounted to EUR 757,012 thousand, which is EUR 6,408 thousand less than as at the end of 2012.

As at June 30, 2013 provisions amounted to EUR 41,362 thousand. Compared to the end of 2012, provisions decreased by EUR 2,739 thousand, mostly due to partial reversal of provisions for exit from the markets of Bulgaria and Albania.

Trade and other payables as at June 30, 2013 amounted to EUR 363,700 thousand, which is EUR 37,368 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. Trade payables were also increased as a result of the merger of the company M - Tehnika, d.d., as of June 1, 2013.

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, August 27, 2013