



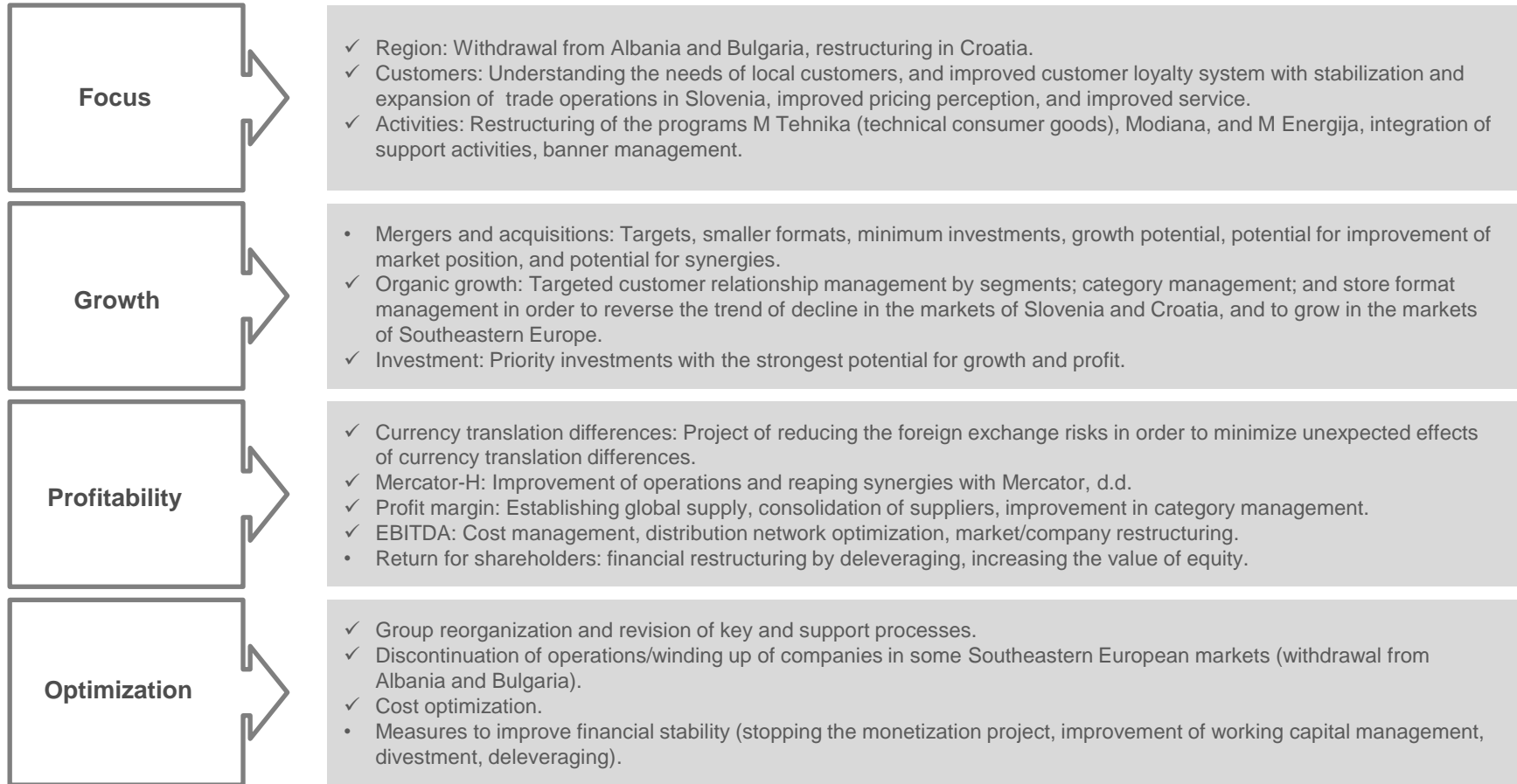
# Operations and performance of Mercator Group and the company Poslovni sistem Mercator, d.d., in the period I–VI 2013

Ljubljana, August 28, 2013



**Mercator**

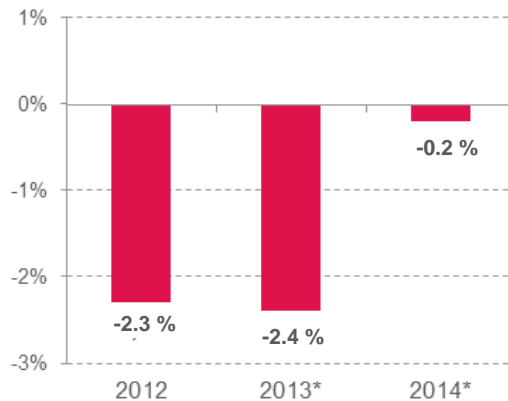
# Implementation of the strategy: stabilization of market position from first quarter onwards, changed profitability trend since the second quarter onwards



**Market conditions are increasingly harsh as a result of changes in consumer behaviour in response to the drop in purchasing power, severe macroeconomic conditions (drop in GDP, poor market liquidity), and fiscal consolidation measures (increased VAT rate).**

In Slovenia, GDP continues to fall, which has a negative impact on consumption.

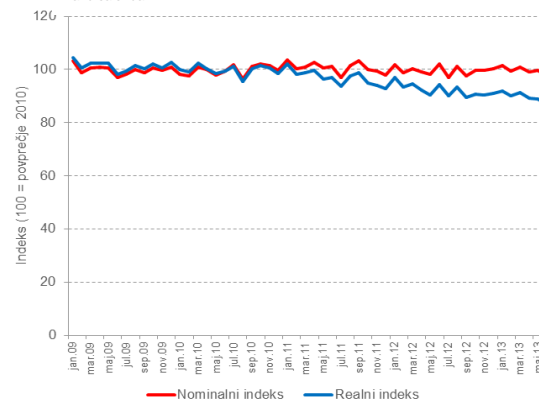
**BDP (real growth)**



Source: SURS

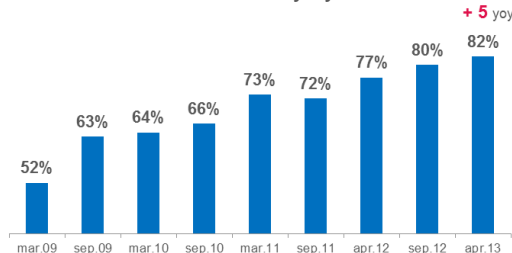
**Retail with food, beverages and tobacco products**

Real index (adjusted for inflation) and normalized index, adjusted for season and calendar.



Source: SURS

**Personal filling of effect of economic crisis on everyday life**



Source: Trženjski monitor, DMS

**Which product / service you have given up in the last year due to the recession? (spontaneous claims; spring measurement yearly comparison)**

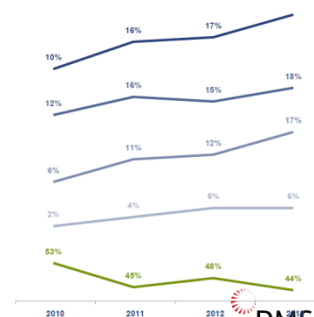
1. place: Clothes, shoes

2. place: Vacations

3. place: Food, beverages

6. place: Horeca

Answer „nothing“



Trženjski monitor

Mercator

## Macroeconomic conditions in foreign markets

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Macroeconomic conditions are harsh in foreign markets as well.

Short-term indicators of economic activity and confidence indicators point to persistently sluggish economic activity :

- Serbia, forecast: GDP growth at 2.0%; inflation rate at 9.8%
- Croatia, forecast: GDP growth at 1.9%; inflation rate at 3.1%
- BiH, forecast: low GDP growth of 0.1%, with inflation rate at 1.7%
- Montenegro, forecast: GDP growth at 0.8%; inflation rate at 2.7%

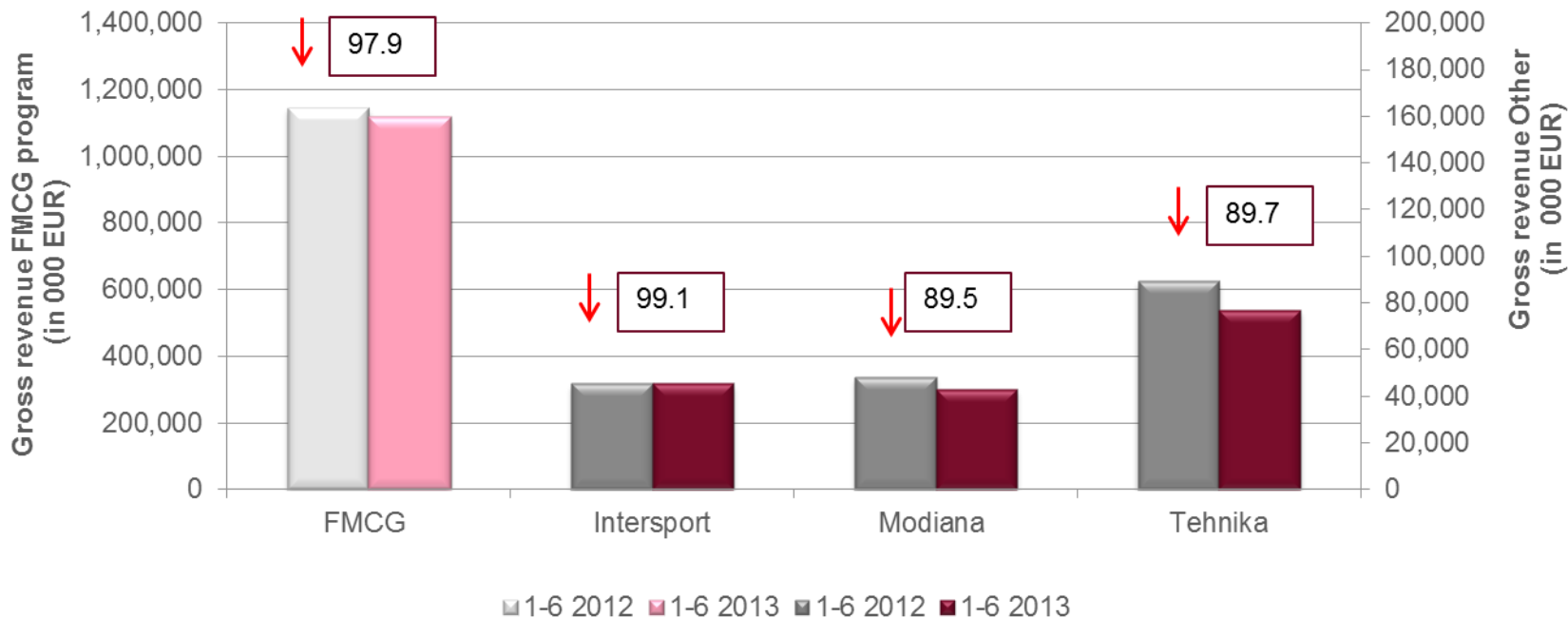
**Mercator Group loss is decreasing. Loss in Q2 2013 is lower than the loss in Q1 2013.**

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### Mercator Group performance in Q1 and Q2 2013

	1-3 2013	4-6 2013	Index 4-6 2013 / 1-3 2013
Revenue (EUR thousand)	658,417	698,009	106.0
Profit for the financial period (EUR thousand)	(8,634)	(6,515)	75.5
Capital expenditure (EUR thousand)	4,490	5,684	126.6
EBITDAR / revenue	5.6%	6.6%	117.7

## Business performance of Modiana and M-Tehnika are most effected by harsh economic conditions.



## Cost reduction was higher than planned in the first half of 2013. By the end of the year, the cost-cutting plan will have been exceeded.

We succeeded in cutting our operating costs by implementing appropriate cost rationalization measures.

Savings of EUR 18.6 million in the period 1-6 2013 relative to the equivalent period of last year.

- Material costs lower by EUR 1.9 million
- Service costs lower by EUR 9.3 million
- Labour costs: EUR 4.9 million
- Other expenses: EUR 0.39 million

Breaking down by categories, the highest savings were attained in the following items:

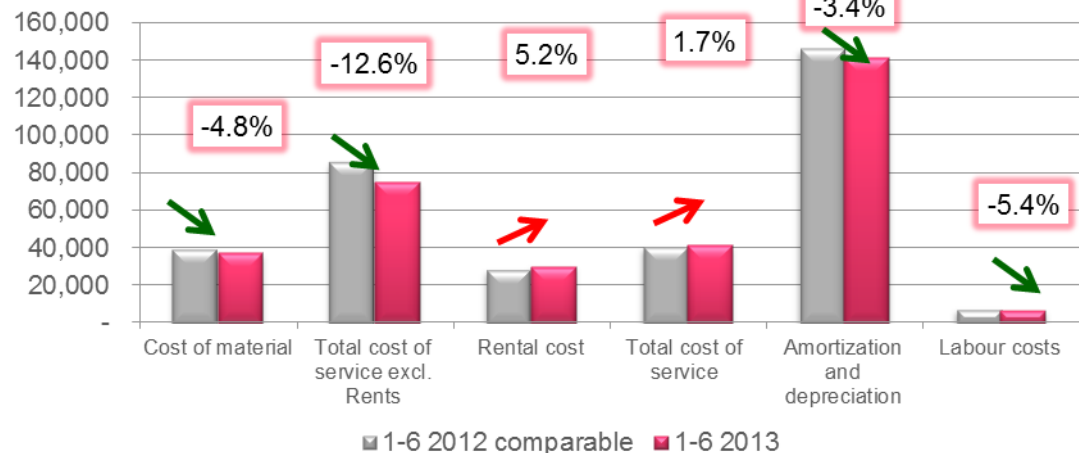
Cost of material

- Energy costs: EUR 0.59 million

Costs of services

- Costs of intellectual and personal services: EUR 4.1 million
- Insurance costs: EUR 0.77 million
- Transport and telecommunication costs: EUR 0.76 million
- Cost of commute, daily allowances, and travel: EUR 0.29 million
- Costs of marketing services, entertainment, and sponsorships: EUR 0.79 million

Higher rental expenses by EUR 1.47 million due to newly opened units in 2012 did not affect the results in the first half of 2012



**In the first half of 2013 indebtedness of Mercator Group has decreased by EUR 18 million and reached the value under EUR 1 billion for the first time after 2009.**

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## **Mercator Group net financial debt as at June 30, 2013**

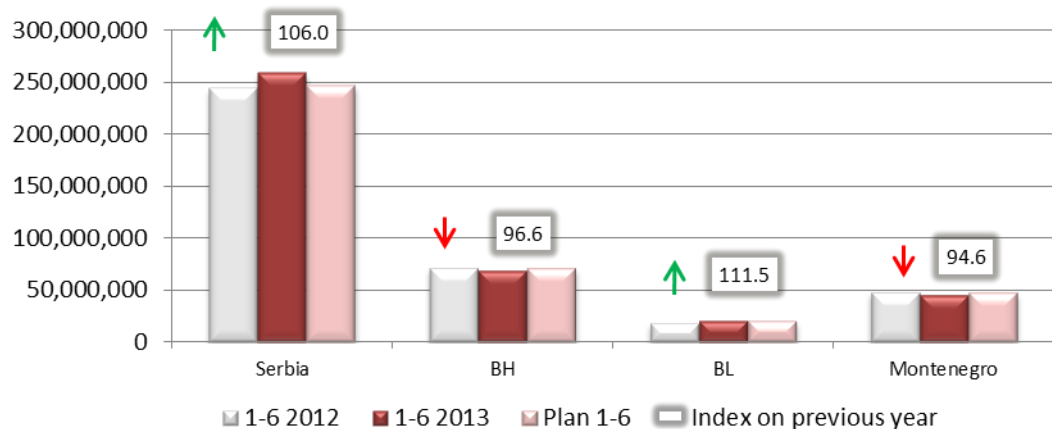
<b>in EUR thousand</b>	<b>Dec 31, 2012</b>	<b>June 30, 2013</b>	<b>Index June 30, 2013/ Dec 31, 2012</b>
Non-current financial liabilities	593,841	437,453	73.7
Current financial liabilities	500,879	646,883	129.1
Derivative financial instruments (liabilities)	5,269	3,250	61.7
<b>Financial liabilities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



# Operations in the Southeastern European markets in the first half of 2013

was better than planned.

in 000 EUR	Revenue			EBITDA			EBITDAR			Profit for the financial period		
			Index			Index			Index			Index
	1-6 2013	Plan 1-6 2013	1-6 2013	1-6 2013	Plan 1-6 2013	1-6 2013	1-6 2013	Plan 1-6 2013	1-6 2013	1-6 2013	Plan 1-6 2013	1-6 2013
Mercator - S, d.o.o.	274,626	260,531	105.4	14,017	12,686	110.5	21,857	20,379	107.3	2,737	759	360.6
Mercator - BH, d.o.o.	70,282	72,177	97.4	2,253	1,930	116.7	5,042	4,882	103.3	739	(424)	-
M - BL, d.o.o.	19,776	19,955	99.1	1,398	1,404	99.6	2,348	2,345	100.2	641	557	115.0
Mercator - CG, d.o.o.	45,589	45,829	99.5	385	256	150.5	3,207	3,076	104.3	(365)	(455)	80.3



Gross revenue of Mercator-S, and M-BL, was improved in the period 1-6, 2013; it exceeds the planned values.

## In Croatia, the performance trend is improving in Q2 2013.

### Operations of Mercator–H in the first half of 2012 and 2013, and in Q1 and Q2, 2013

In 000 EUR	1-3 2012	4-6 2012	1-6 2012	1-3 2013	4-6 2013	1-6 2013	Index	Index
							4-6 2013 / 1-3 2013	1-6 2013 / 1-6 2012
<b>Revenue</b>	81,746	101,119	182,865	72,597	85,398	157,995	117.6	86.4
<b>Profit for the financial period</b>	(6,928)	(7,103)	(14,031)	(7,923)	(7,115)	(15,038)	89.8	107.2
<b>EBITDA</b>	(1,054)	167	(887)	(2,295)	(1,346)	(3,641)	58.6	410.5
<b>EBITDAR</b>	2,708	5,088	7,796	1,384	2,636	4,020	190.5	51.6

## Major structural changes carried out at M–Tehnika and Modiana which has been reflected in the improvement in their operations in Q2 2013.

- Seasonal dynamics of the technical program and closing the program of furniture carried out in the first quarter of this year had a positive impact on the Mercator Tehnika performance in the Q2.
- Implementation of increased sales in the month of February negatively affected the performance of the company Modiana in the first quarter. In the second quarter positive effects of closing down unprofitable units and improved category management are already showing.

Tehnika Group						
	1-6 2012	1-3 2013	4-6 2013	1-6 2013	Index 4-6 2013 / 1-3 2013	Index 1-6 2013 / 1-6 2012
Revenue	74,076	26,936	33,504	60,440	124.4	81.6
EBITDA	(3,528)	(2,711)	193	(2,518)	-	71.4
EBITDA margin	(4.8%)	(10.1%)	0.6%	(4.2%)	-	87.5

Modiana Group						
	1-6 2012	1-3 2013	4-6 2013	1-6 2013	Index 4-6 2013 / 1-3 2013	Index 1-6 2013 / 1-6 2012
Revenue	39,881	18,319	17,198	35,517	93.9	89.1
EBITDA	(2,298)	(2,317)	(409)	(2,726)	17.7	118.6
EBITDA margin	(5.8%)	(12.6%)	(2.4%)	(7.7%)	18.8	133.2

## Withdrawal from the markets of Albania and Bulgaria was more successful than planned.

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### Bulgaria

- On July 1, 2013 the last business unit in Bulgaria was closed down.
- The number of employees was reduced to minimum (5 employees); all inventories and equipment were sold.
- Performance of the company in Bulgaria in 2013 did not have a negative impact on the Group performance – market exit provisions recognized in 2013 sufficed to cover the exit expenses.

### Albania

- The last business unit was closed down on December 31, 2012.

**Loss generated in the first half of 2013 was lower than the loss generated in the same period of last year. Business performance in June and July was positive.**

	1-6 2012	1-6 2013	Index 1-6 2013 / 1-6 2012
Revenue (EUR thousand)	1,402,022	1,356,426	96.7
Profit for the financial period (EUR thousand)	(18,879)	(15,149)	80.2
Capital expenditure (EUR thousand)	37,281	10,174	27.3
EBITDAR / revenue	6.5%	6.1%	93.6
Number of employees based on hours worked	22,998	22,031	95.8

- net loss in first half of the year was additionally affected by unplanned costs related to sale process and process of financial restructuring, and
- higher amortization and depreciation as a result of the revaluation of assets at the end of last year.
- **Business trends in recent months, despite the adverse conditions in the markets, are improving.**

## Key challenges for Mercator Group

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Improve profitability and performance of Mercator Group despite the harsh macroeconomic conditions in the market (changes in shopping behaviour due to lower purchasing power, drop in GDP, poor market liquidity, higher VAT rate).

Ensuring a stable financial structure of Mercator Group, which will be sustainable in the long run and which will have a positive impact on profitability.

Positive results of subsidiaries after the negative trend in their performance was successfully stopped in the first half of the year by revitalization measures.

Compliance with the commitments specified in the agreement between the Consortium of Sellers and Agrokor will be ensured.

Successful continuation of the restructuring process, which is currently one of the most complex projects of this kind in this part of Europe.

## **In 2013, Mercator Group will continue to implement measures to improve cost efficiency.**

- Further cost rationalization will be implemented with regard to costs of material and services.
- The number of employees will not be decreased further by the end of 2013.
- Further consolidation of suppliers and complexity of assortment (assortment rationalization, further consolidation of suppliers, especially for the private label).

# Marketing activities will be targeted towards improved adjustment to the customers' wishes and needs

## Diversification of store formats

- Opening the first refurbished stores according to the Mercator Neighbour concept in September and October in Slovenia.



- Revision of the existing store concept of the Getro banner in Croatia (opening of the first refurbished unit: Getro Vrbani, July 2013)





## We shall continue to offer quality and fresh local produce

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### "Locally Grown" project:

- Mercator as a signatory of the Agreement on Cooperation and Consolidation of Partnership in the Vegetable Chain (Agra, August 27, 2013)
- This year, Mercator will increase the purchase of Slovenian vegetables by a fifth.
- From October, all bread and pastry from the Grosuplje Bakery will be made of 100-percent Slovenian wheat.
- Within the commitment of 100% meat reared in Slovenia, Mercator is increasing the purchase of Slovenian meat this year.
- Cooperation with local suppliers is being expanded throughout the region. 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 where local suppliers are presented.



## We will ensure competitive pricing for renowned brands

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### Slovenian Basket project

- We offer the lowest prices for renowned and quality Slovenian products, subject to money-back guarantee.
- We shall increase the offer to 50 products to be included in the campaign, as selected by our customers.
- 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 selected locations, and **Price of the Day** in Bosnia and Herzegovina and Banja Luka.



**The basic goal remains the same: by the end of the year we need to ensure a long-term profitability and positive business performance.**

**THANK YOU.**