Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-9 2013

Ljubljana, November 2013

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SUMMARY

In the period 1-9 2013, Mercator Group net revenue amounted to just over EUR 2 billion.

Harsh economic conditions persist in the markets

Economic activity in the euro zone remained sluggish, although confidence and economic climate indicators point to improvement in the coming months. The forecast of the drop in the gross domestic product has been slightly alleviated, amounting to -0.4% according to the most recent data.

Gross domestic product is expected to grow in some Mercator markets (Serbia, Bosnia and Herzegovina and Montenegro), while in Croatia and Slovenia, it is anticipated to decline. Aggravation of conditions in the labour market has settled down in the second half of 2013, while in international markets unemployment remains high, especially in Bosnia and Herzegovina where it is well over 40%. As a result, purchasing power is lower and consumers tend to be more rational in their shopping, preferring to save when possible.

Mercator generates good EUR 2 billion of revenue

In the period 1-9 2013 Mercator Group revenue amounted to EUR 2.06 billion, which is 3.6% below the figure for the equivalent period of the year before. Lower revenue is mostly a result of the challenging economic environment, increase of VAT rate in Slovenia, and lower sales of seasonal products due cold weather during the months of spring and summer. In Slovenia, we saw our revenue drop (by 3.9%) and the same applies for most international markets. Our revenue grew in Serbia (3.2%).

In the first three quarters of the year, the share of fast-moving consumer goods sales rose, signalling persistently harsh conditions in the market as our customers have remained rational in their purchases of durables and garments.

We are adapting to the market trends and consumer preferences

We have launched the revised Pika card customer loyalty system in all markets of Mercator operations, which has seen positive reception among the shoppers. Another major project for the period 1-9 2013 was redefining the neighbourhood stores according to the Mercator NEIGHBOUR (Mercator SOSED) concept which focuses on the offer of fresh produce and a fast shopping path. We have been active in further pursuit of the "Locally sourced" ("Iz domačih krajev") project, which involves labelling 100-percent Slovenian meat, milk and dairy products, and increasing the share of fruit and vegetables of Slovenian origin.

Investment focused on updates and refurbishments of the existing retail units and processes

Mercator Group limited resources intended for investments and in the period 1-9 2013 invested EUR 15.8 million, which is less than a third of the investments realized in the same period last year. In October, the key investment activities were focused on refurbishments of neighbourhood stores across Slovenia.

Changes in the composition of the Mercator Group

Many changes in Mercator Group composition took place in the period 1-9 2013. In the first half of the year, the activities of the companies Intersport, Modiana, and Tehnika (technical consumer goods) were transferred to Mercator companies operating in respective markets. These companies were later also merged with Mercator companies. In Slovenia, the company M - Tehnika, d.d., was merged with the company Mercator, d.d., while the companies Intersport ISI, d.o.o., and Modiana, d.o.o., Slovenia, remain independent legal persons. Moreover, two companies that did not perform any operating activities - M.COM, d.o.o., and Mercator - K, l.l.c., on which Mercator relied for its presence in Kosovo - were liquidated.

The Group generated profit from operating activities in amount of EUR 20 million

By introducing our cost rationalization measures, we succeeded in slashing our costs by over EUR 27 million in the period 1-9 2013. In this period, Mercator Groups results from operating activities amounted to EUR 20 million. Lower profit from operating activities relative to last year is a result of lower revenue in Slovenia and Croatia, and lower sale of textile and technical program.

In the first quarter of 2013, operation of the Mercator Group was most difficult - during the period, also loss was largely generated. Improvement in operation was carried out in the second quarter and to the maximum extend continued in the third quarter. In all three quarters of 2013, the Group generated operating profit, which was the lowest in first quarter, namely EUR 983 thousand, the highest was in second quarter, namely EUR 10.4 million and in third quarter of 2013, the Group generated operating profit in amount of EUR 8.5 million.

Reached an agreement in principle on key terms on long-term restructuring of financial liabilities

Mercator Group has reached an agreement in principle with its lenders steering committee, consisting of six creditor banks, on the key terms of a long-term restructuring of financial liabilities of the Group. The restructuring proposal, which was presented on November 5, 2013 to other creditor banks, provides a firm foundation for the long-term stability of Mercator Group. It is expected to achieve a successful completion of the restructuring transaction by the end of year.

INTRODUCTION

MERCATOR GROUP PROFILE

Company profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. The Group is present in Slovenian market with 8 companies, 9 more subsidiaries operate in other markets of Southeastern Europe. Poslovni sistem Mercator, d.d., headquartered in Slovenia, is the parent company of the Group.

Poslovni sistem Mercator, d.d.

Telephone	+3861 560 10 00
E-address	info@mercator.si
Website	www.mercator.si
Headquarter	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT number	45884595
Company share capital as at September 30, 2013	EUR 157,128,514.53
Number of shares issued and paid-out as at September 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 five sessions in the period 1-9 2013. Following the completion of the nine-month period, the Supervisory Board met for their sixth session this year on October 8, 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.

At their 16th session held on August 27, 2013, they were informed about the restructuring of Modiana and about the progress of negotiations with the Group's banking partners on debt refinancing. The Supervisory Board was also presented the information on the status of activities of Mercator's exit from the markets of Albania and Bulgaria and with the intent of the company Mercator, d.d., to carry out a capital increase in the company Mercator - B, e.o.o.d., in order to facilitate the voluntary liquidation proceedings thereof.

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 Leben, the Supervisory Board member representing the interests of the Employees, of his duties and appointed Ms Vesna Stojanović as his successor.

On October 8, 2013 the sixth Supervisory Board session of this year took place. The Board was informed about the progress of negotiations with the creditor banks on debt refinancing and on the process of restructuring of operating activities, as well as the report on the review engagement regarding certain transactions entered into by the company during the term of office of the previous Management Board. The Supervisory Board also adopted the resolution to embark on legal action for damages against the responsible members of the former Management Board.

At the end of October 2013 the mandate expired to the current member of the Supervisory Board, representing employees, Ms Mateja Širec. Thus, on November 4, 2013 the Works Council appointed Mr Veljko Tatić as a new member of the Supervisory Board.

Mercator Group Composition

As at September 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%)
Mercator IP, d.o.o., Slovenia (100.0%)
M - Energija, 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%)*

OTHER OPERATING ACTIVITIES

Intersport ISI, d.o.o., Slovenia (100.0%)
Modiana, d.o.o., Slovenia (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.

Branch Offices
As at September 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 1-9 2013

	1-9 2013	1-9 2012	Index 1-9 2013/ 1-9 2012
Revenue (EUR thousand)*	2,063,287	2,141,284	96.4
Results from operating activities (EUR thousand)	19,862	33,790	58.8
Profit before income tax (EUR thousand)	(19,139)	(18,062)	106.0
Profit for the financial period (EUR thousand)	(17,577)	(22,002)	79.9
EBITDA (EUR thousand)	81,956	95,089	86.2
EBITDAR (EUR thousand)	126,245	137,301	91.9
Capital expenditure (EUR thousand)	15,845	55,976	28.3
Return on sales	(0.9%)	(1.0%)	82.9
EBITDA / revenue	4.0%	4.4%	89.4
EBITDAR / revenue	6.1%	6.4%	95.4
Number of employees based on hours worked	22,022	23,002	95.7
Number of employees as at the end of the period	23,157	24,208	95.7

* In greatest extend a drop in revenue has occured due to numerous closures of retail units and due to withdrawal from Albanian and Bulgarian markets. Net effect of openings and closures of retail units in the period between September 30, 2012, and September 30, 2013, is shown in following table:

	SLOVENIA	***CROATIA***	***SERBIA***	***BOSNIA AND HERZEGOVINA***	***MONTENEGRO***	***ALBANIA***	***BULGARIA***	***MERCATOR GROUP***
Net effect of openings and closures of retail units (change in square meters)	**(13,409)**	**(20,386)**	**5,519**	**(1,440)**	**(482)**	**(4,617)**	**(7,282)**	**(42,097)**

HIGHLIGHTS IN THE PERIOD 1-9 2013

Retail network development

Following are the highlights for the period 1-9 2013:

- we invested EUR 15,845 thousand,
- our divestments totalled at EUR 6,912 thousand,
- we acquired 15 new units spanning a gross area of 11,207 square meters, which include real estate owned by Mercator and operating leases,
- we closed 39 units or a gross area of 44,621 square meters, and additionally reduced gross area of 7,007 square meters from refurbishment and renovation of retail network.

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 period 1-9 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. Also Intersport BH, d.o.o., and Modiana, d.o.o., Bosnia and Herzegovina were merged with the company Mercator - BH, d.o.o., as of September 13, 2013. Liquidation proceedings to wind up the company Mercator - K, l.l.c, Kosovo, has been completed. On September 30, 2013, the company M.COM, d.o.o., which did not perform any operating activities, was deleted from the court register.

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, Ms Vesna Stojanović was appointed new Supervisory Board member representing the interests of the employees. On November 4, 2013 also Mr Veljko Tatić was appointed new Supervisory Board member representing the interests of the employees.

BUSINESS REPORT

EFFECT OF ECONOMIC AND OTHER CONDITIONS ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1-9 2013

Economic conditions in the markets of operations in the period 1-9 2013[1]

In the euro zone, economic activity indicators pointed to a slight decline at the start of the second half; however, the confidence and business climate indicators continue to signal an improvement in the economic activity in the coming months. Due to improved expectations, the ECB alleviate their forecast for the GDP decline in the euro zone in this year to 0.4 percent (previously -0.6%).

In Slovenia, most short-term economic activity indicators were similar at the start of the second half of this year as they were at the beginning of the year. After heavy aggravation early in the year, the labour market has steadied in the recent months, while the quality of bank receivables in the Slovenian banking system has deteriorated further in recent months. While the euro zone is showing the first signs of recovery which is expected to gradually drive up the exports, the Institute of Macroeconomic Analysis and Development forecasts a further decline in the domestic consumption. Factors related especially to the restructuring of the banking system and consolidation of public finance also pose the biggest threat for further worsening of economic conditions.

The European Central Bank has kept the interest rate for the main refinancing operations at 0.50%. This is a record low which has also resulted in a record low for the 6-month Euribor. At the end of September 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 1-9 2013 was 0.333%, which is much lower than in the corresponding period last year when it stood at 0.982%.

Slovenia

Like last year, this year's inflation rate of 2.3% will be mostly a result of taxation; however, due to further shrinkage of economic activity, price increases will be lower than last year despite the higher VAT rate. Given the currently adopted measures in terms of taxation, and assuming an absence of price shocks from abroad, inflation is expected to be lower in 2014 and 2015, slightly below 2%. Any further taxation measures are a major risk regarding the anticipated increase of the general price level in these years. This year's decline in the gross domestic product (−2.4%) will again be a result of a drop in domestic consumption. With further fiscal consolidation and harsh conditions in the labour market and in the banking system, GDP will continue to decline in 2014 (−0.8%); a slight growth is expected only in 2015. Due to aggravation of the conditions in the labour market, lower wages, restriction of public spending on transfers, and conservative conduct of shoppers, private consumption will drop again this year (−3.5%) while government spending is anticipated to decrease by 2.5% as expenditure for final consumption continues to decrease. All major credit rating agencies downgraded Slovenia's rating this year, stating problems in the banking system (this year, the ratings of Slovenia's major banks were downgraded, too), rising public debt, and poor economic outlook as the reason. In the last two years, the spread on Slovenian government bonds has increased and reached similar levels as in the most threatened or exposed countries of the euro zone. Slovenia's credit rating remains better than in the case of some other exposed countries; however, the cost of borrowing has further increased for Slovenia in the recent months, remaining above 6% in early September, which is approximately 2 p.p. more than in Spain, Italy, and Ireland.

Serbia

According to the National Bank of Serbia, GDP growth in the country will be positive in 2013 at

[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.

2.0%, while the EBRD estimates 2.2-percent growth. There was a considerable surge in the inflation rate in 2013 and it is estimated to reach 9.8% at the annual level (11.9% in 2012). Average exchange rate of the Serbian dinar in the period 1-9 2013 stood at RSD 112.68 per 1 EUR, while the average rate in the corresponding period last year was RSD 112.89 per 1 EUR, which is a minimum drop. 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

According to the EBRD estimate, GDP will decline by 0.8% in 2013 while the inflation rate is anticipated at 3.1%. Average exchange rate of the Croatian kuna was HRK 7.52 per 1 EUR in the period 1-9 2012. In the corresponding period of this year, it was HRK 7.56 per 1 EUR. Croatia's rating remains at the same level it has had after the most recent downgrade in 2012, i.e. at BB+; in 2013, outlook has been downgraded from stable to negative.

Bosnia and Herzegovina

According to the EBRD estimates, GDP growth in 2013 will be minimal at 0.1%. 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. The exchange rate of the convertible mark is pegged to euro at the rate of KM 1.95583 per 1 EUR. In March 2012, the rating of Bosnia and Herzegovina remained at B, with stable outlook.

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. The most recent change of Montenegro's rating was in June 2012. Since then, it has stayed at BB-, with stable outlook.

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

Unlike some European markets where the improvement in the business climate and optimism of expectations for the future can already be seen, most markets of Mercator's operations, especially the ones beyond Slovenia, are still seeing **pessimistic expectations** on the part of the consumers who tend to be **more rational and have a higher propensity to save**.

In **Slovenia**, the trend of rationalization of consumption has persisted, but the expectations for future consumption are improving. The consumers have responded to the crisis and its consequences by more rational consumption, by giving up certain commodities, and by reducing "unnecessary" expenses; moreover, the share of those turning to discount stores for their shopping is on the rise as well. According to research of the Statistical Office of the Republic of Slovenia, the consumer confidence indicator in September 2013 was 14 percentage points higher than in September last year, and 4 percentage points higher than the average for 2012. Furthermore, the consumers are more optimistic with regard to the appropriateness of the current time for saving. Unemployment rate rose in Slovenia compared to the equivalent period last year, but it was lower than in the first half of 2013; currently, it is just under 13 percent.

Effects of the economic crisis can also be felt in Mercator's **international markets**. Consumer purchasing power remains low, unemployment rate is rising, the economy is still more or less stagnant; only Serbia is anticipating slightly higher economic growth. Compared to the period 1-9 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 (18.4%) and Montenegro (19.2%) while in Bosnia and Herzegovina it remains the highest in the region at nearly 45%.

SALES AND MARKETING

Sales

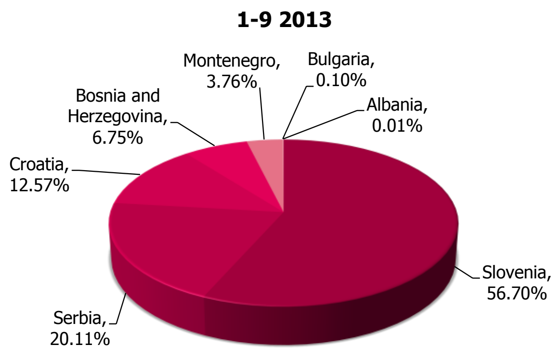
In the period 1-9 2013, Mercator Group generated EUR 2,063,287 thousand of revenue, which is 3.6 percent less relative to the period 1-9 2012.

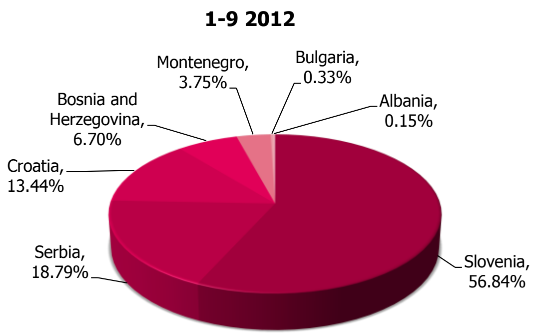
Relative to the corresponding period of last year, revenue in Slovenian market dropped by 3.9 percent. A drop of revenue has been seen in most foreign markets as well (3.3%), except for Serbia where the revenue has grown by 3.2%. Lower revenue abroad is particularly a result of exit from Albania and Bulgaria, and poorer performance in Croatia.

Group revenue was lower than in the corresponding period last year a result of increasingly worse economic conditions, lower consumption, increase of the VAT rate in Slovenia, as well as closing of retail units and lower sale of seasonal products due to colder weather, 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.

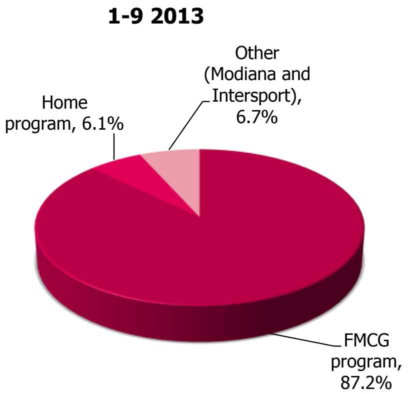
Mercator Group revenues by geographical segments:

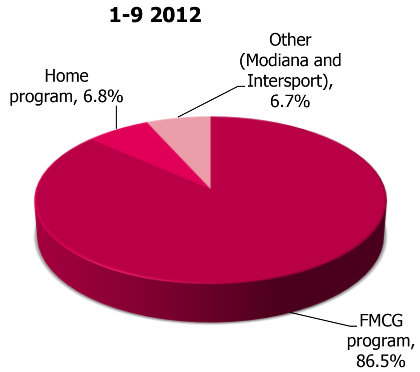




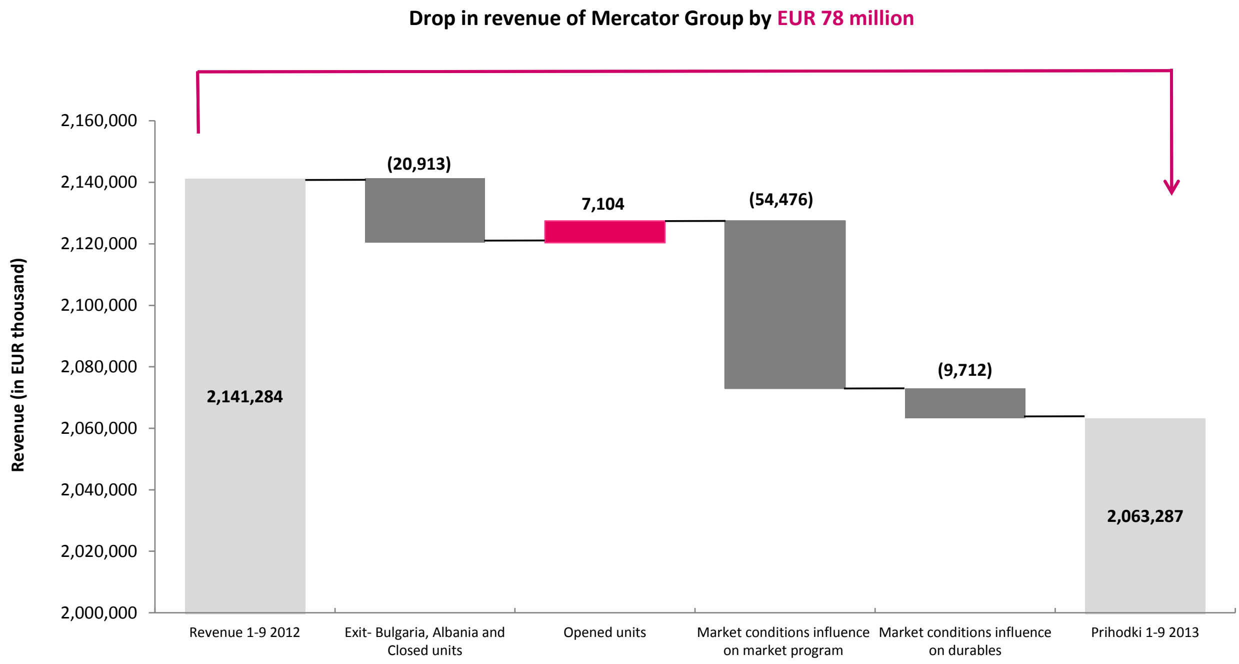
Mercator Group revenues from trade operations by programs:

In the period 1-9 2013, the majority of Mercator Group revenue resulted from sales of fast-moving consumer goods which accounted for 87.2% of the total figure; revenue from other specialized programs amounted to 12.8%. Compared to the same period last year, the share of sales of fast-moving consumer goods has risen, which points to more rational consumer behaviour with regard to durables and garments, which is the consumers' response to the persistently harsh conditions in the market.





Effects of different factors on decline in revenue in the period from September 30, 2012 to September 30, 2013:



Three-dimensional marketing approach

Mercator is further pursuing its three-dimensional approach that balances category management, management of customer segments, and management of store formats and services in an effort to please every customer at every Mercator stores.

Store Formats

Mercator Group's retail units are present in five 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 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, and also technical consumer goods, cosmetics, sportswear, tourist services, and fuel at petrol stations.

Development of New Store Concepts

As a result of different trends in the environment (recession, ageing of the population, higher share of employed women, longer working hours, longer commutes, smaller households, changes in consumers' diets and eating habits, expansion of e-commerce, higher unemployment rate), the shopping behaviour of consumers has changed considerably over the recent years.

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.

Constant adaptation to the said changes represents a competitive advantage and Mercator is well aware of this. After years of expansion of large stores, leading global retailers are focusing back on **smaller stores** as **transformation of the existing retail networks** is becoming increasingly important, along with **intensive development of e-commerce** in which traditional brick-and-mortar stores are taking the role of pick-up points for online orders. **Diversification of store formats** remains the key strategy of retailer growth.

In 2013, we are focusing on **redefining the neighbourhood store concept Mercator NEIGHBOUR ("Mercator SOSED")**.

The highlights and focus of this format are the offer of fresh produce (depth and variety of offer) and **innovative ideas of the offered mix that makes the customers' everyday easier**:

- **heavy emphasis on the freshness of products** – daily fresh and prepared at the store, highlighted within the store area, and presented to the customer in a visually appealing manner,
- introduction or expansion of the **offer of ready-made food that is ready to be consumed either immediately** or **upon reheating** – products that provide the customer with an idea or offer a solution on how to quickly prepare a meal;
- larger offer of **pre-packed fresh products** – the customer may choose the product and avoid waiting for service;
- placement of the **"Minute" department/offer** into the units in busy locations – a combined offer in one place of different "convenient" products which customers buy for snacks or lunches as they are ready for immediate consumption.

The concept also promotes the idea of the **local community** that we are a part and which we are looking to be actively involved in (working with the local community, communicating with the consumers, motivating new proposals etc.).

In order to implement or present the new concept, two test stores have been opened in the period from July to the end of September:

- **urban neighbourhood store "Market Na gmajni", Ljubljana,** focused on fresh program and daily shopping, i.e. supplementary shopping for products the consumers have run out of during the week,

- **convenience neighbourhood store – "Market Titov trg", Koper,** with emphasis on diverse and innovative offer of convenient products and on minor occasional shopping.

In Croatia, activities to **revise the existing store concept** of the Getro 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 would feel well. Therefore, changes have been made 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 revised unit – Getro Vrbani – was opened in August 2013.

Composition of retail units as at September 30, 2013:

COUNTRY	SLOVENIA	SERBIA		CROATIA		BOSNIA AND HERZEGOVINA		MONTENEGRO		MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Mercator	Getro	Mercator	Drvopromet	Mercator	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	Gross sales area	Net sales area
Hypermarkets	23	3	15	12	1	6	1	1	1	63	290,747	190,648
Supermarkets	129	-	44	27	3	19	13	1	7	243	265,860	171,238
Neighbourhood stores	335	-	55	42	18	3	45	2	69	569	201,372	117,528
Comfort stores	1	1	-	1	-	1	-	-	-	4	8,521	5,070
Convenience stores	1	-	-	-	-	-	-	-	-	1	159	83
Cash & Carry	13	-	5	-	16	-	-	0	1	35	115,841	79,586
Hard discount stores	5	-	-	-	-	-	-	-	-	5	3,223	2,276
Restaurants	22	8	-	-	-	2	-	-	-	32	9,093	6,252
TOTAL FMCG program	**529**	**12**	**119**	**82**	**38**	**31**	**59**	**4**	**78**	**952**	**894,816**	**572,681**
Home program	55	14	-	13	-	-	-	-	-	82	111,391	71,356
Furniture program	-	-	-	-	-	-	-	1	0	1	1,421	967
TOTAL home program	**55**	**14**	**-**	**13**	**-**	**-**	**-**	**1**	**-**	**83**	**112,813**	**72,323**
Clothing program and drugstores	**72**	**14**	**-**	**34**	**-**	**12**	**-**	**-**	**-**	**132**	**64,605**	**53,824**
Clothing program	61	8	-	34	-	8	-	-	-	111	62,137	51,688
Drugstores and perfumeries	11	6	-	-	-	4	-	-	-	21	2,468	2,136
Intersport	**33**	**11**	**-**	**28**	**-**	**9**	**-**	**2**	**-**	**83**	**52,752**	**40,378**
M holidays	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**242**	**242**
TOTAL specialised programs	**118**	**25**	**-**	**62**	**-**	**21**	**-**	**2**	**-**	**228**	**117,599**	**94,443**
TOTAL retail units under management	**702**	**51**	**119**	**157**	**38**	**52**	**59**	**7**	**78**	**1,263**	**1,125,228**	**739,447**
Franchise stores	**224**	**-**	**36**	**48**	**-**	**-**	**-**	**-**	**-**	**308**	**59,796**	**39,799**
TOTAL	**926**	**51**	**155**	**205**	**38**	**52**	**59**	**7**	**78**	**1,571**	**1,185,024**	**779,246**

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 revised 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 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.

Changes have turned out to be positive. Over 287 thousand new Pika card holders signed up in the entire Mercator Group in the period from February to September. The share of Pika card holders who shopped at least once in a month rose by 18% in Slovenia, by 50% in Montenegro, and by over 80% 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

Our efforts within each category have been aimed at building a quality multi-level offer of both branded and private label products, providing competitive pricing for branded and private label products, the inclusion of attractive offer in our sales promotion activities, efficient management of our store area at the level of each product, and provision of adequate in-store sales service.

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

- The project **Locally grown** ("Raised in Slovenia":
  - labelling fresh meat at the stores, 100-percent guarantee of regular offer of fresh meat of livestock raised in Slovenia; "freshly baked every two hours";
  - providing freshly baked products where finishing the pre-baked bread and pastry is possible;
  - "fresh fruit and vegetables" – increasing the offer of Slovenian fresh fruit and vegetables;
  - "100-percent Slovenian milk" – labelling milk and dairy products made out of 100 percent Slovenian milk at the store, and advertising in a campaign flyer).
- **Assortment management by categories** and new product placement in some categories.
- **Varied offer** of regular and special-offer seasonal products.

Marketing

Mercator Group operations in the period 1-9 2013 were focused on the activities of the four-pillar strategy:

- Focus on the consumer and our core activity
- Project optimization
- Selection of profitable projects
- Identifying opportunities for growth and improvement of our market position

Focus

We have continued to introduce Mercator's novelties and benefits in the "Neighbour's News" ("Sosedove novice") platform, which features Mercator employees and actual customers in leading roles.

We have successfully introduced the **revised Pika customer loyalty system** in all markets of our operations, and we have carried on the publication of the monthly Pika catalogue in Croatia, presenting numerous benefits for the Pika card holders. Consumers continue to view Pika as a customer loyalty system that brings rich rewards and benefits to the shoppers.

The **Locally grown** project included two more themes: we guarantee to our customers that all flour used in the Grosuplje Bakery products is of 100-percent Slovenian origin, and we have organized events and presentations of our dairy product suppliers who guarantee 100-percent Slovenian milk in their products.

Mercator realizes the importance of a suitable and balanced diet of our top athletes. Therefore, we have prepared a new campaign of Slovenian marketplaces featuring Tina Maze, Andrej Šporn and Rok Perko.

At the **Locally grown** marketplaces, we continue to negotiate deals on purchase amounts of Slovenian fruit and vegetables, allowing small growers to more easily plan their crops, 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), as well as bread, fruit, and vegetables. In Serbia, we have launched the activity **100-percent Serbian** (100% from Serbia), which involved presenting fruit, vegetable, fresh meat and meat produce; in Bosnia and Herzegovina, we worked with local suppliers to allow good shopping deals as a part of the activity **100-percent homemade**.

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. In September 2013, we upgraded the range of products in the **Slovenian Basket** activity by including additional 20 products. Thus, we now guarantee the lowest prices in the market for 50 products, subject to a money-back policy. We were aided in the choice of products this time by customers who voted online.

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 **Crazy low prices** and **Price of the Day** activity in Bosnia and Herzegovina.

Optimization

The trend of choice of convenient store formats and products remains strong. In order to adapt to the changes in the shopping behaviour, we are intensively expanding our offer of convenient products. In busy locations, we are including the so-called »**grab&go«** modules that combine the offer of products ready for immediate consumption at one place: self-service offer of chilled beverages, packed sandwiches, salads, yoghurt, dairy drinks, milk slices, small ice cream services, and »coffee-to-go**«** vending machines.

At the supermarket format, intensive activities are under way to expand the area allocated to special offers and the area allocated to highlighted seasonal products.

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

In Slovenia, we offered Delimano Elegante products as a part of our customer loyalty program. The offer included high-quality pots, pans, and baking dishes with a ceramic coating that is environmentally friendly due to optimum usage of energy and lower carbon dioxide emissions into the environment.

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 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.

Our **Grosuplje Bakery** surprised the customers with new innovative products. For fans of savoury snacks we offered a croissant with cheese. For a full and well-rounded flavour, we added matured cheeses to the dough, such as Zbrinc, Edam, Gouda and others, and sprinkled sesame seeds on top. Lovers of a healthy breakfast will surely appreciate the muesli stick made of nearly one third cereal, dried fruit, and nuts.

For those in a hurry, the »grab&go« offer includes a range of fine bread rolls and pastry. As of September this year, all wheat used at the Grosuplje Bakery is of 100% Slovenian origin.

Consumers committed to a healthy diet appreciate Mercator's **Bio** line. In June we highlighted more intensively the Bio vegetable drinks; in September, we added new spreads. We used the slogan **"The best choice!"** to support a mix of marketing activities in promoting the Mercator Bio brand. Thus, we further strengthened the recognition and the quality of our line of organic products.

At the 8th traditional Children's Bazaar that took place at the Ljubljana Exhibition and Convention Center, Mercator successfully presented its Lumpi and Mercator Bio private lines. The event also featured a presentation of the Lumpi heroes with a brand new look.

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 the spring 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 pick-up points. Our activities to win new website users (bonus of EUR 5 upon first registration) have resulted in over 2,000 new users.

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. In June, we launched a separate Mercator Group corporate website **www.mercatorgroup.si** in Slovenian and English. 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.

Consumers of the digital age have a higher level of awareness and they are becoming increasingly careful and conscious. Our consumers are sharing their shopping experiences directly online with their friends and we are seeking to offer then the support, help, and advice that they may need. As we are looking to actively involve every consumer into the process of co-shaping the best neighbour and the best retailer, we have launched numerous interactive activities on the social networks. We have successfully implemented three Facebook applications allowing the consumers to choose the products for the Slovenian Basket, define the special offer campaigns, and apply for the virtual opening of the online store. At the same time, we are looking to approach the customers with cooking tips and by revealing the secrets of the master chefs; to date, this has included **2 live chats with an expert**. We also made an effort to come closer to the Twitter network population by organizing two culinary workshops.

Both in Slovenia and in 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 DP Marketi shoppers. In Banja Luka, we held a fashion show for children and adults, featuring models selected in a Facebook competition. In Croatia, the activity 5 per Day included a flash mob public experiment at the Zagreb hypermarket.

At **M Holidays**, we carried out the bundled deal activity in which our customers spending over EUR 20 at any Mercator fast-moving consumer goods store received a coupon for a discount on travel arrangements to select destinations. In May, the activity also included shopping in the Mercator web store. Our users are informed of our most attractive offers in an e-newsletter. In addition to the annual catalogue, we also launched in September a winter catalogue for the 2013/2014 skiing season.

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

September, we launched the promotions at Mercator centers where we set up an automatic fuel pump to show out visitors how easy it was to use our self-service petrol station.

INVESTMENT AND RETAIL NETWORK DEVELOPMENT

In the period 1-9 2013, Mercator Group conducted tasks consistently with the adopted strategy in real property management, subject to conditions prevalent in the domestic and international financial markets. In investment, we prefer leasing real property and refurbishment of our existing stores. A new neighbourhood store refurbishment concept has been developed according to which we will refurbish three more market program (FMCG) stores this year, in addition to the Koper supermarket opened this September.

We have 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 area as at September 30, 2013:

Gross retail area in m^2	Used for own operations	Leased out	Total as at September 30, 2013
Owned retail area	774,725	194,266	968,991
Leased retail area	350,503	32,747	383,250
Total retail area	**1,125,228**	**227,013**	**1,352,241**
Owned warehouse capacity	139,723	575	140,298
Leased warehouse capacity	45,088	0	45,088
Total warehouse capacity	**184,811**	**575**	**185,386**
Owned commercial facilities	27,922	2,129	30,051
Leased commercial facilities	6,108	43	6,151
Total commercial facilities	**34,030**	**2,172**	**36,202**
GROSS AREA UNDER MANAGEMENT	**1,344,069**	**229,760**	**1,573,829**
- of which owned	942,370	196,970	1,139,340
- of which leased	401,699	32,790	434,489

Investment and Divestment

In the period 1-9 2013, Mercator Group's investment into fixed assets (CAPEX) amounted to EUR 15.8 million. Of this amount, 58.29% was invested in Slovenia, and 41.71% was invested internationally.

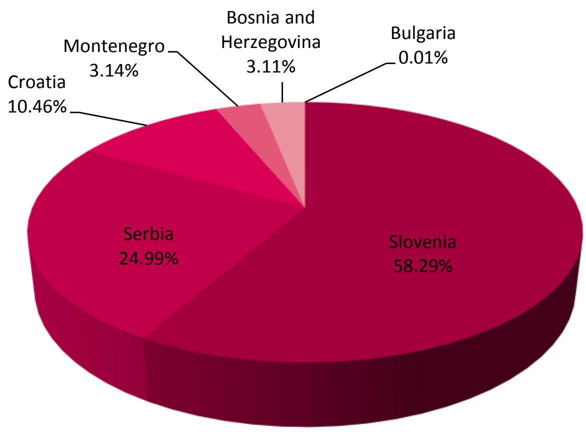
	Capital expenditure in period 1-9 2013 (in EUR thousand)	Composition (in %)
Slovenia	9,236	58.29%
Serbia	3,960	24.99%
Croatia	1,657	10.46%
Montenegro	498	3.14%
Bosnia and Herzegovina	492	3.11%
Bulgaria	2	0.01%
TOTAL	**15,845**	**100.00%**

Investments in expansion of retail facilities (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 33.4% of total investments; 29.8% was allocated for refurbishment of the existing facilities; and the remaining 36.8% was invested into logistics, IT, and non-trade activities.

In the period 1-9 2013, Mercator Group newly acquired 11,207 square meters of gross store area, of which 96% was acquired through operating lease and 4% was acquired by refurbishment of existing units.

In the period 1-9 2013, Mercator Group divested EUR 6.9 million worth of property, plant and equipment.

Share of investments by markets



Summary of retail unit launches by markets in the period 1-9 2013

SLOVENIA
Area of new facilities: 2,701 m^2
Number of new retail units: 3
Major openings:
Intersport MC Ravne, Intesport BTC Ljubljana, Maxi Ambient Ljubljana

SERBIA
Area of new facilities: 6,771 m^2
Number of new retail units: 7
Major openings:
Supermarket Kruševac, hypermarket and Intersport in NC Stadion center Voždovac in Belgrade, market Kej in Novi Sad, market Vrbas

CROATIA
Area of new facilities: 305 m^2
Number of new retail units: 2
Major openings:
Modiana Novigrad, Intersport Crikvenica

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

MONTENEGRO
Area of new facilities: 980 m^2
Number of new retail units: 2
Major openings:
Superette Budva Bulevar, supermarket Cetinje

Review of openings following the end of the financial period

In October, Mercator continued with openings of renovated stores. On October 24, 2013 we opened a renovated hypermarket in MC Koper I and three newly renovated neighbourhood stores in Koper (October 1, 2013), Metlika (October 3, 2013), and Ljubljana (October 8, 2013). On October 17, 2013, expanded and renovated store offering techniques and building materials in MC Nova Gorica was openned. In addition, we oppened a new Cash&Carry in MC Maribor Tabor I on October 1, 2013, and new supermarket in Prijedor in Bosnia and Herzegovina on October 3, 2013.

In October, we also carried out a sale of eight properties, which are not vital for Mercator's operations. The proceeds amounted to EUR 1.7 million.

RISK MANAGEMENT

Management of key risks in the period 1-9 2013

Carefully planned and deliberated risk management with timely response to previously identified risks are of key importance for effective mitigation of risk exposure. Mercator Group is managing its risks 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 1-9 2013, while low wage growth resulted in lower demand. There has been pressure on the prices of milk and dairy products. Mercator is stabilizing the upstream prices of fresh fruit and vegetables by long-term sourcing agreements. We have actively pursued and established new approaches to IT risk management.

Business Risks

Business risks are related to company operations and it's 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 the sense of security perceived by 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 2.4% in 2013 while conditions in the labour market are expected to worsen and real wages per employee are expected to decrease. A drop of household consumption of 4.2% is forecast. Moreover, dwindling consumer confidence is pointing in the direction of the anticipated decline in consumption.

In international markets of Mercator's operations, unemployment rate is even higher than in Slovenia and it continues to rise. In Mercator's international markets, average income is notably lower than in Slovenia. Convergence is expected in the foreign markets in the long run, bridging the development gap. Considering the current economic conditions, a significant increase in the purchasing power can hardly 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 – choice of different suppliers within each category will reduce or disperse the risk. Positive effects of joint purchasing – lower purchasing prices and better terms are attained by combining our procurement operations for the private label, seasonal products, and home products with those of our subsidiaries in Southeastern Europe.

Our cooperation with suppliers has been transparent to allow timely identification of any problems faced by the suppliers in the 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 a 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.

Marketing mix is being adjusted as a part of the refurbishments of neighbourhood stores. In the period 1-9 2013, we continued to establish new unified assortments that include the best-selling products at all our stores at all times. Sales assortment is regularly monitored and updated or extended.

Risks of failure to attain the planned profit margin

Assessment of the risk of failure to attain the generated 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 and due to the uncertainty or speculations regarding the provision of financial aid to Slovenia by the European Stability Mechanism.

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 1-9 2013, we saw an increase in payment defaults and delinquency with some of our wholesale customers, which was mainly a result of tighter credit, or impeded financing, for them. Therefore, we were even more active in our monitoring of the changes in outstanding receivables and promptly took action when necessary.

In order to manage the credit risk in wholesale, Mercator Group has limited exposure to individual buyers. We have continued to work with a third-party debt collection agency whose services are invoked when none of the measures within the Mercator Group results in a due payment. Mercator Group demanded first-rate insurance from customers with a weaker rating. In addition, Mercator Group is constantly monitoring exposure to individual buyers. Overdue receivables that require special measures are in decline, which is a sign of success in receivables management. Contracts signed with new wholesale customers included clauses on obligatory netting/offsetting, and annexes were signed in this regard with the existing customers.

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).

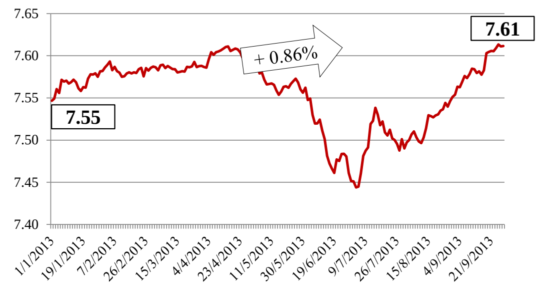
In the period 1-9 2013, we continued to monitor daily the changes in receivables and credit risk pertaining to the Pika card, and continued to implement other measures to hedge this risk, including the following: even more active collection of receivables from the Pika card holders; starting notification over the telephone earlier than previously; SMS (text message) notices; and regular monitoring of Pika card operations.

Currency risk

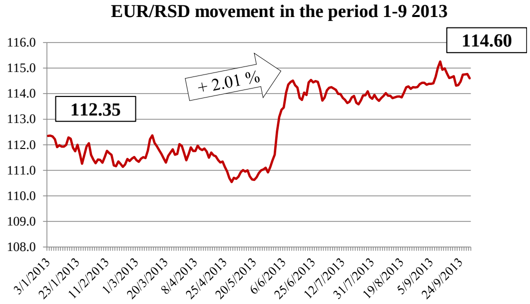
Assessment of the loss of economic benefit due to changes in exchange rate.

Currency risk exposure is relevant especially at companies in Croatia and in Serbia where fluctuations in exchange rates have been considerable. After a period of slight appreciation, the Serbian dinar depreciated yet again. Average exchange rate for the Serbian dinar in the period 1-9 2013 was at RSD 112.72 per 1 EUR; average rate of the Serbian dinar in the period 1-9 2012 was at RSD 113.02 per 1 EUR. Croatian kuna appreciated during the summer, especially due to higher demand during the tourist season. In the period 1-9 2013, the average exchange rate of the Croatian kuna was HRK 7.56 per 1 EUR; in the period 1-9 2012, the exchange rate was at HRK 7.52 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.

EUR/HRK movement in the period 1-9 2013



EUR/RSD movement in the period 1-9 2013



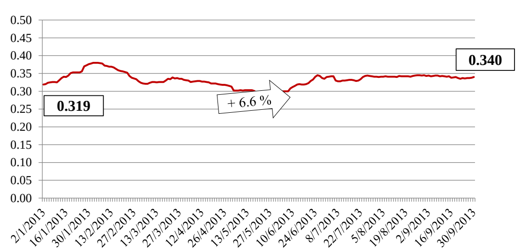
Interest rate risk

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 1-9 2013, variable 6M Euribor rose from 0.319% to 0.340%. Average 6-month EURIBOR in the period 1-9 2013 was at 0.333% which is more than 65% below the rate from the equivalent period of last year when it averaged at 0.982%.

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

6m Euribor movement in period 1-9 2013



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 short-term and long-term financial liabilities as at September 30, 2013 stood at 38.4:61.6; at the end of 2012, this ration 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 presents 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.

Category management operational risks

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

The effect of cold weather, uncharacteristic of the month of June, was felt in the sale of seasonal products in the third quarter. Moreover, the harsh economic situation and higher unemployment are reflected in the drop in the purchasing power of the consumers and in lower sales of seasonal products and changes in shopping behaviour. The offer at Mercator is being adjusted to lower demand as we diligently monitor sales and inventory of seasonal products and take required measures in a timely fashion.

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. The effects can already be seen in the chocolate and cookie categories, which include products with higher milk content. Upward pressure on the prices is expected to continue in the last quarter of the year; prices are expected to normalize only in the first half of 2014. In purchasing of fresh fruit and vegetables, we ensure stability of prices through agreements on long-term purchase.

Supply failures are supervised on a monthly basis and corrective measures are adopted to reduce such occurrences. In order to reduce the risk of delivery failures in purchasing of technical consumer goods, we established in the third quarter a priority system of goods movement between our units using our own logistics resources, before ordering from our suppliers.

Core activity operational risks

Failure of the refrigeration system and electrical wiring.

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

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

Following the restoration of electrical wiring with inadequate results, the measurements were repeated in July and the results are now compliant with the requirements.

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.

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.

In the third quarter, we introduced a new incident management tool for the field of IT and telecommunications. The tool supports central management of IT incidents in all Mercator Group companies in the region. It allows a higher level of control of activities related to troubleshooting and more efficient analysis thereof. Introduction of this tool has a positive effect on the management of IT risks as it improves the troubleshooting efficiency, also improving in turn the availability of IT systems and services.

Activities to set the data center building blocks under the auspices of the IT equipment operation control systems were carried on. The system allows early and automated identification of failures before they actually affect the operation of an IT service. When an error appears, the system allows identifying its source more simply and easily; as a result, the availability of IT systems and services is improved.

Moreover, activities have been carried on to carry out a transition to single software on the market program (FMCG) cash registers. Unification of software has reduced the number of administrators (especially third-party or outsourced administrators) in charge of system maintenance. This allows more efficient control of the equipment, more controlled change management, and more efficient troubleshooting, which in turn improves the availability of cash register IT systems and services.

We have successfully completed the transfer of e-mail system into a cloud, i.e. into the framework of IT equipment maintained entirely by a third-party service provider. The said system is centralized and controlled by experts with ample experience who are able to manage the systems more efficiently and thereby improve the availability of the service.

Environmental risks

Inefficient use of electric energy and/or heating fuel.

The following measures were carried out in the period 1-9 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 corporate visual identity.
- Six new combined heat and power devices are currently being installed.
- Restoration of boiler rooms is in progress at 12 sites to allow a transition to a cheaper source of energy.

FINANCIAL MANAGEMENT

Net financial debt

Compared to the end of 2012, Mercator Group's finance liabilities decreased by EUR 29.7 million in the period 1-9 2013. Net financial debt of the Mercator Group as at September 30, 2013 amounts to EUR 994,251 thousand, which is 1.4% or EUR 13.8 million less than as at December 31, 2012.

in EUR thousand	**Sep 30, 2013**	**Dec 31, 2012**	**Index Sep 30, 2013/ Dec 31, 2012**
Non-current financial liabilities	409,017	593,841	68.9
Current financial liabilities	656,033	500,879	131.0
Derivative financial instruments (liabilities)	2,275	5,269	43.2
Financial liabilities including derivative financial instruments	**1,067,325**	**1,099,989**	**97.0**
Cash and cash equivalents	15,628	38,012	41.1
Derivative financial instruments (assets)	51	1	5,051.6
Available-for-sale financial assets	868	1,069	81.2
Loans and deposits	56,528	52,873	106.9
Financial assets	**73,074**	**91,955**	**79.5**
NET FINANCIAL DEBT	**994,251**	**1,008,034**	**98.6**

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 6.912 million. Commercial papers were purchased by 20 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.

Reached an agreement in principle on key terms on long-term restructuring of financial liabilities

Mercator Group has reached an agreement in principle with its lenders steering committee, consisting of six creditor banks, on the key terms of a long-term restructuring of financial liabilities of the Group. The restructuring proposal, which was presented on November 5, 2013 to other creditor banks, provides a firm foundation for the long-term stability of Mercator Group. It is expected to achieve a successful completion of the restructuring transaction by the end of year.

Financing costs

In the period 1-9 2013, the 6-month EURIBOR averaged at 0.333%. At the end of the period, it was at 0.340%. Interest expense in the period 1-9 2013 amounted to EUR 36,019 thousand, in the corresponding period of last year they amounted to EUR 38,950 thousand, which is 7.5% less.

Loans and deposits

Loans and deposits have increased in the period 1-9 2013 due to reclassification of prepaid rents from trade receivables and other receivables.

Debt to equity and financial liability ratio

As at September 30, 2013 Mercator Group attained a debt-to-equity ratio of 1:1.54. The ratio is a quotient between equity and net financial debt.

In the period 1-9 2013, Mercator Group's composition of financial liabilities by maturity has worsened. The share of long-term financial liabilities as at September 30, 2013 amounted to 38.4% (54.2% as at December 31, 2012).

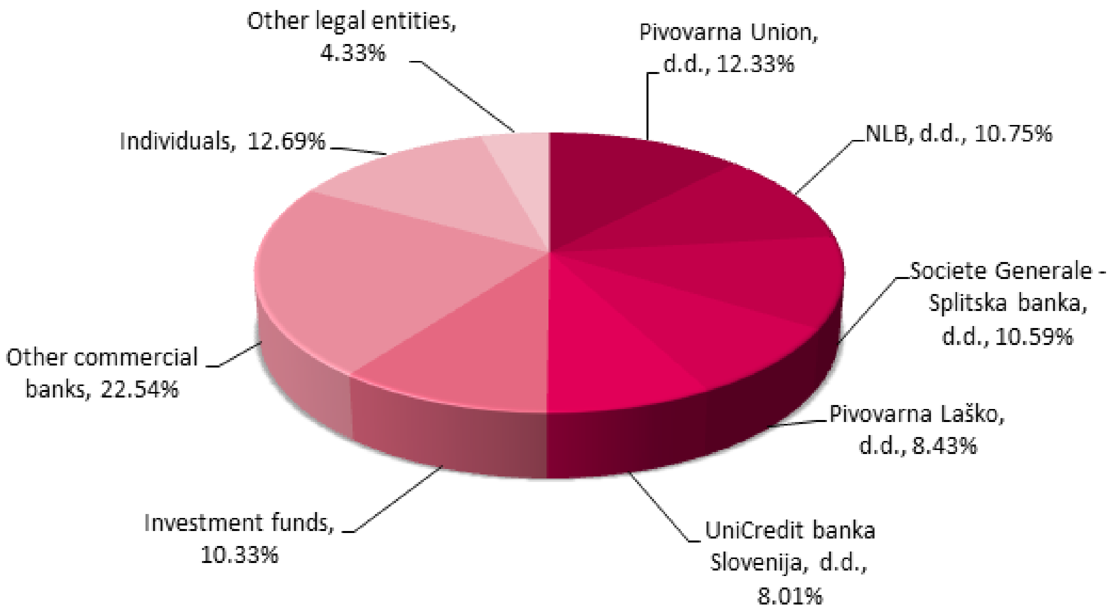
As at September 30, 2013, the ratio between variable and fixed or hedged financial liabilities at the Mercator Group stood at 43:57.

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at September 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	13,239

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



Major Shareholders

As at September 30, 2013, the following ten largest shareholders combined owned **69.47 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	398,795	10.59%
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	**2,615,906**	**69.47%**

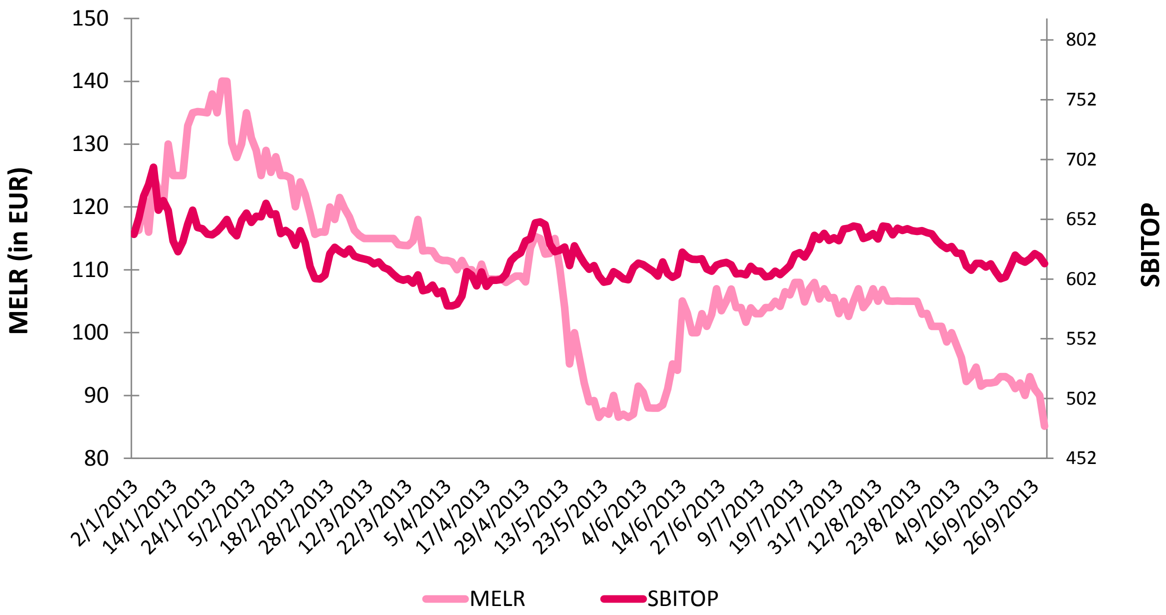
Foreign shareholders

As at September 30, 2013, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **25.79 percent**, which is 2.3 percentage point more than at the end of 2012.

Shares held by Management and Supervisory Board Members as at September 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 1-9 2013, compared to the movement of the SBITOP index



Key information for the shareholders

	Sep 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 as at the end of the period (in EUR)	320,469,875	429,251,154	74.7
Market value of share as at the end of the period (in EUR)	85.11	114.00	74.7
Book value per share as at the end of the period (in EUR)	198.39	198.82	99.8
Minimum close rate in the period (in EUR)	85.11	111.00	76.7
Maximum close rate in the period (in EUR)	140.05	151.95	92.2
Average close rate in the period (in EUR)	108.35	123.46	87.8

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 September 30, 2013 the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1-9 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

In the period 1-9 2013, the emphasis was on the expansion of the offer of Slovenian products and produce within the **Locally grown** project, and energy savings at the Mercator Group level.

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 1-9 2013, we thus carried out 537 regular and 14 extraordinary controls at our stores. In order to offer safe and quality products to our consumers, we analyzed 520 samples from our private label line, conducted monitoring on 940 samples in our open departments, and carried out 387 other analyses (government control, in-house production, own imports etc.). We have carried out 15 tours of the manufacturing plants where our private label products are produced.

Introduction of new standards and environmentally friendly or more efficient technologies

At Mercator, we have continued to implement technologically efficient refrigeration equipment. Introduction of a new store format and integrated efficient refrigeration equipment are expected to cut power consumption on refrigeration by up to 20 percent.

At the Šiška hypermarket, we tested a new intelligent vault which should cut short the processes of handling cash and reduce the costs of cash transport. Following a test period, we have attained our goal, i.e. to cut the cash handling time and to improve the control over cash flows within the store. The time required to handle cash has been cut by over 20 percent. The introduction of the intelligent vault and subsequently establishing a connection with the bank, we are expecting further positive effects in the field of cash transport and security costs.

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

The "Locally Grown" project has included further agreement on larger purchasing volumes for 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.

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; as of September this year, all wheat used at the Grosuplje Bakery is of Slovenian origin.
- wider offer of regionally-specific meat produce; since April, our butcher's departments have offered exclusively freshly served meat from regular offer, grown in Slovenia;
- as of September, we have also expanded our offer of milk and dairy products made of 100-percent Slovenian milk, including at our smallest stores, and provided additional labelling to make the shoppers' choice easier.

RESPONSIBILITY TO EMPLOYEES

In 2013, human resource management was focused on the processes of restructuring and reorganization aimed at the implementation of more efficient work processes, shrinking the scope of administration work, 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 were transferred to respective trade companies in those markets.

During the summer, hiring was boosted at seaside units due to seasonal effects.

Number of employees

MARKET	Number of employees as at Sep 30, 2013	Number of employees as at Dec 31, 2012	Index Number of employees Sep 30, 2013/ Dec 31, 2012	Number of employees based on hours worked in the period 1-9 2013
Slovenia	11,617	11,794	98.5	10,905
Serbia	4,678	4,764	98.2	4,634
Croatia	3,476	3,627	95.8	3,404
Bosnia and Herzegovina	1,997	2,004	99.7	1,686
Montenegro	1,370	1,417	96.7	1,306
Bulgaria	17	205	8.3	86
Albania	2	109	0.9	2
TOTAL	**23,157**	**23,920**	**96.8**	**22,022**

At Mercator - S, d.o.o., annex and appendix to the company collective labour agreement were adopted on July 1, 2013, regulating the changes in the workplace and ratio valuation (for compliance with the changes in the relevant legislation), which has also caused some changes in the payroll system. Changes in payroll accounting resulting from legislative changes have also been implemented at the company Mercator - CG, d.o.o.

We remain a responsible employer for our employees, fostering their development with different activities. For the 6th consecutive year, the company Mercator - BH, d.o.o, has won the prestigious title of **The most desirable employer**

2013 according to a survey of the Posao BA web portal.

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, 344 attendants completed a combined total of 5,504 hours of training. 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* was completed on Kopaonik; moreover, the first generation of the *Regional School for Wholesale Managers* has completed their training. It was attended by leaders from retail and wholesale of Mercator companies in Serbia, Montenegro, and Bosnia and Herzegovina.

We have selected the *Best boss 2012*. Cash rewards were presented to the top four, and ten more were presented with award plaques.

Specialist *Training for work in operations* was carried out for 60 retail managers at Mercator - BH, d.o.o., in Sarajevo. Intensive training of retail employees took part in all markets following the introduction of the revised Pika card.

At the parent company, we launched a pilot project to improve selling skills. The project is currently under way at the Rakovnik and Rudnik retail units. It has included meetings with the employees of both units to present the project; we prepared a two-day workshop which has already been launched; and we have held coaching sessions with the two store managers. We assisted retail in preparing appropriate selections for the product of the week, and we prepared a set of the most frequently asked questions and answers to them (Q&A) for select fields of work at the store, as well as designed memos and mementos at the store to improve selling skills.

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*.

At Mercator - S, d.o.o., we launched the Intranet, a central internal communication medium.

In Slovenia, three cooking *team-building* sessions were held, intended for the best teams as a form of non-cash reward. We have also completed 21 *team-building* workshops on Vogel which were attended by a total of 343 participants. At Mercator - BH, d.o.o., we held a motivational *team-building* session for leaders and the best employees in administration.

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.

Working with our *internal coaches*, we are establishing our *coaching* system in all markets. 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. In September, employees of the Mercator - Emba, d.d., joined the project and commenced the initial activities.

We presented the Mercator Awards, the highest corporate accolades, to 27 employees from across the Group.

At Intersport ISI, d. o. o., five top employees in retail and the best employee 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, 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*. The campaign took part under the auspices of Mercator IP, d.o.o.

As at September 30, 2013, Mercator Society of Sports and Culture had 211 members.

Solidarity foundations were established at Mercator - S, d.o.o., and Mercator - CG, d.o.o. Employees voluntarily contribute funds to the foundation for aid to employees in social and economic distress.

In Serbia, the Mercator Solidarity Foundation provided aid to 17 employees in the total sum of over EUR 10 thousand. In Montenegro, the Solidarity Foundation (655 members) helped 25 employees by providing aid in the total value of EUR 6 thousand. In Slovenia, Mercator Humanitarian Foundation provided aid to 90 employees who required it. We have paid out humanitarian aid in the total amount of over EUR 52 thousand.

RESPONSIBILITY TO NATURAL ENVIRONMENT

Reducing power consumption and heating fuel

Based on the positive results of the pilot project of central control and management of refrigeration equipment Retail Care, we launched the system set-up at other selected units.

A pilot project of energy performance contracting has been launched. We expect to save up to 5% of energy.

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

Six new combined heat and power devices are currently being installed. Restoration of boiler rooms is in progress at 12 retail units to allow a transition to a source of energy that is more efficient and environmentally friendly.

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, which was followed by an extension of this system at the offices at Dunajska 110 and Hladilniška pot 38, Zalog.

At the location of the Ravne, Dobja Vas supermarket, we repaired and restored the wastewater treatment plant to alleviate the burden of municipal wastewater.

At five stores, activities are under way to reduce noise emissions into the natural environment. At supermarket Kisovec, an noise barrier (a soundwall) was built to this end.

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 one thousand different projects** were supported in the first nine months of 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;
- support to the run for hope, organized by EuropaDonna.

In sports, we sponsored:

- finals of the ski jumping World Cup in Planica 2013;
- team handball clubs Krim Mercator and Celje Pivovarna Laško;
- footbal club Maribor;
- 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&GodFood show in Sarajevo;
- Ljubljana Festival.

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

Despite the poorer harvest, purchase of fruit and vegetables by Slovenian suppliers is in progress according to plan as contractually agreed at the beginning of the year with major growers.

In the EKO (organic) program, we extended the assortment of Slovenian fruit and vegetables. To this end, we introduced special labelling of Slovenian EKO fruit and vegetables in the EKO corners.

We worked with the Slovenian Vegetables Interest Group ("GIZ Slovenska zelenjava"), the mission of which is to promote and boost the sales of Slovenian vegetables, to carry out fourteen promotional events at retail units in August; further promotional events were held in September. The purpose of the promotional campaigns is to inform the consumers about the advantages of Slovenian vegetables and integrated farming.

After years of efforts, an agreement on cooperation and strengthening of partnership in the vegetable chain was reached and signed on August 27, 2013 at the AGRA fair in Gornja Radgona. The signing of the agreement represents an important step towards strengthening the sound business relations with our suppliers and it ensures regular supply of Slovenian vegetables. Clear labelling and origin traceability will allow our customers the option to check the origin of Slovenian vegetables. Continuous supervision and clearly defined criteria of vegetable acceptance will also provide the quality of offer of Slovenian vegetables. The signatories of the agreement are associations of vegetable growers: Chamber of Agriculture and Forestry of Slovenia, CCIS – Chamber of Agricultural and Alimentary Enterprises, Cooperative Association of Slovenia, and the Slovenian Vegetables Interest Group.

Locally grown fresh meat

We carried on our continuous sourcing of fresh pork, beef, veal, and poultry raised in Slovenia from our top eleven Slovenian suppliers. 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.

100-percent Slovenian milk

Twelve Slovenian suppliers of milk and dairy products have committed to deliver selected milk and dairy products made of 100-percent Slovenian milk. Slovenian milk is comparable to the milk from the European countries renowned for quality milk. Shorter routes from farms to dairy plants allow the milk to stay fresher and require less modification. By offering our consumers milk and dairy products made of 100-percent Slovenian milk, we are offering what they recognize as safe products of high quality. Thus, we are carrying on our efforts to promote the consumption of locally produced food.

OUR RESPONSIBILITY AND CARE FOR QUALITY

Maintenance, implementation, and certification of international quality management systems

Efficient management of business processes is provided through compliance with the requirements of the international quality management systems. We maintain already certified systems and we are implementing new ones. A total of 13 management systems are currently certified at Mercator Group companies.

Five independent management systems audits were conducted in the period 1-9 2013.

Documentation management

Internal rules of operations and documented good practices of the Mercator Group are maintained in the Mercator Standards collection which is easily available to the employees via the M–Intranet. The collection currently includes **3,024** valid documents. In the period 1-9 2013, we published **563** new or revised documents; **255** documents were archived.

Continuous improvement system

The continuous improvement system was supported with a new application for managing non-compliance, recommendations, commendations, and corrective and preventive measures, so that all our records are gathered in one place. This allows efficient process management.

Currently, the application includes **439** measures, of which **262** measures were triggered in the period 1-9 2013. **63** measures are in the resolving stage.

The application is intended for all Mercator Group companies. Currently, it is predominantly used at company Mercator, d.d.; therefore, we will provide training for its users in the coming months and expand its use.

Monitoring and analysis of environmental indicators

We have been monitoring and analyzing the environmental indicators for individual fuels. In the period 1-9 2013, the following applies to the 8 companies of the Mercator Group:

- cost of energy amounted to EUR 33.04 million; specific energy cost was EUR 20.22 per square meter;
- carbon dioxide emissions from fuel and energy consumed amounted to 177,626 tons of CO_2; specific emission was 109 kg of CO_2 per square meter;
- electric energy consumption amounted to 277.89 GWh; specific power consumption stood at 170.05 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 1-9 2013 have been prepared in compliance with International Financial Reporting Standards and they are unaudited.

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. Consolidated financial statements for the period 1-9 2013 include the company Mercator, d. d., and its subsidiaries, as follows:

- in Slovenia: Intersport ISI, d.o.o., Modiana, d.o.o., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Mercator IP, d.o.o., M - nepremičnine, d.o.o., M - Energija, d.o.o.;
- abroad: Mercator - H, d.o.o., Croatia, Mercator - S, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Mercator - CG, d.o.o., Montenegro, 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	Sep 30, 2013	Dec 31, 2012	Sep 30, 2012	Index Sep 30, 2013/ Dec 31, 2012	Index Sep 30, 2013/ Sep 30, 2012
ASSETS					
Non-current assets					
Property, plant and equipment	1,820,401	1,874,735	1,870,715	97.1	97.3
Investment property	2,042	3,194	3,338	63.9	61.2
Intangible assets	16,383	18,387	42,746	89.1	38.3
Deferred tax assets	20,714	20,378	8,706	101.6	237.9
Loans and deposits	55,529	50,034	64,049	111.0	86.7
Available-for-sale financial assets	868	1,069	1,285	81.2	67.5
	1,915,937	**1,967,797**	**1,990,839**	**97.4**	**96.2**
Current assets					
Inventories	240,721	267,711	267,925	89.9	89.8
Trade and other receivables	262,970	239,998	273,530	109.6	96.1
Current tax assets	264	6,462	5,668	4.1	4.7
Loans and deposits	999	2,839	1,163	35.2	85.9
Derivative financial instruments	51	1	8	5,100.0	637.5
Cash and cash equivalents	15,627	38,012	30,668	41.1	51.0
	520,632	**555,023**	**578,962**	**93.8**	**89.9**
Total assets	**2,436,569**	**2,522,820**	**2,569,801**	**96.6**	**94.8**
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	263,662	100.0	74.7
Fair value reserve	238,059	240,762	193,357	98.9	123.1
Retained earnings	(44,991)	(21,714)	(1,405)	207.2	3,202.2
Profit (loss) for the period	(17,557)	(26,953)	(21,982)	65.1	79.9
Currency translation reserve	(81,525)	(78,819)	(84,084)	103.4	97.0
Total equity attributable to equity owners of the Company	**643,797**	**663,087**	**702,314**	**97.1**	**91.7**
Non-controlling interests	**142**	**162**	**204**	**87.7**	**69.6**
Total equity	**643,939**	**663,249**	**702,518**	**97.1**	**91.7**
LIABILITIES					
Non-current liabilities					
Trade and other payables	2,434	2,462	3,571	98.9	68.2
Financial liabilities	409,017	593,841	705,583	68.9	58.0
Deferred tax liabilities	51,297	52,640	45,715	97.4	112.2
Provisions	28,918	31,459	29,100	91.9	99.4
	491,666	**680,402**	**783,969**	**72.3**	**62.7**
Current liabilities					
Trade and other payables	638,503	672,858	652,950	94.9	97.8
Current tax liabilities	4,153	163	379	2,547.9	1,095.8
Financial liabilities	656,033	500,879	425,010	131.0	154.4
Derivative financial instruments	2,275	5,269	4,975	43.2	45.7
	1,300,964	**1,179,169**	**1,083,314**	**110.3**	**120.1**
Total liabilities	**1,792,630**	**1,859,571**	**1,867,283**	**96.4**	**96.0**
Total equity and liabilities	**2,436,569**	**2,522,820**	**2,569,801**	**96.6**	**94.8**

Condensed consolidated income statement

EUR thousand	1-9 2013	1-9 2012	Index 1-9 2013/ 1-9 2012
Revenue	2,063,287	2,141,284	96.4
Cost of goods sold and selling costs	(1,985,315)	(2,043,062)	97.2
Administrative expenses	(72,358)	(78,529)	92.1
Other income	14,248	14,097	101.1
Results from operating activities	**19,862**	**33,790**	**58.8**
Finance income	5,097	3,160	161.3
Finance expenses	(44,098)	(55,012)	80.2
Net finance expense	**(39,001)**	**(51,852)**	**75.2**
Profit (loss) before tax	**(19,139)**	**(18,062)**	**106.0**
Tax expense	1,562	(3,940)	-
Profit (loss) for the period	**(17,577)**	**(22,002)**	**79.9**
Profit (loss) for the period attributable to:			
Owners of the parent company	(17,557)	(21,982)	79.9
Non-controlling interests	(20)	(20)	100.0

Condensed consolidated statement of comprehensive income

EUR thousand	1-9 2013	1-9 2012	Index 1-9 2013/ 1-9 2012
Profit (loss) for the period	**(17,577)**	**(22,002)**	**79.9**
Other comprehensive income			
Foreign currency translation differences - foreign operations	(2,706)	(23,806)	11.4
Change in fair value of available-for-sale financial assets	55	699	7.9
Change in fair value of cash flow hedges	2,959	(564)	-
Deferred taxes	(698)	3,670	-
Other	(1,343)	-	-
Other comprehensive income for the period	**(1,733)**	**(20,001)**	**8.7**
Total comprehensive income for the period	**(19,310)**	**(42,003)**	**46.0**
Total comprehensive income for the period attributable to:			
Owners of the parent company	(19,290)	(41,986)	45.9
Non-controlling interests	(20)	(17)	117.6

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)**	**263,662**	**192,209**	**10,294**	**7,983**	**(60,275)**	**766,639**	**221**	**766,860**
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(21,982)	-	(21,982)	(20)	(22,002)
Other comprehensive income	-	-	-	-	1,148	2,657	-	(23,809)	(20,004)	3	(20,001)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,148**	**2,657**	**(21,982)**	**(23,809)**	**(41,986)**	**(17)**	**(42,003)**
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 September 30, 2012	**157,129**	**198,872**	**(3,235)**	**263,662**	**193,357**	**(1,405)**	**(21,982)**	**(84,084)**	**702,314**	**204**	**702,518**

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	-	-	-	-	-	-	(17,557)	-	(17,557)	(20)	(17,577)
Other comprehensive income	-	-	-	-	(2,703)	3,676	-	(2,706)	(1,733)	-	(1,733)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(2,703)**	**3,676**	**(17,557)**	**(2,706)**	**(19,290)**	**(20)**	**(19,310)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	(26,953)	26,953	-	-	-	-
Balance at September 30, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**238,059**	**(44,991)**	**(17,557)**	**(81,525)**	**643,797**	**142**	**643,939**

Condensed consolidated statement of cash flows

EUR thousand	1-9 2013	1-9 2012	Index 1-9 2013/ 1-9 2012
Cash flows from operating activities			
Gross cash flows from operating activities	**74,477**	**87,301**	**85.3**
Change in inventories	26,990	42,345	63.7
Change in trade and other receivables	(22,269)	(31,680)	70.3
Change in trade and other payables	(32,048)	73,097	-
	47,150	**171,063**	**27.6**
Interest paid	(36,019)	(38,950)	92.5
Income tax paid	(740)	(2,953)	25.1
Net cash from operating activities	**10,391**	**129,160**	**8.0**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	-	(442)	-
Acquisition of property, plant and equipment and investment property	(12,547)	(52,494)	23.9
Acquisition of intangible assets	(3,299)	(3,482)	94.7
Acquisition of available-for-sale financial assets	-	(5)	-
Proceeds from sale of property, plant and equipment and investment property	6,912	2,580	267.9
Proceeds from sale of intangible assets	-	9	-
Proceeds from sale of available-for-sale financial assets	78	1,699	4.6
Interest received	3,939	2,307	170.7
Dividends income	-	113	-
Loans and deposits repayments received	1,841	2,617	70.3
			-
Net cash used in investing activities	**(3,076)**	**(47,098)**	**6.5**
Cash flows from financing activities			
Increase (repayment) in borrowings	(29,669)	(55,125)	53.8
Dividends paid	(10)	(22,174)	0.0
Net cash from (used in) financing activities	**(29,679)**	**(77,299)**	**38.4**
Net (decrease) increase in cash and cash equivalents	**(22,364)**	**4,763**	-
Cash and cash equivalents at the beginning of the year	38,012	27,540	138.0
Effect of exchange rate fluctuations on cash and cash equivalents held	(21)	(1,635)	1.3
			-
Cash and cash equivalents as at the end of the period	**15,627**	**30,668**	**51.0**

Notes to condensed consolidated interim financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1-9 2013, Mercator Group generated EUR 2,063,287 thousand of revenue, which is 3.6 percent less relative to the period 1-9 2012. Revenue dropped by 3.9% in Slovenia and by 3.3% in international markets. In Slovenia, the largest drop in revenue relative to the equivalent period of last year was seen in home product program and apparel program. Fast-moving consumer goods retail revenue also declined by 3.7% 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 goods sold and selling costs which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,985,315 thousand in the period 1-9 2013, which is a 2.8-percent decrease on the same period of last year.

Cost of goods sold was lower by 2.5% relative to last year. In the period 1-9 2013, early payment discounts were also lower by approximately EUR 1.4 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 1-9 2013 amounted to EUR 72,358 thousand, which is 7.9 percent less than in the equivalent period last year.

The Management Board of company Mercator, d.d., continued the extensive efforts to rationalize all types of costs in the first three quarters of 2013. As much as EUR 27.4 million 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 497,930 thousand in the period 1-9 2013, an decrease of 5.2% 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 2.2%. Contributing the most to the decrease are costs of raw materials and write-off of petty supplies. Costs of services excluding rents were lower by 11.8%, especially insurance premiums, labour-related compensations and reimbursements, and costs of intellectual and personal services. Labour costs were cut by 3.9% in the period 1-9 2013 relative to the last year's comparable period.

Results from operating activities

In the period 1-9 2013, Mercator Group's results from operating activities reached EUR 19,862 thousand, which is 58.8% of the figure for the comparable period of last year. The decline in results from operating activities in this year is a result of the negative effects of the economic situation on the consumption in both FMCG program and in other programs.

Net finance expense

Net finance expense are lower by EUR 12,851 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 (loss) before income tax

In the period 1-9 2013, Mercator Group's profit before income tax was negative at EUR -19,139 thousand.

Profit (loss) for the financial period

Mercator Group's net loss for the period 1-9 2013 amounts to EUR -17,577 thousand.

EBITDA

Mercator Group EBITDA in the period 1-9 2013 amounts to EUR 81,956 thousand which is lower by 13.8% 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 1-9 2013 amounts to EUR 126,245 thousand which is lower by 8.1% than in the equivalent period of last year.

It is also lower than the EBITDA decrease due to the increase of operating lease.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at September 30, 2013 amounted to EUR 2,436,569 thousand, which is EUR 86,251 thousand less than at the end of 2012, mostly due to lower inventories and lower property, plant, and equipment.

As at September 30, 2013 the value of Mercator Group non-current assets amounted to EUR 1,915,937 thousand, which is EUR 51,860 thousand less than as at December 31, 2012. The largest share of non-current assets (96.0% or EUR 1,838,826 thousand) is presented by fixed assets, the value of which was EUR 57,490 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 period 1-9 2013 by EUR 5,495 thousand pertains to re-classification of advance payments on rents from trade and other receivables.

As at September 30, 2012, Mercator Group current assets amounted to EUR 520,632 thousand, which is EUR 34,391 thousand less than at the end of 2012. Trade and other receivables present the largest portion of total current assets (50.5%), followed by inventories (46.2%). Trade and other receivables rose in the first three quarters due to year-on-year records of accrued income or deferred expenses, and due to promotion of wholesale. Regarding the inventories, the Group continues to pursue the policy of efficient management; as a result, the inventories in the period 1-9, 2013 dropped by EUR 26,990 thousand.

Equity and liabilities

As at September 30, 2013, Mercator Group equity amounted to EUR 643,939 thousand, which is EUR 19,310 thousand, or 2.9%, less than as at the end of 2012. The decrease is a result of the loss in the amount of EUR -17,577 thousand, and a decrease in equity in the amount of EUR -1,733 thousand, pertaining to negative currency translation differences in translation of international subsidiaries, changes in fair value of risk hedging instruments and deferred taxes.

As at September 30, 2013 total financial liabilities amount to EUR 1,065,050 thousand, which is EUR 29,670 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 994,251 thousand as at September 30, 2013 (December 31, 2012: EUR 1,008,034 thousand).

As at September 30, 2013, provisions amounted to EUR 28,918 thousand. Compared to the end of 2012, provisions decreased by EUR 2,541 thousand, mostly due to partial reversal of provisions for reorganization expenses.

Trade and other payables as at September 30, 2013 amounted to EUR 640,937 thousand, which is EUR 34,383 thousand less than at the end of 2012. The decrease in trade payables is a result of year-on-year dynamics in the retail industry.

As at September 30, 2013, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 59.3%, which is 9.0 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, 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	Sep 30, 2013	Dec 31, 2012	Sep 30, 2012	Index Sep 30, 2013/ Dec 31, 2012	Index Sep 30, 2013/ Sep 30, 2012
ASSETS					
Non-current assets					
Property, plant and equipment	1,015,142	1,035,658	1,004,509	98.0	101.1
Investment property	2,187	3,194	3,471	68.5	63.0
Intangible assets	9,522	9,570	10,368	99.5	91.8
Deferred tax assets	19,310	19,200	7,606	100.6	253.9
Loans and deposits	73	268	85	27.2	85.9
Investment into equity of subsidiaries	580,233	557,881	632,053	104.0	91.8
Available-for-sale financial assets	739	928	1,078	79.6	68.6
	1,627,206	**1,626,699**	**1,659,170**	**100.0**	**98.1**
Current assets					
Inventories	95,105	84,225	81,712	112.9	116.4
Trade and other receivables	166,314	138,532	159,086	120.1	104.5
Current tax assets	23	4,962	4,662	0.5	0.5
Loans and deposits	21,581	54,206	57,910	39.8	37.3
Derivative financial instruments	51	1	8	5,100.0	637.5
Cash and cash equivalents	3,660	11,611	9,773	31.5	37.5
	286,734	**293,537**	**313,151**	**97.7**	**91.6**
Total assets	**1,913,940**	**1,920,236**	**1,972,321**	**99.7**	**97.0**
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	239,422	100.0	71.8
Fair value reserve	220,721	215,494	195,240	102.4	113.1
Retained earnings	(6,938)	-	8,749	-	-
Profit (loss) for the period	124	-	19,364	-	0.6
Equity	**738,657**	**740,244**	**815,541**	**99.8**	**90.6**
LIABILITIES					
Non-current liabilities					
Trade and other payables	1,599	1,599	2,024	100.0	79.0
Financial liabilities	282,134	436,941	531,781	64.6	53.1
Deferred tax liabilities	40,118	40,870	35,716	98.2	112.3
Provisions	44,072	44,101	23,740	99.9	185.6
	367,923	**523,511**	**593,261**	**70.3**	**62.0**
Current liabilities					
Trade and other payables	342,576	324,733	303,342	105.5	112.9
Current tax liabilities	-	-	2,841	-	0.0
Financial liabilities	462,509	326,479	252,361	141.7	183.3
Derivative financial instruments	2,275	5,269	4,975	43.2	45.7
	807,360	**656,481**	**563,519**	**123.0**	**143.3**
Total liabilities	**1,175,283**	**1,179,992**	**1,156,780**	**99.6**	**101.6**
Total equity and liabilities	**1,913,940**	**1,920,236**	**1,972,321**	**99.7**	**97.0**

Condensed income statement

EUR thousand	1-9 2013	1-9 2012	Index 1-9 2013/ 1-9 2012
Revenue	1,094,794	1,077,762	101.6
Cost of goods sold and selling costs	(1,040,017)	(999,103)	104.1
Administrative expenses	(37,400)	(38,509)	97.1
Other income	5,328	8,871	60.1
Results from operating activities	**22,705**	**49,021**	**46.3**
Finance income	3,630	6,228	58.3
Finance expenses	(28,020)	(32,390)	86.5
Net finance expense	**(24,390)**	**(26,162)**	**93.2**
Profit (loss) before tax	**(1,685)**	**22,859**	**-**
Tax expense	1,809	(3,495)	-
Profit (loss) for the period	**124**	**19,364**	**0.6**

Condensed statement of comprehensive income

EUR thousand	1-9 2013	1-9 2012	Index 1-9 2013/ 1-9 2012
Profit (loss) for the period	**124**	**19,364**	**0.6**
Other comprehensive income			
Change in fair value of available-for-sale financial assets	55	699	7.9
Change in fair value of cash flow hedges	2,960	(564)	-
Deferred taxes	(947)	3,609	-
Disposal of investment in subsidiary	-	3,115	-
Acquisition of subsidiary	(3,779)	-	-
Other comprehensive income for the period	**(1,711)**	**6,859**	**-**
Total comprehensive income for the period	**(1,587)**	**26,223**	**-**

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)**	**239,422**	**190,650**	**13,246**	**15,574**	**811,658**
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	19,364	19,364
Other comprehensive income	-	-	-	-	4,589	2,268	-	6,857
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**4,589**	**2,268**	**19,364**	**26,221**
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 owners	**-**	**-**	**-**	**-**	**-**	**(22,339)**	**-**	**(22,339)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	15,574	(15,574)	-
Balance at September 30, 2012	**157,129**	**198,872**	**(3,235)**	**239,422**	**195,240**	**8,749**	**19,364**	**815,541**

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	-	-	-	-	-	-	124	124
Other comprehensive income	-	-	-	-	5,227	(6,938)	-	(1,711)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**5,227**	**(6,938)**	**124**	**(1,587)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**			
Balance at September 30, 2013	**157,129**	**198,872**	**(3,235)**	**171,984**	**220,721**	**(6,938)**	**124**	**738,657**

Condensed statement of cash flows

EUR thousand	1-9 2013	1-9 2012	Index 1-9 2013/ 1-9 2012
Cash flows from operating activities			
Gross cash flows from operating activities	**49,571**	**72,931**	**68.0**
Change in inventories	(10,881)	54,291	-
Change in trade and other receivables	(27,782)	4,030	-
Change in trade and other payables	21,443	(3,100)	-
	32,351	**128,152**	25.2
Net exchange rate differences from financing	(1)	-	-
Interest paid	(24,133)	(27,514)	87.7
Income tax paid	-	(2,841)	-
Net cash from operating activities	**8,217**	**97,797**	**8.4**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	(29,473)	(14,481)	203.5
Acquisition of property, plant and equipment and investment property	(5,400)	(28,023)	19.3
Acquisition of intangible assets	(2,661)	(2,671)	99.6
Acquisition of available-for-sale financial assets	-	(5)	-
Loans and bank deposits made	-	(22,549)	-
Disposal of subsidiaries, net of cash disposed of	73	19,117	0.4
Proceeds from sale of property, plant and equipment and investment property	4,119	5,721	72.0
Proceeds from sale of intangible assets	-	16	-
Proceeds from sale of available-for-sale financial assets	78	1,608	4.9
Interest received	3,062	3,429	89.3
Dividends income	-	1,371	-
Loans and deposits repayments received	32,820	-	-
Net cash from (used in) investing activities	**2,618**	**(36,467)**	**-**
Cash flows from financing activities			
Increase (repayment) in borrowings	(18,776)	(39,451)	47.6
Dividends paid	(10)	(22,174)	0.0
Net cash from (used in) financing activities	**(18,786)**	**(61,625)**	**30.5**
Net (decrease) increase in cash and cash equivalents	**(7,951)**	**(295)**	**2,695.3**
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	**3,660**	**9,773**	**37.5**

Notes to interim financial statements

Notes to condensed income statement

Due to the merger of the company M - Tehnika, d.d., financial statements of the company Mercator, d.d., are not fully comparable between particular periods.

Revenue

In the period 1-9 2013, the company Mercator, d.d., generated EUR 1,094,794 thousand of revenue, which is 1.6 percent more relative to the period 1-9 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 1,040,017 thousand in the period 1-9 2013, which is a 4.1-percent increase on the same period of last year.

Cost of goods sold was higher by 3.8% relative to last year. Other expenses were lower by 51.6% in the period 1-9 2013.

Administrative expenses

Mercator, d.d., administrative expenses in the period 1-9 2013 amounted to EUR 37,400 thousand, which is 2.9 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 267,570 thousand in the first three quarters of 2013, an increase of 4.0% on the last year's figure for such period. The highest increase was seen in labour costs which rose by 8.1%. The increase in this cost is a result of the merger of the company M - Tehnika, d.d.

Results from operating activities

In the period 1-9 2013, results from operating activities of the company Mercator, d.d., reached EUR 22,705 thousand, which is 53.7% 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 1,772 thousand relative to the last year's equivalent period, which is mostly a result of lower interest expenses.

Profit before income tax

In the period 1-9 2013, Mercator, d.d., profit before income tax was negative at EUR -1,685 thousand.

Profit for the financial period

Mercator, d.d., net loss for the period 1-9 2013 amounts to EUR 124 thousand.

EBITDA

Mercator, d.d., EBITDA in the period 1-9 2013 amounts to EUR 54,194 thousand which is 30.9% 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 1-9 2013 amounts to EUR 63,422 thousand which is 26.7% lower than in the equivalent period of last year.

Notes to condensed statement of financial position

Assets

Mercator, d.d., assets as at September 30, 2013 amounted to EUR 1,913,940 thousand, which is EUR 6,296 thousand less than at the end of 2012, mostly due to lower loans granted and deposits to companies within the Group.

As at September 30, 2013 the value of the company's non-current assets amounted to EUR 1,627,206 thousand, which is EUR 507 thousand more than as at December 31, 2012. The largest share of non-current assets (63.1% or EUR 1,026,851 thousand) is presented by fixed assets, the value of which was EUR 21,571 thousand lower than as at the end of 2012 as a result of lower investment which was lower than depreciation.

As at September 30, 2013, the value of company current assets amounted to EUR 286,734 thousand, which is EUR 6,803 thousand less than a the end of 2012. Trade and other receivables represent the largest portion of total current assets (58.0%), followed by inventories (33.2%). As at September 30, 2013, inventories are higher than as at the end of last year by EUR 10,880 thousand, which is a result of the takeover of the company M - Tehnika, d.d.

Equity and liabilities

September 30, 2013 equity of the company Mercator, d.d., amounted to EUR 738,657 thousand, which is EUR 1,587 thousand, or 0.2%, less than as at the end of 2012. The decrease is predominantly a result of loss from the write-off of investment upon the merger of the company M - Tehnika, d.d., which led to a decrease in equity by EUR 3,779 thousand. The change in equity was also affected by net income of EUR 124 thousand and the change in the value of derivative financial instruments and deferred taxes in the amount of EUR 2,068 thousand.

As at September 30, 2013 total financial liabilities amount to EUR 744,643 thousand, which is EUR 18,777 thousand less than as at the end of 2012.

As at September 30, 2013, provisions amounted to EUR 44,072 thousand. They have remained virtually unchanged relative to the end of 2012.

Trade and other payables as at September 30, 2013 amounted to EUR 344,175 thousand, which is EUR 17,843 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.

MANAGEMENT BOARD STATEMENT

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, November 12, 2013