



Business performance of Mercator Group and the company Poslovni sistem Mercator, d.d., in the period I.-IX. 2013

Ljubljana, November 13, 2013



Mercator

Key challenges for Mercator Group

1

- **Large debt** resulting from the extensive investment cycle – a large part of which took part during the economic crisis and mostly focused on markets outside Slovenia

2

- **Poor returns on these investments** in last years, failing to reach the specified goals or cover the financial liabilities arising therefrom

3

- **Low efficiency of the company** – drop of profitability per square meter in the years 2007 and onwards

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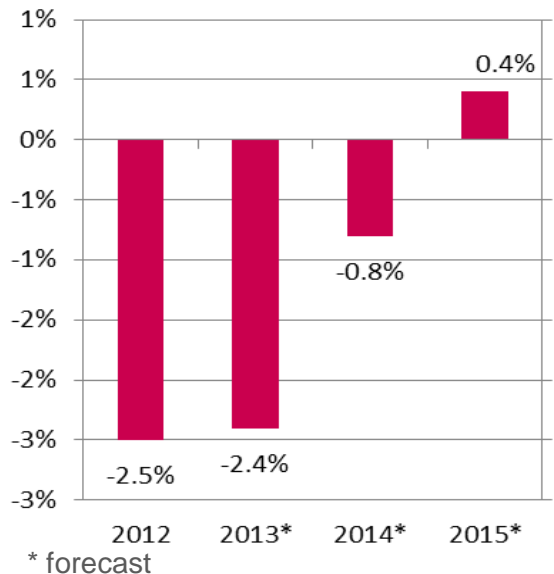
- **Unfavourable price perception** as a result of compensating for poor efficiency by increasing the prices of merchandise/trade goods in the past

5

- **Harsh economic conditions** in all markets of operations, and the resulting **changes in consumers' shopping behaviour**

Economic environment remains very challenging.

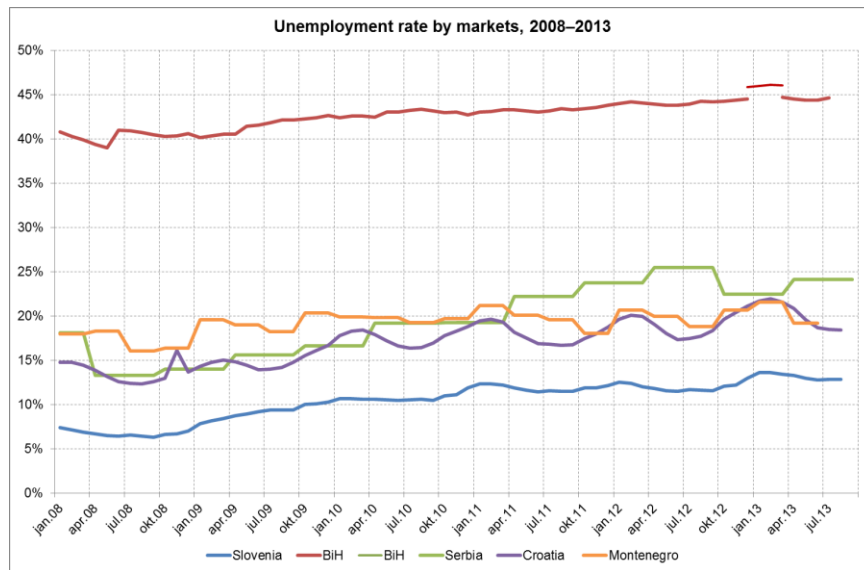
In Slovenia, the trend of declining GDP continues. No recovery is expected in the future.



Source: IMAD

RAKU

We are facing increases of the unemployment rate in all markets.

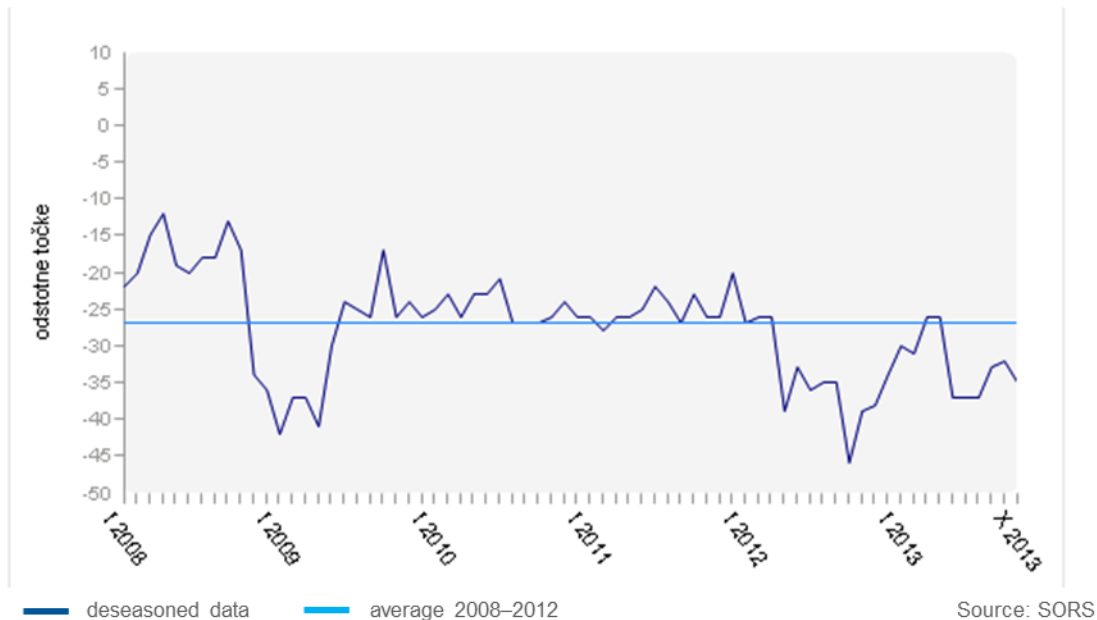


Source: SORS (Slovenia), DZS (Croatia), RZS (Serbia), BHAS (BiH) and MONSTAT (Montenegro).

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Consumers have responded to such circumstances with low confidence.

Graph 1: Consumer confidence index¹⁾, Slovenia, January 2008 – October 2013



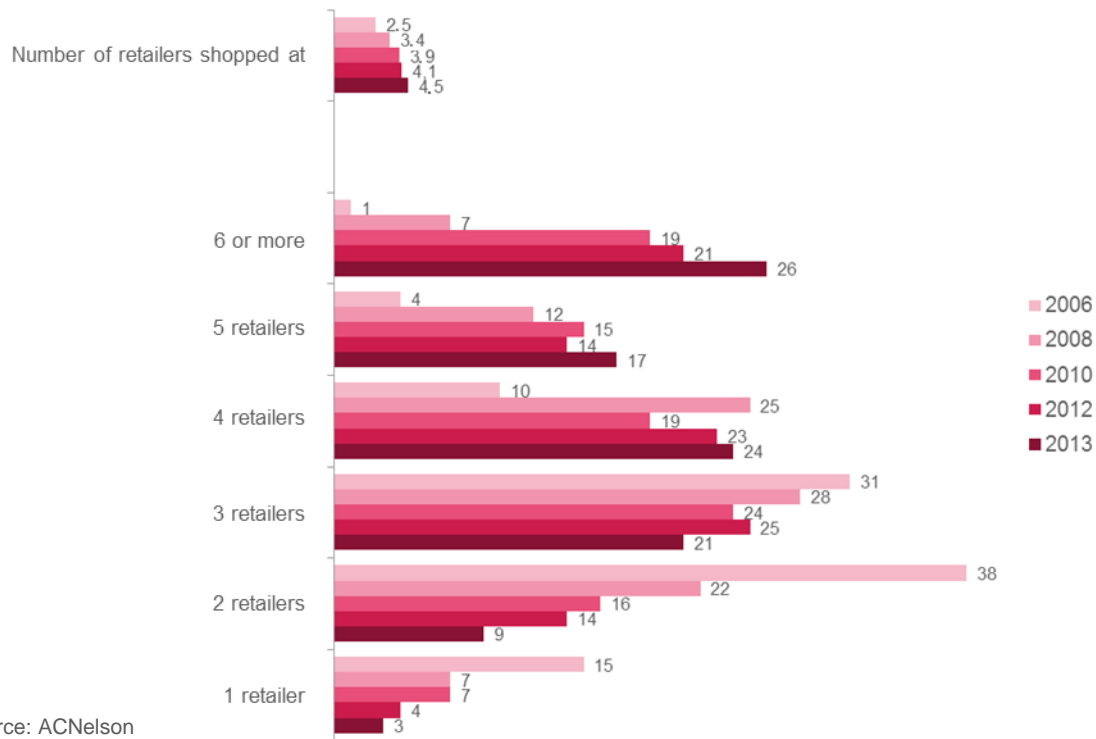
Consumer confidence index in October 2013 was 3 percentage points below the figure from September 2013.

1) Consumer confidence index can be between -100 and +100. Consumer confidence index is the average of balances from the response to the questions about the expected financial condition in the household, about the expected economic conditions in the country, about the expected unemployment, and about expected household savings in the following 12 months.

Source: SORS

Customer loyalty is declining; today, they distribute their shopping over several retailers.

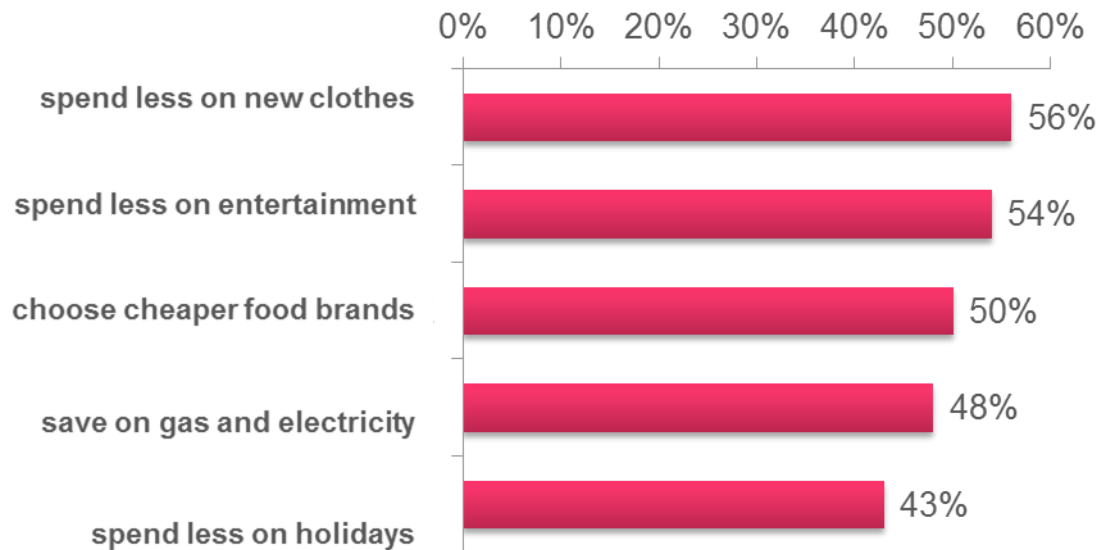
Average number of retailers shopped at is increasing in Slovenia.



On average, Slovenian consumers shop at 4 to 5 different retailers in one month.

Source: ACNelson

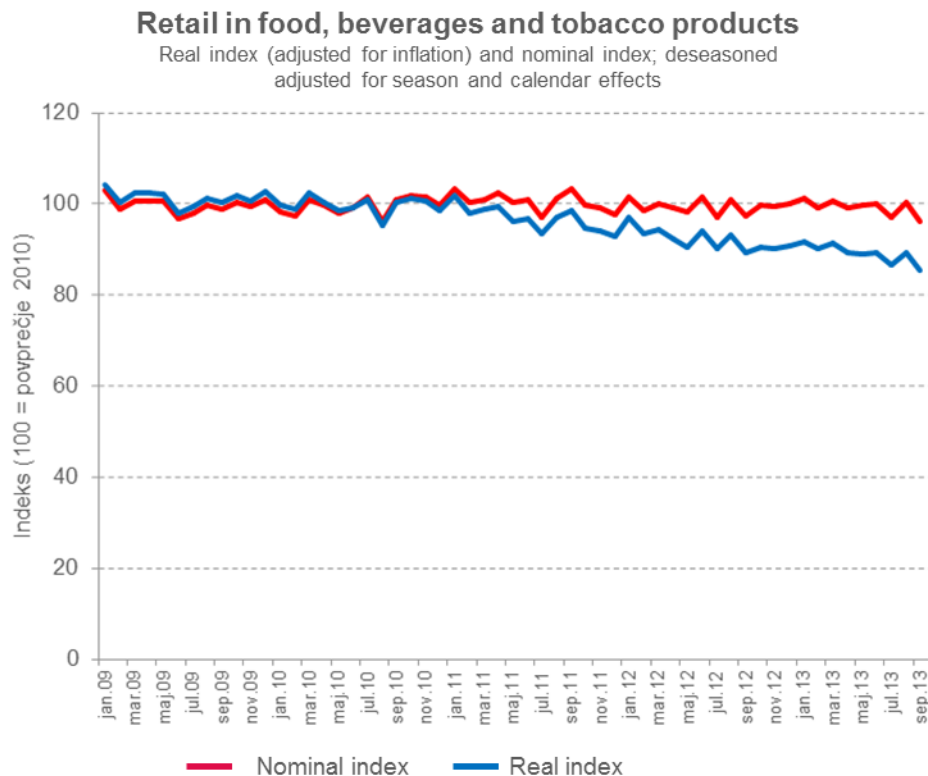
Consumer behaviour is also changing as customers look to cut their costs.



- 62 % asked in EU has changed purchases in order to reduce costs.
- Half of respondents switched to cheaper brands of food.

Source: Nielsen, CCI Europe

Harsh economic conditions have negative effect on the retail industry.



Source: SURS

The strategy is carried out: the concentration is on the areas of focus and optimization and emphasis on profitability and growth



In the period 1–9 2013, Mercator Group generated good EUR 2 billion of net revenue, which is 3.6 percent less than in the corresponding period of the year before. Loss is lower than loss generated in comparable period last year.

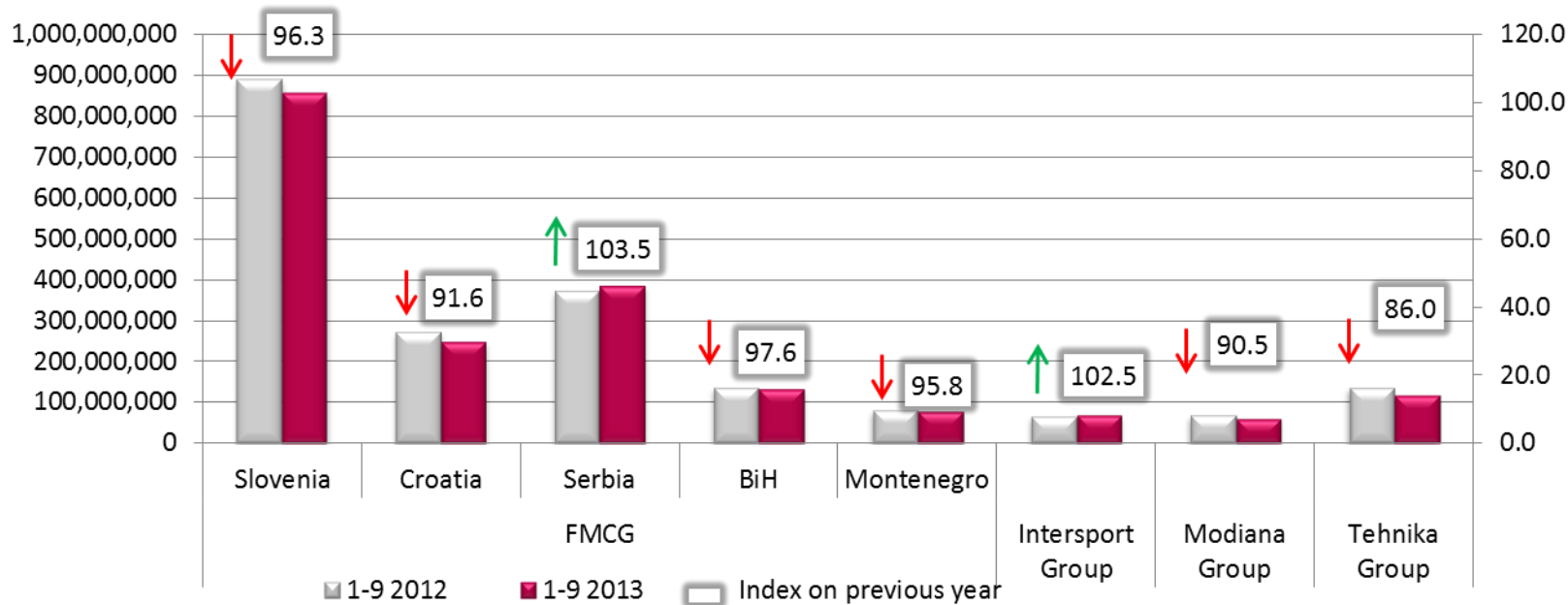
	Mercator Group		Indeks 1-9 2013/ 1-9 2012
	1-9 2013	1-9 2012	
Revenue (EUR thousand)	2,063,287	2,141,284	96.4
Results from operating activities (EUR thousand)	19,862	33,790	58.8
Profit for the financial period (EUR thousand)	(17,577)	(22,002)	79.9
EBITDA (EUR thousand)	81,956	95,089	86.2
EBITDAR (EUR 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

Mercator Group performance is improving from quarter to quarter. Loss in Q3 2013 was lower than losses generated in Q1 and Q2 2013.

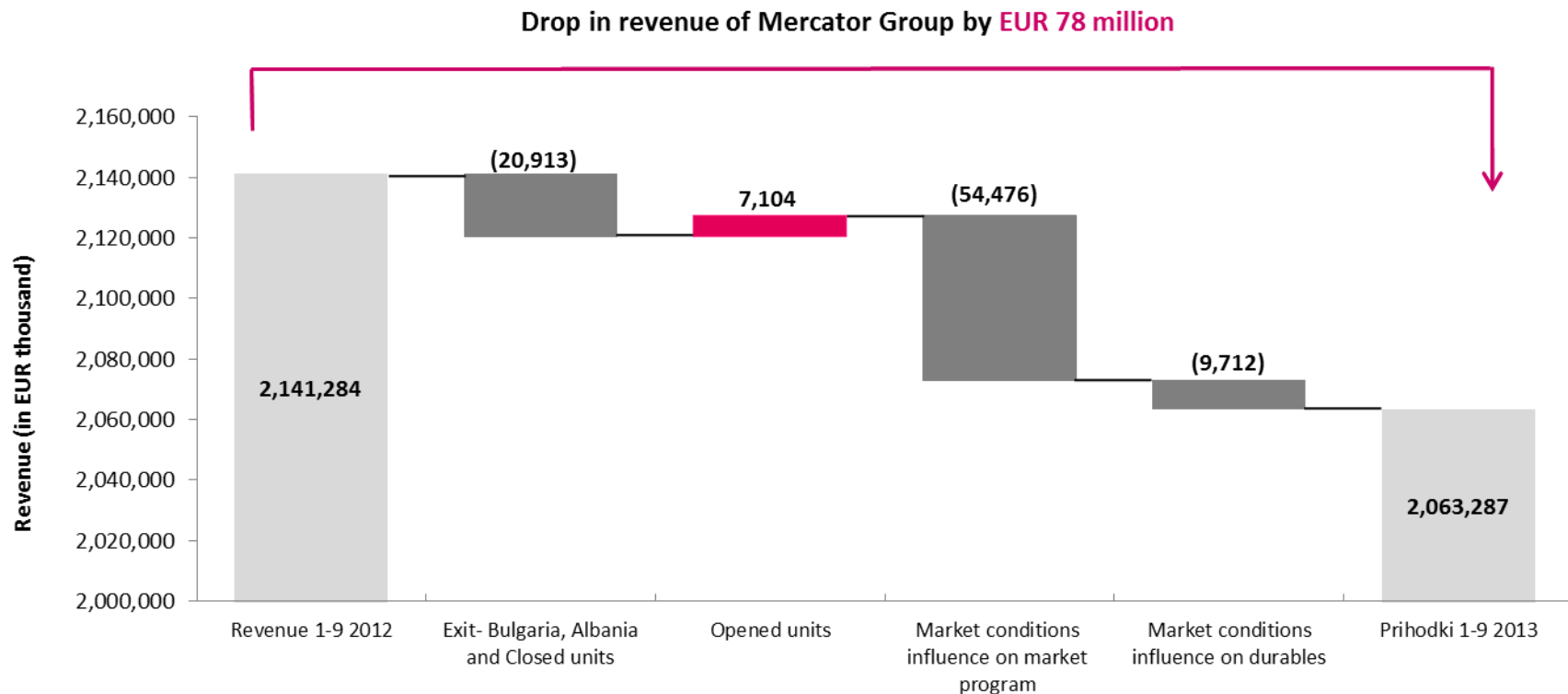
Mercator Group performance in Q1, Q2 and Q3 2013

				Indeks	Indeks
	1-3 2013	4-6 2013	7-9 2013	4-6 2013 / 1-3 2013	7-9 2013 / 4-6 2013
Prihodki iz prodaje (v 000 EUR)	658,417	698,009	706,861	106.0	101.3
Poslovni izid obračunskega obdobja (v 000 EUR)	-8,634	-6,515	-2,428	75.5	37.3
Naložbe v osnovna sredstva (v 000 EUR)	4,490	5,684	5,671	126.6	99.8
EBITDAR / prihodki iz prodaje	5.60%	6.60%	6.17%	117.7	93.4

Lower result compared to the same period last year, primary due to lower sales of textile and technical program and decline in revenue in Slovenia and Croatia.



Revenue was also affected by the implementation of the planned business decisions regarding the operations restructuring process.



We are decreasing the Mercator Group net financial debt. The framework agreement on long-term restructuring of financial liabilities represents a solid foundation for the Mercator Group's long-term stability.

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

Net financial debt of the Mercator Group as at September 30, 2013 amounts to EUR 994,251 thousand

Financial liabilities are lower by EUR 29.7 million compared to end of year 2012.

** Increase of long-term loans granted and deposits in the period 1–9 2013 pertains to re-classification of advance payments on rents from trade and other receivables.*

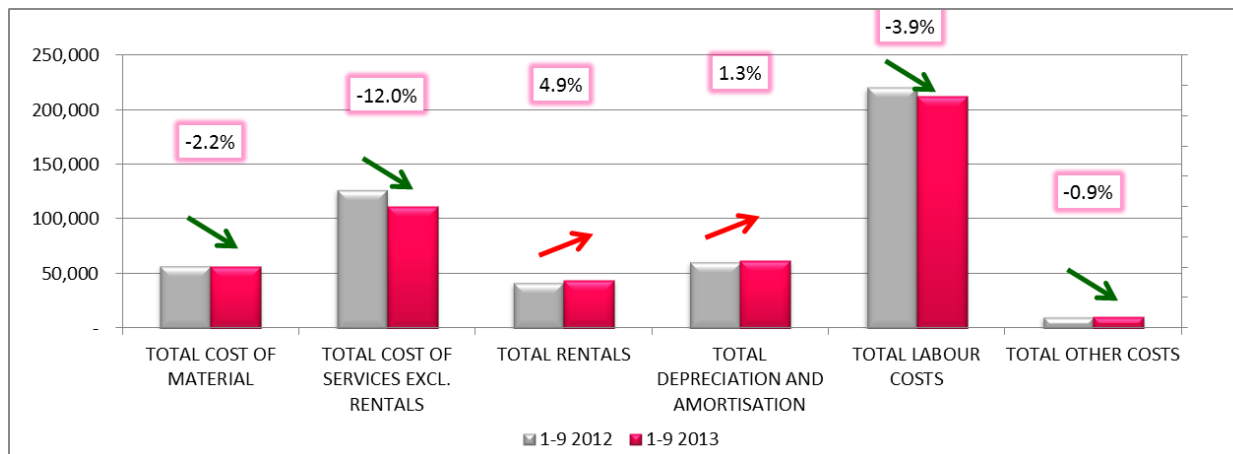
We continue our successful cost optimization. Savings in the period 1–9 2013 exceed the figure planned for the entire year 2013.

With appropriate measures of cost rationalization, we reduced operating costs.

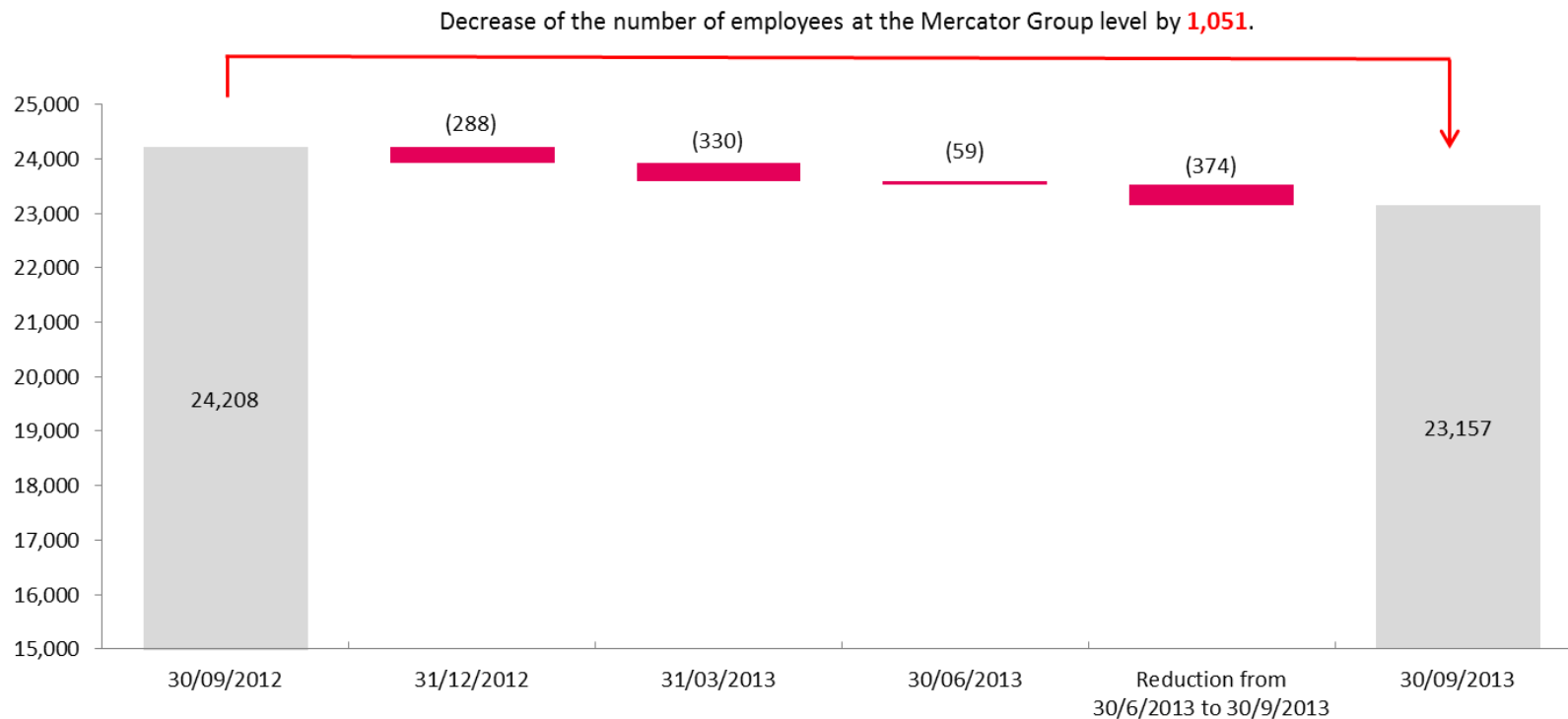
Decrease and optimization of the costs of material and services, labour costs, and other costs planned at EUR 19 million at the Group level in 2013, relative to 2012.

- EUR 10 million of savings on costs of material and services
- EUR 9 million of savings on labour costs

With adopted cost-rationalization measures we succeeded to reduce operating costs below last year's level in the period 1-9 2013. With the implementation of the relevant measures were achieved greater savings in almost all categories in the total amount of EUR 27.4 million.



The project of optimizing the number of employees in administration has been in progress as planned. No additional activities are planned for this field by the end of this year.



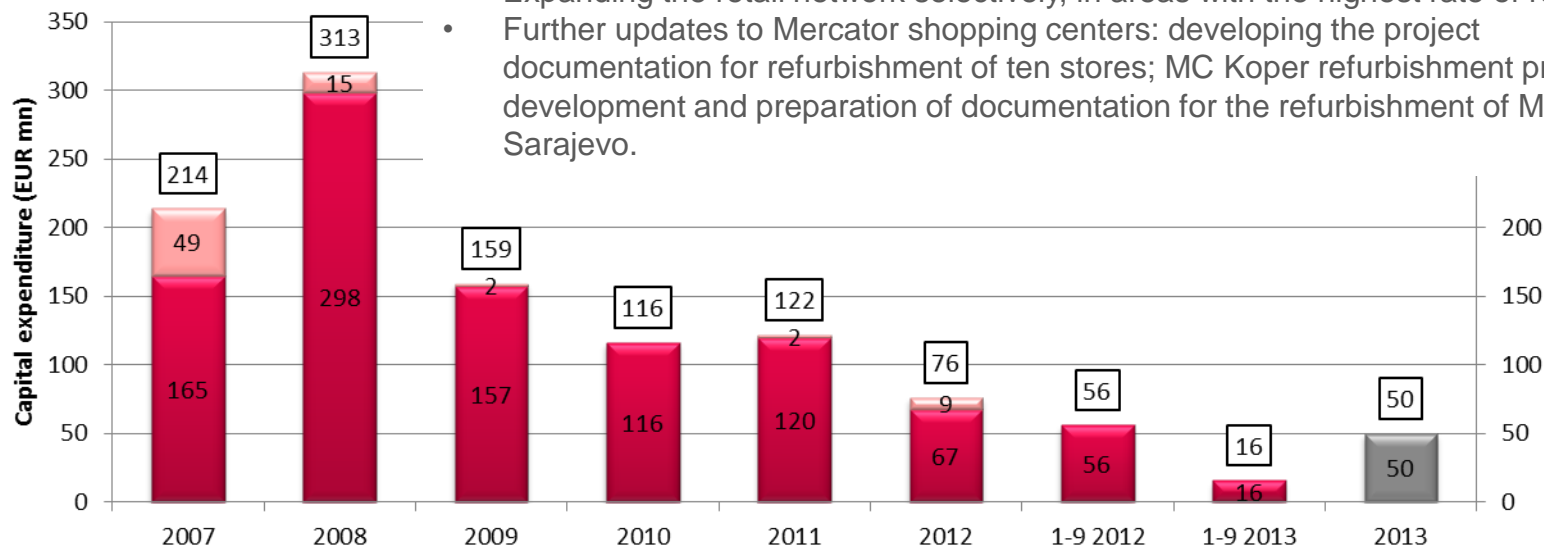
Plans in real estate management in progress as per adopted strategy and market conditions

In the period 1-9 2013, the value of:

- **total investment** amounted to **EUR 15.8,**
- **divestment: EUR 6.9 million.**

Strategija razvoja

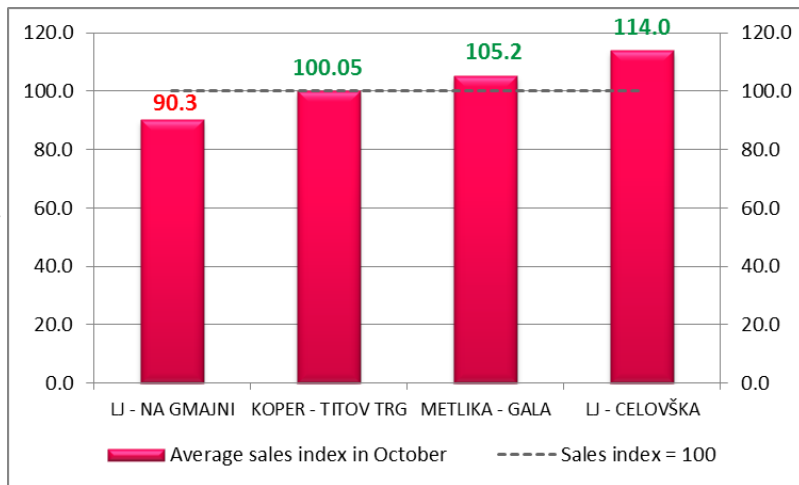
- Preference given to lease and refurbishment of existing stores, in compliance with the new concept of neighbourhood store refurbishment concept
- Divestment of non-core assets – tender for the sale of 84 units of real property in the Slovenian market, with a combined total value of EUR 48.4 million – divestment considered in other markets as well.
- Expanding the retail network selectively, in areas with the highest rate of return.
- Further updates to Mercator shopping centers: developing the project documentation for refurbishment of ten stores; MC Koper refurbishment project; development and preparation of documentation for the refurbishment of MC Sarajevo.



SKUPAJ NA VSAKEM KORAKU

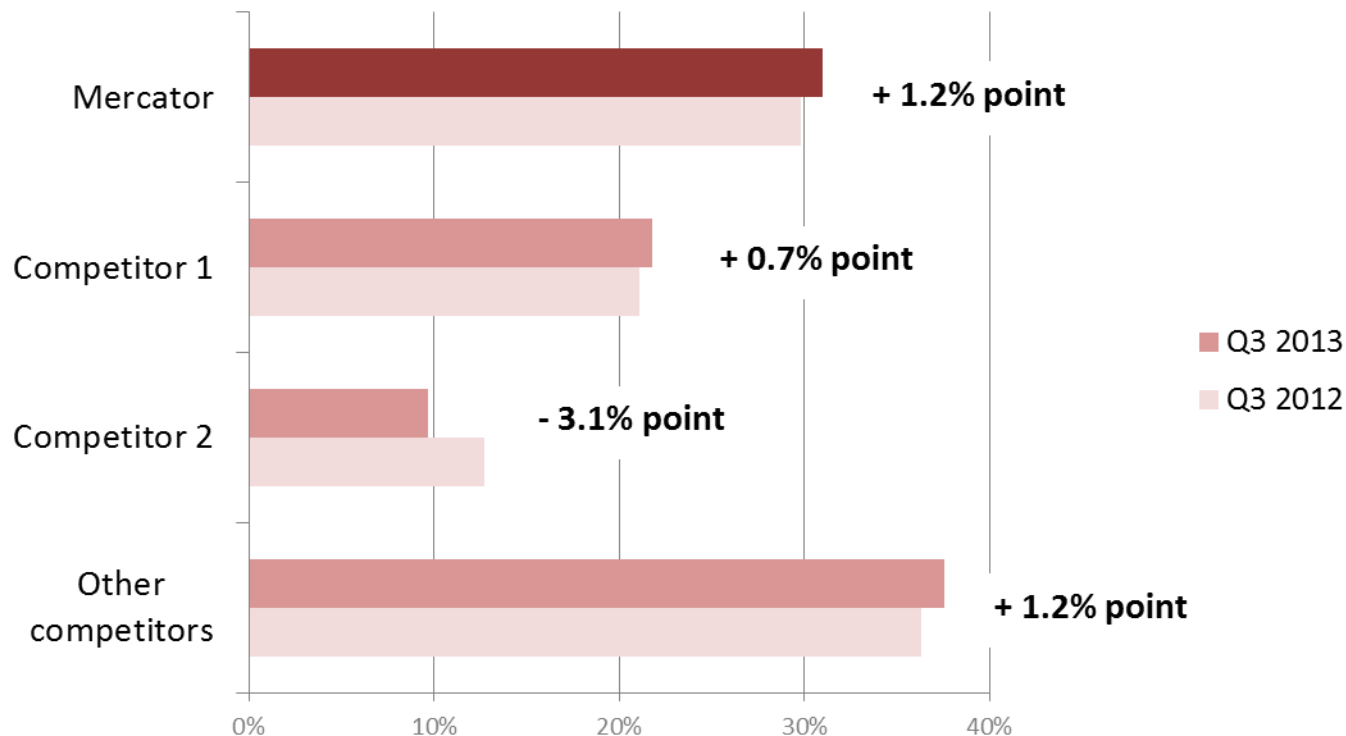
Investment into refurbishment of retail network have yielded positive results.

Business performance of renewed stores „SOSED“ from opening to October 31, 2013.



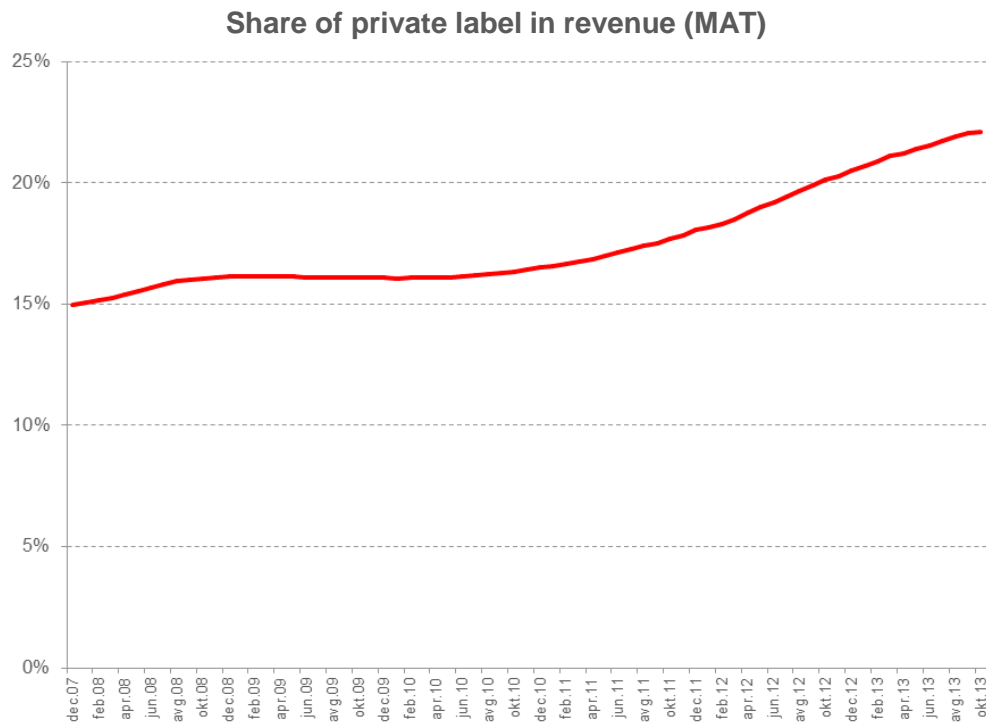
After years of decline, the trend of dropping market share was stopped in this year.

Market share was stabilized at 31 %.



Source: Valicon, Oct 2013

Creating "value for money" for the customers with our private label. The share of private label sales is increasing.



Over 2,500 products offered within our private label.

Potrebam sodobnega potrošnika sledimo tudi z aktivnostmi za povečanje naše inovativnosti.

Introduction of
the "Sosed"
("Neighbour")
banner



Working with
suppliers ("Iz
domačih krajev" –
"Locally Grown")



Innovative
offer
(Grosuplje
bakery)



Revision of the
web store,
introduction of
Click&Collect



Key challenges for Mercator Group in the future

1

- Improving profitability

2

- Ensure positive business performance by the end of 2013

3

- Successful continuation of the business restructuring process, which is currently one of the most challenging projects of its kind in this part of Europe.

4

- Adapting to changed market conditions and consumer behaviour.

5

- Preparation of business plan for 2014.

THANK YOU.