Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2014

najboljši sosed že 65 let

Ljubljana, May 2014

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SUMMARY

In the period 1-3 2014, Mercator Group generated EUR 625 million of net revenue, which is 5.1 percent less than in the corresponding period of the year before. Result from operating activities is positive at EUR 5 million. Cash flow from operating activities (EBITDA) amounts to EUR 22.7 million, which is an improvement over the same period of the year before.

Steadying and gradual recovery of the economic situation

According to European Union forecast, economic recovery will continue in 2014 in most European Union member states and the EU as a whole. Due to the time lag before the recovery is seen in the labour market, unemployment rate is anticipated to remain high and only gradually start to decrease in 2015. In 2013, Slovenia's GDP saw a minor decline, higher exports, a moderate decrease in domestic spending, and a year-on-year economic growth for the first time in two years in the last quarter of 2013. Positive economic growth is expected in all countries of Mercator's operations in year 2014, while consumption remains affected by negative economic developments in the markets.

Drop of revenue resulting from changes in consumer behaviour

Mercator Group revenue in the period 1-3 2014 was 5.1% below the figure in the equivalent period of the year before. The revenue dropped by 3.1% in Slovenia and by 7.7% in international markets. Changes in revenue differed from one market to the other. It rose in Montenegro and declined in Croatia, Serbia, and Bosnia and Herzegovina. The drop in revenue is to a certain extent the result of the withdrawal from the market of Bulgaria, closing down of some of the underperforming FMCG stores and Modiana and Tehnika units and lower purchasing power of the population.

Further development of the Mercator Sosed format and marketing activities

Mercator remains focused on refurbishment of the existing stores according to the Mercator Sosed ("Neighbour") concept. The emphasize our offer of fresh produce and products that are suited to modern consumers who are short of time and look for quickly prepared healthy and fresh food. Several activities were introduced in March 2014 to improve Mercator's price competitiveness. In Slovenia and in most international markets, we continue to offer domestic local products and produce in order to come even closer to our customers.

Investment adjusted to the conditions in the financial markets

Investment in the first quarter amounted to EUR 3.2 million and it mostly involved the revision of the existing retail network, predominantly in Slovenia.

Mercator continues to divest its non-operating assets in this year. In the period 1-3 2014, we divested property, plant, and equipment in the amount of EUR 954 thousand. In the second half of April, we announced a list of 50 new units intended for disposal, and contacted potential buyers.

Group performance positively affected by lower costs

Relative to the same period of last year, costs at the Group level were lower by 5%. This resulted in an improvement of results from operating activities which amounted to EUR 5 million in the period 1-3 2014, or more than four times as much as in the corresponding period last year. Despite the improvement in cost efficiency, profit for the period is negative at EUR -8.5 million, mostly as a result of higher finance expenses compared to the first quarter of 2013, pertaining predominantly to the currency translation differences.

A step closer to the financial restructuring of the Mercator Group

On April 25, 2014 Mercator obtained signed commitments by all required creditor banks of the Mercator Group to implement the proposed financial restructuring of the Mercator Group according to the detailed legal and commercial terms and conditions as agreed with all such creditors. This will notably alleviate Mercator Group's liquidity risk.

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 7 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 March 31, 2014	EUR 157,128,514.53
Number of shares issued and paid-out as at March 31, 2014	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 three sessions in the period from January 1, 2014 to March 31, 2014.

At the 20th session held on January 30, 2014, the Supervisory Board was briefed on the following:

- progress of negotiations on the refinancing of Mercator Group debt and the progress of sale of the majority stake in the company Mercator, d.d.;
- unaudited results of the Mercator Group in the period I-XII, 2013.
- The Supervisory Board also approved the sale of the 100-percent ownership share in the company Mercator - A, sh.p.k., held by the company Mercator d.d., Ljubljana.

At the correspondence session held on March 7, 2014 the Supervisory Board agreed that the company Mercator - S, d.o.o., sign a Restructuring Framework Agreement for the restructuring of the financial liabilities of the company Mercator - S, d.o.o., with the relevant financial institutions. The Supervisory Board also approved the Restructuring Framework Agreement to be signed by other companies of the Group with some of the other financial institutions, for the restructuring of their financial liabilities.

At the 21st session held on March 31, 2014, the Supervisory Board was briefed on the progress of the legal review of some transactions carried out by the previous Management Board in the period from 2007 to 2011, on the progress of financial restructuring of Mercator debt, on the progress of the sale of the majority shareholding in the company Mercator, d.d., and the status of activities of Mercator's withdrawal from the markets of Albania and Bulgaria.

Mercator Group composition

As at March 31, 2014, 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

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

* The company does not conduct business operations.
** The company is in the liquidation proceedings.
*** The company Poslovni sistem Mercator, d.d., has sold whole capital investment in the company Mercator - A, sh.p.k. The change in ownership is dated as at April 7, 2014.

Branch Offices
As at March 31, 2014 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

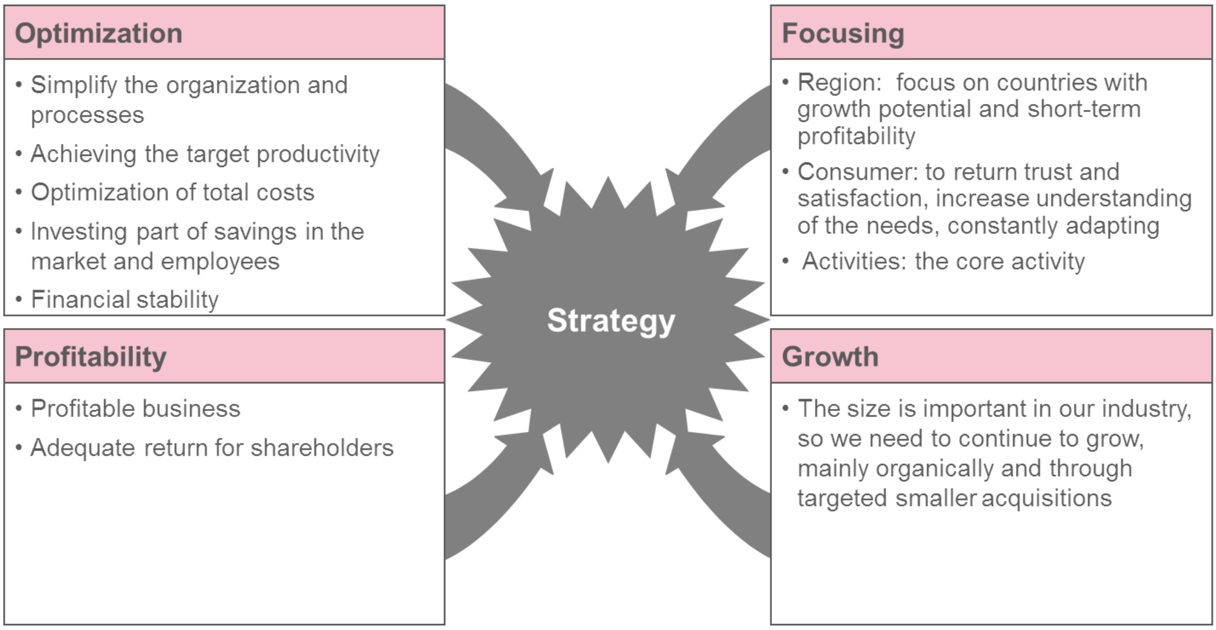
Vision

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

Poslanstvo

- 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**.

Strategy



MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1-3 2014

	1-3 2014	1-3 2013	Index 1-3 2014/ 1-3 2013
Revenue (EUR thousand)	624,840	658,417	94.9
Results from operating activities (EUR thousand)	5,014	983	510.3
Profit before income tax (EUR thousand)	(8,538)	(8,634)	98.9
Profit for the financial period (EUR thousand)	(8,538)	(8,634)	98.9
EBITDA (EUR thousand)	22,712	21,607	105.1
EBITDAR (EUR thousand)	36,206	36,650	98.8
Capital expenditure (EUR thousand)	3,210	4,490	71.5
Return on sales	(1.4%)	(1.3%)	104.2
EBITDA / revenue	3.6%	3.3%	110.8
EBITDAR / revenue	5.8%	5.6%	104.1
Number of employees based on hours worked	21,131	21,385	98.8
Number of employees as at the end of the period	22,603	23,590	95.8

HIGHLIGHTS IN THE PERIOD 1-3 2014

Retail network development

Following are the highlights for the first quarter of 2014:

- we invested EUR 3,210 thousand,
- our divestments totalled at EUR 954 thousand,
- we acquired 2 new units spanning a gross area of 407 square meters, of which one unit is leased and one is proprietary.

Changes in the composition of the Mercator Group

On January 1, 2014 the activities of the company Modiana, d.o.o., Slovenia, were transferred to the company Mercator, d.d. Merger of the company is planned for the second half of 2014.

On January 22, 2014 the company Mercator - Optima, d.o.o., was struck from the court register. The company had operated in Slovenia and it was specialized or planning the stores and shopping centers.

In April, Mercator Group completed its withdrawal from the market of Albania. The company Poslovni sistem Mercator, d.d., divested its entire capital investment in the company Mercator - A, sh.p.k.; on April 7, 2014 it was deleted as a partner in the said company.

Corporate activities

In the first quarter of 2014, Mercator Group carried on its financial restructuring processes. Thus, Mercator Group companies signed on March 7, 2013 the Restructuring Framework Agreement which became effective in April 2014. This means that detailed legal and commercial terms of restructuring were negotiated and agreed upon with all relevant creditors. This is an important milestone in Mercator Group's long-term restructuring process. The creditors have shown solid support to Mercator Group and provided support and stability for the final implementation of the financial restructuring plan. Based on the statements of commitment, Mercator Group will prepare, in cooperation with its consultants, all required financial documentation for the financial restructuring.

Awards received

In the Trusted Brand survey conducted by the Reader's Digest magazine, Mercator was again ranked among the Slovenian brands most trusted by consumers. Slovenian subscribers of the Reader's Digest magazine were asked to choose 40 most trustworthy brands – 20 global and 20 local. Mercator was again voted a top local brand as **the most trustworthy shopping center**. According to the survey, consumers highly appreciated tradition. This year, the readers also voted for the first time the **most trustworthy brands with regard to environmental protection**; Mercator ranked among the best in this regard.

At the 13th bread, pastry, and pasta competition, organized by the Chamber of Commerce and Industry of Slovenia, Pekarna Grosuplje won 12 gold medals for **the best bakery products of excellent quality**. All products that entered the competition receive to ratings. The medals are the most coveted awards in the baking industry in Slovenia.

BUSINESS REPORT

EFFECT OF ECONOMIC AND OTHER CONDITIONS ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1-3 2014

Economic conditions in the markets of operations in the period 1-3 2014[1]

In its 2014 Winter Forecast (announced at the end of February 2014), the European Commission forecasts further economic recovery in most EU member states and the European Union as a whole. In 2014, GDP is expected to grow by 1.5% in the EU and by 1.2% in the euro zone; in 2015, economic activity is expected to pick up an even greater pace to reach a growth of 2.0% in the European Union and 1.8% in the euro zone. At the same time, the European Commission notes that growth, as usually following a period of sever financial crisis, is still uncertain. The forecast is still based on the assumption that the agreed policy measures in the European Union and in particular member states will continue to improve the confidence and the financial position, as well as speed up the required adjustment of the economy in member states by improving their growth potential.

The economy is gradually stabilizing; however, changes in the labour market tend to lag behind the changes in the GDP by six months or more; thus, the unemployment rate remains high. As of this year, the Commission anticipates a modest improvement in employment. By 2015, the unemployment rate is expected to drop to 10.4% in the European Union and to 11.7% in the euro zone, with persistently high differences between particular member states. The Commission expects the consumer price inflation to remain low in 2014 at 1.2% in the European Union and 1.0% in the euro zone. In 2015 when the economic growth is recovered, it is expected to increase by approximately 0.25 percentage point.

A further decrease in public finance deficits is expected. In 2014, nominal budget deficit is anticipated to drop to 2.7% of GDP in the European Union and to 2.6% in the euro zone, while the public debt to GDP ratio is expected to reach 90% in the European Union and 96% in the euro zone.

The European Central Bank has kept the interest rate for the main refinancing operations at 0.25%. This is a record low, which has resulted in persistently low 6-month EURIBOR, although this rate did rise considerably in March 2014. In the period 1-3 2014, the 6-month EURIBOR averaged at 0.397%, an increase of more than 15% relative to the last quarter of 2013. Nevertheless, EURIBOR remains at all-time lows. However, the recent growth remains a cause for detailed monitoring of the changes in interest rates.

Slovenia

The drop in the gross domestic product in 2013 was considerably lower than in 2012 and much lower than initially forecast. In addition to higher exports, this was also a result of a lower drop in domestic consumption. In the last quarter of 2013, year-on-year growth was seen for the first time in two years. With lower uncertainty in the international and domestic environment, the IMAD expects in its 2014 Spring Forecast an increase of gross domestic product by 0.5% as a result of further increase of export growth and slower drop in household consumption; this figure is 1.3 percentage point better than the most recent 2013 Autumn Forecast. According to the data provided by the Statistical Office, confidence indicators are rising in addition to exports. Along with the signs of recovery, these indicators have been improving since the start of the year, and sales in domestic market are stable. Despite all positive signs of recovery, the risk that the economic activity will end up being lower than currently expected remains high.

With feeble economic recovery and further absence of price shocks from the international environment, inflation rate will remain low in this year and the following two years. With the expected slight recovery of domestic consumption in the period 2014-2016, the inflation rate will remain considerably below 2%.

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

Private consumption is expected to drop again this year (-0.4%). Government spending, too, is expected to continue to decrease as a result of further public finance consolidation; however, the drops will be lower (-1.5%). With modest growth of economic activity in this year, the drop in the number of the employed will be lower than last year; improvement in terms of employment in the following two years will be only gradual due to the characteristic lag in the response of the labour market.

Slovenia's rating remains unchanged at A– with stable outlook; however, mounting public debt, although still below the European Union average, is cause for concern. In the first quarter of 2014, required yield of Slovenian government bonds dropped considerably to the lowest rate since the onset of the crisis, below 4%.

Serbia

According to the Serbian Statistical Office, GDP growth in 2013 was positive and higher than planned, reaching 2.5%. However, European Commission's estimate puts the growth for 2014 at a lower rate of 1.3%. Inflation rate in 2013 dropped considerably to 2.2%; in the future, it is the goal of the National Bank of Serbia to keep the inflation rate below 4%, with a deviation of 1.5 percentage points. According to the European Commission, unemployment remains high at around 22%, which is not expected to change significantly in the following year.

Average exchange rate of the Serbian dinar in the period 1-3 2014 stood at RSD 115.75 per 1 EUR, while the average rate in the last quarter of last year was RSD 114.41 per 1 EUR. The rating of the Republic of Serbia remains unchanged at BB– with negative outlook.

Croatia

According to the estimate by the Croatian Statistical Office, GDP declined by 1.0% in 2013 while the inflation rate reached 2.2%. The European Commission estimates GDP growth in 2014 at 0.5% while inflation rate is expected to be lower than in 2013 at 1.3%. Average exchange rate of the Croatian kuna was HRK 7.65 per 1 EUR in the period 1-3 2014. In the period 9-12, 2013 it was HRK 7.62 per 1 EUR. Croatia's rating was downgraded in January 2014 from BB+ to BB, with stable outlook.

Bosnia and Herzegovina

In 2013, GDP growth in Bosnia and Herzegovina reached 0.8%; for 2014, growth of 1.8% is anticipated. Inflation rate in 2013 was negative at -1.2%. 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. Since March 2012, the rating of Bosnia and Herzegovina has remained at B, with stable outlook.

Montenegro

According to the Montenegrin Statistical Office, the country's GDP growth in 2013 amounted to 3.5%. According to the EBRD, economic growth in 2014 is expected at 2.0%. Inflation rate in 2013 was at 0.3%. Montenegrin official currency is the euro. Montenegrin rating was most recently changed in June 2012. Since then, it has remained at BB–. In November 2013, outlook was downgraded from stable to negative.

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

According to economic growth estimates, a slight improvement in economic conditions is expected for first quarter of 2014 in all markets of Mercator's operations. The trend of decline in private consumption has persisted and unemployment remains high. Consumers in all markets still believe we are in a recession and they do not expect any considerable improvement in the coming year. More positive consumer expectations point to slight optimism for the future.

According to a market research conducted in March 2014,[2] the perception of the effect of recession on everyday life was reversed for the first time in the last five years in **Slovenia**; however, 80% of the respondents still feel the effects of the recession, which is 2 percentage points less than in the year before. Consumer expectations are more positive; they are less worried about further reduction of wages or losing their jobs; and the psychological pressure of the crisis is not as heavy. The consumers still show the same changed shopping behaviour which they adopted upon the onset of the economic crisis: their shopping is more rational and planned, they

[2] Marketing Monitor of the Slovenian Marketing Association (DMS): Consumer Survey, Spring 2014

prefer more inexpensive products, they are more responsive to special offers and promotions, and they buy more private label products. Their shopping is dispersed over several retailers. Instead of one major shopping session, they break it down into several smaller shopping trips, and they visit the discount retailers more often.

In **international markets**, the trend of decline of consumption has persisted as well, and no improvement is expected in the near future. The economic crisis has changed the shopping behaviour of the consumers for good; they are more rational, price-sensitive, they plan their shopping, and they have given up major shopping sessions. The consumer shop more rationally, which also includes preference of more inexpensive brands and products included in special offers. They shop less and more frequently, with lower value of each shopping cart.

SALES AND MARKETING

Sales

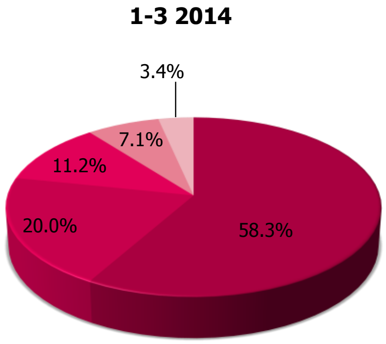
In the period 1-3 2014, Mercator Group generated EUR 624,840 thousand of revenue, which is 5.1 percent less relative to the period 1-3 2013.

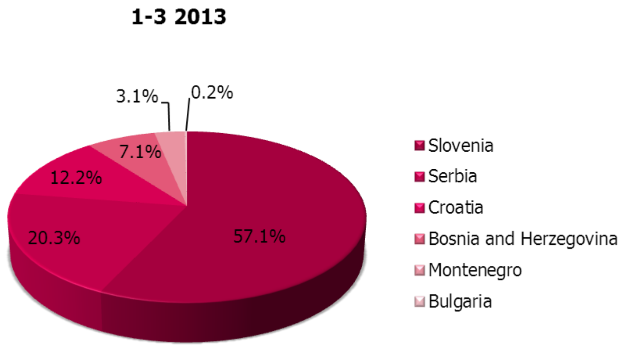
Majority of Group revenue is generated by sale of goods, material, and products, mostly retail and wholesale of trade goods.

Compared to the equivalent period of the year before, revenue in Slovenian market dropped by 3.1%. Revenue also fell in foreign markets – by 7.7%.

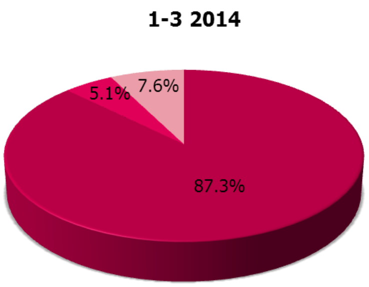
The Group's revenue was lower than in recent period, which is a result of the withdrawal from the market of Bulgaria, closing of some units of the M Tehnika and Modiana programs and changes in consumer behaviour.

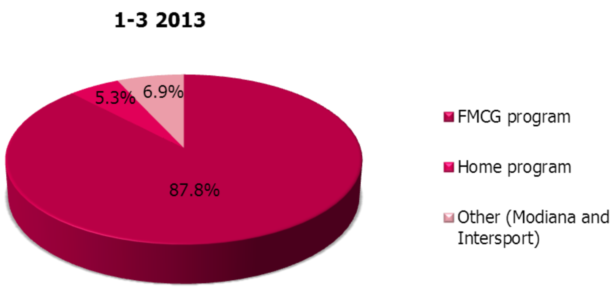
Mercator Group revenues by geographical segments:





Mercator Group revenues from trade operations by programs:





In the period 1-3 2014, the majority of Mercator Group revenue resulted from sales of fast-moving consumer goods which accounted for 87.3% of the total figure; revenue from other specialized programs amounted to 12.7%. Due to the closing of some units of the technical consumer goods program, the share of fast-moving consumer goods programs and products for the home within total revenue dropped considerably. Withdrawal from the market of Bulgaria has resulted in a lower share of fast-moving consumer goods sales within total sales.

Store Formats, Customer segments and Category management

Store Formats

Mercator Group's retail units are present in five rather different markets. This requires adjusting our operations to the needs of the customers in each market. To this end, Mercator has put in place a multi-level strategy of store brands/banners and a multi-format strategy with a broad range of store formats. These are intended to allow both major, previously planned shopping sessions, as well as minor, daily or occasional shopping for fast-moving consumer goods, technical consumer goods, apparel and cosmetics, sportswear, tourist services, and fuel at petrol stations.

Development of New Store Concepts

In recent years, shopping behaviour of consumers has changed considerably as a result of a number of trends in the environment. Consumers are more sensitive to pricing; the value of their average shopping cart is lower and they shop less frequently; they tend to distribute their shopping to several retailers and store formats, avoid longer drives when planning shopping trips, shop less impulsively, they are more rational when buying non-alimentary products of higher value etc.

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

In the first quarter of 2014, we remained focused on the revision of Mercator's most important format MERCATOR NEIGHBOUR ("Mercator Sosed") according to the revised concept which puts to the forefront the adjustment to particular micro environments or to the local community and the target segments of customers and their shopping behaviour and needs.

The highlights and focus of this format are the offer of fresh produce and **innovative ideas of the offered mix that makes the customers' lives easier**:

- **importance of fresh produce** (»strong fresh experience«),
- introduction or expansion of the offer **of ready-made food** to be consumed immediately (rotisserie) or after reheating (»ready to heat« and »ready to cook«),
- broader offer of **pre-packed fresh products**,
- integration of the **"Minute" department** into the units at busy locations.

In this year's first quarter, the store at Kongresni trg in Ljubljana, a convenience store format, was refurbished in the first quarter of this year. The emphasis in the store following the refurbishment is the following:

- **varied and innovative offer of convenient products or products for smaller shopping sessions (grab & go),**
- **introduction of fast check-out,**
- **introduction of two shopping paths (»short« and »long« shopping path).**

Sensitivity to pricing is increasing in the market; the consumers increasingly appreciate quality local food; in non-market program, their shopping is increasingly rational. This has compelled the retailers to adjust their operations in order to provide a pleasant shopping experience for the customers. Therefore, we shall also **refurbish our supermarkets and hypermarkets in 2014**.

Composition of retail units as at March 31, 2014:

COUNTRY	SLOVENIA	SERBIA		CROATIA		BOSNIA AND HERZEGOVINA		MONTENEGRO		MACEDONIA	MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Mercator	Getro	Mercator	Drvopromet	Mercator	Roda	Intersport			
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	22	3	14	12	1	6	-	1	1	-	60	282,479	185,463
Supermarkets	130	-	44	27	3	19	12	1	8	-	244	267,315	172,651
Neighbourhood stores	336	-	56	41	18	5	46	1	70	-	573	205,247	119,367
Comfort stores	1	1	-	1	-	1	-	-	-	-	4	8,578	5,070
Convenience stores	1	-	-	-	-	-	-	-	-	-	1	159	83
Cash & Carry	14	-	6	-	16	-	-	-	1	-	37	121,140	81,621
Restaurants	18	9	-	-	-	2	-	-	-	-	29	8,347	5,558
TOTAL FMCG program	**522**	**13**	**120**	**81**	**38**	**33**	**58**	**3**	**80**	**-**	**948**	**893,264**	**569,812**
Home program	53	13	-	3	-	-	-	-	-	-	69	94,665	60,465
Furniture program	-	-	-	-	-	-	-	1	-	-	1	1,421	967
TOTAL home program	**53**	**13**	**-**	**3**	**-**	**-**	**-**	**1**	**-**	**-**	**70**	**96,086**	**61,432**
Clothing program and drugstores	**54**	**13**	**-**	**34**	**-**	**12**	**-**	**-**	**-**	**-**	**113**	**57,366**	**48,165**
Clothing program	45	7	-	34	-	8	-	-	-	-	94	55,010	46,117
Drugstores and perfumeries	9	6	-	-	-	4	-	-	-	-	19	2,356	2,048
Intersport	**34**	**11**	-	**28**	-	**9**	**-**	**2**	-	**-**	**84**	**52,457**	**40,154**
M holidays	13	-	-	-	-	-	**-**	-	-	-	**13**	**242**	**242**
TOTAL specialised programs	**101**	**24**	**-**	**62**	**-**	**21**	**-**	**2**	**-**	**-**	**210**	**110,065**	**88,561**
TOTAL retail units under management	**676**	**50**	**120**	**146**	**38**	**54**	**58**	**6**	**80**	**-**	**1,228**	**1,099,415**	**719,806**
Franchise stores	226	-	**82**	**49**	-	-	-	-	-	2	**359**	**66,315**	**44,054**
TOTAL	**902**	**50**	**202**	**195**	**38**	**54**	**58**	**6**	**80**	**2**	**1,587**	**1,165,730**	**763,860**

* In the market of Macedonia, Mercator is present with two franchise stores of the Intersport format.

Customer segments

In order to come even closer to our customers, we revised in early 2013 our customer loyalty system to include messages for every segment separately. Thus, we selectively highlighted the advantages of the revision to point out the most relevant features for each segment to which the message was intended. We have also revised the system of customer bonus points collection and the use of benefits. Moreover, our customer loyalty system was standardized for other markets where it had been rather different.

Category management

In category management, we pursue the following goals: to build a quality multi-level offer of both branded and private label products, to provide competitive prices for branded and private label products, to include appealing offer in our sales promotion activities, to efficiently manage our store area at the level of each product or category, and to provide adequate in-store sales service.

In the first quarter of 2014, category management was focused on the following key activities:

- revised concept of promotions with "top offer", emphasis on fresh program and seasonal products for the entire retail network, and seasonal products for hypermarkets and supermarkets,
- "grown in Slovenia" – label for fresh meet at our stores,
- "100-percent Slovenian milk" – labelling of fresh milk and dairy products in the stores,
- "Slovenian marketplace" – labelling of fresh fruit and vegetables in the stores,
- revised placement of products within some categories,
- shrinkage or adjustment of assortment within key categories,
- varied offer of regular and special-offer seasonal products.

Marketing

Our marketing activities are focused on the priorities for respective markets, and the dynamics in retail, as well as primary target customer segments. In defining our projects, we pursue the goal of creating value for the customers in the following fields:

- pricing benefits for the consumers;
- Pika customer loyalty card;
- domestic, local offer; proximity to the consumer;
- fresh and high-quality offer.

Pricing benefits for the consumers;

At Mercator, we keep track of the wishes and needs of our customers and continuously seek to adapt to them. In addition to the regular sales promotion activities conducted in January and February, we introduced several activities in March 2014 in Slovenia to improve Mercator's price competitiveness in the market. Thus, we cut the regular prices of 10,000 products; for 800 of these products by renowned brands and fresh program, we provide the lowest regular prices, subject to a money-back guarantee. We are introducing new mechanics for the customers: instead of regular Tuesday's and Thursday's 10-percent discounts, we offer our customers by the end of May 2014 double bonus points on these two days; we add days of 10-percent discounts for shopping above EUR 30; and we carry on the double bonus points days.

In the first quarter of 2014, we worked with the Triglav insurance company in Slovenia to carry out a joint project offering our customers the possibility to recover the entire value of a highway toll vignette with their customer benefit booklet.

In Slovenia and in Croatia, offer in the beginning of the year was focused more on fresh fruit and vegetables.

In the first quarter, the activity **"To so cijene"** *(These are the Right Prices)* was at the forefront in Croatia; the activity received weekly communication support. Weekly campaigns are being prepared for the customers in the entire Mercator and Getro network in order to attract the greatest possible number of customers to the stores, and to focus on fresh and seasonal products.

Weekend activities **Weekend for 5 and Late Night Shopping** have also been carried on at Mercator centres in Croatia.

In Serbia, we have carried on the regular activities related to special offers for every day of the week: double bonus points (Monday), coupon (Tuesday), retiree discounts (Wednesday); special offer (Thursday), and weekend campaign (Friday–Sunday). For the most price-sensitive customers, we offer a range of products of the **Socially Responsible** offer with the lowest prices.

Customers have also responded well to sales promotion activities at the check-out counters, which are carried out twice per week.

In Bosnia and Herzegovina, we are preparing joint sales promotion campaigns for customers of two store format banners: Mercator and DP Marketi. Key activities are related to special offer and seasonal offer, linked purchase, coupons, and retiree discounts.

In Banja Luka, various special offer activities are prepared for the customers, related to weekly campaigns, Tuesday's discount coupons, retiree discounts, and special offers. The customers have responded well to the activity **Price of the Day**.

Pika card

Focusing on the consumer, we carry on the development of the **advantages of the Pika customer loyalty system**. Now, the customers can win and use their loyalty points for the entire offer; they are also offered Special Pika discounts for select products; in addition, the card allows a deferral of the payment and payment in up to 24 instalments at a zero interest rate. For the segment of customers keen on shopping online, we also allow the functionality of online payment for alimentary products and technical consumer goods by Pika card.

Value added of the Pika card is enhanced in cooperation with new partner companies that offer appealing complementary offer exclusively for us and for our target segments.

Each month, special offers are prepared for the Pika card holders in all Mercator Group markets. These are presented in flyers and direct mail. Moreover, shopping is rewarded by double or triple bonus points on given days.

In Croatia, Pika card holders are offered a special Pika catalogue which brings the card holders a range of well-priced offer of various products with Pika discounts, or the possibility to trade in the bonus points for a discount.

Domestic, local offer; proximity to the consumer;

In the first quarter of 2014, we continued to communicate our offer of local Slovenian produce and products within the "Locally Grown" ("Iz domačih krajev") project. Our communication was focused on our competitive advantages: "Only in Mercator, regular offer of meat grown 100% in Slovenia"; "At the local marketplaces, 100% Slovenian fruit and vegetables"; "Our bakery, Pekarna Grosuplje, makes products out of 100% Slovenian wheat." In addition to communicating the offer of local Slovenian produce, we also stress the importance of preserving the tradition; direct delivery allows small growers to reach our shopping aisles and shelves more easily; we promote self-sufficiency and work with the growers to develop an offer of products that are in short supply in the Slovenian market. As a part of the Locally Grown project we present products and offer, and cuisine of individual regions. Thus, we allow the tastes characteristic of a smaller region to be present in the entire broad region.

The project of local offer was successfully rolled out to other markets as well. In **Croatia**, local offer is combined in the **Taste the homemade** activity; in **Bosnia and Herzegovina** we have carried on the activity **100% local product and 100% locally produced.**

In **Serbia**, select local products are offered under the slogan **Recommending Local Products.**

Fresh and high-quality offer

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. We have developed a comprehensive market communication campaign to communicate the affordable prices, known origin, and guaranteed quality of the Mercator private label products.

Our **Grosuplje Bakery** surprised the customers with new innovative products. To celebrate the holiday of Slovenian culture, we prepared the Prešeren bread developed in cooperation with the Slovenian ethnologist Prof Dr Janez Bogataj. In February, we revived the tradition of Valentine's birds.

We have developed our 100% whole grain spelt bread rich in nutrient fibres.

Consumers committed to a healthy diet appreciate Mercator's **Bio** line. Early in the year, we revised our offer of tea and refreshed the offer of some other organic ("Bio") products.

We continue to introduce new flavours of cookies offered in bulk at our stores. This, we are looking to make the offer of bulk products different than that of the pre-packed products – with higher quality and seasonal character. In January and February, we launched spelt linzer cookies and cookies with dried fruit and nuts under the brand **»From Mercator's Home Pastry Workshop«**.

In Bosnia and Herzegovina, we presented the Mercator private label products produced in cooperation with local producers.

INVESTMENT AND RETAIL NETWORK DEVELOPMENT

In the first quarter of 2014, Mercator Group continued to pursue the real property management strategy adopted in 2013, subject to the conditions prevalent in the domestic and international financial markets. In investment, preference was given to refurbishment our existing stores. Thus, we prepared and launched in Slovenia new refurbishment projects according to the Neighbour (Sosed) concept, tested and implemented in 2013, wherever the right conditions were met.

We did not develop our own property in the first quarter of 2014, other than integrating Mercator's sales programs into existing shopping centers. Investment funds were allocated especially to refurbishment and investment maintenance of the existing retail network.

In 2014, our goal was to divest as much non-operating assets as possible. We have developed a list of 50 new locations to be divested and announced the list in the second half of April.

Mercator's key goals in real estate management:

Summary of total gross retail area as at March 31, 2014:

Gross area in m^2	Used for own operations	Leased out	Total as at March 31, 2014
Owned retail area	755,295	210,900	966,195
Leased retail area	344,120	40,751	384,871
Total retail area	**1,099,415**	**251,651**	**1,351,066**
Owned warehouse capacity	140,324	575	140,899
Leased warehouse capacity	38,400	6,658	45,058
Total warehouse capacity	**178,724**	**7,233**	**185,957**
Owned commercial facilities	23,050	2,075	25,125
Leased commercial facilities	6,261	0	6,261
Total commercial facilities	**29,311**	**2,075**	**31,386**
GROSS AREA UNDER MANAGEMENT	**1,307,450**	**260,959**	**1,568,409**
- of which owned	918,669	213,550	1,132,219
- of which leased	388,781	47,409	436,190

Investment and Divestment

In the first three months of 2014, Mercator Group investment into property, plant, and equipment (CAPEX) amounted to EUR 3.2 million. Of this amount, 78.2% was used for investments in Slovenia and 21.8% was used for investments in international markets.

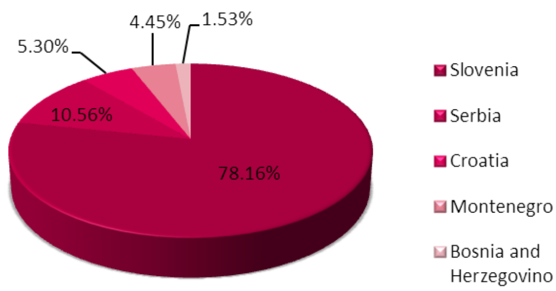
	Capital expenditure in 1-3 2014 (EUR thousand)	Structure (in %)
Slovenia	2,509	78.16%
Serbia	339	10.56%
Croatia	170	5.30%
Montenegro	143	4.45%
Bosnia and Herzegovina	49	1.53%
TOTAL	**3,210**	**100.00%**

Investment into expansion of retail area represented 11.4% of total investment; refurbishments of existing units accounted for 52.7%; remaining 33.6% was invested in logistics, IT, and non-trade activities.

In the first quarter of 2014, Mercator Group acquired 407 square meters of new gross area mainly in Serbia, of which 89% was acquired by operating lease, and the remaining 11% were acquired by refurbishment of an existing facility.

In the period 1-3 2014, Mercator Group divested EUR 954 thousand worth of property, plant and equipment.

Share of investments by markets



Summary of retail unit launches by markets

CROATIA
Area of new facilities: 45 m^2
Number of new retail units: 1
Openings: Mini by Modiana MC Čakovec

SRBIJA
Area of new facilities: 362 m^2
Number of new retail units: 1
Openings: Superette Banovo Brdo, Belgrade

Review of retail unit openings following the end of the financial period

The following three stores were opened in April 2014:

- Supermarket Liman 2, Novi Sad (April 3, 2014);
- Market Rubeža, Nikšič (April 7, 2014); and
- Mini by Modiana in MC Koper (April 10, 2014).

On April 14, 2014 we also opened a revised neighbourhood store Market Kolodvorska in Domžale, and a smaller Supermarket Pesnica near Maribor.

RISK MANAGEMENT

Management of key risks in the period 1-3 2014

By timely identification of key risks to which the Mercator Group could be more severely exposed, we seek to alleviate their effect or to hedge them entirely.

Business Risks
Unemployment rates remain high in most markets of Mercator's operations, which in turn increases exposure to the risk of a drop in purchasing power of the general population.

Financial risks
With obtained signed commitment by all relevant Mercator Group's creditor banks to the implementation of the proposed financial restructuring of the Group, we expect our exposure to liquidity risk to decrease.

Operational risks
In terms of operational risks, a lot has been done regarding IT risk management. An initiative was launched within the company Mercator, d.d., to improve the efficiency of management of the changes to the central IT systems in the field of application support to material operation.

Business Risks

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

Risks in the operations of trade companies increase as a result of the changes in the shopping behaviour of the consumers, and particularly due to a drop in their purchasing power. Unemployment rate, a key indicator of the purchasing power and 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.

According to IMAD Spring Forecast, GDP growth of 0.5% is expected for 2014 in **Slovenia**, which is a considerable improvement relative to the 2013 Autumn Forecast which suggested an 0.8% drop in the GDP. Improvement in the labour market cannot be expected this year. Unemployment rate has increased on 14.2% in February 2014. Wages per employee are expected to increase by just below one percent this year relative to 2013, while household consumption is expected to shrink by 0.4%. Consumer confidence has improved. In March 2014, the consumer confidence indicator was higher than the average for the preceding year, especially due to more optimistic outlook of the consumers regarding the economic situation in Slovenia in the following 12 months. All this will continue to have an effect on the consumption which will shrink at a considerably lower rate than last year.

In **foreign markets** of Mercator's operations, gross domestic product is expected to grow. Unemployment rate is higher than in Slovenia and it remains high. In Bosnia and Herzegovina and in Croatia, it was increased; in Serbia, it was slightly decreased. In Mercator's international markets, average income is notably lower than in Slovenia. Increase in wages has been low in all markets and its effect has been neutralized by the increase in the consumer prices. Private consumption continues to drop, with the exception of slight improvement expected in Montenegro. Considering the current economic conditions, no notable improvement in purchasing power can be expected.

Risks in the supply process

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

In the first quarter of 2014, our cooperation with suppliers was transparent to allow timely identification of any problems faced by the suppliers, and prompt adjustment, which reduces the probability of delivery failures. Regular monitoring and checking of supplier solvency allows timely redirection to new supply sources.

Carefully thought out procurement policy – choice of different suppliers within each category will reduce or disperse the risk. Positive effects of joint purchasing, especially lower purchasing prices and better terms, are attained in sourcing of products for our private label and seasonal products, by combining our procurement operations with those of the company Mercator - H, d.o.o., and our other subsidiaries in Southeastern Europe.

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.

Risks of sub-optimum marketing mix and effects of the competitive environment present the risks stemming from the definition of the marketing mix which includes price, promotion, product, and place. Highly competitive environment in all markets of Mercator's operations compels us to regularly monitor our competitors with regard to every aspect of the marketing mix, and to respond promptly with the marketing mix management tactics.

In the first quarter of 2014, our regular and promotional retail prices were effectively managed in compliance with the adopted strategies. Additional activities were carried out regarding pricing of products that have the strongest effect on pricing perception.

In the first quarter of this year, we continued to establish new unified assortments that include the best-selling products at all our stores at all times. Our sales assortment is regularly monitored, expanded and updated. Marketing mix was also adjusted as a part of the refurbishments of neighbourhood stores.

Risks of failure to attain the planned profit margin and returns on sales promotion activities

Assessment of the risk of failure to attain the planned profit margin and returns on sales promotion activities.

The risk is managed by monitoring all key performance indicators, identifying any deviation from the planned figures, and timely adoption of corrective measures.

In the period 1-3, 2014 we monitored on a monthly basis the planned and actual key performance indicators for all store formats and categories. We monitored the actual profit margins on a weekly basis. In case of discrepancies or deviations, we adopted short-term and long-term measures at the level of categories, as well as at the level of particular products.

We monitored on a monthly basis the attainment of returns on sales promotion activities. In case of failure to attain the planned goals, corrective measures were adopted (greater number of activities in cooperation with our suppliers; more appealing packages of cooperation with our suppliers etc.).

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 improving to a certain extent; however, growth is not robust and caution is still required. GDP is expected to grow in all markets – including Slovenia, contrary to previous forecasts. Unemployment rate remains rather high and it will not drop considerably in the years ahead. In some markets even a transitory increase can be seen. Conditions in the global financial markets are steadying. Nevertheless, access to financial sources is likely to remain restricted for Slovenian enterprises and the banking sector in the coming year.

Credit risk in wholesale

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

In the period 1-3 2014, we saw further 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. As of February 2014, we established a uniform central system for managing the limits of individual customers within the SAP system in company Mercator, d.d. This allows us to regulate our exposure to individual customers based on their performance in terms of timely settlement of their liabilities, and based on the credit ratings by third-party credit rating institutions. Thus, we shall be able to monitor more actively the status of overdue receivables in the future, and to act promptly where necessary, and especially to restrict further sale with deferred payment to delinquent customers. Moreover, we continued to work in this period with a third-party debt collection agency which is included in the process when none of the internal measures lead to the repayment of an overdue receivable. We continued to demand first-rate insurance against payment defaults from customers with a weaker rating.

Pika card credit risk

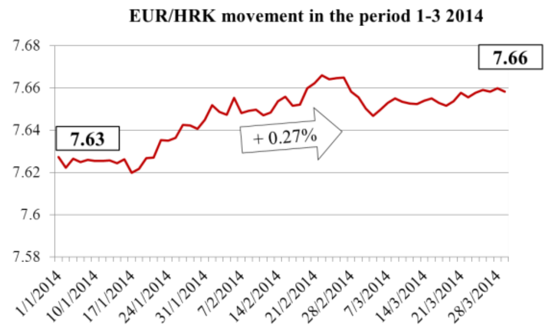
Assessment of the Pika card credit risks (possibility that receivables from customers, resulting from deferred payment, shall only be settled partly or not at all).

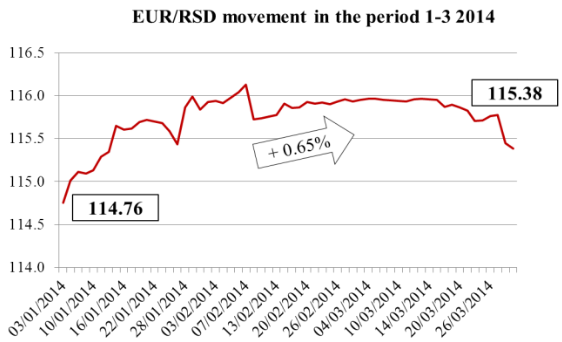
In the period 1-3 2014, we continued to monitor on a daily basis the changes in receivables and credit risk pertaining to the Pika card, and continued to implement the existing processes to hedge this risk, including more active collection of receivables from the Mercator Pika card holders and starting notification over the telephone; SMS (text message) warnings. We also developed new rules for instalment payments with the Pika card, which will allow control of such payments both in terms of the number of current credit arrangements and the amount of credit, or instalment payments outstanding.

Currency risk

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

Companies exposed to currency risk include particularly the companies in Croatia and Serbia where a considerable fluctuation in exchange rates was seen in the past, but has steadied recently. The Serbian dinar depreciated again, by 0.55% in the period. Average Serbian dinar exchange rate in the period 1-3 2014 was at RSD 115.75 per 1 EUR. The Croatian kuna also depreciated, by 0.41%. In the period 1-3 2014, average exchange rate of the Croatian kuna was HRK 7.65 per 1 EUR. In order to hedge the currency risk, we are looking to steer our operations in such way to avoid the currency risk whenever possible. Aside from the measures already in place, no additional measures to hedge the foreign currency risk were required.



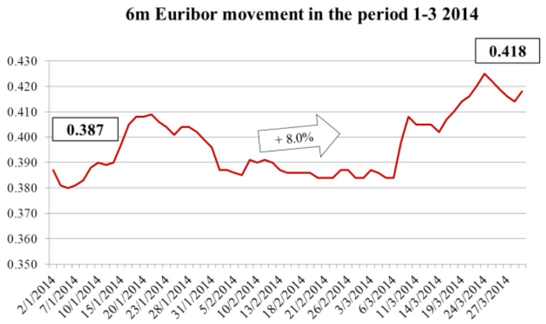


Interest rate risk

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

In the period 1-3 2014, variable 6M Euribor rose from 0.387% to 0.418%. Average 6-month EURIBOR in the period 1-3 2014 was at 0.397% which is more than 15% above the rate from the last quarter of 2013.

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



Liquidity risk

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

The ratio between short-term and long-term financial liabilities as at March 31, 2014 stood at 31.7 to 68.3; at the end of 2013, this ratio was at 33.9 to 66.1.

Financial restructuring activities were carried on by the Mercator Group in the period 1-3 2014. In December 2013, Mercator reached with the majority of creditors an agreement on the extension of the Pre-negotiation Agreement in compliance with the terms laid down in the framework restructuring agreement, through March 31, 2014. On **April 25, 2014** Mercator obtained signed commitments by all required creditor banks of the Mercator Group to implement the proposed financial restructuring of the Mercator Group according to the detailed legal and commercial terms and conditions as agreed with all such creditors.

Operational risks

Operational risks affect the ability to conduct business processes, and the cost efficiency of Mercator Group operations. Following is a list of the measures taken to alleviate these risks in the period 1-3 2014.

Category management operational risks

Seasonal effect.

Effect of a mild winter on sales in the first quarter of this year was seen in sales of warm beverages, tea, honey, and citrus fruits. Unlike our region, Canada saw a harsh winter that made it impossible for the Canadian suppliers to supply dry common beans to Europe. With wakeful monitoring of conditions and prompt response, we prevented supply failures of dry beans by offering our customers other varieties. Particular attention is paid to preparations for forward purchase of canned vegetables, preserves, wines made of Slovenian grapes, both for branded and private label products, as well as to purchase of Slovenian wheat, taking note of the expected effect of weather on the crops. Persistence of the harsh economic situation and increased unemployment is reflected in the drop of consumer purchasing power in the segment of non-alimentary seasonal products. 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.

Increase of tradable commodity prices.

Our purchasing and sourcing activities involve close monitoring of the prices of raw materials, on which the prices of our products are heavily dependent. Conditions in the market for milk and dairy products remain unstable as a result of preparation for the abolishment of dairy quotas on imports to the EU in 2015. Therefore, we are closely monitoring the changes in prices for the categories of milk and dairy products, as well as the prices of products with higher milk content. Continuous increase in the prices of oil has resulted in higher costs of packaging manufacturing. As a result, we expect upward pressure on prices of categories with high shares of packaging costs. In purchasing of fresh fruit and vegetables, we ensure stability of prices through agreements on long-term purchase.

Delivery failures.

Supply failures are supervised on a monthly basis and corrective measures are adopted to reduce such occurrences. To make control more efficient, we established in the first quarter of 2014 a new process of delivery failure monitoring which will allow faster adoption of relevant corrective measures.

Core activity operational risks

Failure of the refrigeration system and electrical wiring.

At Mercator, d.d., periodical tests of pressurized equipment and control of safety valves were carried out at the Zalog and Bohova sites. It is evident from the report of the certified body for periodical reviews that the suitability of pressure vessels shall be extended until the next periodic check in 2015; thus, no additional measures are currently required.

Risks resulting from damage to facilities.

Consistently with the maintenance plant, the following mandatory preventive tests were carried out at Mercator - Emba, d.o.o.:

- annual review of active fire protection (sprinkler system);
- periodic check of equipment for fire identification, notification, and alarm; some deficiencies were identified and subsequently entirely remedied;
- preventive check of safety valves in the boiler room.

All required reports on flawless operation were obtained.

IT risks

Failure of central IT systems (SAP, GOLD, Login, e-mail etc.) and failure of business IT system terminals (personal computers, laptops).

An initiative was launched within the company Mercator, d.d., to improve the efficiency of management of the changes to the central IT systems in the field of application support to material operation. The initiative was spurred by the opportunities in IT and organization which had been identified. Currently, analysis of the current status is being carried out, based on which an action plan will be developed.

The help desk took over the first level of resolving computer incidents from a third-party service provider to support the check-out points. Thus, central control was established over the incidents that had been directly submitted to the third-party service provider in the past. Thus, our internal service is the first to assess the incident and either refer it for resolution or resolve it without the need for third-party services. The change in the way of work allows a comprehensive review of the incidents and, upon this basis, optimization of the incident resolution process. Moreover, this is expected to speed up incident resolution as it will reduce the number of mis-targeted incident resolution tasks.

Activities to set up the data center building blocks under the auspices of the IT equipment operation control systems (monitoring) were carried on. The system allows early and automated identification of system errors or failures before they actually affect the operation of an IT service. When an error occurs, the system allows simpler and faster identification of the error source. Control of IT equipment has a positive effect on the operational risks as it improves the availability of the IT systems and services. Moreover, an initiative was launched that involves preparation of service models. The model will include the key infrastructure of the service, logically interconnected within the impact model. The model will serve to support the understanding of the service, and to allow easier and faster allocation of specialists to incident resolution tasks, and more efficient problem resolution; it will also provide the basis for integrated control of service infrastructure operation.

A study for the project of further implementation of IT Service Management (ITSM) principles has been prepared. The project will include optimization of processes of change and problem management.

Environmental risks

Inefficient use of electric energy and heating fuel.

The following measures were carried out at the company Mercator, d.d., in the first quarter of 2014 for efficient use of energy and to improve the cost efficiency and optimize our business activities:

- Upon changes of seasons, all employees are notified each quarter via the intranet portal about the changes to the temperature setting and on the compliance with the instructions provided in the Manual on efficient use of energy.
- By the end of March, all 50 facilities were connected within the Retail Care project, of which 46 facilities were optimized. Optimization has resulted in a decrease of power consumption for refrigeration equipment by 12.82%, which translates into savings of 456 thousand kWh, or over EUR 41 thousand.

- We are preparing to sign an annex for the installation of 16 additional combined heat and power (co-generation) units in 2014.
- Based on the implemented energy engineering measures, the companies Enekon and SolveryLynx are implementing measures to cut power consumption within the pilot project of remote power consumption control. An agreement has been signed with the third partner Maked Energeja, d.o.o.
- Tender documentation is being prepared for the replacement of lighting in interior and exterior visual identity features on 17 facilities and the Maxen petrol stations.

At the company Mercator - S, d.o.o., a department of efficient use of energy was established and an energy manager was appointed.

FINANCIAL MANAGEMENT

Net financial debt

Compared to the end of 2013, Mercator Group's finance liabilities in first quarter of 2014 remained at approximately the same level. Also the net financial debt of the Mercator Group did not change significantly and as at March 31, 2014 amounted to EUR 974,683 thousand, which is 0.3 percent more than it amounted on December 31, 2013.

in EUR thousand	March 31,2014	Dec. 31, 2013	Index March 31, 2014/ Dec. 31, 2013
Non-current financial liabilities	327,770	351,583	93.2
Current financial liabilities	705,766	686,225	102.8
Derivative financial instruments (liabilities)	537	1,469	36.6
Financial liabilities including derivative financial instruments	**1,034,073**	**1,039,276**	**99.5**
Cash and cash equivalents	13,880	18,505	75.0
Derivative financial instruments (assets)	6	16	39.3
Available-for-sale financial assets	820	820	100.0
Loans and deposits	44,684	42,609	104.9
Financial assets	**59,390**	**61,949**	**95.9**
NET FINANCIAL DEBT	**974,683**	**977,327**	**99.7**

Financing costs

In the period 1-3 2014, the 6-month EURIBOR averaged at 0.397%. At the end of the period, it was at 0.418%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at 0.336%, this rate rose by 0.061 percentage point.

Debt to equity and financial liability ratio

As at March 31, 2014 Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.93. The ratio is a quotient between equity which includes share capital and net financial debt.

In the period 1-3 2014, Mercator Group's maturity profile of debt/financial liabilities worsened somewhat. The share of long-term financial liabilities as at March 31, 2014, amounted to 31.7% (33.9% as at December 31, 2013).

As at March 31, 2014, the ratio between variable and fixed or hedged financial liabilities at the Mercator Group amounted to 46.6% vs. 53.4%.

Obtained signed commitments by relevant creditor banks

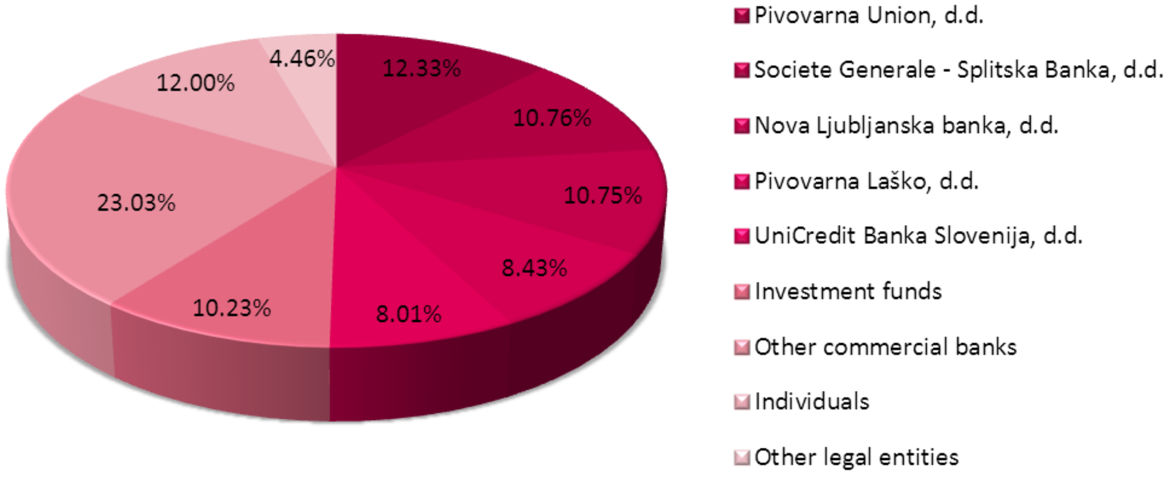
On April 25, 2014 Mercator obtained signed commitments by all required creditor banks of the Mercator Group to implement the proposed financial restructuring of the Mercator Group according to the detailed legal and commercial terms and conditions which have now been agreed upon with all such creditors. Thus, the creditors have shown strong support to Mercator Group and provided support and stability for the final implementation of the financial restructuring plan. The restructuring processes is extremely challenging due to the existence of several mutually related processes regarding the Mercator Group, effect of different legal environments, and deficient practice of financial restructuring in the region. This financial restructuring will have a positive effect on the Mercator Group, as well as bring important know-how of financial restructuring processes into the broader region of Central and Eastern Europe. The signing of the agreement on financial restructuring will notably decrease Mercator's liquidity risk as the repayment plan is adapted to Mercator's expected cash flow in the coming years.

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at March 31, 2014:

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	12,559

Ownership structure of the company Poslovni sistem Mercator, d.d., as at March 31, 2014:



Major Shareholders

As at March 31, 2014, the following ten largest shareholders combined owned **70.29 percent** of the company.

	Major shareholders	Country	Number of shares	Share
1	Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2	Societe Generale - Splitska banka, d.d.	Croatia	405,273	10.76%
3	Nova Ljubljanska banka, d.d.	Slovenia	404,832	10.75%
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	189,959	5.04%
8	Gorenjska banka, d.d.	Slovenia	142,920	3.80%
9	Prvi faktor - faktoring, d.o.o., Belgrade	Serbia	125,963	3.35%
10	Radenska, d.d.	Slovenia	96,952	2.57%
		Total	**2,646,498**	**70.29%**

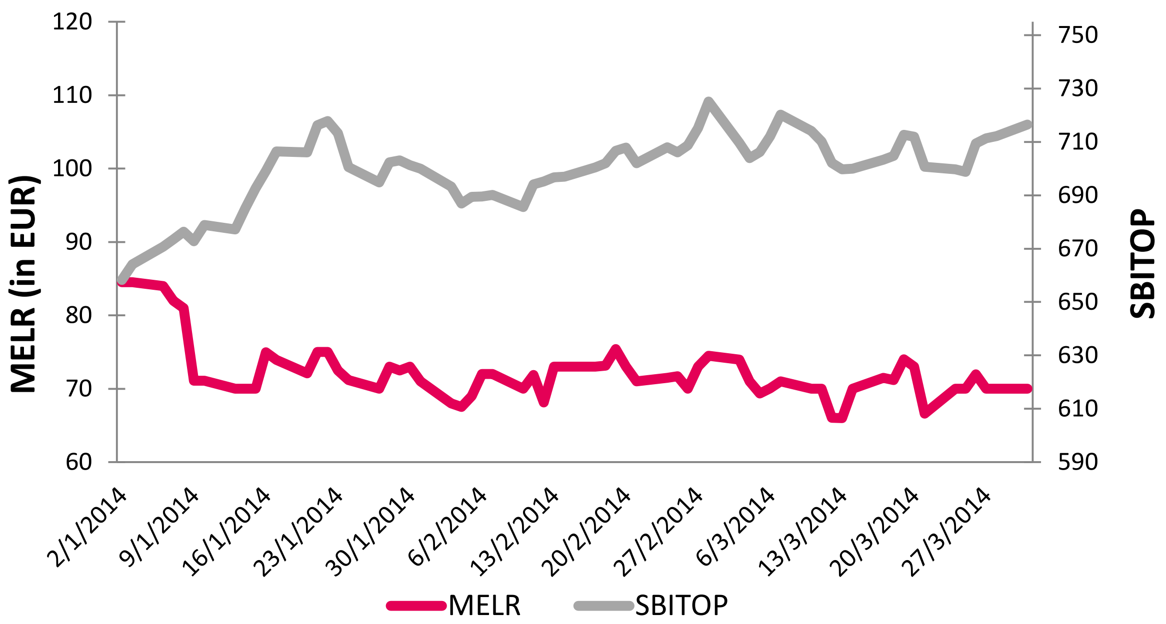
Foreign shareholders

As at March 31, 2014, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **26.46 percent**, which is 0,21 percentage point more than at the end of 2013.

Shares held by Management and Supervisory Board Members as at March 31, 2014

	First and last name	Position	Number of shares	Share
	Management Board			
1	Toni Balažič	Management Board President	0	0.0000%
3	Stanka Pejanović	Senior Vice President	0	0.0000%
4	Drago Kavšek	Senior Vice President	0	0.0000%
5	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	Vesna Stojanović	Supervisory Board member	36	0.0010%
7	Veljko Tatić	Supervisory Board member	0	0.0000%
8	Bojan Brank	Supervisory Board member	0	0.0000%
9	Ivan Valand	Supervisory Board member	0	0.0000%
		Total	**36**	**0.0010%**

Movement of closing price per MELR share in the period 1-3 2014, compared to the movement of the SBITOP index



Key information for the shareholders

	March 31, 2014	March 31, 2013	Index March 31, 2014/ March 31, 2013
Number of shares registered in Court Register	3,765,361	3,765,361	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	263,575,270	425,862,329	161.6
Market value of share (in EUR)	70.00	113.10	161.6
Book value per share (in EUR)	154.40	167.82	108.7
Minimum close rate in the period (in EUR)	66.01	113.00	171.2
Maximum close rate in the period (in EUR)	84.50	140.05	165.7
Average close rate in the period (in EUR)	72.21	122.98	170.3

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

In the year 2013, the company Mercator, d.d., realized a net loss, therefore, the payment of dividends is not planned.

Treasury shares

As at March 31, 2014 the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1-3 2014, the company Poslovni sistem Mercator, d. d., neither acquired nor disposed of treasury shares.

SUSTAINABILITY REPORT

In all five markets of its presence, Mercator has an important influence on the transfer of good practices both in terms of relation to customers and in terms of responsibility to employees, suppliers, and all other stakeholders, as well as the broad society and natural resources. We are increasingly aware of the co-dependence and connections not only in local environments, but also on a broader scale, regionally and globally.

By participating in numerous socially responsible projects, we are looking to show our understanding and offer aid to those in need, especially now, in a time of negative effects of the economic crisis.

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 1-3 2014, we carried out 90 regular and 6 extraordinary controls at our stores. In order to offer safe and quality products to our consumers, we analyzed 73 specimens or samples from our private label line, conducted monitoring on 250 samples in our open departments, and carried out 39 other analyses (government control, in-house production, own imports etc.).

Introduction of new standards and environmentally friendly technologies

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

We added shopping carts made of recycled materials at newly built and opened hypermarkets, as well as more efficient refrigeration equipment and lighting, which led to a reduction in power consumption relative to other comparable facilities by 2%.

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

The "Locally Grown" project has included further agreements on larger purchasing volumes for Slovenian fruit and vegetables. We work with the growers to promote self-sufficiency and to offer the products of Slovenian origin sought by the consumers. The project is contributing to preservation of the environment, and it allows small growers to reach our aisles and shelves more quickly. Our cooperation with them is strengthened and expanded each year.

Within the "Locally Grown" project, great emphasis is placed on the following:

- increasingly broad offer of Slovenian fruit and vegetables;
- offer of different types of bread with traditional regional characteristics; as of September 2013, all wheat used at the Grosuplje Bakery is of 100% Slovenian origin;
- highlighting the communication and our competitive advantage in the category of fresh meat; all meat included in the regular offer of our butcher's departments is 100% grown in Slovenia;
- highlighting and communicating the broad choice of milk and dairy products made of 100% Slovenian milk.

RESPONSIBILITY TO EMPLOYEES

In 2014, 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. In Slovenia, the parent company took over the employees from the company Modiana, d.o.o. As of March 31, 2014 we closed down a technical consumer goods units (Mercator Tehnika); a part of the employees were transferred to the units of fast-moving consumer goods program within the company Mercator - H, d.o.o., while some were made redundant.

At Mercator IP, d.o.o., a number of changes have taken place within the last three years regarding the activity and process organization. On February 1, 2014 we carried out a minor reorganization that brought the organizational structure of the company into line with the new situation. On March 31, 2014 the company had 207 employees with a certified category of disability, representing 50.86% of all employees.

At Mercator - CG, d.o.o., new systematization of jobs and positions was implemented and the number of employees was optimized.

Pursuant to the Act amending the Personal Income Tax Act, new rules and regulations were adopted at Mercator - BL, d.o.o., on the systematization and valuation of jobs and positions. As of February 1, 2014 this has also affected the contractual amount of salaries.

Number of employees

	Number of employees as at March 31, 2014	Number of employees as at Dec. 31, 2013	Index Number of employees March 31, 2014/ Dec. 31, 2013	Number of employees based on hours worked in the period 1-3 2014
Slovenia	11,479	11,521	99.6	10,678
Serbia	4,725	4,754	99.4	4,530
Croatia	3,207	3,381	94.9	2,947
Bosnia and Herzegovina	2,004	2,009	99.8	1,884
Montenegro	1,177	1,244	94.6	1,090
Bulgaria	9	11	81.8	2
Albania	2	2	100.0	0
TOTAL	**22,603**	**22,922**	**98.6**	**21,131**

Caring for development, motivating, and connecting our employees

In the period at hand, Mercator Group held 37,083 hours of training and education that involved 9,863 employees.

A team of 7 professional instructors of sales was appointed at the parent company, to be in charge of improvement in expertise and selling skills at the retail units.

In all markets, we are pursuing further the project to improve the selling skills, and we have established a *coaching* system with the participation of our internal coaches/ trainers.

At the parent company, education was held for 3,200 retail employees as a part of the project Lowest Price Guaranteed. Education was repeated for 169 groups. An adjusted version of the selling skills workshop was held for two groups of participants from the M holidays units. A moderated meeting was held for the representatives of all M holidays offices and the M holidays management, to develop jointly the proposals for improvement of services and cooperation.

At Mercator - S, d.o.o., we conducted a survey among the employees in administration. Based on results, we shall identify the opportunities to improve the efficiency of our work, to improve mutual communication, and to improve leader competencies.

At Mercator - BH, d.o.o., we started to regularly visit our retail units that are underperforming in terms of business results and internal control reports. The unit is visited by a representative of the retail management, joined by employees of the employee talent development department. Their shared goal is the monitoring of teams at the unit and aid in resolution of any problems.

The company Mercator - BH, d.o.o., also launched the "Quality Management Crash Course" which involves shop managers from the FMCG program and employees of the internal control.

Employees from Intersport - ISI, d.o.o., and Mercator - Emba, d.d., 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.

We held annual interviews with »top 100« managers at the parent company. At the companies Mercator - S, d.o.o., and Mercator - CG, d.o.o., interviews were held with all key employees.

At Intersport ISI, d.o.o., five top employees in retail and the best employee in logistics are rewarded each month. Six best sales shop assistants were also rewarded at the company Mercator - CG, d.o.o.

At Mercator - BH, d.o.o., we have adopted a new standard of individual monthly evaluation of employees in retail operations.

Intranet was introduced at Mercator - S, d.o.o.

As at March 31, 2014, Mercator Society of Sports and Culture had 267 members.

Employees in Slovenia who were affected by the ice storm or floods were allowed any extra day of paid leave.

In Serbia, the Mercator Solidarity Foundation provided aid in the amount of EUR 4,050 to 15 employees. In Montenegro, the Solidarity Foundation helped 8 employees by providing aid in the total value of EUR 2,200. In Slovenia, Mercator Humanitarian Foundation provided aid to 22 employees who required it. We have paid out humanitarian aid in the total amount of EUR 14,964.

RESPONSIBILITY TO NATURAL ENVIRONMENT

Reducing power consumption and heating fuel

Upon changes of seasons, all employees were notified in the first quarter of 2014 via the intranet portal about the changes to the temperature setting and on the compliance with the instructions provided in the manual on efficient use of energy.
By the end of March, all 50 facilities were connected within the Retail Care project, of which 46 facilities were optimized. Optimization has resulted in a decrease of power consumption for refrigeration equipment by 12.8%, which translates into savings of just over 456 thousand kWh, or over EUR 41 thousand.

We are preparing to sign an annex for the installation of 16 additional combined heat and power (co-generation) units in 2014.

Based on the implemented energy engineering measures, the companies Enekon and SolveryLynx are implementing measures to cut power consumption within the pilot project of remote power consumption control. An agreement has been signed with the third partner Maked Energeja, d.o.o.

Cutting the use of natural resources and waste generation

In order to rationalize the costs and to optimize the management of waste packaging, we joined as of January 1, 2014 the collective waste packaging management scheme Unirec. In order to be able to manage in an economical way more than 10,000 tons of waste packaging accumulated annually at the company Mercator, d.d., we decided to set up 25 stationary screw presses with closed rolling containers with a capacity of 32 square meters at our distribution centers and at retail stores. The presses allow fast and economical management of waste packaging while employing less labour power. The presses can reduce the volume of waste packaging by up to 10 times, which also reduces the required frequency of waste packaging collection and, in turn, reduces emissions into the atmosphere.

In order to attain the medium-term plan of reducing the amount of mixed waste by 10%, we optimized the volume of waste bins at 58 units and thereby cut the mixed municipal waste handling costs.

In order to increase the amount of pre-sorted waste we collect, we upgraded our system of waste sorting for our employees at five office buildings.

We have evaluated the environmental risks, more precisely the risks related to the identified environmental aspects at the Mercator Group, such as use of raw materials and energy, emissions into the air, wastewater emissions, solid waste etc. The greatest environmental risks identified for 2014 were risks related to electricity, heating, and waste management. The only critical risk identified pertained to the aspect of electric energy. This risk is related to inefficient use of electric energy due to suboptimal design of business processes and technologies employed. Nine resolutions were adopted, complete with measures to mitigate the effects of the critical environmental risk.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Donations and sponsorships

In 2014, Mercator Group continues to pursue the tradition of prompt response to the needs of local environments in which we operate, in keeping with our slogan of the best neighbour. We respond to all applications submitted by societies, organizations, clubs, and individuals. Considering the current harsh social and economic situation in the country, our funds are primarily allocated to humanitarian projects. In the first three months of 2014, we supported **over 400 different humanitarian, cultural, educational, and sports projects**.

Donating food surpluses for hot meals

In 2013, we were the first Slovenian retailer to join the initiative by the Ministry of Agriculture and the Environment and donated food surpluses to those in need in Celje, Maribor, and Trbovlje. Our project is pursued further and extended in 2014. Thus, volunteers of the Lions Clubs from Celje, Maribor, Trbovlje, Velenje, Koper, Domžale, and Slovenj Gradec, and the Cenacolo Community collect food for those in need of aid every evening from 14 stores across Slovenia.

A good deed feels food

Working with Radio Ognjišče, we collect goods for eight families in social distress every month in 2014 at one of our stores. In addition to several carts of collected goods, we also provide each family with a Mercator gift card.

Humanitarian activities

In addition to aid to numerous societies and individuals, our humanitarian activities also included donations to the Friends of the Youth Association Moste Polje for families in social distress, the Palčica (Tinkerbell) Safe house in Grosuplje, and the Safe House in Pilštanj. We also donated 5 tons of fruit and vegetables to homes for juvenile orphans in Croatia.

Culture

Among the cultural events that we sponsored in the first three months of the year, we highlight the "kurentovanje" carnival in Ptuj and Golden Subscription at the Cankarjev dom.

Sports

In the field of sports, we sponsored the finals of the ski jumping world cup finals »Planica 2014«. We also pride on long-standing sponsorship cooperation with the Slovenian Olympic Committee, the Slovenian Ski Association, team handball club Krim Mercator, football club Maribor, wheelchair basketball team of the Ljubljana Region Society of Paraplegics, wheelchair table tennis player Mateja Pintar, and stand-up paddle surfer Manca Notar.

RESPONSIBILITY TO SUPPLIERS

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

At Mercator, we work with domestic suppliers to offer our customers as much locally grown produce as possible.

Fresh fruit and vegetables of Slovenian origins

Due to mild winter, more Slovenian vegetables were available in the first quarter of this year than in the years when winters had been harsher.
Until March this year, we offered exclusively Slovenian cabbage in our stores; for a long period of time, we also offered Slovenian potatoes. Working with suppliers from the Slovenian coastal region, we held a promotion of Slovenian kale in March.

In the section "Locally Grown", our fliers regularly include Slovenian growers who present their produce and products. As a part of the campaign "The Tastes of Gorenjska" we presented in march the vegetable farm Burger and the sauerkraut producer with an own brand Jerin, from Voklo. "The Tastes of Primorska" campaign included presentation of the specific character of the Slovenian Istria. We were the first in Slovenia to offer black truffles to our consumers.

Locally grown fresh meat

We carried on our continuous sourcing of fresh pork, beef, veal, and poultry raised in Slovenia from our top ten 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, joined by the largest Slovenian dairy company, 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 less damaged or modified. 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 production and 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. One external audit was carried out in the period 1-3 2014: SQMS – Supplier Quality Management System at Mercator Emba. In 2014, we plan to maintain **12** certified management systems.

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 all employees via intranet. As at March 31, 2014 Mercator Standards Collection included **2,971** documents. In the period 1-3 2014, we published **199** new or revised documents; **140** documents were archived.

Continuous improvement system

The continuous improvement system was supported by a new application for the management of non-compliance, recommendations and commendations (praises), and corrective and preventive measures. The application is intended for all Mercator Group companies. Thus, all records are kept in a single place, which allows for efficient process management.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2014 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 1-3 2014 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 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 Makedonija, d.o.o.e.l., Macedonia, Investment Internacional, d.o.o.e.l., Macedonia, Mercator - B, e.o.o.d., Bulgaria, and Mercator - A, sh.p.k., Albania;

(hereinafter referred to as 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	March 31, 2014	Dec.31, 2013	Index March 31, 2014/ Dec. 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	1,683,892	1,704,182	98.8
Investment property	2,763	2,791	99.0
Intangible assets	16,575	17,407	95.2
Deferred tax assets	17,443	17,530	99.5
Loans and deposits	31,517	32,284	97.6
Available-for-sale financial assets	820	820	100.0
	1,753,010	**1,775,014**	**98.8**
Current assets			
Inventories	245,409	264,798	92.7
Trade and other receivables	211,934	234,927	90.2
Current tax assets	279	256	109.0
Loans and deposits	13,167	10,325	127.5
Derivative financial instruments	6	16	37.5
Cash and cash equivalents	13,880	18,505	75.0
	484,675	**528,827**	**91.7**
Total assets	**2,237,685**	**2,303,841**	**97.1**
EQUITY			
Share capital	157,129	157,129	100.0
Share premium	198,872	198,872	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	146,656	146,656	100.0
Fair value reserve	141,509	140,587	100.7
Retained loss	(45,192)	(63,887)	70.7
Profit (loss) for the period	(8,532)	18,695	-
Currency translation reserve	(83,443)	(80,623)	103.5
Total equity attributable to equity owners of the Company	**503,764**	**514,194**	**98.0**
Non-controlling interests	**95**	**100**	**95.0**
Total equity	**503,859**	**514,294**	**98.0**
LIABILITIES			
Non-current liabilities			
Trade and other payables	851	850	100.1
Financial liabilities	327,770	351,583	93.2
Deferred tax liabilities	37,167	37,455	99.2
Provisions	23,242	25,047	92.8
	389,030	**414,935**	**93.8**
Current liabilities			
Trade and other payables	638,134	686,507	93.0
Current tax liabilities	359	411	87.3
Financial liabilities	705,766	686,225	102.8
Derivative financial instruments	537	1,469	36.6
	1,344,796	**1,374,612**	**97.8**
Total liabilities	**1,733,826**	**1,789,547**	**96.9**
Total equity and liabilities	**2,237,685**	**2,303,841**	**97.1**

Condensed consolidated income statement

EUR thousand	1-3 2014	Plan 2014	1-3 2013	Index 1-3 2014/ 1-3 2013	Index 1-3 2014/ Plan 2014
Revenue	624,840	2,672,342	658,417	94.9	23.4
Cost of goods sold and selling costs	(608,600)	(2,554,993)	(637,249)	95.5	23.8
Administrative expenses	(19,120)	(93,875)	(23,749)	80.5	20.4
Other income	7,894	11,410	3,564	221.5	69.2
Results from operating activities	**5,014**	**34,884**	**983**	**510.1**	**14.4**
Finance income	1,271	3,241	2,968	42.8	39.2
Finance expenses	(14,823)	(37,114)	(12,585)	117.8	39.9
Net finance expense	**(13,552)**	**(33,873)**	**(9,617)**	**140.9**	**40.0**
Profit (loss) before tax	**(8,538)**	**1,011**	**(8,634)**	**98.9**	**-**
Tax expense	-	(672)	-	-	-
Profit (loss) for the period	**(8,538)**	**339**	**(8,634)**	**98.9**	**-**
Profit (loss) for the period attributable to:					
Owners of the parent company	(8,532)	359	(8,626)	98.9	-
Non-controlling interests	(6)	(20)	(8)	75.0	30.0

Condensed consolidated statement of comprehensive income

v tisoč EUR	1-3 2014	1-3 2013	Index 1-3 2014/ 1-3 2013
Profit (loss) for the period	**(8,538)**	**(8,634)**	**98.9**
Other comprehensive income			
Items that may be reclasified subsequently to profit or loss	**(1,897)**	**3,312**	**-**
Foreign currency translation differences - foreign operations	(2,819)	2,206	-
Net gains/losses recognized in revaluation surlus in relation to cash flow hedges (effective hedging)	922	1,106	83.4
Other comprehensive income for the period	**(1,897)**	**3,312**	**-**
Total comprehensive income for the period	**(10,435)**	**(5,322)**	**196.1**
Total comprehensive income for the period attributable to:			
Owners of the parent company	(10,430)	(5,313)	196.3
Non-controlling interests	(5)	(9)	55.6

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, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**240,762**	**(21,714)**	**(26,953)**	**(78,819)**	**663,087**	**162**	**663,249**
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(8,626)	-	(8,626)	(8)	(8,634)
Other comprehensive income	-	-	-	-	1,106	-	-	2,207	3,313	(1)	3,312
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,106**	**-**	**(8,626)**	**2,207**	**(5,313)**	**(9)**	**(5,322)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	(26,953)	26,953	-	-	-	-
Balance at March 31, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**241,868**	**(48,667)**	**(8,626)**	**(76,612)**	**657,774**	**153**	**657,927**

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, 2014	**157,129**	**198,872**	**(3,235)**	**146,656**	**140,587**	**(63,887)**	**18,695**	**(80,623)**	**514,194**	**100**	**514,294**
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(8,532)	-	(8,532)	(6)	(8,538)
Other comprehensive income	-	-	-	-	922	-	-	(2,820)	(1,898)	1	(1,897)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**922**	**-**	**(8,532)**	**(2,820)**	**(10,430)**	**(5)**	**(10,435)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	18,695	(18,695)	-	-	-	-
Balance at March 31, 2014	**157,129**	**198,872**	**(3,235)**	**146,656**	**141,509**	**(45,192)**	**(8,532)**	**(83,443)**	**503,764**	**95**	**503,859**

Condensed consolidated statement of cash flow

EUR thousand	1-3 2014	1-3 2013	Index 1-3 2014/ 1-3 2013
Cash flows from operating activities			
Gross cash flows from operating activities	**21,623**	**21,010**	**102.9**
Change in inventories	19,390	16,165	119.9
Change in trade and other receivables	22,970	(36,193)	-
Change in trade and other payables	(48,261)	10,225	-
	15,722	**11,207**	**140.3**
Interest paid	(11,095)	(11,494)	96.5
Income tax paid	-	-	-
Net cash from operating activities	**4,627**	**(287)**	**-**
Cash flows from investing activities			
Acquisition of property, plant and equipment and investment property	(2,859)	(3,854)	74.2
Acquisition of intangible assets	(351)	(636)	55.2
Loans and bank deposits made	(2,075)	(2,395)	86.6
Transaction costs related to loans	(1,755)	-	-
Proceeds from sale of subsidiaries, net of cash disposed of	550	-	-
Proceeds from sale of property, plant and equipment and investment property	954	693	137.7
Interest received	691	811	85.2
Loans and deposits repayments received	-	1,149	-
Net cash used in investing activities	**(4,846)**	**(4,233)**	**114.5**
Cash flows from financing activities			
Increase (repayment) in borrowings	(4,272)	2,227	-
Dividends paid	(1)	(3)	33.3
Net cash from (used in) financing activities	**(4,273)**	**2,225**	**-**
Net (decrease) increase in cash and cash equivalents	**(4,491)**	**(2,295)**	195.7
Cash and cash equivalents at the beginning of the year	18,505	38,012	48.7
Effect of exchange rate fluctuations on cash and cash equivalents held	(134)	319	-
			-
Cash and cash equivalents as at the end of the period	**13,880**	**36,036**	**38.5**

Notes to condensed consolidated interim financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1-3 2014, Mercator Group generated EUR 624,840 thousand of revenue, which is 5.1% less relative to the period 1-3 2013. Revenue dropped by 3.1% in Slovenia and by 7.7% in international markets. In Slovenia, the largest drop in revenue relative to the equivalent period of last year was seen in textile/apparel program and home product program. Sales also dropped in FMCG retail while wholesale revenue increased. In foreign markets, change in revenue differs by countries. Revenue rose in Montenegro, and declined in Croatia, Serbia, and Bosnia and Herzegovina.

Cost of goods sold and selling and marketing costs

Mercator Group costs of sales which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 608,600 thousand in the period 1-3 2014, which is a 4.5-percent decrease on the same period of last year.

Cost of goods sold was lower by 5.3% relative to last year. The amount of early payment discounts was lower by EUR 236 thousand in the period 1-3 2014.

Administrative expenses

Mercator Group's administrative expenses in the period 1-3 2014 amounted to EUR 19,120 thousand, which is 19.5 percent less than in the equivalent period last year.

The Management Board of Mercator, d.d., continued the extensive efforts to rationalize all types of costs in the first quarter of 2014. As much as EUR 11.0 million was saved in the period at hand.

Total expenses, consisting of selling and marketing costs, production costs (included in costs of sales), and administrative expenses amounted to EUR 155,858 thousand in the period 1-3 2014, an decrease of 6.6% on the last year's figure for such period. All categories of costs were decreased. Costs of material were slashed by 10.2%. Contributing the most to the decrease are costs of raw materials and energy costs. Service costs, excluding rents, dropped by 3.8%. The greatest decrease was seen in transport and telecommunication costs, maintenance costs, reimbursement of labour-related costs to employees, and costs of transactions and banking services. Labour costs were cut by 4.4% in the period 1-3 2014 relative to the last year's comparable period.

Results from operating activities

In the period 1-3 2014, Mercator Group's results from operating activities reached EUR 5,014 thousand, which is 410.1% of the figure for the comparable period of last year.

Net finance expenses

Net finance expenses are higher by EUR 3,935 thousand relative to the last year's equivalent period, which is mostly a result of currency translation differences pertaining to the Serbian dinar, and expenses related to financial restructuring.

Profit for the financial period

Mercator Group's net loss for the period 1-3 2014 amounts to EUR -8,538 thousand.

EBITDA

Mercator Group EBITDA in the period 1-3 2014 amounts to EUR 22,712 thousand which is 5.1% more than in the equivalent period of last year.

EBITDAR

EBITDAR amounts to EUR 36,206 thousand for the period 1-3 2014, which is 1.2% lower than in the equivalent period of last year.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at March 31, 2014 amounted to EUR 2,237,685 thousand, which is EUR 66,156 thousand less than at the end of 2013, mostly due to lower inventories and lower property, plant, and equipment.

As at March 31, 2014 the value of Mercator Group non-current assets amounted to EUR 1,753,010 thousand, which is EUR 22,004 thousand less than as at December 31, 2013. The largest share of non-current assets (97.2% or EUR 1,703,230 thousand) is represented by property, plant, and equipment, the value of which was EUR 21,150 thousand lower than as at the end of 2013 as a result of lower investment which was lower than depreciation.

As at March 31, 2014, Mercator Group current assets amounted to EUR 484,675 thousand, which is EUR 44,152 thousand less than at the end of 2013. The largest share thereof includes inventories (50.6%) and trade and other receivables (43.7%). Regarding the inventory, the Group continues to pursue the policy of efficient working capital management; as a result, the inventory in the period 1-3 2014 dropped by EUR 19,389 thousand.

Equity and liabilities

As at March 31, 2014 Mercator Group share capital amounted to EUR 503,859 thousand, which is EUR 10,435 thousand, or 2.0%, less than as at the end of 2013. The decrease pertains to the loss of EUR -8,538 thousand, negative currency translation differences in the amount of EUR -2,819 thousand, and positive change in fair value of risk hedging instruments in the amount of EUR 922 thousand.

As at March 31, 2014 total financial liabilities amount to EUR 1,033,536 thousand, which is EUR 4,272 thousand less than as at the end of 2013. Net financial debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets, amounted to EUR 974,683 thousand as at March 31, 2014 (December 31, 2013: EUR 977,327 thousand).

As at March 31, 2014 provisions amounted to EUR 23,242 thousand. Compared to the end of 2013, provisions decreased by EUR 1,805 thousand, mostly due to reversal/drawing of provisions for legal claims.

Trade and other payables as at March 31, 2014 amounted to EUR 638,985 thousand, which is EUR 48,372 thousand less than at the end of 2013. The decrease in trade payables is a result of year-on-year dynamics in the trade industry.

As at March 31, 2014, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 50.9%, which is 1.5 percentage points less than as at the end of 2013.

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 merger of the company M - Tehnika, d.d., in 2013 and acquisition of activities of the company Modiana, d.o.o., in January 2014, the financial statements of the company Poslovni sistem Mercator, d.d., are not comparable between the relevant periods.

Condensed statement of financial position

EUR thousand	March 31, 2014	Dec. 31, 2013	Index March 31, 2014/ Dec. 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	928,744	935,671	99.3
Investment property	2,763	2,791	99.0
Intangible assets	8,773	9,289	94.4
Deferred tax assets	16,003	16,003	100.0
Loans and deposits	259	354	73.2
Investment into equity of subsidiaries	485,689	485,179	100.1
Available-for-sale financial assets	720	720	100.0
	1,442,951	**1,450,007**	**99.5**
Current assets			
Inventories	118,302	110,447	107.1
Trade and other receivables	132,638	154,814	85.7
Current tax assets	24	24	100.0
Loans and deposits	36,169	13,282	272.3
Derivative financial instruments	6	16	37.5
Cash and cash equivalents	5,880	6,018	97.7
	293,019	**284,601**	**103.0**
Total assets	**1,735,970**	**1,734,608**	**100.1**
EQUITY			
Share capital	157,129	157,129	100.0
Share premium	198,872	198,872	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	121,595	121,595	100.0
Fair value reserve	104,347	103,426	100.9
Retained earnings	-	-	-
Profit (loss) for the period	(3,834)	-	-
Equity	**574,874**	**577,787**	**99.5**
LIABILITIES			
Non-current liabilities			
Trade and other payables	760	1,006	75.5
Financial liabilities	223,239	242,007	92.2
Deferred tax liabilities	26,980	26,980	100.0
Provisions	19,100	25,136	76.0
	270,079	**295,129**	**91.5**
Current liabilities			
Trade and other payables	371,040	363,281	102.1
Current tax liabilities	-	-	-
Financial liabilities	519,440	496,942	104.5
Derivative financial instruments	537	1,469	36.6
	891,017	**861,692**	**103.4**
Total liabilities	**1,161,096**	**1,156,821**	**100.4**
Total equity and liabilities	**1,735,970**	**1,734,608**	**100.1**

Condensed income statement

EUR thousand	1-3 2014	Plan 2014	1-3 2013	Index 1-3 2014/ 1-3 2013	Index 1-3 2014/ Plan 2014
Revenue	347,035	1,445,168	327,625	105.9	24.0
Cost of goods sold and selling costs	(333,809)	(1,364,648)	(305,789)	109.2	24.5
Administrative expenses	(10,669)	(49,950)	(14,005)	76.2	21.4
Other income	1,010	4,215	1,219	82.9	24.0
Results from operating activities	**3,567**	**34,785**	**9,050**	**39.4**	**10.3**
Finance income	2,857	4,816	1,485	192.4	59.3
Finance expenses	(10,258)	(27,722)	(8,060)	127.3	37.0
Net finance expense	**(7,401)**	**(22,906)**	**(6,575)**	**112.6**	**32.3**
Profit (loss) before tax	**(3,834)**	**11,879**	**2,475**	**(154.9)**	**(32.3)**
Tax expense	-	-	-	-	-
Profit (loss) for the period	**(3,834)**	**11,879**	**2,475**	**(154.9)**	**(32.3)**

Condensed statement of comprehensive income

EUR thousand	1-3 2014	1-3 2013	Index 1-3 2014/ 1-3 2013
Profit (loss) for the period	**(3,834)**	**2,475**	**(154.9)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss	**-**	**-**	**-**
Items that may be reclassified subsequently to profit or loss	**921**	**1,107**	**83.2**
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	921	1,107	83.2
Corporate income tax on items that may be reclassified subsequently to profit or loss	-	-	-
Other comprehensive income for the period	**921**	**1,107**	**83.2**
Total comprehensive income for the period	**(2,913)**	**3,582**	**(81.3)**

Condensed statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Total equity
Balance at January 1, 2013	**157,129**	**198,872**	**(3,235)**	**171,984**	**215,494**	**-**	**-**	**740,244**
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	2,475	2,475
Other comprehensive income	-	-	-	-	1,107	-	-	1,107
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,107**	**-**	**2,475**	**3,582**
Transactions with owners of the parent company directly recognized in equity								
Contributions by and distributions to owners								
Dividends to equity holders	-	-	-	-	-	-	-	-
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	-	-	-
Balance at March 31, 2013	**157,129**	**198,872**	**(3,235)**	**171,984**	**216,601**	**-**	**2,475**	**743,826**

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, 2014	**157,129**	**198,872**	**(3,235)**	**121,595**	**103,426**	**-**	**-**	**577,787**
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	(3,834)	(3,834)
Other comprehensive income	-	-	-	-	921		-	921
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**921**	**-**	**(3,834)**	**(2,913)**
Total transactions with owners	-	-	-	-	-			
Balance at March 31, 2014	**157,129**	**198,872**	**(3,235)**	**121,595**	**104,347**	**-**	**(3,834)**	**574,874**

Condensed statement of cash flows

EUR thousand	1-3 2014	1-3 2013	Index 1-3 2014/ 1-3 2013
Cash flows from operating activities			
Gross cash flows from operating activities	**12,180**	**19,231**	**63.3**
Change in inventories	(7,855)	5,916	(132.8)
Change in trade and other receivables	22,176	(17,136)	(129.4)
Change in trade and other payables	2,917	(2,440)	(119.5)
	29,418	**5,571**	**528.1**
Net exchange rate differences from financing	-	-	-
Interest paid	(7,964)	(8,013)	99.4
Income tax paid	-	-	-
Net cash from operating activities	**21,454**	**(2,442)**	**(878.5)**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	(510)	(15,601)	3.3
Acquisition of property, plant and equipment and investment property	(2,135)	(576)	370.7
Acquisition of intangible assets	(320)	(566)	56.5
Acquisition of available-for-sale financial assets	-	-	-
Loans and bank deposits made	(22,792)	-	-
Expenses for transaction costs related to loans	(1,931)	-	-
Disposal of subsidiaries, net of cash disposed of	551	-	-
Proceeds from sale of property, plant and equipment and investment property	1,117	110	1,015.5
Proceeds from sale of intangible assets	-	-	-
Proceeds from sale of available-for-sale financial assets	-	-	-
Interest received	700	1,258	55.6
Dividends income	-	-	-
Loans and deposits repayments received	-	7,314	-
Net cash from (used in) investing activities	**(23,389)**	**(8,061)**	**290.2**
Cash flows from financing activities			
Increase (repayment) in borrowings	3,729	7,388	50.5
Dividends paid	(1)	(3)	33.3
Net cash from (used in) financing activities	**3,728**	**7,385**	**50.5**
Net (decrease) increase in cash and cash equivalents	(138)	(3,118)	4.4
Cash and cash equivalents at the beginning of the year	6,018	11,611	51.8
Cash and cash equivalents as at the end of the period	**5,880**	**8,493**	**69.2**

Notes to interim financial statements

Due to the merger of the company M - Tehnika, d.d., in 2013 and acquisition of activities of the company Modiana, d.o.o., in January 2014, the financial statements of the company Poslovni sistem Mercator, d.d., are not comparable between the relevant periods.

Notes to condensed income statement

Revenue

In the period 1-3 2014, Mercator, d.d., revenue amounted to EUR 347,035 thousand, which is 5.9 percent more than in the period 1-3 2013. The increase is a result of the merger of the company M - Tehnika, d.d., and the transfer of activities of the company Modiana, d.o.o., to the company Mercator d.d. 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 and marketing costs

Mercator, d.d., costs of sales which include the cost of goods sold, selling and marketing costs, and other expenses, amounted to EUR 333,809 thousand in the period 1-3 2014, which is a 9.2-percent increase over the same period of last year. Cost of goods sold was higher by 7.5% relative to last year.

Administrative expenses

Mercator, d.d., administrative expenses in the period 1-3 2014 amounted to EUR 10,669 thousand, which is 23.8 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 88,945 thousand in the first quarter of 2014, an increase of 8.0% on the last year's figure for such period. The highest increase was seen in labour costs which rose by 13.1%. The increase of expenses is a result of the merger of the company M - Tehnika, d.d., and acquisition of the activities of the company Modiana, d.o.o.

Results from operating activities

In the period 1-3 2014, results from operating activities of the company Mercator, d.d., reached EUR 3,567 thousand, which is 65.4% less than in the equivalent period of the last year. Results from operating activities are lower especially because of the negative effects of the economic situation on consumption, and the transfer of less profitable activities of the companies Modiana, d.o.o., and M - Tehnika, d.d.

Net finance expenses

Net finance expenses are higher by EUR 826 thousand relative to the last year's equivalent period, which is mostly a result of lower short-term financial revenue from loans granted.

Profit for the financial period

The company's net loss for the period 1-3 2014 amounts to EUR 3,834 thousand.

EBITDA

Mercator, d.d., EBITDA in the period 1-3 2014 amounts to EUR 12,545 thousand which is 35.1% lower than in the equivalent period of last year, for the same reasons that are listed with regard to lower results from operating activities.

EBITDAR

Mercator, d.d., EBITDAR in the period 1-3 2014 amounts to EUR 15,507 thousand which is 30.8% lower than in the equivalent period of last year.

Notes to condensed statement of financial position

Assets

Mercator, d.d., assets as at March 31, 2014 amounted to EUR 1,735,970 thousand, which is EUR 1,362 thousand more than at the end of 2013, mostly due to higher loans granted and deposits to companies within the Group.

As at March 31, 2014 the value of company's non-current assets amounted to EUR 1,442,951 thousand, which is EUR 7,056 thousand less than as at December 31, 2013. The largest share of non-current assets (65.2% or EUR 940,280 thousand) is represented by property, plant, and equipment, the value of which was EUR 7,471 thousand lower than as at the end of 2013 as a result of lower investment which was lower than depreciation.

As at March 31, 2014 the value of the company's current assets amounts to EUR 293,019 thousand, which is EUR 8,418 thousand more than as at the end of 2013. Trade and other receivables represent the largest portion of total current assets (45.3%), followed by inventories (40.4%). In the first quarter of 2014, the company continued intensive implementation of the measures for efficient working capital management. As at March 31, 2014, inventory is higher than as at the end of last year by EUR 7,855 thousand, which is a result of the takeover of the company Modiana, d.o.o.

Equity and liabilities

As at March 31, 2014 share capital of the company Poslovni sistem Mercator, d.d., amounted to EUR 574,874 thousand, which is EUR 2,913 thousand, or 0.5%, less than as at the end of 2013. The decrease is mostly an effect of the negative results in the first quarter of 2014 in the amount of EUR -3,834 thousand. The change in equity was also affected by the change in the value of derivative financial instruments in the amount of EUR 921 thousand.

As at March 31, 2014 total financial liabilities amount to EUR 742,679 thousand, which is EUR 3,370 thousand more than as at the end of 2013.

As at March 31, 2014 provisions amounted to EUR 19,100 thousand. Compared to the end of 2013, provisions decreased by EUR 6,036 thousand, mostly due to partial reversal of provisions upon exit from the market of Albania.

Trade and other payables as at March 31, 2014 amounted to EUR 371,800 thousand, which is EUR 7,513 thousand more than at the end of 2013. The increase in trade payables is a result of year-on-year dynamics in the trade industry, and the transfer of activities of the company Modiana, d.o.o.

MANAGEMENT BOARD STATEMENT

The Management Board of the company Poslovni sistem Mercator, d.d., hereby confirms that the summary of the financial report of the company Poslovni sistem Mercator, d. d., and the Mercator Group for the period ended on March 31, 2014, to their best knowledge, is compiled in compliance with the International Financial Reporting Standards 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 Management Board also declares that the transactions between associated entities within the Mercator Group were conducted based on the signed sale and purchase agreements, according to arm's length principle.

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, May 20, 2014