Mercator

Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-9 2014

Mercator

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SUMMARY

Mercator Group net sales revenue in the period 1-9 2014, amounted to just below EUR 2 billion. Third quarter performance was the best so far in this year and the gap relative to last year's results is persistently closing. Result from operating activities was EUR 26 million.

Positive economic growth in all Mercator markets

Economic growth was positive in all markets of Mercator's operations; consumer confidence improved and their expectations for the future turned more optimistic. However, shopping behaviour that had developed following the onset of the crisis remained the same: customers tend to shop more rationally and planned, prefer cheaper products, respond more strongly to special offers and favour private label products.

Revenue in the period 1-9, 2014, lower than in the last year's equivalent period

In the period 1-9 2014, Mercator Group generated EUR 1.99 billion of revenue, which is 3.6% below the figure for the last year's corresponding period, whereby the gap relative to last year's results is reliably closing despite the persistence of harsh conditions in the retail industry. Decline in revenue is a result of closing down of underperforming market program (FMCG), technical consumer goods, and textile units, transfer of a part of the retail units in the markets of Croatia and Bosnia and Herzegovina to Konzum as a part of the integration process, divestment of hospitality service activities to a third party, and persistent trends of declining purchasing power in Slovenia and Croatia. Nevertheless, revenues were in line with the plan, as we achieved the planned values in all key markets except in Croatia and in Banja Luka.

Operations in the third quarter the best of this year

Mercator Group operating profit in the period 1-9 2014, amounted to EUR 26 million, of which a major part – as much as EUR 14 million – was generated in the third quarter. Relative to the period 1-9, 2013, results from operating activities soared by 31.8%.

Further extensive activities for the customer

In the period 1-9 2014, Mercator was particularly focused on marketing activities aimed at improving the pricing perception among consumers. Low price, discount coupon, and Pika card bonus campaigns were carried on. We sought to offer the consumers varied and fresh offer of local produce in all markets, stressing also the integration into the local environment through charity and other activities for the customers.

Investment mostly aimed at revision of the existing retail network

Mercator Group investment in the period 1-9 2014, amounted to EUR 15.9 million. The largest share, nearly a half, was invested into the revision of the existing retail network, which involved refurbishment of five stores according to the Neighbour concept, as well as refurbishments of several supermarkets, hypermarkets, and one convenience store. Just under 40% of investment funds were allocated for refurbishments and updates of support activities, and just over 10% was spent on expansion of retail capacity.

Financial restructuring completed

Mercator Group signed with all creditor banks and lessors comprehensive contract documentation on the Group's financial restructuring, which has notably decrease its financial risks. In addition to other aspects, the financial restructuring aligned repayments with the Group's expected cash flow, improved liquidity, and secured a higher investment rate.

Completion of financial restructuring has led to major improvement of maturity profile of financial liabilities and the ratio between variable and hedged financial liabilities in the period 1-9, 2014.

Stabilization of ownership structure

At the end of June, the company Agrokor, d.d., acquired just over 2 million of shares of the company Mercator d.d., becoming a 53.12-percent shareholder of the company. In early July, Agrokor also announced their takeover intent, followed by a takeover bid on July 31, 2014 to acquire the remaining company shares. In early September 2014, Agrokor, d.d., acquired additional 1,040,319 shares of Mercator, d.d., for a total of 3,040,597 shares.

Shareholders Assembly of the company Poslovni sistem Mercator, d.d., approves capital increase

At the 21st extraordinary Shareholders Assembly of Poslovni sistem Mercator, d.d., convened upon request by the majority shareholder Agrokor, d.d., and having taken place on October 21, 2014, the resolution on the increase of share capital of the company Poslovni sistem Mercator, d.d., proposed by the shareholder Agrokor, d.d., was adopted. Company share capital was increased on October 29, 2014 by issuing 2,325,582 new shares, which were, pursuant to the Shareholders Assembly resolution, subscribed by the company Agrokor Investments B.V., Netherlands, by swapping a loan of EUR 200 million for the newly issued equity. The company Agrokor Investment, B.V., acquired new shares and thus obtained 38.18% stake in the company Mercator, d.d., on October 30, 2014.

INTRODUCTION

MERCATOR GROUP PROFILE

Company Profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. Five of the companies comprising the Group are headquartered in Slovenia, while eight 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.mercatorgroup.si
Headquarter	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT number	45884595
Company share capital as at September 30, 2014	EUR 157,128,514.53
Number of shares issued and paid-out as at September 30, 2014	3,765,361
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Corporate governance

The Supervisory Board of the company Poslovni sistem Mercator, d.d., held nine regular sessions and four correspondence sessions in the period 1-9 2014.

At the 20th session held on January 30, 2014, the Supervisory Board was presented the progress of negotiations on the refinancing of Mercator Group debt and on the progress of sale of the majority block of Mercator, d.d., shares, and the unaudited Mercator Group results for the period 1-12 2013. The Supervisory Board also approved the disposal of the 100-percent shareholding in the company Mercator - A, sh.p.k.

At the correspondence session held on March 7, 2014 the Supervisory Board agreed that the company Mercator - S, d.o.o., sign the Restructuring Framework Agreement with some of the other financial institutions that would also sign the restructuring of the financial liabilities of the company Mercator - S, d.o.o. The Supervisory Board also agreed that other Mercator Group companies sign the Restructuring Framework Agreement on 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, the progress of 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. The Supervisory Board approved disposal of two land lots, one in Novi Beograd and another in Zagreb (location Podbrežje).

At the 22nd session held on April 25, 2014 the Supervisory Board discussed and approved the Mercator Group Annual Report for the year 2013. The Board was also orally briefed on the progress of sale of the majority block of Mercator, d.d., shares, and it adopted the report on the merger of the company Modiana, d.o.o., to the company Mercator, d.d.

At the 23rd session held on May 20, 2014, the Supervisory Board assessed the performance of the Management Board, confirmed the criteria for determining the variable share of Management Board salaries, and the starting point for Management Board performance appraisal for the year 2014. The Board proposed to the Shareholders Assembly to appoint the auditing company DELOITTE REVIZIJA, d.o.o., Dunajska cesta 165, Ljubljana, as the company auditor for 2014. The Board also adopted the report on the merger of the company M-nepremičnine, d.o.o., to the company Mercator, d.d. They were presented the contract documentation on the financial restructuring of the company Mercator, d.d., and the Mercator Group, and they confirmed the report on the compliance with the covenants and commitments with regard to the cartel charge and proceedings, pursuant to the decisions by the Competition Protection Office of the Republic of Slovenia. The Supervisory Board was also informed about the activities of Mercator's withdrawal from the market of Bulgaria.

At their 24th session held on May 29, 2014 the Supervisory Board confirmed the signing of the documentation for the completion of financial restructuring.

At the correspondence session held on June 3, 2014, the Supervisory Board agreed with the signing of the loan agreement and related agreements of the subsidiary Mercator - S, d.o.o., as a part of the Mercator Group financial restructuring.

At the correspondence session held on June 24, 2014, the Supervisory Board was informed about the changes to Mercator Group's existing contractual documentation, which completed the process of financial restructuring of Mercator Group as an independent economic agent.

Supervisory Board member of the company Poslovni sistem Mercator, d.d., Bojan Brank, filed on June 27, 2014, his statement of resignation from the position of Supervisory Board member. On August 4, 2014, statements of resignation from the position of Supervisory Board member were filed also by other Supervisory Board members representing capital: Matej Lahovnik, Rok Rozman, Boris Galić, Zdenko Podlesnik, and Marjeta Zevnik. Their resignations were effective as of August 28, 2014.

At the correspondence session held on July 25, 2014, the Supervisory Board discussed the amendment to the convocation of the 20th Shareholders Assembly of the company Poslovni sistem Mercator, d.d. The Agenda was extended with item 4 pertaining to changes and amendments to the company Articles of Association.

At the 26th session held on August 26, 2014, Supervisory Board was presented the results of the company Mercator, d.d., and the Mercator Group in the period 1-6, 2014.

At the 20th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on August 29, 2014, the following Supervisory Board members representing the interests of capital were appointed, as proposed by the majority shareholder Agrokor, d.d.: Damir Kuštrak, Ante Todorić, Ivan Crnjac, Matej Lahovnik, Darko Knez, and Ivica Mudrinić. The newly appointed Supervisory Board members, including the three worker representatives in the Supervisory Board – Vesna Stojanović, Veljko Tatić, and Ivan Valand – held their first, founding session immediately after the Shareholders Assembly session. The newly appointed Supervisory Board elected Ante Todorić as the Supervisory Board chairman, and Matej Lahovnik as deputy chairman. The Supervisory Board agreed with the integration of Mercator and Agrokor operations in Croatia, Bosnia and Herzegovina, and Serbia.

At the 2nd session held on September 18, 2014, the Supervisory Board dismissed without fault, other economic and business reasons, the Management Board president Toni Balažič and Management Board members Drago Kavšek, Igor Maroša, and Stanka Pejanović; and reappointed Toni Balažič as Management Board president, and Drago Kavšek and Igor Maroša as Management Board members. They commenced their five-year terms on September 19, 2014. The Supervisory Board adopted the clean and consolidated wording of the Management Board Act for the company Poslovni sistem Mercator, d.d., according to which Toni Balažič is in charge of management of the Mercator Group and management of trade operations in Serbia and Montenegro; Drago Kavšek is in charge of finance, controlling, accounting, and internal audit, IT, telecommunications, and coordination of activities of the subsidiaries Mercator - H, d.o.o., Mercator - BH, d.o.o., and M - BL, d.o.o.; and Igor Maroša is responsible for trade operations in Slovenia and coordination of Mercator Group supplementary activities. Moreover, the new Audit Committee was appointed, including Sergeja Slapničar as independent expert, and Ivan Crnjac and Damir Kuštrak as Supervisory Board members. The Supervisory Board also appointed Darko Knez as member of the Steering Committee for compliance with the commitments made by the company Agrokor, d.d. Thus, the Steering Committee now includes the independent expert Nenad Filipović as chairman, and the president of Mercator, d.d., Management Board; Supervisory Board member at Mercator, d.d., Darko Knez; and the Works Council chairman at Mercator, d.d., as members. The Supervisory Board also approved the signing of agreements on the purchase of investments into foreign property, plant, and equipment, to be signed as a part of the integration of Mercator and Agrokor operations in Croatia, Bosnia and Herzegovina, and Serbia, by the subsidiaries Mercator - H, d.o.o., Mercator - BH, d.o.o., M - BL, d.o.o., and Mercator - S, d.o.o.

On October 21, 2014, the 21st extraordinary Shareholders Assembly of Poslovni sistem Mercator, d.d., took place, which was convened upon request by the majority shareholder Agrokor, d.d. The resolution on the increase of share capital of the company Poslovni sistem Mercator, d.d., with new in-kind and cash contributions from EUR 157,128,514.53 by EUR 97,046,536.86, so that the total share capital of the Company after the increase amounts to EUR 254,175,051.39 EUR, proposed by the shareholder Agrokor, d.d., was adopted. For the purpose of the capital increase, 2,325,582 new dematerialized ordinary registered no par value shares with notional value of EUR 41.73 were issued. Pre-emptive right of the existing company shareholders to subscribe the new shares was omitted; the new shares was subscribed and paid up by the company Agrokor Investments B.V., Netherlands, which acquired new shares and thus obtained 38.18% stake in the company Mercator, d.d., on October 30, 2014.
Following the issue of the new shares, the number of Mercator, d.d., shares is 6,090,943.

Mercator Group composition

As at September 30, 2014, Mercator Group included following companies:

MERCATOR GROUP

MERCATOR OPERATIONS SLOVENIA	MERCATOR OPERATIONS FOREIGN MARKETS
Poslovni sistem Mercator, d.d., Slovenia Mercator IP, d.o.o., Slovenia (100.0%) M - Energija, d.o.o., Slovenia (100.0%)	Mercator - H, d.o.o., Croatia (99.9%) 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 Makedonija, d.o.o.e.l., Macedonia (100.0%)*
OTHER OPERATING ACTIVITIES	
Intersport ISI, d.o.o., Slovenia (100.0%) Mercator - Emba, d.d., Slovenia (100.0%)	
MERCATOR REAL ESTATE	
Investment Internacional, d.o.o.e.l., Macedonia (100.0%)*	

* The company does not conduct business operations.
** The company is in the liquidation proceedings.

Branch Offices
As at September 30, 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

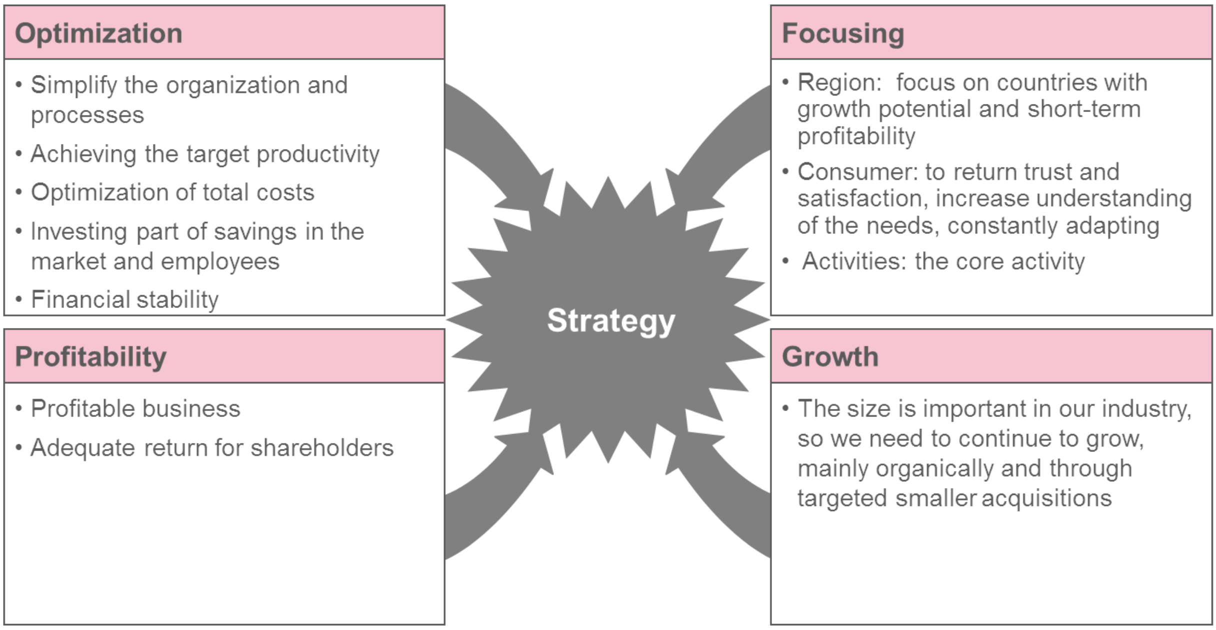
Vision

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

Mission

- A satisfied customer recognizes us as the best retailer that offers everything a discount store can offer, and much more.
- Employees with **smiles on their faces and sparkles in their eyes** are our key competitive advantage. They will be able to develop their potential in a stable environment.
- We are striving towards a **stable ownership structure** that will support the company development based on merit and results.
- Mercator is striving to win the **confidence of all stakeholders**.

Strategy



MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1-9 2014

	1-9 2014	**1-9 2013**	**Index 1-9 2014/ 1-9 2013**
Revenue (EUR thousand)	1,988,671	2,063,409	96.4
Results from operating activities (EUR thousand)	26,173	19,862	131.8
Profit before income tax (EUR thousand)	(10,044)	(19,139)	52.5
Profit for the financial period (EUR thousand)	(12,049)	(17,577)	68.6
EBITDA (EUR thousand)	79,572	81,956	97.1
EBITDAR (EUR thousand)	120,126	126,245	95.2
Equity as at September 30, 2014 (EUR thousand)**	498,473	643,938	77.4
Assets as at September 30, 2014 (EUR thousand)**	2,215,997	2,436,569	90.9
Capital expenditure (EUR thousand)	9,856	10,174	96.9
Return on equity*	(2.8%)	(4.0%)	69.8
Return on sales	(0.6%)	(0.9%)	71.1
EBITDA / revenue	4.0%	4.0%	100.7
EBITDAR / revenue	6.0%	6.1%	98.7
Number of employees based on hours worked	21,017	22,022	95.4
Number of employees as at September 30, 2014	19,881	23,157	85.9

* Indicator is adjusted to annual level.
** As at September 30, 2014, buildings are valued on basis of revised accounting policies, therefore, figures are not comparable with those on September 30, 2013.

HIGHLIGHTS IN THE PERIOD 1-9 2014

Retail network development

In the period 1-9, 2014:

- we invested EUR 15,944 thousand,
- our divestments totalled at EUR 4,400 thousand,
- we added 13 new units or 4,281 square meters of new gross retail area in all markets of our operations.

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.

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 on 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.

On July 1, 2014, the companies Modiana, d.o.o., Slovenia, and M - nepremičnine, d.o.o., were merged with the company Poslovni sistem Mercator, d.d.

Changes in the ownership structure

On June 27, 2014 the company Agrokor, d.d., became the majority shareholder of the company Poslovni sistem Mercator, d.d. Agrokor acquired 2,000,278 company shares accounting for 53.12% of Mercator, d.d., share capital. The stock was sold to Agrokor by some of Mercator's major former shareholders, including Pivovarna Union, d.d., Nova Ljubljanska banka, d.d., Pivovarna Laško, d.d., Nova KBM, d.d., Gorenjska banka, d.d., Prvi faktor - faktoring, d.o.o., Belgrade, Radenska, d.d., Banka Koper, d.d., Hypo Bank, d.d., NFD 1, mešani fleksibilni podsklad - Jugovzhodna Evropa, d.o.o., Banka Celje, d.d., and NFD Holding, d.d. With this transaction, Mercator stabilized its ownership structure, which will allow it to intensify its focus on the core activity in the future.

In early July, the company Agrokor, d.d., also announced their takeover intent, followed by a takeover bid on July 31, 2014 to acquire the remaining company shares.

In early September 2014, Agrokor, d.d., acquired additional 1,040,319 shares of Mercator, d.d., for a total of 3,040,597 shares.

At the 21st extraordinary general meeting (Shareholders Assembly) of Poslovni sistem Mercator, d.d., convened upon request by the majority shareholder Agrokor, d.d., and having taken place on October 21, 2014, the resolution on the increase of share capital of the company Poslovni sistem Mercator, d.d., proposed by the shareholder Agrokor, d.d., was adopted. The company share capital was increased on October 29, 2014 by issuing 2,325,582 new dematerialized ordinary registered no par value shares. Pursuant to the Shareholders Assembly resolution, shares were subscribed by the company Agrokor Investments B.V., Netherlands, by swapping a loan of EUR 200 million for the newly issued equity. The company Agrokor Investment, B.V., acquired new shares and thus obtained 38.18% stake in the company Mercator, d.d., on October 30, 2014. After issuing new shares, the share of Agrokor, d.d., in the company Mercator, d.d, has changed and now amounts 49.92%.

Changes in Mercator, d.d., corporate governance

Supervisory Board members representing capital filed their statements of resignation from the position of Mercator, d.d., Supervisory Board members. Bojan Brank resigned as of June 27, 2014, and other members – Matej Lahovnik, Rok Rozman, Boris Galić, Zdenko Podlesnik and Marjeta Zevnik filed their statements of resignation from the position of Supervisory Board members on August 4, 2014, effective as of August 28, 2014.

At the 20th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on August 29, 2014, the following Supervisory Board members representing the interests of capital were appointed, as proposed by the majority shareholder Agrokor, d.d.: Damir Kuštrak, Ante Todorić, Ivan Crnjac, Matej Lahovnik, Darko Knez, and Ivica Mudrinić. The newly appointed Supervisory Board members, including the three worker representatives in the Supervisory Board – Vesna Stojanović, Veljko Tatić, and Ivan Valand – held their first, founding session immediately after the Shareholders Assembly session. The newly appointed Supervisory Board elected Ante Todorić as the Supervisory Board chairman, and Matej Lahovnik as deputy chairman.

At the 2nd session held on September 18, 2014, the Supervisory Board dismissed without fault, other economic and business reasons, the Management Board president Toni Balažič and Management Board members Drago Kavšek, Igor Maroša, and Stanka Pejanović; and reappointed Toni Balažič as Management Board president, and Drago Kavšek and Igor Maroša as Management Board members. They commenced their five-year terms on September 19, 2014. Moreover, the new Audit Committee was appointed, including Sergeja Slapničar as independent expert, and Ivan Crnjac and Damir Kuštrak as Supervisory Board members. The Supervisory Board also appointed Darko Knez as member of the Steering Committee for compliance with the commitments made by the company Agrokor, d.d. Thus, the Steering Committee now includes the independent expert Nenad Filipović as chairman, and the president of the Mercator, d.d., Management Board; Supervisory Board member at Mercator, d.d., Darko Knez; and the Works Council chairman at Mercator, d.d., as members.

Mercator Group financial management

In June 2014, Mercator Group signed with all creditor banks and lessors comprehensive contract documentation for the Group's financial restructuring. Working with its creditors, Mercator took a big step towards a consolidated set of financing conditions and a basis for joint decision-making, with a consolidated set of documentation pursuant to the best international practice.

On June 24, 2014, following the initiative of the company Agrokor, d.d., an agreement was signed on the consent to the changes and amendments of the financial documentation on the financial restructuring of the Mercator Group, dated June 9, 2014. The agreement was made effective subject to a number of conditions, including that the company Agrokor, d.d., approve and transfer to the company Poslovni sistem Mercator, d.d., a subordinated loan of EUR 200 million, which shall be used for early repayment of a part of Mercator Group's loans to the creditor banks. The company Agrokor, d.d., transferred such subordinated loan on June 27, 2014, simultaneously with the acquisition of the majority block of shares of the company Poslovni sistem Mercator, d.d.

Pursuant to the resolution adopted at the 21st extraordinary Shareholders Assembly dated October 21, 2014, the loan in the amount of EUR 200 million was converted into equity of the company Mercator, d.d., by an issue of 2,325,582 new dematerialized ordinary registered no par value shares with notional value of EUR 41.73 per share. Pursuant to the same Shareholders Assembly resolution, the pre-emptive right of the existing company shareholders to subscribe the new shares was omitted; the new shares were subscribed and paid up by the company Agrokor Investments B.V., Netherlands. Following the issue of new shares, the company Mercator, d.d., now has a total of 6,090,943 shares, and its share capital was increased from EUR 157,128,514.53 by EUR 97,046,536.86, so that the total company share capital after the capital increase amounts to EUR 254,175,051.39.

Awards and consumer surveys

In the Trusted Brand survey conducted by the Reader's Digest magazine, Mercator was again ranked among the 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. For the first time this year, the readers also voted for 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 received top ratings. The medals are the most coveted awards in the baking industry in Slovenia.

According to the **Qudal** survey conducted by the Swiss organization ICERTIAS (International Certification Association GmbH), **Mercator is the Slovenian leader in terms of quality in the category of retail chains**. The survey was conducted in March 2014 by means of a web survey among the Slovenian population. The survey measures exclusively the perception, experience, and opinion of the customers on who truly offers the absolutely highest level of quality in the market.

Quality standard certified

The company Mercator, d.d., successfully completed the external audit of its environmental management system according to the ISO 14001 standard, which includes compliance with the relevant legislation, efficient use of resources, and prevention of pollution. **Mercator, d.d., is currently the only trade company in Slovenia, engaging in wholesale or retail of fast-moving consumer goods, to be awarded the ISO 14001 certificate.**

BUSINESS REPORT

EFFECT OF ECONOMIC AND OTHER CONDITIONS ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1-9, 2014

Economic conditions in the markets of Mercator operations in the period 1-9, 2014[1]

In the second half of this year and in the following two years, economic activity in the key trade partner countries is expected to recover, although at a somewhat slower rate than stated in the spring forecasts by international institutions. After four quarters of modest growth, GDP in the euro zone stagnated in the second quarter of this year (deseasonalized); year-on-year, was higher by 0.7%, which is worse than expected in the spring. Indicators of short-term economic activity and confidence worsened during the summer, pointing out that recovery is weaker than expected in the spring and that it may be weaker in the coming quarters as well. According to the most recent forecasts, real GDP is expected to rise in 2014 by 1.6% in the European Union and by 1.2% in the euro zone. In 2015, GDP growth is expected at 2.0% and 1.7%, respectively.

Gradual improvement in conditions in the labour market, along with less intensive consolidation of public finance and low prices of raw materials will allow further and higher growth of real household income, which in turn should result in higher household consumption. Thus, the most recent available forecasts by international institutions regarding the economic activity in most trade partner countries are somewhat lower for this year and the year after, than stated in the spring forecasts; however, gradual improvement in recovery is still forecast. According to the European Union forecasts, unemployment rate in the European Union will be at 10.5% in 2014 and 10.1% in 2015. In the euro zone, it is forecast at 11.8% in 2014 and 11.4% in 2015. The trend of declining unemployment rate in the European Union and the euro zone points to a gradual improvement of conditions in this region.

Inflation rate remains low both in the European Union and in the euro zone countries. In the European Union, it stands at 1.0%; in the euro zone, it is at 0.8%. The forecast for 2015 includes a slight increase in the inflation rate, but it is not expected to be considerable. In the European Union, it will reach 1.5%; in the euro zone, it is forecast at 1.2%.

Household consumption in the first quarter of 2014 rose slightly, by 0.2%; this means it has been increasing for four consecutive quarters. The increase was a result of higher retail consumption, offsetting to a degree the drop in the purchase of personal vehicles. At the same time, service consumption was more or less neutral. Recent changes in short-term indicators and surveys generally point to further positive growth of household consumption in the second and third quarter of this year. According to the estimates, the risks regarding the economic outlook for the euro zone include lower growth. In particular, loss of economic impetus may slow down personal investment, while higher geopolitical risks may exert an additional negative effect on business and consumer confidence. The second downward risk is the failure to implement adequate structural reforms in the euro zone countries.

The European Central Bank set the interest rate for the main refinancing operations at 0.05%. As a result of such low rate, the 6-month EURIBOR also remained low and after peaking in April it hit the lowest level at the end of the period. The average 6-month EURIBOR in the period 1-9, 2014, was 0.349%, which is just under 0.05 percentage points more than in the period 1-6, 2014. Thus, the average 6-month EURIBOR remains very low. At the end of the period at hand, EURIBOR reached a low, which means that the average could decrease further in the next period.

Slovenia

Short-term economic indicators in Slovenia have been recovering since mid-2013. Real exports of

[1] Economic conditions are commented based on the following data sources: IMAD (Institute of Macroeconomic Analysis and Developmentof the Republic of Slovenia); 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.

goods continued, which is most likely the result of improvement in the international environment and higher export competitiveness of the economy. This takes the form of further increase of market share of goods in the global market, although this share is still lower than it was before the onset of the crisis. Moreover, output in processing industries has increased as well, spurred by sustained growth in technologically advanced industries and industries of medium low technological complexity. Revenue in market services has increased, too, while revenue in retail has been very low, with minor monthly fluctuations, since last spring. In 2014, GDP will rise by 2.0%, which means that the outlook is good relative to 2013 when Slovenia's GDP growth was negative. Next year, GDP is expected at 1.6%. According to IMAD, inflation reached 0.3%, while the forecast for next year is higher at 0.6%.

Improvement of conditions in the labour market has been sustained in recent months and average gross wage per employee has continued to rise. There was a further increase in the active population in July (0.2% deseasonalized). Relative to the first seven months of last year, it was higher especially in particular industries of market (especially private employment agencies supplying labour power to other industries) and public services. The number of registered unemployed has been declining since March (deseasonalized), especially as a result of more hiring; number of persons laid off has also remained lower. Registered unemployment rate decreased in August as well, yet it remains high at 13.0% (deseasonalized).

With weak demand and absence of any shocks from abroad, prices decreased year-on-year again in September (-0.3%). Deflation was especially a result of lower prices of semi-durables (clothing and footwear) and energy. With domestic demand still feeble, base inflation also remains low.

Slovenia again saw a drop in the WEF global competitiveness rankings. It remains among the countries whose ranking has worsened strongly since the onset of the crisis. Among the EU countries, it has fallen from average ranking to the bottom fifth. Long-term (S&P) rating is A– with stable outlook, while short-term rating is A-2.

Serbia

According to the European Commission, GDP growth rate in this year will reach 1.3%. Inflation, too, is expected to be higher than last year at 4.3%. Unemployment remains high at 22.3%, having decreased only slightly relative to the year before. Growth of both private consumption and public spending remain negative in 2014 at around -1.0%. Average exchange rate of the Serbian dinar in the period 1-9 2014 stood at RSD 116.40 per 1 EUR, while the average rate in the equivalent period of last year was RSD 112.84 per 1 EUR. The rating of the Republic of Serbia remains unchanged at BB– with negative outlook.

Croatia

GDP growth in 2014 is expected to reach 0.5%. Inflation rate is increasing moderately; in 2014, it is anticipated at 1.3%. Unemployment remains high at 17.6%, which is the same as in the corresponding period of the year before. According to the European Commission, public spending is increasing at a rate of 0.3%, while private consumption is decreasing at the same rate. Average exchange rate of the Croatian kuna in the period 1–9, 2014, stood at HRK 7.62 per 1 EUR, while the average rate in the equivalent period of last year was HRK 7.56 per 1 EUR. Croatia's rating remains BB with a negative outlook.

Bosnia and Herzegovina

In Bosnia and Herzegovina, GDP growth in 2014 is estimated at 2.3% relative to 2013. According to the European Commission forecasts, growth will be sustained in the coming years. Average inflation rate for the year 2014 is forecast at 1.5%. Unemployment remains a major problem with unemployment rate at 27.5%. The exchange rate of the Bosnian mark is pegged to euro at the rate of KM 1.95583 per 1 EUR. Bosnia's rating is B with stable outlook.

Montenegro

Economic growth in Montenegro amounts to 2.7% in 2014. Inflation rate is at 2.3%. Unemployment rate is as high as 19.2%, and it is – according to the data from recent years and European Commission forecasts – in a gradual decline. The official currency is the euro. Montenegro's rating remains unchanged at BB– with negative outlook.

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

Based on the estimates of higher economic growth for 2014, a slight improvement of economic conditions in all markets of Mercator's presence is expected. Private consumption continues to drop; where growth has been recorded, it was feeble. Unemployment rate remains high. Consumers in all markets still feel the effects of the recession and they do not expect any considerable improvement this year. The future is viewed with slight optimism and somewhat more positive expectations.

Recession is not felt as acutely in everyday life as before in **Slovenia**[2], although 90% of respondents continue to feel its effects. Consumer expectations are more positive; they are less worried about further reduction of wages or losing their jobs. Changes in the shopping behaviour seen since the onset of the crisis, have persisted: consumers shop more rationally, they plan their shopping, they 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. According to Nielsen[3] data, consumer confidence improved in the second quarter of 2014 relative to the previous quarter; however, it is still below the European average.

Consumer confidence has also improved in **international**[4] markets, except for Serbia; however, it remains below the European average. More than 90% of the respondents still feel the effects of the recession. Job security remains the top concern of consumers in the region, due to high unemployment rates. Two thirds of consumers do not see any options for new employment and over a third believes the timing is bad for shopping or spending. In Croatia, consumers are switching to less expensive private labels and they economize on fuel and electricity. In Serbia, consumers spend less on out-of-home entertainment and they economize on fuel and electricity.

No significant improvement in consumption is expected at this point. The consumers are more rational and price-sensitive. They tend to plan their shopping and they do not opt for major shopping sessions. They shop less and more frequently, with lower value of each shopping cart.

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

[3] Consumer Confidence Index, Slovenia, Quarter 2, 2014, Nielsen

[4] Consumer Confidence Index, Serbia, Croatia, Quarter 2, 2014, Nielsen

SALES AND MARKETING

Sales

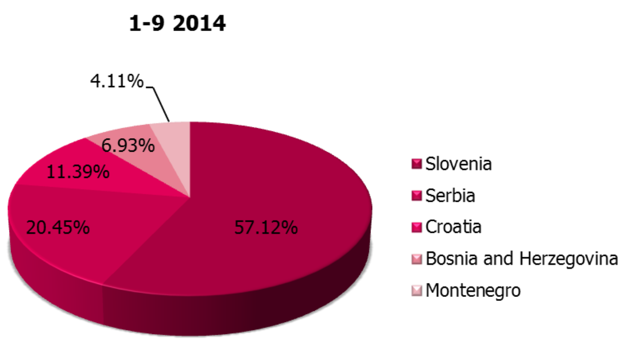
In the period 1-9 2014, Mercator Group generated EUR 1.99 billion of revenue, which is 3.6% less relative to the period 1-9 2013.

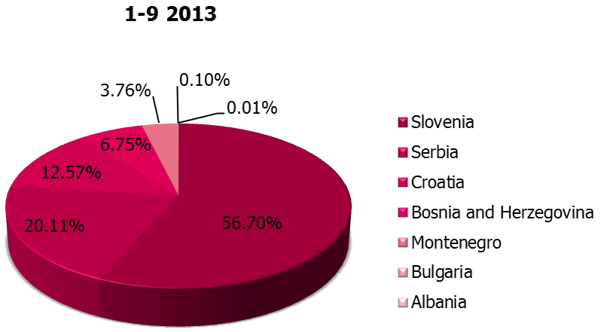
Majority of Group revenue is generated by sale of goods, material, and products, mostly retail and wholesale of trade goods.

Relative to the corresponding period of last year, revenue in Slovenian market dropped by 2.9%. A drop of revenue has been seen in foreign markets as well, except for Montenegro where the revenue has grown (5.3%).

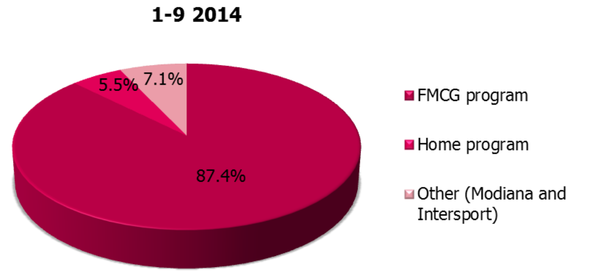
The Group revenue is lower than in the year before, which is a result of several factors, including the withdrawal from the Bulgarian and Albanian market and closing down of some units of the M Tehnika (technical consumer goods) and Modiana programs, and divestment of hospitality services to a third-party. The drop in revenue was also caused in part by highly stringent competition and harsh economic conditions which have already had a strong impact on the consumers' shopping behaviour. To some extent, the drop in revenue is also a result of the transfer of operations of retail units in Croatia and Bosnia and Herzegovina to the company Agrokor, d.d. However, the effects of such measures will be fully felt in the coming months.

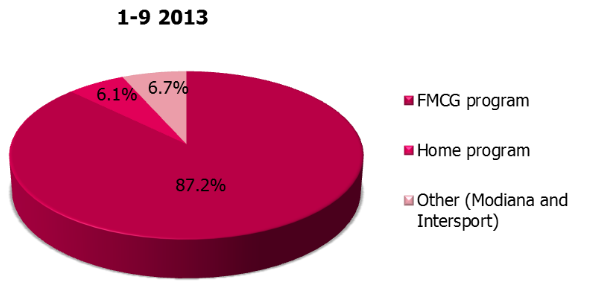
Mercator Group net sales revenues by geographical segments:





Mercator Group revenues from trade operations by programs:





In the period 1-9 2014, the majority of Mercator Group revenue resulted from sales of fast-moving consumer goods which accounted for 87.4% of the total figure; revenue from other specialized programs amounted to 12.6%. Following the closing down of some technical consumer goods units, the share of home products in total revenue saw a significant drop relative to the equivalent period of the year before, by 0.6 percentage point. Share of sales in other programs (Modiana and Intersport) rose by 0.4 percentage point, and the share of fast-moving consumer goods rose by 0.2 percentage point.

Store formats, customer segments, and category management

Store Formats

Consumer shopping behaviour has changed considerably in recent years as a result of different trends from the environment. This tends to increase the complexity of operations. Like most of the world's leading retailers, Mercator is seeking to adapt to these changes as much as possible by diversifying its store formats. They are intended to accommodate a variety of shopping needs, from major planned shopping sessions to minor daily, top-up, or occasional shopping for fast-moving consumer goods.

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.

In the period 1–9, 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 excellent fresh produce** (depth and variety of offer) and **innovative ideas of the offered mix** that makes the customers' everyday 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**.

Five Mercator units were refurbished according to Neihbour (Sosed) concept in the period 1-9 2014:

- market Domžale, in Domžale,
- market Tržaška, in Ljubljana,
- market Na klancu, in Kranj,
- market Pristaniška, in Koper, and
- market Brezovica, in Brezovica.

In the period 1-9, 2014, several Mercator stores of other formats were also refurbished (supermarkets, hypermarkets, a convenience store). Throughout the year, twelve Mercator supermarkets were refurbished with the following key highlights: **moving the fruit and vegetables section to the entrance; providing special offer spots for dry and refrigerated products; arranging the seasonal product section**.

In this year's first quarter, the store at Kongresni trg in Ljubljana, a convenience store format, was refurbished. With an adapted product mix, the store offers quick and easy shopping for convenient products to customers who are in a hurry.

In August, Maxi bakery was launched as a part of the bread department in Maximarket, where fresh treats are made daily at the store.

As a response to the general market trends that put convenience of shopping first, we introduced the grab&go module in twelve stores with high customer frequency. The module offers convenient products intended for immediate consumption at a single place, and it allows fast and simple checkout. Key emphases include the offer of:

- fresh produce prepared at the store;
- innovative products;
- private label products (Minute);
- suitable take-away packaging.

Composition of retail units as at September 30, 2014:

COUNTRY	SLOVENIA	SERBIA		CROATIA		BOSNIA AND HERZEGOVINA		MONTENEGRO		MACEDONIA*	ALBANIA*	MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Mercator	Getro	Mercator	Drvopromet	Mercator	Roda					
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	22	2	15	3	-	2	-	-	2	-	-	46	220,815	148,978
Supermarkets	62	-	23	4	3	3	1	-	9	-	-	105	147,634	95,135
Neighbour stores	393	-	78	16	7	7	32	-	75	-	-	608	256,934	152,294
Comfort stores	1	1	-	1	-	-	1	-	-	-	-	4	7,347	4,294
Mini stores	5	-	1	-	-	-	-	-	-	-	-	6	869	471
Cash & Carry	13	-	6	-	13	-	-	-	1	-	-	33	107,517	71,905
Restaurants	7	10	-	-	-	2	-	-	-	-	-	19	4,429	2,856
TOTAL FMCG program	**503**	**13**	**123**	**24**	**23**	**14**	**34**	**-**	**87**	**-**	**-**	**821**	**745,546**	**475,933**
Technical consumer goods	**50**	**13**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**64**	**87,290**	**56,330**
Clothing program and drugstores	**54**	**13**	**-**	**34**	**-**	**12**	**-**	**-**	**-**	**-**	**-**	**113**	**56,595**	**47,662**
Clothing program	45	7	-	34	-	8	-	-	-	-	-	94	54,239	45,614
Drugstores and perfumeries	9	6	-	-	-	4	-	-	-	-	-	19	2,356	2,048
Intersport	**35**	**11**	-	**29**	-	**11**	**-**	**2**	-	**-**	**-**	**88**	**52,563**	**40,222**
M holidays	**13**	**-**	-	**-**	-	**-**	**-**	**-**	-	**-**	**-**	**13**	**242**	**242**
Other	**3**	**-**	1	**-**	-	**-**	**-**	**-**	-	**-**	**-**	**4**	**770**	**566**
TOTAL specialised programs	**155**	**37**	**1**	**63**	**-**	**23**	**-**	**3**	**-**	**-**	**-**	**282**	**197,459**	**145,021**
TOTAL retail units under management	**658**	**50**	**124**	**87**	**23**	**37**	**34**	**3**	**87**	**-**	**-**	**1,103**	**943,005**	**620,955**
Franchise stores	**229**	**-**	**92**	**1**	**-**	**-**	**-**	**-**	**-**	**2**	**1**	**325**	**67,184**	**44,584**
TOTAL	**887**	**50**	**216**	**88**	**23**	**37**	**34**	**3**	**87**	**2**	**1**	**1,428**	**1,010,189**	**665,538**

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

Customer segments

Our customer loyalty system was revised in early 2013. The revision included designing messages for each segment separately to selectively stress the advantages of the revised system according to the segment for which the message was intended. Bonus point collection system was also revised, as was the system for using the earned bonuses. The customer loyalty system in international markets was made uniform, as it had differed considerably from one market to the other.

Category management

In category management, activities are conducted by pursuing 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 period 1-9, 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;
- **"raised in Slovenia"** – label for fresh meat produce at the store, and indicating the brands or producers of meat at the butcher's departments;
- launch of the project **update of Mercator butcher's sections** in order to further improve the revenue and profitability of butcher departments or sections.
- **"100-percent Slovenian milk"** – labelling of fresh milk and dairy products in the stores;
- **Slovenian marketplace** – labelling of fresh fruit and vegetables at the store, and increasing the share of Slovenian fruit and vegetables,
- shrinkage or **adjustment of assortment** within key categories;
- **varied offer** of regular and special-offer **seasonal products**;
- **more active role of sales promoters** in order to improve the level of service in all fresh program departments, especially those with shop assistance service;
- **training and education for all employees in the bread and pastry department** (approx. 1,600 employees), in order to improve the knowledge of products, sales strategy, and selling skills, and to thereby improve the results for these categories;
- **start of training for all employees in the fruit and vegetables sections or departments** (merchandise knowledge, selling skills, department design and appearance),
- Construction of infrastructure for more efficient assortment management; **launch of revised assortment management through assortment models at 205 units**.

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;

In this year, Mercator is continuously pursuing the goal of improving the pricing perception among the consumers. We carried out a major campaign in March, which involved cutting the regular prices of 10,000 products and introducing over 800 products for which the lowest regular prices in the market are guaranteed. In addition, many other projects were carried out as well.

The most effective campaign was **The Summer of Crazily Low Prices** which involved brief daily discounts; this type of discounts that are in most cases the best in the market. Our products were extensively highlighted at the stores so that they were even easier for the customers to notice and purchase.

We carried on the days of 20-percent discount coupons for a selected product, double Pika bonus point days, and other sales promotion projects.

To accelerate collection of Pika bonus points, we launched the project **Catch the extra Bonus Points** that allows the customers to collect the points for a particular bonus even faster by purchasing certain products.

In addition to the regular sales promotion activities, we launched the **weekend campaigns** in mid-year. They take place every week from Friday to Monday and allow the shoppers to purchase the selected products at very good prices during the weekend. Low prices were also offered in **Outlet tents** where customers could choose from a wide variety of technical consumer goods, sportswear and sports equipment, clothing for the entire family, and some alimentary products.
Our stores also offer products labelled **MAXX**. The label indicates lager packages of branded products at lower prices.

In January and February 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 June, we carried on or cooperation with our partners and, working with the company OMV, prepared a new activity for our customers, offering them the option to use their bonus points on the Smile&Drive card to receive a EUR 5 coupon for purchases over EUR 40 at Mercator.

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 **These are the right prices** was at the forefront in Croatia; the activity received weekly communication support.

In cooperation with Konzum, the project **Nikiforija** took place from late August to November 2014, combining two globally renowned brands, Hello Kitty and Ninja Turtles. The project took place at the Konzum and Mercator stores. In the course of the project, we offered our customers low prices on 3D cards and action figures of the Nikiforija heroes and social games.

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

Since April, the Roda stores offer 10-percent discount on the entire store assortment.

In May, the Lowest Price Guarantee was introduced for 300 products, backed by a price matching policy.

In Bosnia, 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 the run-up to the football World Cup, we held a prize contest **We'll take you to Brazil**.

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 activities **Price of the day** and **Facebook coupons** were well-received among customers.

In May, a special activity was held to celebrate the 5th anniversary, offering Top 200 products in a special offer.

In **Montenegro**, customers are offered well-priced shopping with a variety of promotional and weekend campaigns. Good prices of selected products are also offered under the label **Attention! Low Prices**.

During the summer season, communication regarding Roda stores took place in Montenegro's coastal cities.

Pika card

Focusing on the consumer, we carry on the development of the **advantages of the Mercator Pika card 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 selected 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 Mercator Pika card.

In September we introduced an entirely new activity in the Slovenian market: swapping bonus points for discounts. The customers could exchange 300 bonus points for a 15-percent discount on their entire shopping cart. We shall continue to offer more benefits and bonuses for the Pika card holders and we shall extend its use.

Specially tailored offer and bonuses are developed for all customers who allow us to monitor their shopping behaviour.

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. Thus, we presented in cooperation with the company Si.mobil in June an exclusive offer of a free phone for the Senior Club members, and offered consumer credit at the Sberbank at favourable terms for a group of club members. We also carried out twice an activity with Terme Čatež where we offered up to 50% discount on spa entrance with the Pika card.

At the same time, we increased the number of Pika partners with whom our card holders are offered considerable discounts, including wellness centers, spas, language schools, adrenaline parks, rafting adventure agencies, fitness clubs etc.

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 some days.

In Croatia, the Pika card customer loyalty system was transferred to the **MultiPlusCard** system as of September 15, 2014. Green and golden Pika card holders will still be able to use these cards or pay with them at Mercator and Konzum units. Blue Pika card holders are encouraged to switch to the MultiPlusCard customer loyalty system. All card holders who collected the Pika bonus points until September 15, 2014, shall receive a discount booklet which they can use at the Mercator, Getro, Modiana, Intersport, and Konzum stores.

Since April, Pika holders in Serbia and Bosnia may use the Pika card to pay for products of the entire assortment in 12 instalments with zero interest rate. Zavarovalnica Triglav also joined the Pika partner system, offering Pika card holders a special discount on insurance and addition of the bonus point to the Pika card bonus.

In Bosnia and Herzegovina, we rewarded shopping with double and triple points for the Pika card holders, and developed special offers of well-priced shopping presented in a special Pika Catalogue.

In Banja Luka, Pika card holders were offered special activities and triple Pika bonus points upon Mercator's 5th anniversary there.

In Montenegro, a special catalogue that includes over 80 products with special Pika discounts was prepared for the Pika card holders.

Domestic, local offer; proximity to the consumer

We continue to communicate our offer of Slovenian local produce as a part of the project **Locally Grown**. The communication is focused especially on our competitive advantages, such as: regular offer of meat 100% grown and produced in Slovenia; 100% Slovenian fruit and vegetables; bread from our own Grosuplje Bakery made of 100% Slovenian wheat.

In August, we introduced a new offer to the "Locally Grown" marketplaces. Only Mercator offers the customers products from the agricultural cooperative Samooskrba ("Self-sufficiency") which organizes purchase of produce from unemployed persons according to the principles of social enterprise in the Pomurje region.

The project of local offer was successfully rolled out to other markets as well. **In Croatia**, local offer is presented with the activity **Taste the Home Grown**. In the spring, the focus was on the offer of fresh meat.

In **Bosnia and Herzegovina**, the activities **100-percent local** and **100-percent locally made** are carried on.

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

In Slovenia, we highlighted Mercator's proximity to the consumers and integration into the local environment in a corporate campaign celebrating the company's 65th anniversary. Mercator brand values and Mercator as the agent of change and progress that brought modern development of retail to Slovenia, were presented.

Our proximity to the environment in which we work is not seen as merely the physical proximity of our stores. We also see our proximity to the environment in terms of closeness and co-habitation with places we are located in and the people who live there. In order to give back to our local environment, we carried out in April the **We Like to Give Back** project in selected 100 local stores across Slovenia. The project included presenting, with the help of our customers, a donation in the total amount of EUR 100,000 to 100 winning local societies. During the campaign, we received 1,100,000 customer votes in the form of red voting tokens for support to local societies. Upon the conclusion of the campaign, out store managers also presented a donation in the form of food packages to the Red Cross.

In eight Mercator centers in Croatia, **Mercator Street Soccer Tour** was held during the football World Cup, which included competitions for teams and extra contests for shopping center visitors. Moreover, a prize giveaway was organized for the participants.

Mercator's fifth anniversary in Banja Luka was celebrated with a special activity for the customers "**Sing a birthday song and perform as Mercator's talent**". The importance of working with the local community and the customers was also stressed at this occasion.

Fresh and high-quality offer

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.

We developed a major marketing communication campaign for Mercator and Lumpi ice cream.

Chocolates in the Mercator private label were launched, printed advertisements were developed, and points of sale were equipped or designed accordingly.

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 developed 100-percent whole grain spelt bread, rich in nutrient fibre, and whole grain wheat bread with linseeds.

The popular Krjavelj, Malnar, and Sosed loaves are also offered as half-kilogram loaves ready to be finished at the store.

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.

New BIO tofu was launched; two new flavours were added to the existing product.

We continue to introduce new flavours into our assortment or bulk biscuits in order to make this offer different, better, and more season-oriented than that of the pre-packed biscuits. 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**.

We also launched the revised products My Day and the Sun Joy cosmetics line.

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

In Banja Luka, we held a successful Facebook activity that involved coupons promoting the private label products. These products were also exposed.

INVESTMENT AND RETAIL NETWORK DEVELOPMENT

In the period 1-9 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. Refurbishments of existing stores were the priority activity. Thus, we launched in Slovenia new refurbishment projects according to the Neighbour (Sosed) concept, tested and implemented in 2013, wherever the right conditions were met.

There were no new construction developments in the period 1-9 2014. Investment funds were mostly used for renovation 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.

Following are Mercator's key goals in real estate management:

Summary of total gross retail area as at September 30, 2014:

Gross area in m^2	Used for own operations	Leased out - Konzum	Leased out – third parties	Total as at September 30, 2014
Owned retail area	647,593	92,831	215,776	956,200
Leased retail area	295,410	50,374	50,933	396,717
Total retail area	**943,004**	**143,205**	**266,709**	**1,352,918**
Owned warehouse capacity	138,801	0	575	139,376
Leased warehouse capacity	38,400	0	6,658	45,057
Total warehouse capacity	**177,200**	**0**	**7,233**	**184,433**
Owned commercial facilities	23,393	0	1,018	24,411
Leased commercial facilities	5,811	0	0	5,811
Total commercial facilities	**29,204**	**0**	**1,018**	**30,222**
GROSS AREA UNDER MANAGEMENT	**1,149,409**	**143,205**	**274,960**	**1,567,573**
- of which owned	809,787	92,831	217,369	1,119,987
- of which leased	339,621	50,374	57,590	447,586

Investment and Divestment

In the period 1-9 2014 Mercator Group CAPEX amounted to EUR 15.9 million, which is 0.6% over the figure for the equivalent period of last year. Of this amount, 71.3% was used for investments in Slovenia and 28.7% was used for investments in foreign markets.

	Capital expenditure in 1-9 2014 (in EUR thousand)	Structure (in %)
Slovenia	11,376	71.35%
Serbia	2,100	13.17%
Croatia	1,024	6.42%
Montenegro	733	4.60%
Bosnia and Herzegovina	711	4.46%
TOTAL	**15,944**	**100.00%**

Investment into expansion of retail area represented 11.6% of total investment; refurbishments of existing units accounted for 49.0%; remaining 39.4% was invested in logistics, IT, and non-trade activities.

In the period 1-9 2014, Mercator Group acquired 4,281 square meters of new gross area, mostly in Serbia and Montenegro, of which 89% was acquired by operating lease, and the remaining 11% were acquired by refurbishment of existing facilities.

In the period 1-9 2014, Mercator Group divested EUR 4.4 million worth of property, plant and equipment.

Summary of retail unit launches by markets

SLOVENIA

Area of new facilities: 172 m^2

Number of new units: 2

Openings: Mini by Modiana in MC Koper I, expansion of Intersport in MC Jesenice

Refurbishments:

Number of new units: 18

Openings: Market Kongresni trg; Supermarket Pesnica; Market Kolodvorska, Domžale; Market Lucija; Supermarket Litija, Ježa; Market Log pri Brezovici; Market Pristaniška, Koper; Hypermarket in MC Koper; Market Tržaška, Ljubljana; Market Medvoška, Medvode; Market Na Klancu, Kranj, Market Cigaletova, Ljubljana; Market Brezovica; Market Sežana; Supermarket Šempeter pri Novi Gorici; Bakery in Hypermarket Maxi, Ljubljana; Market Cesta 24. Junija, Ljubljana; Market Zupančičeva jama, Ljubljana

CROATIA

Area of new facilities: 45 m^2

Number of new units: 1

Openings: Mini by Modiana MC Čakovec

SERBIA

Area of new facilities: 3,079 m^2

Number of new units: 6

Openings: Superette Banovo Brdo, Belgrade; Supermarket Liman 4, Novi Sad; Santana Caffe bar, Zemun, Market Subotica; Tehnika Inđija; Supermarket Vidikovac

MONTENEGRO

Area of new facilities: 985 m^2

Number of new units: 4

Openings: Market Rubeža, Nikšić; Market Podgorica 3, Podgorica; Market Stari aerodrom 2, Podgorica; Market City, Podgorica

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

Two more refurbished stores were re-opened in October 2014:

- Market TH Nova Gorica, Slovenia (October 2, 2014), and
- Market Ceneta Štuparja, Ljubljana, Slovenia (October 9, 2014).

RISK MANAGEMENT

Management of key risks in the period 1-9 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
Shopping behaviour of consumers in Slovenia, which has developed during the economic crisis, remains unchanged; on the other hand, consumer confidence is gradually improving. In international markets, job security remains a key concern for the consumers.

Financial risks
The economy is gradually recovering as GDP growth rates are positive in most countries of Mercator operations. This has also resulted in positive investor attitude towards new investment. Mercator's operations and performance were also negatively affected by stronger depreciation of the Serbian dinar in the period 1-9 2014, relative to the period 1-6 of the same year.

Operational risks
In terms of operational risks, a lot has been done regarding environmental risk management. Several projects were carried out to provide efficient use of power and other energy sources for heating. As a part of the 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[5] Autumn Forecast, GDP growth of 2.0% and modest 0.5% growth of consumption are expected for 2014 in **Slovenia**. Despite the improvement of conditions in the labour market, forecasts for the unemployment rate remain at 13.0%.
Consumer confidence is improving on both monthly and annual level. The consumer confidence indicator rose by 6 percentage points in September 2014[6], reaching the highest level after September 2008. Moreover, the annual consumer

[5] UMAR, Autumn Forecast of Economic Trends 2014
[6] SURS, Consumer Sentiment, Slovenia, September 2014

confidence index was 17 percentage points higher year-on-year, and 18 percent above the last year's average. The increase at the annual level was a result of more optimistic consumer expectations regarding the economic conditions in Slovenia, unemployment rate, and financial position of their households within the following 12 months. Forecasts regarding the possibilities of savings in the next 12 months have not changed. Consumer sentiment regarding unemployment in the following 12 months is more optimistic. No considerable changes of consumption are expected.

In **international markets** of Mercator's operations, gross domestic product is expected to grow moderately. Unemployment rate remains high and considerable above the rate in Slovenia. Average wages are 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. Due to the economic conditions, high unemployment, and low personal income, consumer purchasing power remains weak.

Risks in the supply process

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

In the period 1-9, 2014, our cooperation with suppliers was transparent to allow timely identification of any problems faced by the suppliers in the current economic conditions, and prompt adjustment, which reduces the probability of delivery failures. Regular monitoring and checking of supplier solvency allows timely redirection to new supply sources. We seek to mitigate local effects on the supply processes by managing the risks of delivery failures. Supply processes are supervised on a daily, weekly, and monthly basis and corrective measures are adopted to reduce such risks.

Successful financial restructuring allowed us to cut the payment terms in the third quarter. Since September 1, 2014, all payments for perishable goods have been made within the mandatory period of 75 days.

There were several natural disasters in the region in the third quarter, especially floods and heavy rainfall that affected the crops. This resulted in lower supply of preserves and walnuts, which requires an active search for new supply sources.

Carefully thought out choice of different suppliers within each category has reduced or diversified the risk.

By working together with other companies in the Group, positive effects of joint purchasing – lower input prices and better terms – were negotiated in the third quarter for private label and seasonal products.

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 represent 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 half 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. These activities were carried on in the third quarter. In order to better adjust to the market conditions and to improve the pricing perception, we introduced in the third quarter some promotional activities that partly contributed to the improvement of the pricing perception.

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. We were particularly active in providing the most attractive seasonal offer during major seasons and holidays. At the same time, we updated the IT and technical infrastructure for category management, which will allow more efficient and flexible operation in this field in the future. 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.

Key performance indicators are regularly monitored on a weekly, monthly, and cumulative basis. In terms of management of the said risk, we are focused both on the actual profit margin (weekly level) and on the invoiced compensation (monthly level). In case of discrepancies, we adopted short-term and long-term corrective measures. Measures are adopted either at the level of a particular product, category, or assortment from a particular supplier (greater number of activities in cooperation with suppliers, more attractive packages of supplier relations etc.). We seek to balance any losses of revenue or profit on any of the sources of profitability with better performance on others.

Financial risks

Financial risk includes everything that prevents the attainment of certain financial goals and thereby leads to unforeseen results.

Risk in financial markets is gradually declining as a result of recovery in the economies that the country is doing business with. Slovenia will become increasingly interesting for foreign investors who are highly important for further development of the economy. Given the size of the economy and market conditions, we would have needed far more time to bounce back from the crisis on our own.

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.

Receivables from wholesale buyers are being monitored at several levels. Outstanding receivables are monitored on a daily basis, which, following the introduction of the central limit system, should not exceed the allowed limits as calculated based on several parameters. Weekly reports are generated on the receivables overdue by more than 60 days; these receive intensive attention. Systematic care is also taken to prevent any receivables from reaching their time limitation. Initially, debtors are notified by telephone; this is followed by written notifications. If such collection is not successful, we hired an external agency to collect the receivables. If they, too, are not successful, the matter is taken to court. First-rate security is required from buyers with a low credit rating (bank guarantees, mortgages etc.).

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 Pika card operations, management of receivables resulting from deferred payment (payment in instalments) is of greatest importance. Processes in this respect have been in place for some time. The most important measures are collection by telephone and SMS notifications. If this does not suffice for the Pika card holder to pay, the issue is delegated to a third-party agency, and later, if necessary, taken to court.

Currency risk

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

Currency risk is present in Croatia and Serbia. The Serbian dinar is again depreciating more than in the period before. As at January 3, 2014, the exchange rate was RSD 114.76 per 1 EUR; as at September 30, 2014, the rate was already at RSD 118.85 per 1 EUR. This means that the RSD depreciated by 3.67 percent relative to the EUR. Average rate in the period was at RSD 116.40 per 1 EUR.

The Croatian kuna exchange rate remained approximately the same as at the beginning of the year. At the beginning of the period 1-9, 2014 the exchange rate was at HRK 7.63 per 1 EUR; at the end of the period at hand, it was HRK 7.64 per 1 EUR. Depreciation of the Croatian kuna in the period thus amounted to 0.64%. Average exchange rate in the period was HRK 7.62 per 1 EUR.

In order to hedge the currency risk, we are seeking to adapt our operations in a way that minimizes it.

Additional measures have not been required to date.

Interest rate risk

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

In the period 1-9, 2014, variable 6M EURIBOR dropped from 0.387% to 0.183%. Average 6-month EURIBOR in the period 1-9, 2014 was at 0.349% which is more than 1.61% above the average rate from the equivalent period 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 25.0% 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.

It is the goal of the Mercator Group to settle its liabilities within the periods laid down by the relevant agreements. Therefore, provision of adequate liquidity is of extraordinary importance as it allows fair operations. Liquidity risk is managed by centralized cash management. This includes primarily an accurately defined methodology of cash flow planning, which is reflected in weekly plans of daily cash flows. This is the Mercator Group's short-term consolidated liquidity plan. In addition, standardized daily reporting systems are in place for reports on actual cash flow in the previous day. Any discrepancy between the actual cash flow and the plan is analyzed. Coordination at different level of decision-making is centralized, meaning that every company always has the appropriate amount of cash available. Effective working capital management is also of great importance in this respect. It involves monthly monitoring of inventory, receivables, and trade payables management at individual companies.

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 1-9 2014.

Operational risks in category management and procurement

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 upstream milk and dairy product market in Western Europe were stabilized in 2014. Further fluctuations are expected in the autumn as a result of preparations for the abolition of the dairy quotas for the European Union 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.

Price fluctuations are also present in the purchase of fresh fruit and vegetables due to the changes in the quality of produce. Stable prices are guaranteed with long-term supply agreements.

Seasonal effect.

Changes in weather and temperature, natural disasters (floods, sustained heavy rainfall) etc. have an increasing impact on the supply and sale process for all seasonal categories.

As a result of natural disasters in the region, particularly floods and sustained heavy rainfall, preserves are in short supply in the region. Therefore, extra activities are dedicated to forward purchase of canned vegetables, preserves, and walnuts, both for branded and private label products, especially from regions hit by disastrous flooding.

The categories affected the most by the seasonal effect in the third quarter included non-alcoholic and alcoholic beverages, beer, fruit and vegetables, and ice cream.

Risks in sales were mitigated by targeted sales promotion activities in the said categories, as well as by focusing on sale of products from the categories in which sales are not as high during the summer, e.g. chocolate and other sweets.

Persistence of the harsh economic situation and increased unemployment are reflected in the drop of consumer purchasing power in the segment of non-alimentary seasonal products. Our offer of seasonal products is therefore adjusted to the lower demand, and we diligently monitor sales and inventory of seasonal products and take required measures in a timely fashion.

Delivery failures.

Supply failures are supervised on a daily, weekly, and monthly basis and corrective measures are adopted promptly to reduce such occurrences. Delivery failure monitoring process, established in the first half of 2014, allows faster adoption of suitable 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 in February 2014 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 plan, the following mandatory preventive tests were carried out at Mercator - Emba, d.o.o., in the period 1-9, 2014:

- annual review of active fire protection (sprinkler system) and semi-annual system maintenance. The system works flawlessly;
- periodic review of fire detection and alarm system. Any deficiencies found were completely remedied;
- preventive check of safety valves in the boiler room;
- periodic check of fire extinguishers and wall hydrants;
- inspection and test of gas installation performance. Gas installations are fit for operation without restrictions.

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. The initiative was sparked by opportunities identified in the field of IT and organization. Improvements will be implemented in several stages. Primarily, requirements for development of business applications in the field of material operations are optimized, and we are further pursuing greater consolidation of requirements in other key fields as well.

Initiative for optimization of incident resolution has been set up for incidents occurring at the point of sale (at check-out or on the cash register). User support department took over the first level of resolution of computer incidents from the key third-party service provider, thus establishing internal central records of incidents that were previously submitted to this service provider. Incidents on the cash registers are regularly analyzed, which should improve our understanding of and elimination of recurring computer errors. IT and telecommunications executive department processes that support the stocktaking at retail units were reviewed in order to identify any weaknesses and to develop the measures for their elimination. Moreover, environment for more advanced IT equipment error reporting is being developed, which would allow structured reports of incidents in retail and more complex analysis of such errors.

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 reduces the operational risks as it improves the availability of the IT systems and services.

A study was made for the project of further implementation of IT Service Management principles, and activities were carried out with the contractor to develop the optimum solution concept. The project will include optimization of

processes of IT resource, change and problem management.
New air conditioning equipment was installed in key system areas (data centers) located on Mercator, d.d., premises. The new equipment provides normal climate conditions for flawless operation of servers.

The project of replacing the main server infrastructure was launched. It includes replacement and upgrade of hardware. Key business applications like SAP, GOLD, and PSBP data warehouse will be migrated to the new infrastructure. Infrastructure upgrade will have a positive effect on the IT operational risks as it will continue to provide reliable operation of key business applications.

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 three quarters of 2014 for efficient use of energy and to improve the cost efficiency and optimize our business activities:

- Report on environmental aspects (energy sources) is prepared for the Mercator Group each month. The report is intended for company management and relevant departments.
- Quarterly notifications to employees regarding efficient use of energy, and adjusting the settings for the annual operation modes.
- By the end of August, all 51 facilities were connected and optimized within the Retail Care project. Optimization has resulted in a decrease of refrigeration equipment power consumption by approximately 13%.
- All 24 planned combined heat and power units were installed and launched.
- The pilot energy management project was completed as of September 1, 2014. Final report on project results was generated, and proposal was made to the company management regarding further decision on the project progress.
- The project of replacement of lighting in internal and external corporate visual identity objects is in progress on 23 units.

Food safety risks

Monitoring

Comparison of monthly results of microbiological analyses points to improvement at all business units of the company Mercator - S, d.o.o. Specialist visits are organized for individual units, and additional training on good hygiene and manufacturing practices is held. Internal control is conducting intensified hygiene inspections. At Mercator - CG, d.o.o., results were improved relative to the year before, as the share of non-compliance is considerably lower. The level of personal hygiene has improved; records of cleaning, disinfestation, and pest control are kept rigorously.

Product labelling

At Mercator - CG, d.o.o., intensified control has been introduced at acceptance and products with non-compliant labelling are rejected.

Shelf life

At Mercator - S, d.o.o., and Mercator - CG, d.o.o., training is held on technological procedure of shelf life control. The situation regarding the expired shelf life is improving. Internal control is strictly controlling the shelf life of products on the shelves and in warehouses. Moreover, additional selective control of shelf life is in place upon acceptance directly from the suppliers in order to prevent acceptance of goods with shelf life that is shorter than expected.

Store hygiene

At Mercator - BH, d.o.o., employees working at fresh program departments are trained in this respect, and the "Crash Course on Quality" training is held for all regional leaders and store managers. Regular and extraordinary internal controls are conducted. In the first half of 2014, the share of non-compliant microbiological analyses dropped by a quarter.

FINANCIAL MANAGEMENT

Net financial debt

Compared to the end of 2013, Mercator Group's finance liabilities remained at roughly the same level in the period 1-9 2014. The Group's net financial debt also did not change considerably, amounting to EUR 964,605 thousand as at September 30, 2014, which is 1.3 percent less than as at December 31, 2013. Maturity profile has changed as the share of non-current financial liabilities has increased and the share of current financial liabilities has decreased.

in EUR thousand	Sep 30, 2014	Dec 31, 2013	Index Sep 30, 2014/ Dec 31, 2013
Non-current financial liabilities	983,174	351,583	279.6
Current financial liabilities	52,587	686,225	7.7
Derivative financial instruments (liabilities)	0	1,469	0.0
Financial liabilities including derivative financial instruments	**1,035,761**	**1,039,276**	**99.7**
Cash and cash equivalents	24,907	18,505	134.6
Derivative financial instruments (assets)	5	16	33.3
Available-for-sale financial assets	824	820	100.5
Loans and deposits	45,420	42,609	106.6
Financial assets	**71,156**	**61,950**	**114.9**
NET FINANCIAL DEBT	**964,605**	**977,326**	**98.7**

Financing costs

In the period 1-9 2014, the 6-month EURIBOR averaged at 0.349%. At the end of the period, it was at 0.183%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at 0.333%, this rate rose by 1.6 percentage point.

Debt to equity and financial liability ratio

As at September 30, 2014, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.94. The ratio is a quotient between equity which includes share capital as reported in financial statements, and net financial debt.

In the period 1-9 2014, Mercator Group succeeded in improving the composition of financial liabilities by maturity (maturity profile) by completing its financial restructuring. The share of long-term financial liabilities as at September 30, 2014, amounted to 94.9% (33.9% as at December 31, 2013).

As at September 30, 2014, the ratio between variable and fixed or hedged financial liabilities at the Mercator Group amounted to 98.4% vs. 1.6%.

Relative to previous periods, the ratio has changed significantly. Following the restructuring of the company Poslovni sistem Mercator, d.d., most financial liabilities of the company is tied to EURIBOR and a fixed margin. Due to EURIBOR volatility, such liabilities are considered variable.

Financial restructuring and capital increase at the company Mercator, d.d.

On June 9, 2014 Mercator Group signed with all creditor banks and lessors comprehensive contract documentation on the Mercator Group financial restructuring. The last suspensive conditions for the effectiveness thereof were met as of June 17, 2014. Financial restructuring of debt and financial lease follows the repayment plan, extended until March 2020. In addition to other aspects, the financial restructuring aligned repayments with the Group's expected cash flow, improved liquidity, and secured a higher rate of investment into Mercator Group activities. Previously, the capital structure mostly involved bilateral credit lines. Working with its creditors, Mercator took a big step towards a consolidated set of financing conditions and a basis for joint decision-making, with a consolidated set of documentation pursuant to the best international practice.

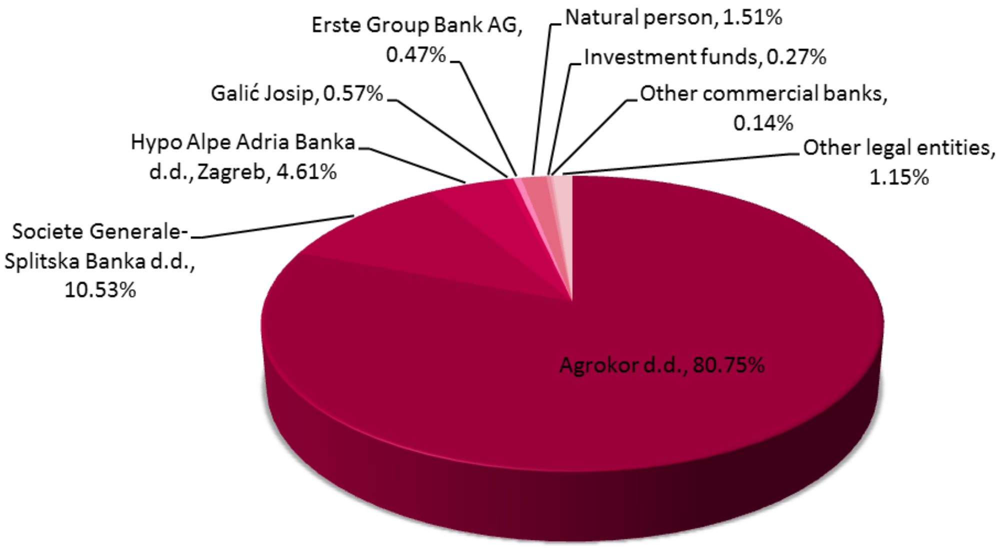
On June 24, 2014, following the initiative of the company Agrokor, d.d., an agreement was signed on the consent to the changes and amendments of the financial documentation on the financial restructuring of the Mercator Group, dated June 9, 2014. The Agreement lays down the commercial terms for Mercator Group's financial restructuring in case of a takeover by the company Agrokor, d.d. The agreement was made effective subject to a number of conditions, including that the company Agrokor, d.d., approve and transfer to the company Poslovni sistem Mercator, d.d., a subordinated loan of EUR 200 million, which shall be used for early repayment of a part of Mercator Group's loans to the creditor banks. The company Agrokor, d.d., transferred such subordinated loan on June 27, 2014, simultaneously with the acquisition of the majority block of shares of the company Poslovni sistem Mercator, d.d. Pursuant to the resolution adopted at the 21st extraordinary Shareholders Assembly dated October 21, 2014, the loan in the amount of EUR 200 million was converted into equity of the company Mercator, d.d., by an issue of 2,325,582 new dematerialized ordinary registered no par value shares with notional value of EUR 41.73 per share, on October 29, 2014. Pursuant to the same Shareholders Assembly resolution, the pre-emptive right of the existing company shareholders to subscribe the new shares was omitted; the new shares were subscribed and paid up by the company Agrokor Investments B.V., Netherlands. Following the issue of new shares, the company Mercator, d.d., now has a total of 6,090,943 shares, and its share capital was increased from EUR 157,128,514.53 by EUR 97,046,536.86, so that the total company share capital after the capital increase amounts to EUR 254,175,051.39.

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at September 30, 2014:

Symbol	MELR
Type	Ordinary share
Listing	Prime market of Ljubljanska borza, d.d.
Share capital	EUR 157,128,514.53
Number of shares	3,765,361
Number of treasury shares	42,192
Number of shareholders	2,763

Ownership structure of the company Poslovni sistem Mercator, d.d., as at September 30, 2014:



Major Shareholders

As at September 30, 2014, the following ten largest shareholders combined owned **98.39 percent** of the company.

	Major shareholders	Country	Number of shares	Share
1	Agrokor d.d.	Croatia	3,040,597	80.75%
2	Societe Generale - Splitska Banka d.d.	Croatia	396,483	10.53%
3	Hypo Alpe-Adria-Bank d.d.	Croatia	173,464	4.61%
4	Poslovni sistem Mercator, d.d.	Slovenia	42,192	1.12%
5	Galić Josip	Croatia	21,525	0.57%
6	Erste Group Bank AG	Austria	17,550	0.47%
7	Gustavia Balkan	Sweden	10,000	0.27%
8	Banque Pictet & Cie SA	Switzerland	1,107	0.03%
9	Clearstream Banking SA	Luxembourg	969	0.03%
10	Zagrebačka banka, d.d.	Croatia	703	0.02%
		Total	**3,704,590**	**98.39%**

Following the decision of 21st extraordinary Shareholders Assembly of the company Mercator, dd, the company's share capital has increased by issuing 2,325,582 new dematerialized ordinary registered no par value shares on October 29, 2014. After the issue of new shares total share capital now amounts EUR 254,175,051.39 and consists of a total 6,090,943 shares. The newly issued shares were subscribed and paid by the company Agrokor Investments B.V., the Netherlands, which has gained 38.18% of the shares in the company Mercator, d.d. By issuing new shares the share of the company Agrokor, d.d., in Mercator, d.d., has decreased and now amounts 49.92%.

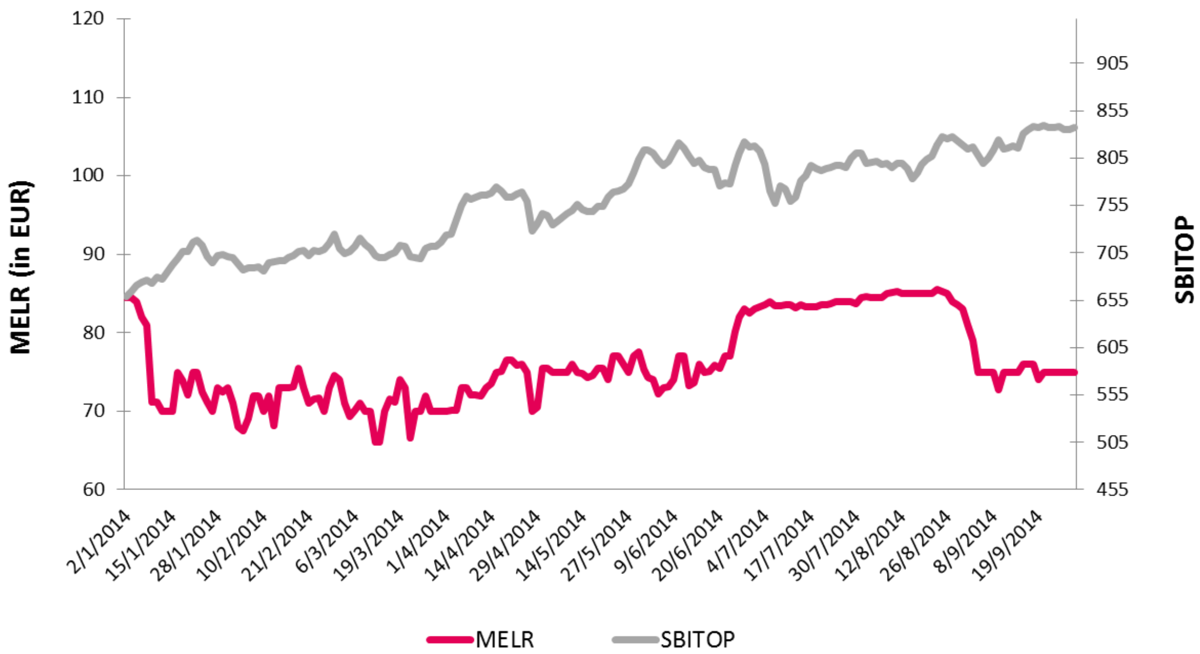
Foreign shareholders

As at September 30, 2014, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **97.40 percent**, which is 71.60 percentage point more than at the end of the third quarter of 2013.

Shares held by Management and Supervisory Board Members as at September 30, 2014

	First and last name	Position	Number of shares	Share
	Management Board			
1	Toni Balažič	Management Board President	0	0.0000%
2	Drago Kavšek	Senior Vice President	0	0.0000%
3	Igor Maroša	Senior Vice President	0	0.0000%
		Total	**0**	**0.0000%**
	Supervisory Board			
1	Ante Todorić	Supervisory Board Chairman	0	0.0000%
2	Matej Lahovnik	Deputy Supervisory Board Chairman	0	0.0000%
3	Damir Kuštrak	Supervisory Board member	0	0.0000%
4	Ivan Crnjac	Supervisory Board member	0	0.0000%
5	Darko Knez	Supervisory Board member	0	0.0000%
6	Ivica Mudrinić	Supervisory Board member	0	0.0000%
7	Vesna Stojanović	Supervisory Board member	36	0.0010%
8	Veljko Tatić	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 1-9 2014, compared to the movement of the SBITOP index



Key information for the shareholders

	Sep 30, 2014	Sep 30, 2013	Index Sep 30, 2014/ Sep 30, 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)	312,524,963	425,862,329	73.4
Market value of share (in EUR)	83.00	113.10	73.4
Book value per share (in EUR)	150.57	198.39	75.9
Minimum close rate in the period (in EUR)	66.01	113.00	58.4
Maximum close rate in the period (in EUR)	85.50	140.05	61.0
Average close rate in the period (in EUR)	76.16	122.98	61.9

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 was not paid out.

Treasury shares

As at September 30, 2014 the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1-9 2014, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

Capital increase at the company Mercator, d.d.

At the 21st extraordinary Shareholders Assembly of Poslovni sistem Mercator, d.d., convened upon request by the majority shareholder Agrokor, d.d., and having taken place on October 21, 2014, the resolution on the increase of share capital of the company Poslovni sistem Mercator, d.d., proposed by the shareholder Agrokor, d.d., was adopted. According to the Shareholders Assembly resolution, the company share capital shall be increased with new in-kind and cash contributions from EUR 157,128,514.53 by EUR 97,046,536.86, so that the total share capital of the Company after the increase amounts to EUR 254,175,051.39. For the purpose of the capital increase, 2,325,582 new dematerialized ordinary registered no par value shares with notional value of EUR 41.73 were issued. Pre-emptive right of the existing company shareholders to subscribe the new shares was omitted; the new shares was subscribed and paid up by the company Agrokor Investments B.V., Netherlands. The company Agrokor Investment, B.V., acquired new shares and thus obtained 38.18% stake in the company Mercator, d.d., on October 30, 2014.

Following the issue of the new shares, the number of Mercator, d.d., shares is 6,090,943.

SUSTAINABILITY REPORT

In all markets of Mercator's presence, our effect on all stakeholders with whom we are directly or indirectly involved is significant. The key stakeholders we devote the most attention to are our customers, as well as our employees, suppliers, and all other stakeholders, including the broad society and nature. We are increasingly aware of the co-dependence and connections in the environments in which we operate, both locally and on a broader scale, regionally and globally.

In a highly competitive market, the key is to offer our customers a reason to continue to trust us. We therefore continue to strive to provide the best offer of quality locally sourced products.

In the period 1-9, 2014, we were highly active in terms of sponsorships, donations, and other types of aid to our broad society. By organizing 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

The key medium-term goals in responsibility to customers are to provide efficient internal control over each unit and control of quality and safety of the Mercator private label and other sales assortment.

In the period 1-9, 2014, we carried out 366 regular and 15 extraordinary controls at our stores. In order to offer safe and quality products to our consumers, we analyzed 502 specimens or samples from our private label line, conducted monitoring on 826 samples in our open departments, and carried out 177 other analyses (government control, in-house production, own imports etc.).

Introduction of new standards and environmentally friendly technologies

We continued our activities of introducing technologically more efficient refrigeration, either by replacing the store's entire refrigeration equipment or by comprehensively refurbishing the entire store. Thus, the number of stores with closed refrigeration chests and cabinets rose to 55. From the first introductions of this technology to date, we have saved over EUR 750 thousand on power consumption on refrigeration.

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 with new suppliers.

Working with the growers, we are working on increasing the rate of Slovenian self-sufficiency and development of new products. Responding to consumer expectations, new Slovenian products are increasingly added. 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.

The project places great emphasis on the following:

- the "Locally Grown" market places offer an increasingly broad selection of 100% Slovenian fruit and vegetables;
- offer of our own Grosuplje bakery includes new innovative products made of 100% Slovenian wheat;
- in communication of the offer at our butcher's departments, we stress the fact that all meat in our regular offer is raised 100% in Slovenia.
- we highlight and communicate the broad choice of milk and dairy products made of 100% Slovenian milk.
-

RESPONSIBILITY TO EMPLOYEES

In the first half, 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 slashing of labour costs. In the third quarter, the focus was on the processes of integration of Mercator's companies in Croatia, Bosnia and Herzegovina, and Serbia with the companies of the Agrokor Group. As of January 1, 2014 the employees of the company Modiana, d.o.o., were transferred to the parent company; as of May 4, 2014, catering units, complete with employees, were transferred to third-party acquirers. As of March 31, 2014 we closed down the technical consumer goods units (Mercator Tehnika) in Croatia; some 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.

New systematization and workplace evaluation were adopted in the first half of the year, as well as the revised method of basic salary calculation that involves a variable part of the salary also for administrative jobs and positions at the companies Mercator - BL, d.o.o., Mercator - CG, d.o.o., Mercator - S, d.o.o., and Mercator - BH, d.o.o.

Working with the trade union organization PPDIVUT (*Independent Trade Union of Employees in Agriculture, Food and Tobacco Industry, Water Management, HoReCa, and Trade of Bosnia and Herzegovina*), the company Mercator - BH, d.o.o., adopted on June 1, 2014 an annex to the company collective labour agreement, and received commendation and statement of appreciation from the Independent trade union PPDIVUT Sarajevo as a social partner that contributes notably to the development of industrial democracy.

The company Mercator - CG, d.o.o., was involved in the project of subsidized employment of the young in seasonal activities in the period from June 1, 2014 to September 30, 2014, collecting EUR 10,941 of subsidies. Seasonal employment was also used at Mercator - H, d.o.o., in the regions of Istria, Kvarner, and Dalmatia.

At the end of August and September, the companies Mercator - H, d.o.o., and Mercator - BH, d.o.o., mostly dealt with the processes of integration with the company Konzum, d.o.o. In human resource management, activities of the integration process included especially the preparation of the transfer of HRM data and documentation, previous development of job systematization, working meetings with the employees and trade unions, employee training for work according to the new standards etc. Employees from the company Konzum, d.o.o., took part in all processes.

By September 30, 2014, a total of 1,396 employees from Mercator - H, d.o.o., and 1,036 employees from Mercator - BH, d.o.o., were transferred to the company Konzum, d.o.o. Similar integration processes are also in place in Serbia where employees of the company Idea, d.o.o., will be transferred to the company Mercator - S, d.o.o., as at October 1, 2014.

On September 30 2014, our social enterprise Mercator IP, d.o.o., had 207 employees with a certified category of disability, representing 51.1% of all employees.

Number of employees

	Number of employees as at September 30, 2014	Number of employees as at December 31, 2013	Number of employees index Sep 30, 2014/Dec 31, 2013	Number of employees based on hours worked in the period 1-9 2014
Slovenia	11,215	11,521	97.3	10,646
Serbia	4,778	4,754	100.5	4,533
Croatia	1,622	3,381	48.0	2,837
Bosnia and Herzegovina	1,036	2,009	51.6	1,859
Montenegro	1,233	1,244	99.1	1,139
Bulgaria	1	11	0.0	1
Albania	0	2	0.0	2
TOTAL	**19,885**	**22,922**	**86.7**	**21,017**

Caring for development, motivating, and connecting our employees

In the period at hand, Mercator Group held 122,364 hours of training and education that involved 28,942 employees.

At the traditional 14th meeting of internal instructors of Mercator, d.d., taking place on May 14, 2014, the importance of knowledge, cooperation, and good mutual communication was emphasized.

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. A series of workshops was held at the parent company and study materials were developed (manual, comic book, educational video) titled "We are the best bread and pastry vendor", and "We are the best fruit and vegetable vendor". In October, we are starting with the materials "We are the best shop assistants and cashiers."

A team of 7 professional sales instructors was appointed at the parent company, to be in charge of improvement in expertise and selling skills at retail units. By the end of September, 1,227 visits to retail units were completed. We have founded a Management Competence Center and launched within this Center a program of retail shop manager succession, since many of our shop managers will be retired next year.

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.

In Slovenia, we held 13 *teambuilding* sessions in Vogel for a total of 185 participants. Three programs were held: *Strength Deployment Inventory* – SDI tools, Selling Skills Training, and Gold Of The Desert Kings. Following the successful completion of the Lowest Price Guaranteed campaign, we held a *team building* session on Fruška Gora of 40 key employees from business functions, with creative workshops dealing with the topic of quality of service.

In order to improve the cooperation between particular business fields, the project of internal supplier assessment was carried out at the parent company. Thus, the business fields sought to identify the opportunities for improvement of joint work processes and mutual communication. As many as 305 proposals were provided for improvement of work between individual fields. 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 the company Mercator - CG, d.o.o., we launched the project "Together", in which the management visits retail units on Saturdays and works with the selling staff to find ideas and solutions for a better service and better performance of the units.

The company Mercator - BH, d.o.o., completed the "Quality Management Crash Course" which involved shop managers from the FMCG program and employees of the internal control. Moreover, the 3rd Trainer School and two-day training for internal auditors of the ISO 9001:2008 quality management system were completed.

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.

At the parent company, monthly evaluation of administration workers started in May. We held annual interviews with "top 100" managers. At the companies Mercator - S, d.o.o., and Mercator - CG, d.o.o., interviews were held with all key employees.

In Slovenia, 13 employees received the Mercator Award which is the highest award presented to employees.

At Mercator, d.d., 16 Best Bosses were selected for year 2013. Cash rewards were presented to the top four, and twelve more were presented with award plaques.

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.

In the third quarter, the quarterly awards to the best shop assistants and to three stores with the biggest improvement of business results were presented for the first time at the company Mercator - S, d.o.o.

At the parent company, 900 employees took part in the healthcare campaign Measurement of Arterial Circulatory System. We prepared an e-seminar Gluten-Free Life and published numerous articles dealing with healthcare and health promotion (My M, intranet).

As a part of the Family-Friendly Company project, particular attention is paid to newborn babies of our employees who are presented a Lumpi package. In the period at hand, 143 such packages were distributed.

In addition, as a part of the full Family-Friendly Company certificate, all parents of first-grade students and parents of children going to the kindergarten for the first time have been offered for several years an extra day of extraordinary paid leave, if their work process permits it. This year, the measure was used by 418 parents of which 281 accompanied their children to the first grade of elementary school and 137 accompanied them to kindergarten.

In Serbia, the Mercator Solidarity Foundation provided aid in the amount of EUR 42,443 to 70 employees. Moreover, financial aid was raised for the employees who sustained damage due to flooding. In Montenegro, the Solidarity Foundation that includes 575 members helped 24 employees by providing aid in the total value of EUR 6,400 thousand. In Slovenia, Mercator Humanitarian Foundation provided aid to 81 employees of Mercator, d.d., or Mercator IP, d.o.o., who were in need of help. We have paid out humanitarian aid in the total amount of EUR 47,269. We also granted 7 social scholarships for children of our employees, in the total amount of EUR 2,100.

At Mercator - BH, d.o.o., and Mercator - BL, d.o.o., Employee Solidarity Funds were established, following the example of Serbia and Montenegro. At Mercator - BH, d.o.o., 19 employees who had suffered major damage to their property during the May floods have already received financial aid.

RESPONSIBILITY TO NATURAL ENVIRONMENT

Reducing power consumption and heating fuel

Efficient use of energy is a result of effort by all Mercator employees. Hence, all employees were notified via the intranet portal about the changes to the temperature settings and on the compliance with the instructions provided in the manual on efficient use of energy.

Report on environmental aspects (energy sources) is prepared each month for the Mercator Group, as well as analyses by particular units, based on which particular discrepancies are analyzed and further measures are specified.

By the end of August, all 51 facilities were connected and optimized within the Retail Care project. Optimization has resulted in a decrease of refrigeration equipment power consumption by approximately 13%.

All 24 planned combined heat and power units were installed and launched by the end of August.

The pilot project of energy management, completed on September 1, 2014, was carried out with three partners: Enekom, Solvera Lynx, and Maked energeo. The purpose of the project was to establish a system of targeted energy consumption monitoring for particular buildings, and to cut energy consumption in buildings by controlling its operation and implementing organizational measures. The goal was to test a number of service providers with different equipment and concept, and to further pursue the project with the select service provider. Final report on project results was generated, and proposal was made to the company management regarding further decision on the project progress.

The project of replacement of lighting in internal and external corporate visual identity objects is in progress on 23 units.

Cutting the use of natural resources and waste generation

Out of respect to the natural environment, Mercator not only complies with the requirements of the environmental legislation, but also conducts a range of other activities to prevent or mitigate negative impact on the environment.

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 121 units and provided waste bins for small waste packaging, and thereby **cut the mixed municipal waste handling costs by EUR 186 thousand per year**.

Based on information from the public utility companies, we prepared the **list of water meters** in order to reduce the connected capacity of water meters for the consumption points of the company Mercator, d.d., and optimization of costs related to them.

We have complied with all requirements for **obtaining the water course permit** for direct use of water from the Ljubljansko polje aquifer, for generation of heat at the Zalog distribution center. The permit was issued by the Slovenian Environment Agency.

We completed our cooperation in the three-years European project PLASTiCE – "Innovative value Chain development for sustainable plastics in Central Europe", the purpose of which was to identify and eliminate the restrictions preventing a faster and large-scale implementation of sustainable types of plastics in Central Europe. The

PLASTiCE project included the life cycle assessment study for two Mercator's plastic shopping bags and one biodegradable bag. The study allows transparent evaluation of environmental impact throughout the life cycle of a plastic bag.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Donations and sponsorships

In 2014, Mercator Group continues to pursue the tradition of response to the needs of local environments in which we operate, in keeping with our slogan of the best neighbour. In the first nine months of 2014, we supported **over 1,100 different humanitarian, cultural, educational, and sports projects**. Considering the current harsh social and economic situation in the country, our funds are primarily allocated to humanitarian 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 Ljubljana, Celje, Maribor, Trbovlje, Velenje, Koper, Domžale, Brnik, and Slovenj Gradec, and the Cenacolo Community collect food for those in need of aid every evening from 19 stores across Slovenia.

A true neighbour will help in time of need

Mercator Immediately responded to the ice storm that hit most of Slovenia in early February by donations and emergency deliveries. Moreover, we immediately responded to the emergency in Serbia, Bosnia and Herzegovina, and Croatia by providing donations in the total amount of over EUR 60 thousand. In most of our stores, we worked with humanitarian organizations to install baskets to collect food and clothing. Food and clothing were also collected among administrative workers at Mercator at the Mercator, d.d., office building.

We like to do good deeds

In April 2014, a pan-Slovenian donation activity "**We Like to do Good Deeds**" took place at 100 smaller Mercator stores. Three hundred local societies and organizations from around Slovenia competed for a donation of a total of EUR 100 thousand. The winners were chosen in cooperation with our customers. After each check-out, the customers voted for their favourite organization to be awarded a donation of EUR 1,000 for a project of local importance. Over 1.1 million votes were cast in the course of the campaign. We are particularly glad to see strong bonds established between Mercator and individual local communities in the weeks of intensive cooperation. Customers, as well as organizations, societies, institutes etc., unanimously praised the activity in which we again proved ourselves as a neighbour who is attentive to the needs, wishes, and initiatives of loyal customers from the local environment in which we operate.

At the final event of the project We Like to do Good Deeds, we donated 300 packages of food and other essential products to the Red Cross of Slovenia.

It is world-class to support football societies

During the football World Cup, we sought to combine our project We Like to do Good Deeds with the football fever. In a campaign lasting from June 1, 2014 to June 16, 2014, we presented EUR 3,000 to one football club from every inter-municipal football association that received the most votes by our customers. **Thus, the campaign included providing aid in the total sum of EUR 27,000 to 9 local football clubs**.

A good deed feels good

Working with Radio ognjišče, we collect goods for eight families in social distress on the 20th day of each month at one of our stores. In addition to several carts of collected goods, we also provide each family with a Mercator gift card. Thus, our customers have collected 92 carts of goods with this activity.

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 (Tinker Bell) Safe house in Grosuplje, and the Safe House in Pilštanj.

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 Celje Pivovarna Laško, team handball club Krim Mercator, football club Maribor, Basketball Club Maribor, wheelchair basketball team of the Ljubljana Region Society of Paraplegics, wheelchair table tennis player Mateja Pintar, stand-up paddle surfer Manca Notar, and whitewater kayaker Nejc Žnidaršič. This year, we again supported the hike along the Wire of occupied Ljubljana, and the international bicycle race "Tour of Slovenia."

As of August 1, 2014, we are the **official sponsor of the Slovenian football team**. We will support the team in the qualifiers for the 2016 European Championship.

Culture

In the first nine months of 2014, we sponsored the Ptuj carnival, Golden subscription at Cankarjev dom, Ljubljana Festival, and the Tartini Festival.

Education

In education, we supported as a general sponsor the national competition in sales techniques which took place at the High School of Trade and Commerce in Maribor, and the competitions in logic, chemistry, IT, and biology, organized by the Association of Technical Culture of Slovenia. Under the auspices of the World Slovenian Congress, we supported the project of including the Slovenian scientists from top universities in the world into the domestic environment, in order to promote the transfer of knowledge to the benefit of Slovenia. Moreover, we are the sponsor of the Slovenian Marketing Conference, Sales Summit, European Leadership Centre Conference, Slovenian Science Festival, Manager Congress, and the Bled Strategic Forum.

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. We are working with more than 100 local suppliers of fruit and vegetables, with all major cooperatives, and with small growers. The amounts purchased from all of the above are increasing.

100% Slovenian fruit and vegetables

In the third quarter, purchase of fruit and vegetables was affected by heavy rains that damaged the crops and caused shorter supply in the market than planned. Nevertheless, we offered our customers, as part of our **Locally Grown** offer, fruit and vegetables of Slovenian origin: blueberries, "kifeljčar" (or Kresnik) potatoes, melons, green beans, mini watermelons, and garlic.

Our flyers include the section "Locally Grown" which regularly presents Slovenian growers and their produce. The buyers can obtain all information on these growers using their mobile devices by scanning the QR codes on the labels for each grower.

We were the first to support the operation of the cooperative Samooskrba Pomurje which employs the principles of self-help. They offer their members fair purchase and immediate payment. This is a special type of social enterprise which is an opportunity for all unemployed and all who see their future in growing fruit.

We offered our customers 100% Slovenian winter stock. This included potatoes, fresh cabbage, onions, and garlic. Due to the abundant potato harvest, we only sold Slovenian potatoes in the third quarter.

Locally grown fresh meat

We continue our continuous purchase of fresh pork, beef, veal, and poultry raised in Slovenia from Slovenian top meat suppliers who are in turn supplied with fresh meat by more than 100 growers. All growers are carefully chosen and tested. 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 attainment of healthcare standards and increasing the share of self-sufficiency.

100-percent Slovenian wheat

We are the only retailer to use only Slovenian wheat for the bread baked at our bakery. To this end, we supply our Grosuplje Bakery with 10,000 tons of Slovenian wheat each year.

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. Thirteen Slovenian suppliers of milk and dairy products have committed to deliver selected milk and dairy products made of 100-percent Slovenian milk.

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. Mercator Group maintains **12 certified management systems**.

Six external audits were carried out in the period 1-9, 2014 (ISO 9001 and ISO 14001 at Mercator, d.d.; SQMS (Supplier Quality Management System) at Mercator Emba, d.d.; ISO 9001 and HACCP at Mercator - S, d.o.o.; and ISO 9001 at Mercator - H, d.o.o.).

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 M-intranet. The document management application was replaced with a new one in August. In the transition period, a lot of time was devoted to testing and collecting proposals for improvement.

As at September 30, 2014, Mercator Standards Collection included 2,947 documents. In the period 1-9, 2014, we published 502 new or revised documents; 310 documents were archived.

Continuous improvement system

The continuous improvement system is managed 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. The application is being rolled out to different fields of use (e.g. internal supplier evaluation system; internal control findings; and inspection control).

In the period 1-9, 2014, 921 measures were processed by the application, of which 696 were resolved. Ninety-seven percent of proposing entities were happy with the solutions for the measure; 60% of all measures were resolved by the deadline.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-9 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. Condensed consolidated financial statements for the period 1-9 2014 include the company Mercator, d.d., and its subsidiaries, as follows:

- in Slovenia: Intersport ISI, d.o.o., Mercator - Emba, d.d., Mercator IP, 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 Makedonia, d.o.o.e.l., Macedonia, Investment Internacional, d.o.o.e.l., Macedonia, and Mercator - B, e.o.o.d., Bulgaria;

(hereinafter referred to as the "Mercator Group"). Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

Condensed consolidated statement of financial position

EUR thousand	Sep 30, 2014	Dec 31, 2013	Index Sep 30, 2014/ Dec 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	1,654,804	1,704,182	97.1
Investment property	2,646	2,791	94.8
Intangible assets	16,848	17,407	96.8
Deferred tax assets	16,228	17,530	92.6
Loans and deposits	31,457	32,284	97.4
Available-for-sale financial assets	824	820	100.5
	1,722,807	**1,775,014**	**97.1**
Current assets			
Inventories	221,011	264,798	83.5
Trade and other receivables	232,960	234,927	99.2
Current tax assets	345	256	134.8
Loans and deposits	13,962	10,325	135.2
Derivative financial instruments	5	16	31.3
Cash and cash equivalents	24,907	18,505	134.6
	493,190	**528,827**	**93.3**
Total assets	**2,215,997**	**2,303,841**	**96.2**
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	142,599	140,587	101.4
Retained loss	(45,865)	(63,887)	71.8
Profit (loss) for the period	(12,037)	18,695	-
Currency translation reserve	(85,734)	(80,623)	106.3
Total equity attributable to equity owners of the Company	**498,385**	**514,194**	**96.9**
Non-controlling interests	**88**	**100**	**88.0**
Total equity	**498,473**	**514,294**	**96.9**
LIABILITIES			
Non-current liabilities			
Trade and other payables	1,055	850	124.1
Financial liabilities	983,174	351,583	279.6
Deferred tax liabilities	37,172	37,455	99.2
Provisions	20,782	25,047	83.0
	1,042,183	**414,935**	**251.2**
Current liabilities			
Trade and other payables	622,029	686,507	90.6
Current tax liabilities	725	411	176.4
Financial liabilities	52,587	686,225	7.7
Derivative financial instruments	-	1,469	-
	675,341	**1,374,612**	**49.1**
Total liabilities	**1,717,524**	**1,789,547**	**96.0**
Total equity and liabilities	**2,215,997**	**2,303,841**	**96.2**

Condensed consolidated income statement

EUR thousand	1-9 2014	Plan 2014	1-9 2013	Index 1-9 2014/ 1-9 2013	Index 1-9 2014/ Plan 2014
Revenue	1,988,671	2,672,342	2,063,287	96.4	74.4
Cost of goods sold and selling costs	(1,926,627)	(2,554,993)	(1,985,315)	97.0	75.4
Administrative expenses	(52,209)	(93,875)	(72,358)	72.2	55.6
Other income	16,338	11,410	14,248	114.7	143.2
Results from operating activities	**26,173**	**34,884**	**19,862**	**131.8**	**75.0**
Finance income	2,816	3,241	5,097	55.2	86.9
Finance expenses	(39,033)	(37,114)	(44,098)	88.5	105.2
Net finance expense	**(36,217)**	**(33,873)**	**(39,001)**	**92.9**	**106.9**
Profit (loss) before tax	**(10,044)**	**1,011**	**(19,139)**	**52.5**	**-**
Tax expense	(2,005)	(672)	1,562	62.3	298.4
Profit (loss) for the period	**(12,049)**	**339**	**(17,577)**	**68.5**	**-**
Profit (loss) for the period attributable to:					
Owners of the parent company	(12,037)	359	(17,557)	68.6	-
Non-controlling interests	(12)	(20)	(20)	60.0	60.0

Condensed consolidated statement of comprehensive income

EUR thousand	1-9 2014	1-9 2013	Index 1-9 2014/ 1-9 2013
Profit (loss) for the period	**(12,049)**	**(17,577)**	**68.5**
Other comprehensive income			
Items that may be reclasified subsequently to profit or loss	**(3,772)**	**(1,733)**	**217.7**
Foreign currency translation differences - foreign operations	(5,111)	(2,706)	188.9
Change in fair value of available-for-sale financial assets	-	55	-
Net gains/losses recognized in revaluation surlus in relation to cash flow hedges (effective hedging)	3,180	2,959	107.5
Deferred tax	(174)	(698)	24.9
Other changes	(1,667)	(1,343)	124.1
Other comprehensive income for the period	**(3,772)**	**(1,733)**	**217.7**
Total comprehensive income for the period	**(15,821)**	**(19,310)**	**81.9**
Total comprehensive income for the period attributable to:			
Owners of the parent company	(15,809)	(19,290)	82.0
Non-controlling interests	(12)	(20)	60.0

Condensed consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**240,762**	**(21,714)**	**(26,953)**	**(78,819)**	**663,087**	**162**	**663,249**
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(17,557)	-	(17,557)	(20)	(17,577)
Other comprehensive income	-	-	-	-	(2,703)	3,676	-	(2,706)	(1,733)	-	(1,733)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(2,703)**	**3,676**	**(17,557)**	**(2,706)**	**(19,290)**	**(20)**	**(19,310)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	(26,953)	26,953	-	-	-	-
Balance at September 30, 2013	**157,129**	**198,872**	**(3,235)**	**197,045**	**238,059**	**(44,991)**	**(17,557)**	**(81,525)**	**643,797**	**142**	**643,939**

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	-	-	-	-	-	-	(12,037)	-	(12,037)	(12)	(12,049)
Other comprehensive income	-	-	-	-	2,012	(673)	-	(5,111)	(3,772)	-	(3,772)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**2,012**	**(673)**	**(12,037)**	**(5,111)**	**(15,809)**	**(12)**	**(15,821)**
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	18,695	(18,695)	-	-	-	-
Balance at September 30, 2014	**157,129**	**198,872**	**(3,235)**	**146,656**	**142,599**	**(45,865)**	**(12,037)**	**(85,734)**	**498,385**	**88**	**498,473**

Condensed consolidated statement of cash flows

EUR thousand	1-9 2014	1-9 2013	Index 1-9 2014/ 1-9 2013
Cash flows from operating activities			
Gross cash flows from operating activities	**73,567**	**74,477**	**98.8**
Change in inventories	42,369	26,990	157.0
Change in trade and other receivables	3	(22,269)	-
Change in trade and other payables	(62,454)	(32,048)	194.9
	53,485	**47,150**	**113.4**
Interest paid	(26,422)	(36,019)	73.4
Income tax paid	(2,005)	(740)	270.9
Net cash from operating activities	**25,058**	**10,391**	**241.2**
Cash flows from investing activities			
Acquisition of property, plant and equipment and investment property	(13,039)	(12,547)	103.9
Acquisition of intangible assets	(2,905)	(3,299)	88.1
Loans and bank deposits made	(3,459)	-	-
Transaction costs related to loans	(4,056)	-	-
Proceeds from sale of subsidiaries, net of cash disposed of	550	-	-
Proceeds from sale of property, plant and equipment and investment property	4,400	6,912	63.7
Proceeds from sale of available-for-sale financial assets	68	78	87.2
Interest received	2,015	3,939	51.2
Dividends received	8	-	-
Loans and deposits repayments received	-	1,841	-
Net cash used in investing activities	**(16,418)**	**(3,076)**	**533.7**
Cash flows from financing activities			
Increase (repayment) in borrowings	(2,047)	(29,669)	6.9
Dividends paid	(2)	(10)	20.0
Net cash from (used in) financing activities	**(2,049)**	**(29,679)**	**6.9**
Net (decrease) increase in cash and cash equivalents	**6,591**	**(22,364)**	-
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	(189)	(21)	900.0
Cash and cash equivalents as at the end of the period	**24,907**	**15,627**	**159.4**

Notes to condensed consolidated interim financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1-9, 2014, Mercator Group generated EUR 1,988,671 thousand of revenue, which is 3.6% less relative to the period 1-9 2013. Revenue dropped by 2.9% in Slovenia and by 4.5% in foreign markets. In Slovenia, the largest drop in revenue relative to the equivalent period of last year was seen in home product program and apparel program. Sales also dropped in FMCG retail by 2.8%, 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 1,926,627 thousand in the period 1-9 2014, which is a 3.0-percent decrease on the same period of last year.

Cost of goods sold was lower by 4.6% relative to last year.

Administrative expenses

Mercator Group's administrative expenses in the period 1-9 2014 amounted to EUR 52,209 thousand, which is 27.8 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 three quarters of 2014. As much as EUR 20.4 million was saved in the period at hand, excluding depreciation and amortization.

Total expenses, consisting of selling and marketing costs, production costs (included in costs of sales), and administrative expenses amounted to EUR 468,835 thousand in the period 1-9 2014, an decrease of 5.8% on the last year's figure for such period. All categories of costs were decreased. Labour costs were cut by 3.8% in the period 1-9, 2014 relative to the last year's comparable period.

Results from operating activities

In the period 1-9 2014, Mercator Group's result from operating activities amounted to EUR 26,173 thousand.

Net finance expenses

Net finance expenses are lower by EUR 2,784 thousand relative to the last year's equivalent period, which is mostly the result of lower interest expense and lower revaluation adjustments related to receivables.

Profit before income tax

In the period 1-9 2014, Mercator Group's profit before income tax was negative at EUR -10,044 thousand.

Profit for the financial period

Mercator Group's net loss for the period 1-9 2014 amounts to EUR -12,049 thousand.

EBITDA

Mercator Group EBITDA in the period 1-9 2014 amounts to EUR 79,572 thousand which is 2.9% less than in the equivalent period of last year.

EBITDAR

EBITDAR amounts to EUR 120,126 thousand for the period 1-9 2014, which is 4.8% lower than in the equivalent period of last year.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at September 30, 2014 amounted to EUR 2,215,997 thousand, which is EUR 87,844 thousand less than at the end of 2013, mostly due to lower inventories and lower amounts of equipment following the transfer of trade operations of Mercator - H, d.o.o., and Mercator - BH, d.o.o., to Agrokor companies.

As at September 30, 2014, the value of Mercator Group non-current assets amounted to EUR 1,722,807 thousand, which is EUR 52,207 thousand less than as at December 31, 2013. The largest share of non-current assets (97.2% or EUR 1,674,298 thousand) is represented by property, plant, and equipment, the value of which was EUR 50,082 thousand lower than as at the end of 2013 as a result of lower investment which was lower than depreciation and amortisation expenses, and the transfer of trade operations of Mercator - H, d.o.o., and Mercator - BH, d.o.o., to Agrokor companies.

As at September 30, 2014, Mercator Group current assets amounted to EUR 493,190 thousand, which is EUR 35,637 thousand less than a the end of 2013. Trade and other receivables represent the largest portion of total current assets (47.2%), followed by inventories (44.8%). Inventories decreased by EUR 43,787 thousand in 1-9 2014, which is the result of the transfer of trade operations of Mercator - H, d.o.o., and Mercator - BH, d.o.o., to Agrokor companies, and continuation of the efficient working capital management project.

Equity and liabilities

As at September 30, 2014, Mercator Group total equity amounted to EUR 498,473 thousand, which is EUR 15,821 thousand, or 3.1%, less than as at the end of 2013. The decrease pertains to the loss of EUR -12,049 thousand, negative currency translation differences in the amount of EUR -5,111 thousand, positive change in fair value of risk hedging instruments in the amount of EUR 3,180 thousand, and other changes in the amount of
EUR -1,841 thousand.

As at September 30, 2014, total financial liabilities amount to EUR 1,035,761 thousand, which is EUR 2,047 thousand less than as at the end of 2013. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group financial liabilities and financial assets, amounted to EUR 964,605 thousand as at September 30, 2014 (December 31, 2013: EUR 977,327 thousand).
In the period 1-9 2014, Mercator Group succeeded in improving the composition of financial liabilities by maturity by completing its financial restructuring. The share of long-term financial liabilities as at September 30, 2014, amounted to 94.9% (33.9% as at December 31, 2013).

On June 24, 2014, following the initiative of the company Agrokor, d.d., an agreement was signed on the consent to the changes and amendments of the financial documentation on the financial restructuring of the Mercator Group, dated June 9, 2014. The agreement was made effective subject to a number of conditions, including that the company Agrokor, d.d., approve and transfer to the company Poslovni sistem Mercator, d.d., a subordinated loan of EUR 200 million, which shall be used for early repayment of a part of Mercator Group's loans to the creditor banks. The company Agrokor, d.d., transferred such subordinated loan on June 27, 2014, simultaneously with the acquisition of the majority block of shares of the company Poslovni sistem Mercator, d.d.

As at September 30, 2014, provisions amounted to EUR 20,782 thousand. Compared to the end of 2013, provisions decreased by EUR 4,265 thousand, mostly due to reversal of provisions for legal claims.

Trade and other payables as at September 30, 2014 amounted to EUR 623,084 thousand, which is EUR 64,273 thousand less than at the end of 2013. The decrease in trade payables results from improvement of liquidity, which in turn is the effect of the agreement of financial restructuring, and year-on-year dynamics in the retail industry.

As at September 30, 2014, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 89.4%, which is 37.1 percentage points more than as at the end of 2013, as a result of the financial restructuring.

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 in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, Bulgaria, 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 companies Modiana, d.o.o., and M - nepremičnine, d.o.o., 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	Sep 30, 2014	Dec 31, 2013	Index Sep 30, 2014/ Dec 31, 2013
ASSETS			
Non-current assets			
Property, plant and equipment	925,030	935,671	98.9
Investment property	2,573	2,791	92.2
Intangible assets	9,238	9,289	99.5
Deferred tax assets	14,826	16,003	92.6
Loans and deposits	10,867	354	3,069.8
Investment into equity of subsidiaries	465,727	485,179	96.0
Available-for-sale financial assets	707	720	98.2
	1,428,968	**1,450,007**	**98.5**
Current assets			
Inventories	117,495	110,447	106.4
Trade and other receivables	127,483	154,814	82.3
Current tax assets	25	24	104.2
Loans and deposits	57,777	13,282	435.0
Derivative financial instruments	5	16	31.3
Cash and cash equivalents	12,075	6,018	200.6
	314,860	**284,601**	**110.6**
Total assets	**1,743,828**	**1,734,608**	**100.5**
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	105,467	103,426	102.0
Retained earnings	(13,287)	-	-
Profit (loss) for the period	(5,928)	-	-
Equity	**560,613**	**577,787**	**97.0**
LIABILITIES			
Non-current liabilities			
Trade and other payables	799	1,006	79.4
Financial liabilities	742,859	242,007	307.0
Deferred tax liabilities	27,219	26,980	100.9
Provisions	17,332	25,136	69.0
	788,209	**295,129**	**267.1**
Current liabilities			
Trade and other payables	346,299	363,281	95.3
Current tax liabilities	-	-	-
Financial liabilities	48,707	496,942	9.8
Derivative financial instruments	-	1,469	-
	395,006	**861,692**	**45.8**
Total liabilities	**1,183,215**	**1,156,821**	**102.3**
Total equity and liabilities	**1,743,828**	**1,734,608**	**100.5**

Condensed income statement

EUR thousand	1-9 2014	Plan 2014	1-9 2013	Index 1-9 2014/ 1-9 2013	Index 1-9 2014/ Plan 2014
Revenue	1,087,161	1,445,168	1,094,794	99.3	75.2
Cost of goods sold and selling costs	(1,049,806)	(1,364,648)	(1,040,017)	100.9	76.9
Administrative expenses	(27,558)	(49,950)	(37,400)	73.7	55.2
Other income	5,383	4,215	5,328	101.0	127.7
Results from operating activities	**15,180**	**34,785**	**22,705**	**66.9**	**43.6**
Finance income	5,482	4,816	3,630	151.0	113.8
Finance expenses	(25,746)	(27,722)	(28,020)	91.9	92.9
Net finance expense	**(20,264)**	**(22,906)**	**(24,390)**	**83.1**	**88.5**
Profit (loss) before tax	**(5,084)**	**11,879**	**(1,685)**	**301.7**	**-**
Tax expense	(844)	-	1,809	-	-
Profit (loss) for the period	**(5,928)**	**11,879**	**124**	**-**	**-**

Condensed statement of comprehensive income

EUR thousand	1-9 2014	1-9 2013	Index 1-9 2014/ 1-9 2013
Profit (loss) for the period	**(5,928)**	**124**	**-**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss	**(12,521)**	**(3,779)**	331.3
Losses on merger of subsidiaries	(12,521)	(3,779)	331.3
Items that may be reclassified subsequently to profit or loss	**1,275**	**2,068**	**61.7**
Net gains/ losses recognized in revaluation surplus in relation to available-for-sale financial assets	-	55	-
Losses recognized in revaluation surplus in relation to available-for-sale financial assets	-	-	-
Gains transferred from revaluation surplus to profit or loss in relation to available-for-sale financial assets	-	55	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	1,458	2,960	49.3
Corporate income tax on items that may be reclassified subsequently to profit or loss	(183)	(947)	19.3
Other comprehensive income for the period	**(11,246)**	**(1,711)**	**657.3**
Total comprehensive income for the period	**(17,174)**	**(1,587)**	**1,082.2**

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

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	-	-	-	-	-	-	(5,928)	(5,928)
Other comprehensive income	-	-	-	-	2,041	(13,287)	-	(11,246)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**2,041**	**(13,287)**	**(5,928)**	**(17,174)**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**			
Balance at September 30, 2014	**157,129**	**198,872**	**(3,235)**	**121,595**	**105,467**	**(13,287)**	**(5,928)**	**560,613**

Condensed statement of cash flows

EUR thousand	1-9 2014	1-9 2013	Index 1-9 2014/ 1-9 2013
Cash flows from operating activities			
Gross cash flows from operating activities	**39,031**	**49,571**	**78.7**
Change in inventories	(7,050)	(10,881)	64.8
Change in trade and other receivables	27,330	(27,782)	-
Change in trade and other payables	(26,863)	21,443	-
	32,448	**32,351**	**100.3**
Net exchange rate differences from financing	(3)	(1)	300.0
Interest paid	(18,261)	(24,133)	75.7
Net cash from operating activities	**14,184**	**8,217**	**172.6**
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	(510)	(29,473)	1.7
Acquisition of property, plant and equipment and investment property	(8,621)	(5,400)	159.6
Acquisition of intangible assets	(2,361)	(2,661)	88.7
Loans and bank deposits made	(55,008)	-	-
Expenses for transaction costs related to loans	(4,056)	-	-
Disposal of subsidiaries, net of cash disposed of	551	73	754.8
Proceeds from sale of property, plant and equipment and investment property	4,130	4,119	100.3
Proceeds from sale of available-for-sale financial assets	68	78	87.2
Interest received	5,041	3,062	164.6
Dividends received	24	-	-
Loans and deposits repayments received	-	32,820	-
Net cash from (used in) investing activities	**(60,742)**	**2,618**	**-**
Cash flows from financing activities			
Increase (repayment) in borrowings	52,617	(18,776)	-
Dividends paid	(2)	(10)	20.0
Net cash from (used in) financing activities	**52,615**	**(18,786)**	**-**
Net (decrease) increase in cash and cash equivalents	6,057	(7,951)	-
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	**12,075**	**3,660**	**329.9**

Notes to interim financial statements

Due to the merger of the companies Modiana, d.o.o., and M - nepremičnine, d.o.o., 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 1-9 2014, the company Mercator, d.d., generated EUR 1,087,161 thousand of revenue, which is 0.7 percent less relative to the period 1-9 2013. 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 1,049,806 thousand in the period 1-9 2014, which is a 0.9-percent increase over the same period of last year.

Relative to the last year's equivalent period, cost of goods sold fell by 0.2%, while other expenses, mostly pertaining to damages paid, increased by EUR 1,282 thousand in the period 1-9 2014.

Administrative expenses

Mercator Group's administrative expenses in the period 1-9 2014 amounted to EUR 27,558 thousand, which is 26.3 percent less than in the equivalent period last year.

Total expenses, consisting of selling and marketing costs (included in costs of sales), and administrative expenses amounted to EUR 267,566 thousand in the first three quarters of 2014, which is comparable to the last year's figure for such period. Among the costs, other costs rose by 5.0% and material costs decreased by 6.0%.

Results from operating activities

In the period 1-9 2014, results from operating activities of the company Mercator, d.d., reached EUR 15,180 thousand, which is 33.1% less than in the equivalent period of the last year. The decline in results from operating activities in this year is especially a result of the merger of the company Modiana, d.o.o., and persistence of negative effects of the economic situation on the consumption.

Net finance expenses

Net finance expenses are lower by EUR 4,126 thousand relative to the last year's equivalent period, which is mostly a result of the financial restructuring agreement and the resulting lower finance expenses.

Profit before income tax

The company's profit before income tax for the period 1-9 2014 amounts to EUR -5,084 thousand, which is EUR 3,399 thousand less than in the comparable period of last year.

Profit for the financial period

The company's net loss for the period 1-9 2014 amounts to EUR 5,928 thousand.

EBITDA

Mercator, d.d., EBITDA in the period 1-9 2014 amounts to EUR 42,965 thousand which is 20.7% lower than in the equivalent period of last year, for the same reasons that are listed with regard to lower results from operating activities.

EBITDAR

Mercator, d.d., EBITDAR in the period 1-9, 2014, amounts to EUR 51,732 thousand which is 18.4% lower than in the equivalent period of last year.

Notes to condensed statement of financial position

Assets

Mercator, d.d., assets as at September 30, 2014 amounted to EUR 1,744,673 thousand, which is EUR 10,065 thousand more than at the end of 2013, mostly due to higher loans granted and deposits to companies within the Group. The increase is consistent with the agreement on Mercator Group financial restructuring.

As at September 30, 2014, the value of company's non-current assets amounted to EUR 1,429,813 thousand, which is EUR 20,194 thousand less than as at December 31, 2013. The decrease of non-current assets is mostly a result of lower participation in equity of group companies, resulting from the merger of the companies Modiana, d.o.o., and M-nepremičnine, d.o.o. Property, plant, and equipment represent the largest share of non-current assets at 65.5% (EUR 936,841 thousand), which is EUR 10,910 thousand less than at the end of 2013. The decrease in property, plant, and equipment is a result of lower investment which was exceeded by the depreciation and amortisation expense.

As at September 30, 2014, the company's current assets amount to EUR 314,860 thousand, which is EUR 30,259 thousand more than as at the end of 2013. The increase is related predominantly to loans granted to subsidiaries. Trade and other receivables represent the largest portion of total current assets (40.5%), followed by inventory (37.3%). In the third quarter of 2014, the company continued intensive implementation of the measures for efficient working capital management. As at September 30, 2014, inventory is higher than as at the end of last year by EUR 7,048 thousand, which is a result of the merger of the company Modiana, d.o.o.

Equity and liabilities

As at September 30, 2014, total equity of the company Poslovni sistem Mercator, d.d., amounted to EUR 560,613 thousand, which is EUR 17,174 thousand, or 3.0%, less than as at the end of 2013. The decrease is predominantly a result of loss from the write-off of investment upon the merger of the companies Modiana, d.o.o., and M-nepremičnine, d.o.o., which led to a decrease in equity by EUR 12,521 thousand. The change in equity was also affected by the loss in the amount of EUR 5,928 thousand, change in the value of derivative financial instruments in the amount of EUR 1,458 thousand, and deferred tax in the amount of EUR -183 thousand.

As at September 30, 2014, total financial liabilities amounted to EUR 791,566 thousand, which is EUR 52,617 thousand more than as at the end of 2013. The increase in financial liabilities is a result of the agreement on Mercator Group's financial restructuring. Thus, long-term financial liabilities rose by EUR 500,852 thousand relative to the end of 2013.

As at September 30, 2014, provisions amounted to EUR 17,332 thousand. Compared to the end of 2013, provisions decreased by EUR 7,804 thousand, mostly due to partial reversal of provisions upon exit from the market of Albania.

Trade and other payables as at September 30, 2014, amounted to EUR 347,098 thousand, which is EUR 17,189 thousand less than at the end of 2013. The decrease in trade payables results from improvement of liquidity, which in turn is the effect of the agreement of financial restructuring, and year-on-year dynamics in the retail industry.

MANAGEMENT RESPONSIBILITY 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 September 30, 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 outcome 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, November 17, 2014