

BUSINESS REPORT OF THE MERCATOR GROUP AND THE COMPANY POSLOVNI SISTEM MERCATOR, D.D., FOR THE PERIOD 1-3 2015



Ljubljana, May 2015

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EXECUTIVE SUMMARY

Mercator Group revenue in the period 1–3, 2015, amounted to just below EUR 630 million. Relative to the equivalent period of 2014, our performance in the first quarter of 2015 is significantly better. Profit from operating activities was at EUR 12.2 million, in the equivalent period of previous year profit from operating activities was at EUR 4.2 million.

Varying business conditions in respective markets of Mercator operations

Positive macroeconomic conditions could be perceived in the early months of 2015 in Slovenia: positive economic growth, higher investment activity, higher exports, and lower unemployment rate. Positive macroeconomic indicators encourage us that the consumers are going to be more optimistic regarding the future and thereby consumption shall increase. Economic growth in Mercator's second most important market, Serbia, was negative, while unemployment rate remained rather high and consumer confidence very low. Economic growth was positive in Montenegro and Bosnia and Herzegovina, and the same is estimated for Croatia.

Revenue in the period 1–3, 2015, slightly higher than in the last year's equivalent period

In the period 1–3, 2015, Mercator Group generated EUR 628.7 million of revenue, which is a slight improvement over the figure for the last year's corresponding period. Composition of revenue is notably different than it was in the period 1–3, 2014, especially due to consolidation of retail activity in the markets after the acquisition of the company Mercator, d.d., by the company Agrokor d.d. In Serbia, revenue was considerably higher as a result of the transfer of retail units of the company Idea, d.d., to company Mercator - S, d.o.o. In Croatia and Bosnia and Herzegovina, revenue was notably lower as a result of transfer of Mercator retail units to the company Konzum, d.d., in Croatia and company Konzum, d.o.o., in Bosnia and Herzegovina. Most of Mercator revenue in these two markets was generated at the Modiana and Intersport units and from real estate activity.

Performance in the first quarter of 2015 substantially better than in the same period of the year before

Mercator's successful performance in the last quarter of 2014 continued in this year, which has resulted in a higher operating profit relative to the period 1–3, 2014, standing at EUR 12.2 million for the period 1–3, 2015, which is almost nearly three times more than in the previous year. Higher profit is a result of higher revenue and lower costs relative to the equivalent period of the previous year.

In the period 1–3, 2015, Mercator Group generated net profit for the period in amount of EUR 4.1 million, which indicates a considerable improvement in performance over the corresponding period of last year when first quarter results were negative, i.e. a loss in amount of EUR -8.5 million. Positive net profit for the period is a result of the continuation of cost management policy and positive synergies arising from the consolidation of retail activity in the region. Moreover, lower interest income as a result of financial restructuring carried out in 2014 and improved composition of financial liabilities by maturity, also contributed to the improvement in profit for the period.

Marketing activities for the consumers expanded to all Mercator FMCG retail units

Our marketing activities in the period 1–3, 2015, were focused on the priorities for respective markets, and the dynamics in retail, as well as primary target customer segments. We carried out our projects involving low prices, discount coupons, benefits in the Pika card system, local and homemade offer, and offer of private label products. Since the last months of 2014, our presence in the Serbian market, previously including Mercator and Roda units, has been expanded with Idea retail units which have been integrated into our comprehensive offer and special campaign activities conducted at Mercator stores in this market.

Investment more than doubled

In the period 1–3, 2015, Mercator Group investments amounted to EUR 6.8 million, which is double the amount invested in the equivalent period of 2014. We carried on our policy of investing predominantly into refurbishment of the existing retail units, which accounted for over 63% of our total investments. Just over 20% of investment funds was allocated for refurbishments and updates of support activities, and just over 10% was spent on expansion of retail capacity. In Slovenia and Serbia, investments exceeded significantly the respective figures for the period 1–3, 2014. In Serbia, this is especially a result of the transfer of units of the company

Idea, d.d., to the company Mercator - S, d.o.o., while in Slovenia more investment pertained to refurbishment of units in the existing retail network.

Changes in the ownership structure

On February 25, 2015, the company Agrokor, d.d., acquired additional 581,395 shares of Mercator, d.d.; at the same time, the company Agrokor Investments B.V. divested an equal amount of shares. Thus, Agrokor, d.d., shareholding in the company Mercator, d.d., rose from 49.92% to 59.47%, while the stake in Mercator held by the company Agrokor Investments B.V. decreased from 38.18% to 28.64%. Combined shareholding of the companies Agrokor, d.d., and Agrokor Investments B.V., in the company Mercator, d.d., did not change and remains at 88.10%. Their share of voting rights did not change either and it remains at 88.72%.

Boosting our wholesale operations

On February 11, 2015, the company Mercator, d.d., signed with the company ERA GOOD, d.o.o., an agreement on the acquisition/transfer of a part of the operations of the said company to Mercator, d.d. The acquisition of wholesale operations of the company ERA GOOD, d.o.o., was effective as of March 31, 2015. Mercator's acquisition of wholesale operations is consistent with its strategy of focusing on the core activity. The acquisition is expected to increase the volume and scope of FMCG wholesale offer, improvement of business efficiency, and improvement of Mercator's competitiveness in the wholesale segment in Slovenia.

Focus on the core activity

Consistently with its strategic policies, Mercator is focusing on its core activity. Thus, activities to divest the non-core operations continued in this year. After the end of the first quarter, on April 16, 2015, the company Mercator, d.d., and the company Don Don, d.o.o., signed a sale and purchase agreement on the divestment of Mercator's stake in the Grosuplje Bakery. Completion of this transaction is anticipated by the end of the first half of this year, subject to completion of all formal procedures, including the issue of approvals by respective regulators.

INTRODUCTION

MERCATOR GROUP PROFILE AND ORGANIZATION

Mercator Group Profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. It consists of trade companies of which five are headquartered in Slovenia while 7 more subsidiaries operate in the 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 March 31, 2015	EUR 254,175,051.39
Number of shares issued and paid-out as at March 31, 2015	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Corporate governance

In the period 1-3, 2015, the Supervisory Board of Poslovni sistem Mercator, d.d., did not hold any meetings or correspondence sessions.

Change in the composition of Mercator, d.d., Supervisory Board after the end of the reporting period

At the session held on April 22, 2015, members of the Works Council of Mercator, d.d., appointed Matjaž Grošelj as the new employee representative in the company Supervisory Board, as the term of the previous Supervisory Board member Ivan Valand will expire on May 19, 2015.

Mercator Group composition as at March 31, 2015

MERCATOR GROUP

MERCATOR OPERATIONS SLOVENIA	OTHER OPERATING ACTIVITIES
POSLOVNI SISTEM MERCATOR, D.D., SLOVENIA	Intersport ISI, d.o.o., Slovenia (100.0%)
Mercator IP, d.o.o., Slovenia (100.0%)	Mercator - Emba, d.d., Slovenia (100.0%)
	M - Energija, d.o.o., Slovenia (100.0%)

MERCATOR OPERATIONS FOREIGN MARKETS	REAL ESTATE ACTIVITIES
Mercator - S, d.o.o., Serbia (100.0%)	Mercator - H, d.o.o., Croatia (99.7%)
Mercator - CG, d.o.o., Montenegro (100.0%)	Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0%)
Mercator Makedonija, d.o.o.e.l., Macedonia (100.0%)*	M - BL, d.o.o., Bosnia and Herzegovina (100.0%)
	Investment Internacional, d.o.o.e.l., Macedonia (100.0%)*

* The company does not conduct business operations.

Branch Offices

As at March 31, 2015, 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. In the wake of Serbia and Montenegro, also Mercator - BH, d.o.o., and M - BL, d.o.o., established two Solidarity Foundations. The purpose of these organizations is to provide solidarity aid to employees in social or economic distress.

Due to the transfer of retail operations to Agrokor in the markets of Croatia and Bosnia and Herzegovina, the companies Mercator - H, d.o.o., Mercator - BH, d.o.o., and M - BL, d.o.o., are now categorized as real estate management companies. These companies will continue to engage in the activity of leasing out facilities and in the activities of Intersport and Modiana.

MERCATOR GROUP BUSINESS STRATEGY

Vision

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

Mission

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

Principles of corporate governance

Our work shall be:

Motivated

Elementarily simple

Rational

Common goal oriented

Ambitious

Thorough

Oriented on profitability and development

Rapturous

MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1-3 2015

	1-3 2015	1-3 2014 comparable	Index 1-3 2015/ 1-3 2014 comparable
Revenue (EUR thousand)	628,721	624,840	100.6
Results from operating activities (EUR thousand)	12,177	4,193	290.4
Profit before income tax (EUR thousand)	5,410	(8,538)	-
Profit for the financial period (EUR thousand)	4,066	(8,538)	-
EBITDA (EUR thousand)	30,955	21,891	141.4
EBITDAR (EUR thousand)	50,159	35,385	141.8
Equity as at March 31 (EUR thousand)	626,126	503,859	124.3
Assets as at March 31 (EUR thousand)	2,248,912	2,237,685	100.5
Capital expenditure (EUR thousand)	6,751	3,210	210.3
Return on equity*	2.9%	(5.8%)	-
Return on sales	0.6%	(1.4%)	-
EBITDA / revenue	4.9%	3.6%	135.4
EBITDAR / revenue	8.0%	5.8%	137.7
Number of employees based on hours worked	20,908	21,131	98.9
Number of employees as at March 31	22,043	22,603	97.5

* Indicator is adjusted to annual level.

In the period 1–3, 2015, Mercator Group changed the method of reporting its expenses related to revaluation adjustments and write-offs of receivables, by transferring them from finance expenses to selling costs. As a result, the key information for the period 1–3, 2014 and Plan 2015, is presented in a comparable manner.

KEY EVENTS

Retail network development

In the period 1-3, 2015:

- our investments amounted to EUR 6,751 thousand,
- our divestments totalled at EUR 5,379 thousand,
- we added 4 new units or 8,834 m² of new gross retail area in all markets of our operations.

Changes in the ownership structure

On February 25, 2015 the company Agrokor, d.d., acquired additional 581,395 shares of the company Mercator, d.d., increasing its shareholding in the company from 49.92% to 59.47%. At the same time, the company Agrokor Investments B.V. divested equal amount of shares, decreasing its shareholding in the company from 38.18% to 28.64%. Combined shareholding of the companies Agrokor, d.d., and Agrokor Investments B.V., in the company Mercator, d.d., did not change and it remains at 88.10%. Their share of voting rights did not change either and it remains at 88.72%.

Boosting our wholesale operations

On February 11, 2015, the company Mercator, d.d., signed with the company Era Good, d.o.o., an agreement on the acquisition/transfer of a part of the operations of the said company to Mercator, d.d., in order to enter the existing relations with the customers of the company Era Good, d.o.o.

Acquisition of a part of Era Good, d.o.o, operations is consistent with Mercator, d.d., strategy of focusing on the core activity, i.e. FMCG trade. By taking over a part of the activities of Era Good, d.o.o., Mercator will improve the scope and variety of offer in wholesale of fast-moving consumer goods. Moreover, the acquisition will have a positive effect on business efficiency and competitiveness of Mercator's wholesale activities in Slovenia.

On March 12, 2015, the Slovenian Competition Protection Agency issued a decision that it did not oppose the reported concentration following the acquisition of control by Mercator, d.d., over a part of the activities of Era Good, d.o.o.

The acquisition of wholesale operations of the company Era Good, d.o.o., by Mercator, d.d., was effective as of March 31, 2015.

Awards and other achievements

Grosuplje Bakery received multiple awards for its quality products again in 2015.

Based on the vote of the Baking Section at the Chamber of Agricultural and Food Companies with the Chamber of Commerce and Industry of Slovenia, taken for the 15th consecutive year in February 2015, Grosuplje Bakery won 14 gold medals in the contest of **quality excellence in bread, pastry, and pasta**.

At the Nutrition Institute, the most innovative new alimentary products made in Slovenia were tested for the first time in February 2015. In the category of non-packed bakery products, the **spelt bread from the Grosuplje Bakery** was found to be **the most innovative product**.

In March 2015, Effie 2014 Awards for efficient market communication were presented during the 22nd Slovenian Advertising Festival taking place in Portorož. The expert jury ranked our Pika among the very best. **Mercator received the bronze Effie for the campaign »Simply save. Pika.«**

Major events following the end of period at hand

Poslovni sistem Mercator, d.d., and the company Don Don, d.o.o., signed on April 16, 2015, the sale and purchase agreement for the sale and purchase of Mercator's stake in the Pekarna Grosuplje (Grosuplje Bakery).

Completion of this transaction is anticipated by the end of the first half of the year, subject to completion of all formal procedures, including the issue of approvals by respective regulators.

By divesting the Grosuplje Bakery, Mercator is pursuing its strategic policy of focusing on its core activity and gradual divestment of non-core operations.

At the session held on April 22, 2015, members of the Works Council of Mercator, d.d., appointed Matjaž Grošelj as the new employee representative in the company Supervisory Board, as the term of the previous Supervisory Board member Ivan Valand was to expire on May 19, 2015.

BUSINESS REPORT

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–3, 2015

Economic conditions in the markets of Mercator operations in the period 1–3, 2015¹

Macroeconomic indicators point to an improvement of economic activity in early 2015. Key factors contributing to the improvement of outlook for growth are the following: stabilization of conditions in the financial markets, especially in the government bond market; considerable drop in oil prices; improvement of price competitiveness resulting from euro depreciation. The most recent available forecasts by international institutions regarding economic growth in our key trade partners have improved in recent months. The only exception is Russia where expectations have become considerably bleaker. Forecasts by international institutions regarding the euro zone are based on the assumption of further gradual increase of private spending resulting from higher real disposable income, which in turn should result from growth of wages, low inflation rate, lower energy prices, and relief in the labour market. However, increase in consumption will be the least evident in retail where conditions remain harsh. Retail volume in March was 0.8% lower than in February in the euro zone, and 0.6% lower in the European Union. At the annual level, retail volume rose by 1.6% in the euro zone and by 2.5% in the EU. Foreign spending is expected to increase as well. Along with the weaker euro, this should have a positive effect on exports.

The trend of a low inflation rate continues as well. In most member states, inflation rate was temporarily negative in December, especially due to a major drop in energy prices. It is expected to remain low in 2015, as low raw material prices are pulling down the nominal value. Inflation rate is expected to start growing in mid-2015 and it should continue to increase in 2016 when economic activity gradually picks up the pace, wages increase, and the economy recovers further. Inflation rate in the European Union is forecast at 0.2% for 2015, and at 1.4% for 2016. Inflation rate in the euro zone is forecast at -0.1% this year, and at 1.3% in 2016.

Increase of economic growth will also bring about net job creation which had been low until last year, but has increased in the last year. Situation in the labour markets is anticipated to improve towards the end of the period. However, economic growth will not suffice, in principle, for a significant improvement. In 2015, unemployment rate is expected to drop to 9.8% in the European Union and to 11.2% in the euro zone.

Decrease of general fiscal deficits continues; however, fiscal orientation is currently neutral. Fiscal deficit to GDP ratios are expected to continue to decrease in the next two years. In the European Union, they are anticipated to decrease from 3.0% in 2014 to 2.6% in this year and to 2.2% in 2016. In the euro zone, they are expected to decrease from 2.2% in 2015 to 1.9% in 2016. It is expected for the European Union as a whole that the public debt to GDP ratio reached a peak at 88.4% in 2014. In the euro zone, this ratio is forecast to peak this year at 94.4%. Thereafter, it is anticipated to start decreasing.

Slovenia

Following the improvement of conditions in the international environment, stabilization of euro financial markets, and measures of Slovenian economic policy introduced in recent years, economic growth in Slovenia reached its highest mark since the onset of the crisis. After two years of negative growth, Slovenian gross domestic product rose by 2.6% in 2014. Improvement of competitiveness, along with higher foreign demand,

¹ Economic conditions and competition are commented based on the following data sources: UMAR (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), ECB (European central bank), EBRD (European Bank for Reconstruction and Development), S&P (Standard&Poor's ratings services), statistical offices or respective countries, IMF (International Monetary Fund), market research company Nielsen, and EC (European Commission).

led to a high increase of exports. Investment rose considerably as well. With intensified drawing of European funding, public investment into infrastructural project increased. With higher activity and more stable financing terms, some positive trends were identified in private sector investments as well.

In 2015, employment will increase by 0.8%. Uncertainty related to the recovery will remain paired with a high rate of employment via private employment agencies in this year. The number of unemployed will decrease on average by approximately 6,000 compared to last year. Situation and dynamics of labour markets will remain similar in 2016 and 2017. They will be affected by increase of economic activity, as well as by demographic change. The number of persons in the labour pool is projected to decrease by approximately 10 thousand each year, while the number of people aged over 65 will increase by the same amount.

Export growth will remain high this year at 5.6%. In addition to recovery in most of major trade partners, this will also be a result of further improvement in competitiveness. Increase in investment, amounting to 4.8% in 2015, will be equal to the last year's figure. Public investment will again increase, mostly related to drawing of European funding, although the increase will be lower than last year. Private investment into equipment and machinery will be higher as well. As the production capacity usage improves, better business performance will allow for financing of such investments, especially in the export-oriented part of the economy. Moreover, further deleveraging will open up financing options for corporations in the highly liquid banking sector.

Changes in prices in 2015 will remain affected by downward effect of energy prices, and partly prices of food. Also contributing to lower prices will be the process of relative price adjustment as further decrease of labour costs per unit of product will relieve the upward pressure on prices. With persistently weak domestic demand, prices will decrease by 0.2% this year. In 2016 and 2017, as economic activity recovers and oil prices start to rise, we expect a gradual increase in prices.

Economic activity continues to fluctuate in the international environment. Forecasts by international institutions regarding economic growth have been improving in recent months, and successful implementation of the said measures could further accelerate the economic recovery in Slovenia's main trade partners within the European Union. The resulting estimate is that the risks of the international environment are more balanced this time than they were when previous forecasts were drawn up. The same applies to risks in the domestic environment where the changes that contribute the most to growth could, with favourable impulse from the international environment, pick up even more pace than expected. On the other hand, persistent risks are related to the discrepancy between the commitments regarding consolidation in public financing and the fact that the measures to pursue these commitments remain only vaguely drafted.

Economic conditions in retail remain harsh. According to the Statistical Office of the Republic of Slovenia, the negative trend is expected to persist, which will be manifest in a drop of revenue in retail sector, both at the monthly and the annual level. The prevailing conditions will compel adoption of measures to improve the appeal of the business and trade environment and spur its return to growth. Real revenue index in trade is declining, and the most acute drop can be observed in retail. The decline in retail revenue in March 2015, relative to March 2014, was 1.1%.

Serbia

Real GDP growth in Serbia was negative in 2014. According to European Commission forecasts, it will remain negative in 2015, at -0.3%. Economic growth in 2016 is expected to be positive at 1.2%. Inflation rate in 2015 is at 3.2%, which is one percentage point higher than in 2014. Unemployment will increase slightly in 2015 to a forecast rate of 21.4%. Increase of household consumption and public spending remains negative. The former dropped by 1.3% in 2014 and in 2015, it is forecast to decrease by 1.8%. Public spending was down 1.0% in 2014, and in 2015 it is expected to decrease further, by 4.3%. Average exchange rate of the Serbian dinar in the period 1–3, 2015, stood at RSD 121.51 per 1 EUR, while the average rate in the equivalent period of last year was RSD 115.75 per 1 EUR. The rating of the Republic of Serbia, as provided by the S&P rating agency, remains unchanged at BB– with negative outlook.

Croatia

Economic growth in Croatia was negative in 2015 at -0.5%. European Commission forecast regarding economic growth gives some cause for optimism. In 2015, Croatia is expected to bounce back from recession and

economic growth rate is expected to return to positive figures with 0.2%. Inflation rate in 2014 was at 0.2%; in 2015 it is forecast to be negative at -0.3%. Unemployment rate in 2014 was at 17.0%; in 2015 it is anticipated to decrease slightly to 16.8%. Change in public spending was negative at -2.1%; in 2015, it is expected to remain negative at -0.1%. Private spending also decreased, the change of its rate being -0.6%; no change is expected in this respect for 2015. Average exchange rate of the Croatian kuna in the period 1–3, 2015, stood at HRK 7.67 per 1 EUR, while the average rate in the equivalent period of last year was HRK 7.65 per 1 EUR. According to the S&P rating agency, Croatia's rating is BB with a stable outlook.

Bosnia and Herzegovina

According to the EBRD data, GDP growth in Bosnia and Herzegovina in 2014 was at 0.9%. In 2015, growth rate is expected at 2.7%. Inflation rate in early 2015 was at 0.2%. Unemployment rate remains at 2014 level, which is 27.05%. The exchange rate of the Bosnian mark is pegged to euro at the rate of KM 1.95583 per 1 EUR. According to the S&P rating agency, the country's rating is B with a stable outlook.

Montenegro

Real economic growth in Montenegro amounted to 3.0% in 2015. Inflation rate in 2015 was at 0.4%. Unemployment in 2014 was at 19.2% and it is gradually decreasing. In 2015, it is expected to slip to 18.04%. Montenegrin official currency is the euro. Montenegro's rating remains unchanged at BB+.

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

Economic activity is expected to recover in all markets of Mercator's operations. A decline in private spending which was seen in recent years is said to be stopped; unemployment in Slovenia will decrease, but it will remain high in other markets. Consumers in all markets still feel the effects of the recession and they do not expect any considerable improvement in 2015².

Economic activity **in Slovenia** is expected to be higher than initially anticipated, with gross domestic product growth at 2.4 percent³. Improvement is expected in the labour market by the end of the year, with registered unemployment down to 12.5%. In January 2015, it was at 13.5%. According to UMAR forecasts, household consumption will gradually increase in 2015, exceeding the last year's figure by 1.1 percentage points⁴, as a result of higher disposable income and a considerable improvement in consumer confidence and their willingness to shop. Also pointing in this direction is the improvement in the consumer confidence index in March 2015, which is 16 percentage points higher year-on-year,⁵ and 8 percentage points higher than last year's average. Consumers in Slovenia are more optimistic regarding the decrease of unemployment, economic situation in Slovenia, financial position of their households, and possibilities for saving in the coming 12 months.

Improvement, or at least no worsening, is also expected in the markets of **Serbia** and **Montenegro**. Private spending will rise while unemployment remains high. Consumer confidence in Serbia in the fourth quarter of 2014⁶ was not significantly different relative to the previous quarter and it remains below the European average. Security of employment remains the primary concern of consumers in the region, followed by health. Good half of consumers do not see any options for new employment and over a third believes the timing is bad for major shopping or spending. In Serbia, consumers prefer cheaper products and they spend less on clothing and out-of-home entertainment.

² Nielsen: Consumer Confidence Index, Q4 2014, Slovenia; Nielsen: Consumer Confidence Index, Q4 2014, Serbia, Slovenia

³ UMAR: March 2015

⁴ Consumer survey, Slovenia, March 2015 – final data, SORS

⁵ Consumer survey, Slovenia, March 2015 – final data, SORS

⁶ Nielsen: Consumer Confidence Index, Q4 2014, Serbia, Slovenia

Despite the expected recovery of consumer spending, consumers insist on their shopping behaviour developed since the onset of the crisis. They continue to shop rationally, choose cheaper products, respond to special offers and promotions, buy more private label products, and distribute their shopping over several retailers.

SALES AND MARKETING

Sales

Economic recovery can be perceived in Europe, although it remains feeble and slow.

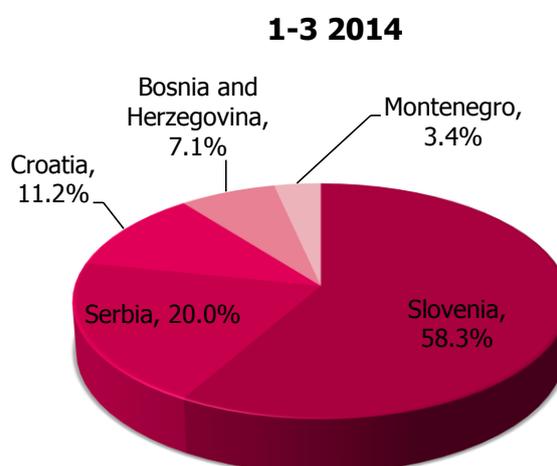
Among the markets of Mercator's operations, Slovenia – home to the Group's parent company – continues to show the strongest signs of optimism and positive changes. Economic growth in Slovenia in the early months of 2015 was positive. Investment activity and exports were higher; unemployment rate dropped; and consumers are more optimistic about the future than they were in previous periods. In Serbia, Mercator's second most important market, economic growth was negative in the early months of 2015. Moreover, unemployment rate remains very high and consumer confidence is below the European average. Economic growth in Montenegro and Bosnia and Herzegovina was positive, but the unemployment rate in these two markets remains extremely high, especially in Bosnia and Herzegovina, affecting the purchasing power of the general population. Some improvement has been seen in Croatia where, unlike the year 2014, economic growth is positive in the early months of 2015 and unemployment rate is lower.

In addition to the above factors, revenue in the period 1–3, 2015, was also affected by consolidation in respective markets, which took place in the late months of 2014 following the acquisition of the company Mercator, d.d., by the company Agrokor, d.d. Consolidation resulted in higher revenue in Serbia and lower revenue in Croatia and Bosnia and Herzegovina relative to the period 1–3, 2015.

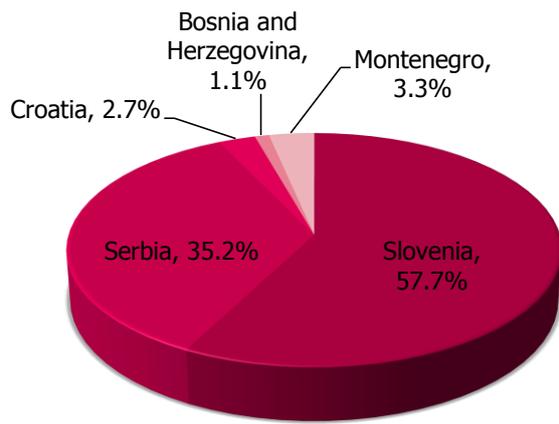
In the period 1–3 2015, Mercator Group generated **EUR 628.7 million of net revenue**, which is **0.6% percent more than in the corresponding period of 2014**.

In Slovenia, revenue dropped by 0.5%, which is less than a real decline in revenue in total retail in March 2015 in relation to March 2014, where the decline amounted to 1.1%. Revenue increased considerably in Serbia (77.4%); it dropped in Bosnia and Herzegovina (by 85.1%) and in Croatia (by 75.3%). Higher revenue in the market of Serbia is mostly a result of the transfer of retail units of the company Idea, d.d., to the company Mercator - S, d.o.o. Lower revenue in Croatia and Bosnia and Herzegovina, on the other hand, is a result of the transfer of Mercator retail units to the company Konzum, d.d., in Croatia and Konzum, d.o.o., in Bosnia and Herzegovina. In these two markets, Mercator generated revenue especially in non-core activity, i.e. Modiana and Intersport. Unlike in the previous periods, revenue in Montenegro was slightly lower, by 2.2%. In Montenegro, no changes connected with consolidation in markets within Agrokor Group, was made.

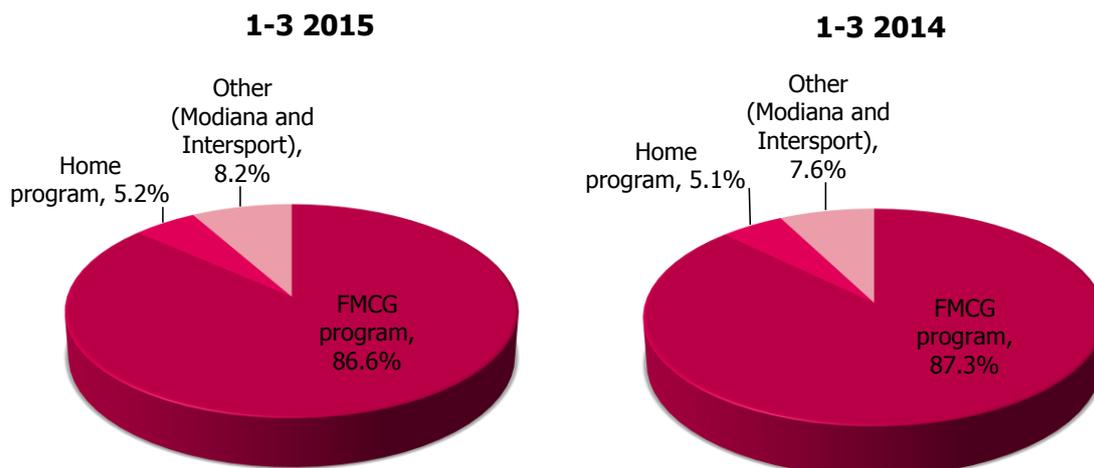
Mercator Group revenue by geographical segments:



1-3 2015



Mercator Group revenue from trade operations by programs:



In the period 1–3, 2015, the majority of Mercator Group trade revenue resulted from sales of fast-moving consumer goods as they accounted for 86.6 percent of total revenue; revenue from other specialized programs amounted to 13.4 percent. Compared to the equivalent period of the year before, Mercator Group revenue dropped within all three programs: fast-moving consumer goods, home products, and other programs. Lower revenue from sales mostly resulted from consolidation in respective markets, and closing down of non-profitable or underperforming units within the home products and Modiana programs, mostly in Slovenia.

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 leading global retailers, Mercator is also looking to adjust accordingly 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. Diversification of store formats thus remains the key strategy of retailer growth.

Major refurbishments of Mercator stores will take place in 2015. We are looking to offer our customers a shopping environment with modern design, in as many locations as possible, with extended and even richer offer of fast-moving consumer goods. As in the previous year, the focus in 2015 remains on refurbishment on smaller neighbourhood stores where Mercator continues the tradition of coming closer to its customer in their local environment. 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**.

Seven Mercator units were refurbished according to the "Neighbour" concept in the period 1–3, 2015:

- market Cesta maršala Tita 79, Jesenice;
- market Maja Maribor, Maribor;
- market Britof, Kranj;
- market Rožna dolina, Ljubljana;

- market Izola, Izola;
- market Podpeč, Podpeč;
- market Kobarid, Kobarid.

In addition to neighbourhood stores, Mercator launched comprehensive refurbishments of its supermarkets, looking to come closer to the customer with a new store concept that is an upgrade to neighbourhood stores with a broader and especially deeper offer of fast-moving consumer goods. Thus, we shall modernize the retail space, deliver an appealing shopping experience, and also attract the customers to a larger store format. Supermarkets allow customers to do their daily or weekly shopping as the offer is comprehensive enough to meet the needs for both daily and weekly consumption, with a focus on fresh produce. Supermarket Fužine, refurbished according to the new concept, was opened in Ljubljana at the end of March.

The store focuses on the offer of fresh program, which is also underscored by the new appearance of the departments. Attention is drawn to the large fresh fruit and vegetables department with a rich offer of local produce. A new addition to the offer is the bakery offering a range of bakery products, as well as a broad offer of fresh pizzas. Another upgrade is the rich offer of the hot bar with a wide range of ready-made meals, which aligns the store with life on the fast lane.



The healthy lifestyle trend is supported by an offer of gluten-free products, products for special dietary needs, and organic products that are also found in the refrigerated part of the assortment. Also new at the unit is a wine section with a wine vending corner as a part of the beverage department. Moreover, great emphasis is placed on a rich, varied, and broad offer of fresh meat, delicatessen, packed and bulk pastry, and dairy products.



In March, a new and refurbished and extended **hypermarket Domžale** was opened. This is currently our cutting-edge hypermarket that employs a modern sales concept as a response to the shopping trends and offers our customers a pleasant shopping experience. The refurbishment is a response to the current market trends (increasing sensitivity to pricing; the consumers increasingly appreciate quality local food; in non-market program, their shopping is increasingly rational).

Accordingly, the offer of the hypermarket features the following highlights:

1. **Grab & Go department (Minute)** at the very entrance to the hypermarket allows the customers to quickly and simply purchase products for immediate consumption (pizza, burek, sandwiches, packed fruit and vegetable salads, yoghurt, chilled beverages, coffee to go etc.).
2. **Fresh program** is located in the first part of the hypermarket



and it features the visual identity of a marketplace. The entire fresh produce department is larger and its offer is richer. The stress is also on the pre-packed products (salami, cheese, bread, pastry); the hot bar now includes take away offer; and butcher's department also has a rich offer of pre-packed fresh meat. Cheese and salami are offered in the deli island which is, along with fruit and vegetables, the centre of the fresh program. A new addition to the hypermarket is the fish department, offering daily fresh fish and seafood. The fruit and vegetables department now also includes a fruit island offering pre-cut vegetables and fruit, fruit juices etc. Frozen program was extended with the COOL HOUSE offer which includes bulk fish, seafood, and pastry.



3. Wine department and special and organic food department



4. Cosmetics department with a special ambiance



5. **Narrow and select offer of non-market program** emphasizes in particular the products for children as the entire offer is combined in a single place (toys, books, diapers, baby food, baby clothing). The remaining offer of products is adjusted to daily consumption (e.g. stockings, basic DIY products, home textile, and home products).

6. **Tobacconist** offers tobacco products as well as newspapers and magazines.

7. **Highlighted presentation of special offer and seasonal products**

Composition of sales units as at March 31, 2015

COUNTRY	SLOVENIA		SERBIA		CROATIA		BOSNIA AND HERZEGOVINA	MONTENEGRO		MACEDONIA, ALBANIA and KOSOVO*	MERCATOR GROUP				
	Banner	Mercator	Mercator	Roda	Idea	Mercator	Getro	Mercator	Mercator	Roda	Intersport	Number of units	Gross sales area	Net sales area	
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units									
Hypermarkets	22	-	30	11	1	-	-	-	-	2	-	66	281,818	191,519	
Supermarkets	62	-	23	19	1	3	-	-	-	10	-	118	162,960	103,911	
Neighbour stores	387	-	80	158	7	2	-	-	-	74	-	708	302,085	181,883	
Comfort stores	1	1	-	-	-	-	-	-	-	-	-	3	7,284	4,237	
Mini stores	5	-	1	-	-	-	-	-	-	-	-	6	860	470	
Cash & Carry / VELPRO	15	-	4	11	-	7	-	-	-	-	-	38	115,823	97,000	
Restaurants	8	11	-	-	-	-	-	2	-	-	-	21	4,451	2,912	
TOTAL FMCG program	500	12	138	199	10	12	2	2	-	87	-	960	875,281	581,930	
Technical consumer goods	50	14	-	-	-	-	-	-	1	-	-	65	87,866	56,725	
Clothing program and drugstores	52	13	-	-	-	32	-	12	-	-	-	109	55,953	47,146	
Clothing program	43	7	-	-	-	32	-	8	-	-	-	90	53,613	45,106	
Drugstores and perfumeries	9	6	-	-	-	-	-	4	-	-	-	19	2,340	2,040	
Intersport	34	11	-	-	-	29	-	9	2	-	-	85	52,876	40,448	
M holidays	12	-	-	-	-	-	-	-	-	-	-	12	242	242	
Other	3	-	-	-	-	-	-	-	-	-	-	3	374	335	
TOTAL specialised programs	151	38	-	-	61	-	21	3	-	-	-	274	197,311	144,896	
TOTAL retail units under management	651	50	138	199	71	12	23	3	87	-	-	1,234	1,072,592	726,826	
Franchise stores	223	-	-	-	1	-	-	-	-	-	-	5	229	52,992	35,397
TOTAL	874	50	138	199	72	12	23	3	87	5	1,463	1,125,583	762,223		

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

Customer segments

A major change was introduced in the field of customer relationship management in the period 1–3, 2015, in Serbia as the Pika card customer loyalty program was discontinued as of January 31, 2015. Rather, the entire customer loyalty program in this market was transferred to the joint Super card. All Pika card holders were sent an invitation to join the Super card system.

In Slovenia and Montenegro, customer loyalty system and the use of Pika card remain unchanged. Monthly activity in the period 1–3, 2015, increased by 7% in Slovenia and by 3% in Montenegro. The share of revenue in the FMCG program generated by use of Pika card rose by 2 percentage points in the period 1–3, 2015, relative to the equivalent period of 2014; in Montenegro, it dropped by 1 percentage point.

Category management and procurement

Our category management and procurement activities in the period 1–3, 2015, continued to pursue the following goals: to build a quality multi-level offer of both branded and private label products, to provide competitive prices for branded and private label products, to include appealing offer in our sales promotion activities, to efficiently manage our store area at the level of each product or category, and to provide adequate in-store sales service.

Category management and procurement in the period 1–3, 2015, was predominantly focused on continuing the projects "Locally Grown" ("Iz domačih krajev") and "Mercator Butcher's Shop" ("Mercator mesnica"), revival of the "5 per day" project in the fruit and vegetables departments, and refreshment of the Mercator bakery strategy. Moreover, we actively managed our assortments, retail area, and prices, while our fresh produce instructors held a number of training courses in fresh produce departments. Our customers were offered varied, appealing, and competitively priced products in our special offers.

Marketing

SLOVENIA

Our marketing activities are focused on the priorities for respective markets, the dynamics in retail, and 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;
- activities for the loyal Pika customers;
- local offer;
- proximity to the consumers;
- offer of private label products.

Pricing benefits for the consumers

Mercator is continuously pursuing the goal of improving the pricing perception among the consumers. In addition to a major campaign in last year, which involved cutting the regular prices to 10,000 products and guaranteeing the lowest regular prices in the market for 800 products, we are also managing a number of other projects.

Customer response was the strongest to the **Crazy Low Prices ("Noro nizke cene")** campaign which allows short-term activities with discounts that are often the best in the market, and the campaign **A Weekend of Crazy Low Prices ("Vikend noro nizkih cen")**.

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

It has been one year since the introduction of the Guaranteed Lowest Regular Prices campaign. One year of shopping at lowest (absolutely or tied for the lowest) regular prices was celebrated with the "Leni the sloth and Mali the badger" campaign and additional offer of vegetables and pre-packed meat.



Low-priced products 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.

We are expanding the Maxx line of products that allows our consumers to buy larger packs of products by renowned brands at a lower price.

In Slovenia, we worked with Zavarovalnica Triglav (insurance company) to again prepare a **joint project** for our customers that involved awarding up to EUR 110 of benefits and 110 bonus points.



Major emphasis and focus have been dedicated from the very beginning to improvement of perception and increase of sale of fresh program, category fruit and vegetables, as a part of the activity **"5 per day. Fill your shopping bag at half the price."**

Activities for the loyal Pika customers

With a pronounced focus on the consumers, we continue to develop the **benefits of the Pika card customer loyalty system**. The customers can win and use their loyalty points for the entire offer. They are also offered special Pika discounts for select products; in addition, the card allows them to defer the payment or to pay 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.

A new activity called **trading in bonus points for discounts** was introduced in Slovenian market last year. The customers could exchange 300 bonus points for a 15-percent discount on their entire shopping cart. In the future, we will continue to offer ever more benefits to Pika card holders and to expand the use of the Pika card.

In February, we introduced a new activity of trading in the collected points for high discounts on high-quality cleaning products of the Rovus brand. 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 regular double Pika bonus point day, which has been very popular among the customers, we have also held the first **Pika Day** in March. The Pika Day extends the appealing offer of products to other Mercator Centre tenants and allows additional discounts and benefits for the Pika card holders.



Specially tailored offer and bonuses are developed for all customers who allow us to monitor their shopping behaviour. Members of the Senior Club get a 20% discount coupon for a select product every Thursday.



Value added of the Pika card is enhanced by extending the offer in cooperation with new partner companies that provide appealing complementary offer exclusively for us and for our target segments. Thus, our loyal customers were offered up to 50% discount on ski passes for Slovenian and other ski resorts when using the Pika card.

We also increased the number of Pika partners with which Pika card holders benefit from considerable discounts. The partners include wellness and spa centres, rafting trip providers, gyms, opticians, language schools, adrenaline parks etc.

Domestic, local offer; proximity to the consumer

The Locally Grown ("Iz domačih krajev") project is focused on individual categories, also with consideration of the seasonal offer of produce. Thus, we were focused on the offer of traditional Easter products in March as the Easter holidays were approaching.

In the first quarter of the year, the key focus was on underlining the advantages of the Mercator butcher's shop where 100% all meat in regular offer is raised in Slovenia.



We also stress our other competitive advantages, such as: 100% Slovenian fruit and vegetables, milk and dairy products from 100% Slovenian milk, and bread made of 100% Slovenian wheat.

Offer of private label products

Mercator private label lines offer a variety of products for all occasions, at all price segments.

Revision of product appearance in the central **Mercator private label line** continues. We remain focused on improving the competitiveness of our offer in all categories.

At the Grosuplje bakery, we again surprised our consumers in February by celebrating the day of culture with the offer of the **Prešeren bread**, developed in cooperation with the Slovenian ethnologist Prof Dr Janez Bogataj. In February, we also revived the tradition of **Valentine's birds**.

During the Easter holiday season, the offer was extended with the **Presnec bread** from the Grosuplje Bakery and the **Premium potica with dried fruit and sweetened with honey**.



SERBIA

Our marketing activities involve many price-oriented campaign and campaigns related to the advantages of the Roda and Idea store formats.

IDEA

- Fresh assortment
- K Plus private label
- SuperCard
- Go local
- Modern, innovative, well-priced offer and fast service

RODA

- Lowest prices guaranteed
- 100% local
- Shopping experience
- Major family shopping trips, tradition

IDEA

IDEA butcher's shop

The goal of the project is to position the Idea butcher's shop as the best destination for daily shopping of fresh meat and meat produce, and to provide a wide and well-priced offer.



Go local

Realizing the importance of cultural events, Idea joined the local campaigns "Belgrade, a city of new ideas" and supported the main cultural events in town. With the campaign "Niš in our hearts", support was offered by sponsorships and donations to the local community of the city of Niš. A special issue of Neighbour's Newsletter was issued upon the third anniversary of operations in Niš.

With the campaign "In the heart of Banat", Idea offered its customers a range of local products.



IDEA web store

Following the successful launch of the Idea web store in Belgrade, its offer is now also available to customers in Niš, Novi Sad, Rumenci, Futog, and Sremska Kamenica.



RODA

Pricing benefits for the consumers:

At the Roda stores, our special offer campaigns include **Spring at Roda** which involves a well-priced offer of bicycles in a short-term customer loyalty program, and the campaign **Home appliances at Roda** which took place in March and allowed the customers to upgrade their home appliances at reasonable prices.

The activities **Super Saturday** involve offering the best products at discounted prices at Saturdays.



The best from Serbia

We have issued a flyer promoting local origin and stressing domestic, local offer. Local activities involved performances by local cultural societies at Roda megamarkets, and we also launched the promotion of the project to encourage the most talented youngsters from local environment.



Healthy price – special offer of fruit and vegetables

We are carrying out a special weekly campaign involving the offer of fresh fruit and vegetables from Monday to Wednesday.



Dream Factory

At the Roda megamarket in Novi Sad, we developed a special corner with a comprehensive offer of toys for children.



THE FLAVOURS OF MY TOWN

Each Serbian region has its specific culinary characteristics. This gave rise to the project "The Flavours of my Town" which involves offer by local manufacturers in individual regions, prepared according to traditional Serbian recipes.



MONTENEGRO

Pricing benefits for the consumers:

Regular activities involving products at discounted prices are a part of our **Weekend campaigns**, special activities with super prices for particular products as a part of the Top Saturday activity, and the Sensational Prices campaign.

Continuous activities Spring in Roda and activities in particular stores are also conducted. In addition to the regular offer, special activities were also prepared for our customers on Valentine's Day and International Women's Day.



Activities for the loyal Pika customers

Attractive offers increase the number of active Pika card holders and promote the advantages of the Senior Club. We reward the loyalty of our customers by awarding double Pika bonus points on the last Saturday of each month

On Thursdays, Senior Club members receive double bonus points. Moreover, all retirees receive a 10-percent discount on the 20th and 21st day of each month.

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

Consistently with the investment plan, Mercator Group was focused in the period 1–3, 2015, primarily on refurbishments and extensions to individual retail units. Moreover, seven new stores were opened, and new potential locations for expansion of retail network were sought and assessed for all Mercator programs, as well as for a new logistics and distribution center in Slovenia. The result is the acquisition of a new location in Izola for the construction of a trade center.

There were no new construction developments in the period 1–3, 2015. Investment funds were mostly used for renovation and investment maintenance of the existing retail network, and for investment into new leased stores. Major additions include the refurbished Mercator center in Domžale.

Activities also took place in divestment of non-operating assets. Pursuant to the adopted legislation effective as of January 1, 2015, we launched the procedures to obtain the energy certificates that allow real property to be sold or leased out.

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



Investment and Divestment

In the period 1–3, 2015, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 6.8 million. Of this amount, 62.2%, or 67.4% more than in the comparable period of last year, was used for investments in Slovenia; and 37.8% was used for investments in international markets.

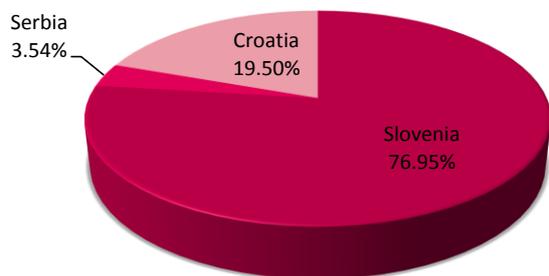
	Capital expenditure in the period 1-3 2015 (in EUR 000)	Structure (in %)
Slovenia	4,201	62.23%
Serbia	2,162	32.02%
Croatia	158	2.34%
Montenegro	211	3.13%
Bosnia and Herzegovina	19	0.28%
TOTAL	6,751	100.00%

Investment into expansion of retail area represented 13.8% of total investment; refurbishments of existing units accounted for 63.3%; remaining 22.9% was invested in logistics, IT, and non-trade activities.

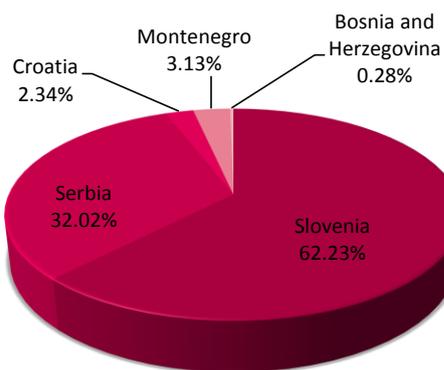
In the period 1–3, 2015, Mercator Group acquired 8,834m² of new gross area, mostly in Slovenia, of which 98% was acquired by operating lease, and the remaining 2% were acquired by acquisition.

In the period 1–3, 2015, Mercator Group divested property, plant, and equipment worth EUR 5.4 million, of which EUR 1,525 thousand pertains to the divestment of store equipment to Agrokor subsidiaries Konzum in Croatia and Bosnia and Herzegovina.

Share of newly launched facilities by markets:



Share of investments by markets:



Summary of total gross retail area as at March 31, 2015:

Gross area in square meters

	Used for own operations	Leased out - Konzum	Leased out – third parties	Total
Owned retail area	623,704	109,037	211,728	944,469
Leased retail area	448,887	67,302	92,632	608,821
Total retail area	1,072,591	176,339	304,360	1,553,290
Owned warehouse capacity	138,761	0	5,982	144,743
Leased warehouse capacity	12,418	25,982	6,658	45,058
Total warehouse capacity	151,179	25,982	12,640	189,801
Owned commercial facilities	23,124	0	1,158	24,282
Leased commercial facilities	5,211	0	0	5,211
Total commercial facilities	28,335	0	1,158	29,493
GROSS AREA UNDER MANAGEMENT	1,252,105	202,321	318,158	1,772,584
- of which owned	785,589	109,037	218,868	1,113,494
- of which leased	466,516	93,284	99,290	659,090

SUMMARY OF RETAIL UNIT LAUNCHES BY MARKETS IN THE PERIOD 1-3 2015

SLOVENIA

Area of new facilities: 6,798 square meters

Number of retail units: 0

Openings: extension of Market 78, Izola; extension of Market Kobarid; C&C Murska Sobota, C&C Ajdovščina, C&C Celje

Refurbishments:

Number of retail units: 8

Openings: Market Britof, Kranj; Market Trg Maršala Tita 78, Jesenice; Market Maja, Maribor; Market Rožna dolina, Ljubljana; Hypermarket and Intersport in shopping center Domžale; Supermarket Fužine, Ljubljana; Market Podpeč

CROATIA

Area of new facilities: 313 square meters

Number of retail units: 1

Openings: Intersport Gračani, Zagreb

SERBIA

Area of new facilities: 1,723 square meters

Number of retail units: 3

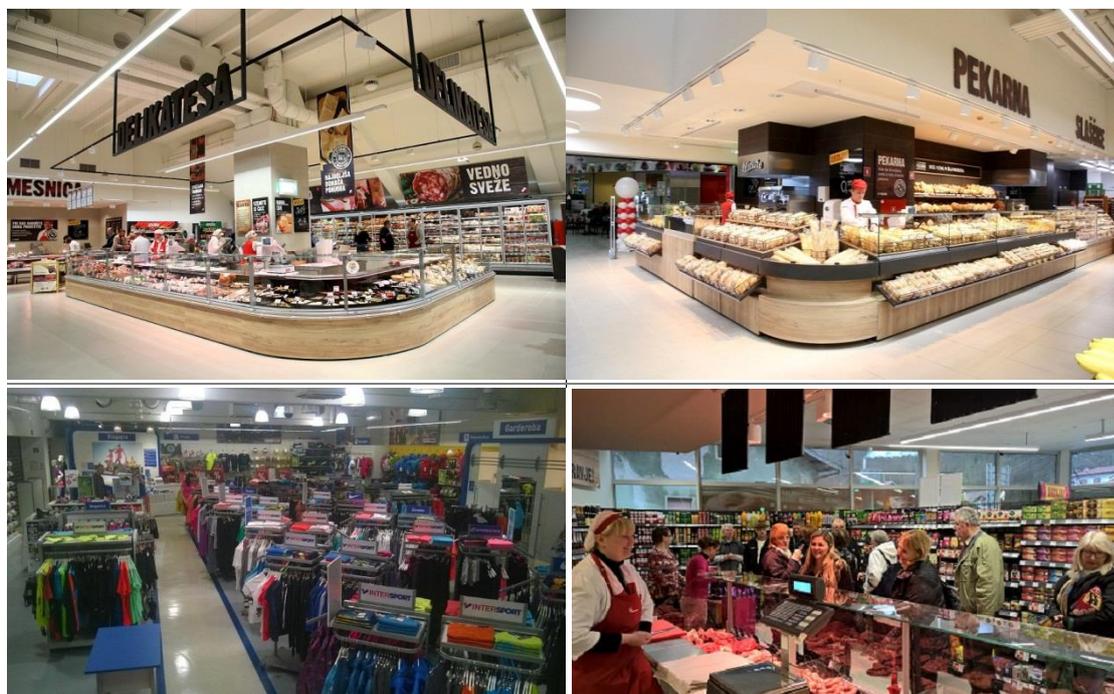
Openings:

Santana Caffe bar, Belgrade, Market 328, Subotica, Supermarket 327, Temerin

Refurbishments:

Number of retail units: 14

Openings: Market 460 Kula 1; Market 402 Pirot; Market Kula 5; Market 404 Leskovac; Market 420 Kej, Novi Sad; Market 366 Sajam, Novi Sad; Market 445 Sajmište, Novi Sad; Market 425 Subotica; Market 435 Palić; Supermarket 412 Kaluđerica, Belgrade; Market 391 Dušanovac, Belgrade; Supermarket 357 Terazije, Belgrade; Market 390 Stari Grad, Belgrade; Logistics distribution center Novi Sad



RISK MANAGEMENT

Revised Mercator Group risk monitoring and management system

As of 2015, Mercator Group migrated to a new risk monitoring and management system, with a new risk register for the entire Mercator Group. Risks were classified into five categories (or fields). Within each of these, several types (or groups) of risks were specified which are identified as key risks based on the most recent analysis of operations and plans for the future.

Following are the main risk categories:

- Strategic risks
- Financial risks
- Operational risks
- Support risks
- Compliance risks

At the end of the period 1–3, 2015, we conducted a risk analysis to identify the key potential risks that could occur in the period until the end of 2015, and specified the ways in which they are to be managed.

Following is a description of risks for which we find the probability of occurrence and effect on Mercator operations and performance to be higher.

Management of key risks in the period 1–3, 2015

STRATEGIC RISKS

These are risks pertaining to the long-term development of Mercator Group companies, related to development and implementation of the Group strategy, stability of ownership, integration processes, management or governance of companies within the Group, compliance with the ethics code, flow of information, Group reputation, sustainability of operations etc. These risks pertain to the questions of what will our customers, procurement sources, services, and sales channels be like in the medium run.

Corporate risks

Key risk categories	Management approach to perceived risk categories
Risk of correct definition and implementation of strategy	Considering the importance of quality strategic policies for the company Mercator, d.d., we believe an ill-defined strategy or failure in understanding the strategy by all stakeholders could have a strongly negative impact. To this end, we consistently monitor the execution of the strategy laid down, and efficiently communicate the method of conducting the activities for attainment of the goals specified in the strategy.
Risk of loss of reputation	In addition to the actual effect on the assets of the company or the Group, negative information regarding the company Mercator, d.d., and the Mercator Group also affects their reputation. By pursuing a solidly planned communication with the public, providing financial support to numerous cultural and sports events and humanitarian campaigns, and by other socially responsible conduct, the company Mercator, d.d., is seeking to build and maintain a positive image in its business and broad environment.
Risk of inefficient system of governance and assumption of responsibility	Consistently with the sound practice and applicable legislation, the Management Board of Mercator, d.d., shall continue to perform their duties as responsible, honest, and diligent managers, and maintain the flow of information to support the attainment of the goals laid down by the company Mercator, d.d., and the Group.
Risk of failure to comply with covenants to banks	With regard to the acquisition of the company Mercator, d.d., by the company Agrokor, d.d., a special protocol was signed regarding the compliance with the covenants to banks. The protocol is to be reviewed at least once per year by an independent auditor. In 2015, we continue to regularly review all transactions with the Agrokor Group companies, compliance with the commitments of even distribution of synergistic effects, and other commitments laid down in the Agreement.

Key risk categories	Management approach to perceived risk categories
Risk in divestment of non-core activity	<p>In divesting its non-core activities, Mercator Group is exposed to the risk of worsening its procurement terms and conditions, negative effects in the Pika card customer loyalty program, loss of a tenant and resulting vacant facilities at Mercator centers, and move of the current customers to competition as a result of lower synergistic effects of these activities on the core activity.</p> <p>Pursuant to the strategy, activities will continue to take place in 2015 to divest Mercator Group's non-core activities. Sales processes have not been completed yet, and deals are being negotiated with potential buyers in such way that divestment of activities will not have a negative impact on consumer perception and their shopping behaviour, or any other aspect referred to above.</p>
Risk of integration of acquired/transferred operations	<p>The risk of integration of the transferred activities in the markets where both Mercator and Agrokor are present was perceived in the second half of 2014 when the takeover of Mercator, d.d., by Agrokor, d.d., resulted in consolidation by respective markets.</p> <p>In 2015, we shall maintain transparent communication about the progress of business activities with all employees within the Mercator Group and Agrokor Group, and ensure cooperation of employees in all markets.</p>

Competitiveness and customer satisfaction risks

Key risk categories	Management approach to perceived risk categories
Risk of a decline in market share resulting from new openings of our competitors	<p>Change in market share is related to a change in net retail area of Mercator and that of the competition. If our competition opens more new retail area than Mercator, this may lead to a decline in Mercator's market share. Currently, Mercator's market share is stable. Customer satisfaction and loyalty are maintained with regular marketing activities and special offers for them.</p>

Risks related to development of offer of goods and services

Key risk categories	Management approach to perceived risk categories
Risk of poor price competitiveness	<p>We manage our prices based on the pricing policy adopted last year, and regular monitoring of the competitiveness of our regular retail prices. Particular attention is still paid to products that have the strongest impact on price perception. The "Lowest Price Guaranteed" project involves weekly records of prices of these products and analyses of profit margins; both are corrected as appropriate. Prices of other products are reviewed and corrected as necessary at various time intervals as well. We continue to monitor on a monthly basis the results of consumer perception analysis.</p>
Risk of sub-optimum assortment and retail area management at the micro level	<p>We manage our assortments in compliance with the strategies and tactics laid down for individual categories. In the course of 2015, we shall continue to actively monitor our competition and the European and global trends, and fine tune our assortment management strategy accordingly.</p> <p>We continue with the project of material operation process revision which will establish complete infrastructure for effective management and maintenance of assortments and planograms. In the period 1–3, 2015, we also started to actively draw up and post our planograms.</p>
Risk of sub-optimum management of sales promotion activities	<p>Sales promotion activities are carried out consistently with the adopted marketing plan. Based on this plan, executive fields of category management and purchasing, and marketing prepare detailed quarterly activity plans. Efficiency of all activities is regularly analyzed and our competitors are monitored.</p>

FINANCIAL RISKS

These are risks pertaining to management of finance. They involve credit, interest rate, currency, liquidity, inflation, price, and other similar risks.

Financial risks

Key risk categories	Management approach to perceived risk categories
Credit risk related to legal persons	Credit risk to legal persons is the assessment of risk that the receivables resulting from deferred payment will only be paid in part or not at all. To this end, a central credit limit management system has been established for efficiency and transparency. Customer's limit is defined and monitored on a daily basis, and adjusted according to payment history and the customer's seasonal needs. Changes in the amount of credit limit are approved according to the authority matrix, while proposals for change can be either objective or subjective. Each request for change in credit limit is evaluated individually. Workflow implementation is planned for 2015, which will further automate the monitoring and changes to customer credit limits, and make it more dynamic.
Liquidity risk	Liquidity risk is the assessment of risk of a company lacking adequate funds to settle its current liabilities. In 2014, Mercator Group successfully completed the independent financial restructuring of its borrowings, which resulted in such structure and maturity profile of its debt that is sustainable in the long run and which can be repaid by Mercator. Company debt was refinanced until the year 2021. Upon acquisition of the company Mercator, d.d., by the Croatian company Agrokor, d.d., a capital increase was conducted at Mercator in the amount of EUR 200 million. Most of these funds were allocated for repayment of bank debt, which considerably cut the company's overall debt. These two events, which were the highlights of 2014 in terms of finance, greatly decreased Mercator's exposure to liquidity risk. Therefore, the company believes that this type of risks is less severe in 2015 and in the years ahead.
Currency risk at Mercator-S, d.o.o.	Foreign currency risk is the possibility of a loss of economic benefit due to a change in the EUR/RSD exchange rate. The currency RSD has seen great depreciation in the past and in 2014, it again depreciated by 5.40%. A part of the risk was mitigated by conversion of some loans in Serbia from EUR to RSD in the process of restructuring. The risk is managed by continuous monitoring and comparison of macroeconomic conditions in Serbia and Slovenia, and by identifying the relevant trends. We seek to adapt the transactions between the two companies in such way that the currency risk is alleviated or in a way that minimizes the negative impact on the economic benefits of both companies.

OPERATIONAL RISKS

These risks can threaten the operations in category management and purchasing, production, logistics, retail, and wholesale.

Operational risks in category management and procurement

Key risk categories	Management approach to perceived risk categories
Supplier failure	In 2015, we shall maintain transparent cooperation with suppliers to allow timely identification of any problems faced by them, and prompt adjustment, which will reduce the probability of 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 2014, allows faster adoption of suitable corrective measures.
Seasonal effect	Weather changes and related natural disasters – floods, extensive period of rain – have an increasingly acute effect on the sourcing process. Floods and extended rainy periods in the region in last year have resulted in lower supply of nuts in this year, which in turn has resulted in upward pressure on prices. The segment of non-alimentary seasonal products is adjusted to the needs of our customers and their purchasing power. In the first quarter of the year, we were focused on efficient management of seasonal product inventories, and the results have been positive. We carefully plan our orders of seasonal products, dates when these are first offered, and clearance sales dates, in order to reduce the risk of a drop of profit margin in this category and the risk of an increase in inventory.
Increase of tradable commodity prices	In the first quarter of this year, we closely monitored the effect of the increase of tradable commodity prices on the categories that may be subject to considerable effect from the commodity market. Upward pressure was identified on prices of olive oil and pasta as a result of higher prices of durum wheat. Due to the depreciation of the euro relative to the dollar, pressure is also on prices of products that contain cocoa, concentrated orange juice, and other commodities payable in US dollars. Stability of wheat and sugar prices is guaranteed until the next harvest by agreement on long-term purchases. In the months ahead, we shall start negotiating the agreements on the purchase of canned/preserved fruit and vegetables, pasta, and other private label products made from this year's harvests, in order to secure adequate annual amounts and stable prices.
Risks of failure to attain the planned profit margin and returns on sales promotion activities	The risk of failure to attain the planned profit margin and returns on sales promotion activities 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. We are focused on the attained profit margin on a weekly level and on the invoiced compensations to suppliers on a monthly and cumulative level. In case of identified discrepancies, measures were adopted in the period 1–3, 2015, at the level of particular products, categories, as well as assortments of particular suppliers.

Operational risks in wholesale

Key risk categories	Management approach to perceived risk categories
Receivables and disputed receivables	The following activities will be carried out by the end of 2015 to manage our credit risks pertaining to deferred payments: <ul style="list-style-type: none"> • closing of receivables according to new specification (by maturity), thus avoiding frequent automatic blocks and increase of disputed receivables; • presenting all agreements signed with respective customers to the legal sector; all receivables will be secured; • automatic block (supply restriction) for customers with receivables overdue by more than 150 days; • examining the system in which customers are proposed for enforcement subject to certain criteria; • developing a plan on cooperation with suppliers who are also our customers. All above measures will decrease the probability of new disputable receivables in the future.
Failure of the refrigeration system and electrical wiring	We have prepared instructions for use of refrigeration equipment. All shop managers and employees at Cash & Carry units have been informed about the instructions.

SUPPORT RISKS

These risks pertain to employees, legal affairs, property and equipment management, IT support, and management of loss events.

IT risks

Key risk categories	Management approach to perceived risk categories
Failure of the central information systems (SAP, GOLD, Login, Hubie, e-mail etc.)	<p>Following the merger of the Mercator Group companies to the Agrokor Group, several projects are in progress involving central IT systems as a part of consolidation and adjustment to new corporate policies. We are aware of the risk that poorly executed activities could have a negative effect on our operations.</p> <p>An initiative was launched within the company Mercator, d.d., to improve the efficiency of management of the changes to the central IT systems. Consolidation of requirements for changes has been completed in all key IT systems. Moreover, an advanced IT solution is being established to support the management of such changes.</p> <p>Organization of departments managing the IT infrastructure at Mercator, d.d., has been adjusted. This has resulted in faster resolution of non-compliance and failures resulting from adjustment of IT infrastructure to the corporate group and its policies.</p> <p>Environment for more advanced IT equipment error reporting has been developed, which allows structured reports of incidents in retail and more complex analysis of such errors.</p> <p>The project of IT Service Management (ITSM) principles implementation at the company Mercator, d.d., continues. The project involves optimization of management processes for IT assets, changes, and problems, as well as implementation of an IT solution to support these processes. Moreover, information on fixed and other IT assets is being reviewed, edited, and organized.</p>
This is the risk of incorrect data in central or retail systems as a result of a failure in the procedures transferring and processing the data, or due to a system breach	<p>The implementation of IT Service Management (ITSM) principles at the company Mercator, d.d., is also carried out in order to mitigate the risk of false data. With regard to this risk, the project involves optimization of the problem management process, and IT solution to support this process is being implemented. When the process is standardized and the IT solution is implemented, this process will allow identification of weaknesses in procedures in which information on sales is managed (prices and special offers).</p>
Operational failure of a third of the business IT system clients (personal computers, laptops)	<p>The implementation of IT Service Management (ITSM) principles at the company Mercator, d.d., is also carried out in order to mitigate the risk of failure of a part of the clients of the business IT system. With regard to this risk, the project involves optimization of the IT asset management process, and IT solution to support this process is being implemented. When the process is standardized and the IT solution is implemented, advanced records of business IT system clients will be established within the process, which will include information on assets, as well as key infrastructural information regarding these assets. Advanced records will allow recording and monitoring failures on each asset, and an advanced analysis of events on these clients.</p>

COMPLIANCE RISKS

These risks pertain to compliance with the requirements of the accounting legislation and standards, tax requirements, occupational health and safety, requirements regarding health compliance and safety of food in production and trade, and risks related to identified environmental aspects.

Environmental risks

Key risk categories	Management approach to perceived risk categories
Electrical energy	<p>A large number of Mercator business units require clearly specified activities for optimizing the use of electric power. The project of detailed monitoring and efficient use of energy, conducted with a third-party partner/contractor involved installation of energy meters on 19 facilities. In the future, we are planning to include the said facilities in the energy accounting system, to install additional meters, and to develop projects for efficient use of energy. The goal is to cut power consumption by 1% annually.</p> <p>Moreover, activities were in place for more rational power consumption at the main office building where all employees were informed in an internal news bulletin about the change in the heating and air conditioning regime and about the general measures for more efficient use of energy.</p>

FINANCIAL MANAGEMENT

Stable Financial Operations

As at March 31, 2105, Mercator Group net financial debt amounted to EUR 835,418 thousand, which is 6.3% more than as at the end of 2014, and 14.3% less than as at March 31, 2014. The increase in net financial debt real to the end of 2014 is mostly related to drawing on available long-term credit lines with banks. Higher borrowings are a result of higher needs for working capital in the period 1–3, 2015.

in EUR thousand	March 31, 2015	Dec. 31, 2014	March 31, 2014	Index March 31, 2015/ Dec. 31, 2014	Index March 31, 2015/ March 31, 2014
Non-current financial liabilities	836,297	806,640	327,770	103.7	255.1
Current financial liabilities	45,117	42,998	705,766	104.9	6.4
Derivative financial instruments (liabilities)	0	0	537	-	-
Financial liabilities including derivative financial instruments	881,414	849,638	1,034,073	103.7	85.2
Cash and cash equivalents	15,070	34,223	13,880	44.0	108.6
Derivative financial instruments (assets)	0	0	6	-	-
Available-for-sale financial assets	1,178	1,178	820	100.0	143.7
Loans and deposits	29,748	28,262	44,684	105.3	66.6
Financial assets	45,996	63,663	59,390	72.2	77.4
NET FINANCIAL DEBT	835,418	785,975	974,683	106.3	85.7

Financing costs

In the period 1-3, 2015, the 6-month EURIBOR averaged at 0.125%. At the end of the period, it was at no more than 0.087%. Compared to the equivalent period of 2014 when the 6-month EURIBOR averaged at 0.397%, this rate rose by 0.272 percentage point.

Debt to equity and financial liability ratio

As at March 31, 2015, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.33. The ratio is a quotient between equity and net financial debt.

As at March 31, 2015 the maturity profile of Mercator Group's financial liabilities amounted to 94,9%, which is equivalent to the financial liability ration as at December 31, 2014.

Following the restructuring of the company Mercator, d.d., all financial liabilities of the company are variable and tied to the Euribor.

Available liquidity lines as at March 31, 2015

As at March 31, 2015, Mercator Group had access to the following liquidity lines:

in EUR thousand	March 31, 2015
Cash and cash equivalents	15,070
Standby revolving credit lines	16,228
Total	31,298

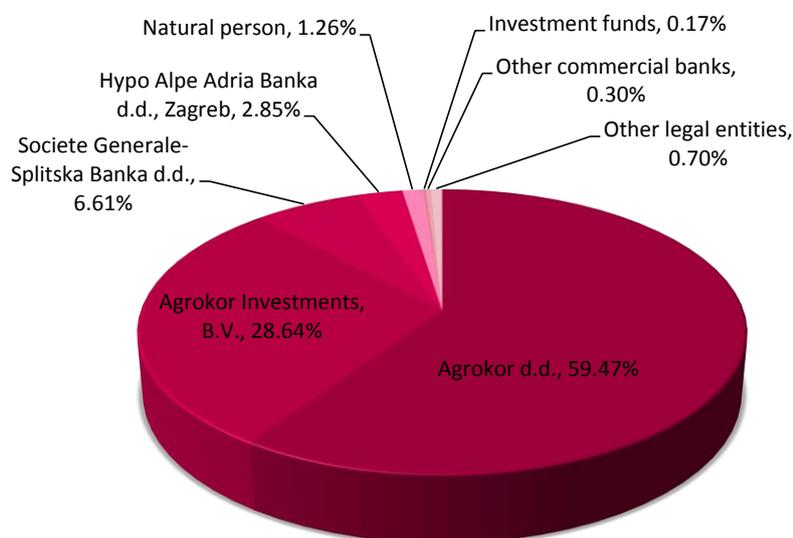
MERCATOR SHARE AND INVESTOR RELATIONS

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at March 31, 2015

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljana Stock Exchange
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of treasury shares	42,192
Number of shareholders	2,604

Ownership structure of the company Poslovni sistem Mercator, d.d., as at March 31, 2015



Major Shareholders

As at March 31, 2015 the following ten largest shareholders held a combined share of **98.36%** of the company.

Major Shareholders	Country	Number of shares	Share
1 Agrokor d.d.	Croatia	3,621,992	59.47%
2 Agrokor Investments B.V.	Netherlands	1,744,187	28.64%
3 Societe Generale - Splitska Banka d.d.	Croatia	402,689	6.61%
4 Hypo Alpe-Adria-Bank d.d	Croatia	173,434	2.85%
5 Galić Josip	Croatia	21,525	0.35%
6 Erste Group Bank AG	Austria	13,148	0.22%
7 Gustavia Balkan	Sweden	10,000	0.16%
8 Horvat Jože	Slovenia	1,238	0.02%
9 Clearsteam Banking SA	Luxembourg	1,170	0.02%
10 Banque Pictet and Cie SA	Switzerland	1,107	0.02%
Total		5,990,490	98.36%

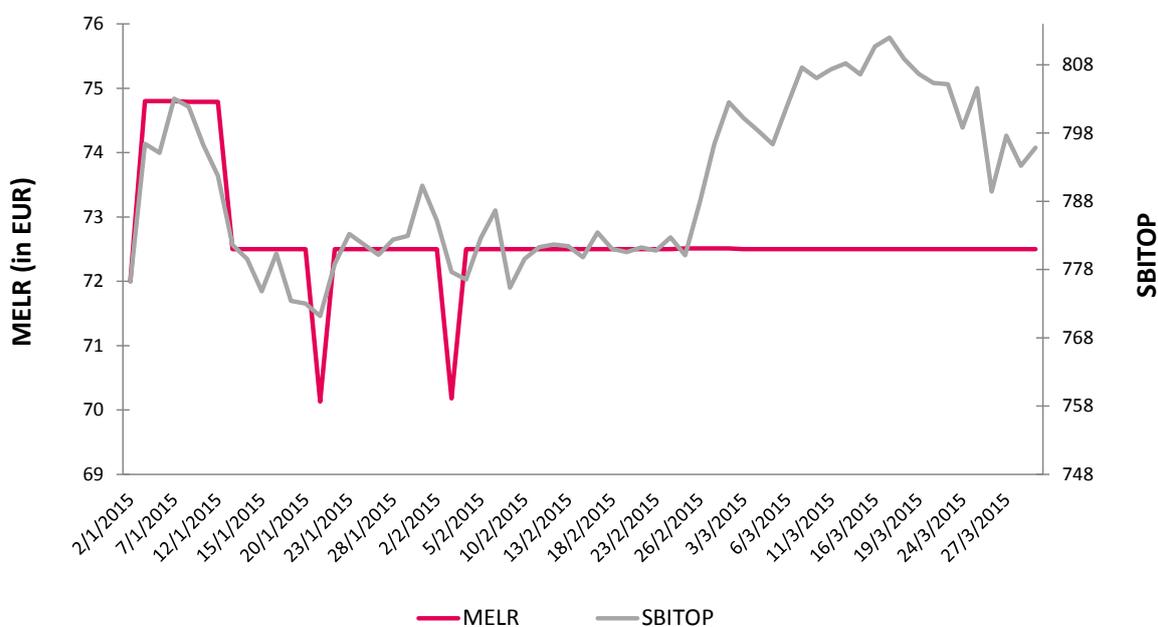
Shares held by Management and Supervisory Board Members as at March 31, 2015

	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 Todorčić	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	Veljko Tatič	Supervisory Board member	0	0.0000%
8	Vesna Stojanovič	Supervisory Board member	0	0.0000%
9	Ivan Valand	Supervisory Board member	0	0.0000%
Total			0	0.0000%

Foreign shareholders

As at March 31, 2015, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.42%**, which is 71.78 percentage point more than at March 31, 2014.

Movement of closing price per MELR share in the period 1-3 2015, compared to the movement of the SBITOP index



Key information for the shareholders

	March 31, 2015	March 31, 2014	Index March 31, 2015/ March 31, 2014
Number of shares entered into the court register	6,090,943	3,765,361	161.8
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	441,593,368	263,575,270	167.5
Market price per share (in EUR)	72.50	70.00	103.6
Share book value (in EUR)	107.01	154.40	69.3
Minimum close rate in the period (in EUR)	70.13	66.01	106.2
Maximum close rate in the period (in EUR)	74.80	84.50	88.5
Average close rate in the period (in EUR)	72.64	72.21	100.6
Earnings per share (v EUR)*	5.9	(4.1)	-

* The indicator is adjusted to the annual level.

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

The company Mercator, d.d., generated negative result in 2014, because of this no dividend payment is planned for 2015.

Treasury shares

As at March 31, 2015, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1-3 2015, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

Changes in ownership structure

On February 25, 2015 the company Agrokor, d.d., acquired additional 581,395 shares of the issuer company Mercator, d.d., by concluding the purchase and sale contract of shares with the company Agrokor Investments B.V. Thereby, the share of the company Agrokor, d.d., in the company Mercator, d.d., has increased from 49.92% to 59.47%, and the share of the company Agrokor Investments B.V., in the company Mercator, d.d., has decreased from 38.18% to 28.64%. Common share of companies Agrokor, d.d., and Agrokor Investments B.V., in the company Mercator, d.d., amounts to 88.10% and has not changed. Also 88.72% share of their voting rights has stayed unchanged.

SUSTAINABILITY REPORT

At Mercator, we are aware of the importance of our effect on the environment into which we are integrated, and on our stakeholders. Our loyal customers are at the heart of our efforts. All Mercator employees to their best every day to provide a quality and pleasant shopping experience for them. Our suppliers are an important link in our activities. We seek to maintain long-term cooperation with them, based on transparent communication and mutual trust. Responsible and sustainable operations are not restricted merely to our stores and trade activities. Rather, we also take part in the broad social life. With our sponsorships, donations, and other charity campaigns we seek in particular to help the broad society in today's harsh economic conditions, and to contribute to more optimism for the future.

RESPONSIBILITY TO CUSTOMERS

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

The "Locally Grown" project continues to involve agreements with growers on larger purchasing volumes for Slovenian fruit and vegetables. We work with the growers to provide an increasingly broad offer for our customers, with a variety of sorts of Slovenian fruit and vegetables. The project contributes to preservation of the environment and provides a faster route to our stores, aisles, and shelves for the growers.

The project places great emphasis on increasingly broad offer of Slovenian fruit and vegetables at the Locally Grown marketplaces; on new and innovative products made of Slovenian wheat, by the Grosuplje Bakery; on offer of meat raised in Slovenia, which is included in the regular offer at our meat departments; and broad offer of meat and dairy products made of 100% Slovenian milk.

Care for food safety

In the period 1-3, 2015, we carried out 177 regular and 7 extraordinary controls at our stores. In order to offer safe, compliant, and quality products to our consumers, we analyzed 159 specimens or samples from our private label line, conducted monitoring on 189 samples in our open departments, and carried out 21 other analyses (government control, in-house production, own imports etc.).

RESPONSIBILITY TO EMPLOYEES

In 2014, processes of restructuring and reorganization were in progress, aimed at the implementation of more efficient work processes, shrinking the scope of administration work, and cutting of labour costs. These processes are carried on in 2015. Nevertheless, we are aware that the employees are at the heart of our operations. They contribute greatly to customer satisfaction and to success of the pursuit of Mercator's business goals.

On January 29, 2015, the new company-wide collective labour agreement was signed at Mercator - S, d.o.o. Employees of Idea stores were transferred to fixed salary calculation. As at March 31, 2015, the company had 200 employees with a certified category of disability, which accounts for 51.15% of all employees.

At the company Mercator - H, d.o.o., the first quarter was characterized by further integration processes involving companies of the Agrokor Group. Six employees were transferred to the company Konzum, d.d., and five were transferred to mStart, d.o.o. At the same time, nine retail units were divested. Wherever possible, new employers were sought to take over the employees. Thus, 42 employees were transferred to our competitor Pevec, d.d.; 14 were transferred to Metss, d.o.o.; while others were made redundant.

At Mercator - BL, d.o.o., variable part of the salary was introduced for employees in administration. Two new sets of rules and regulations were adopted on the systematization of jobs and payroll accounting.

Number of employees

	Number of employees as at March 31, 2015	Number of employees as at December 31, 2014	Index number of employees March 31, 2015/ December 31, 2014	Number of employees based on hours worked in the period Jan-Dec 2015
Slovenia	11,040	11,101	99.45	10,195
Serbia	8,731	8,880	98.32	8,498
Montenegro	1,111	1,239	89.67	1,050
Croatia	962	1,207	79.70	976
Bosnia and Herzegovina	199	216	92.13	189
TOTAL	22,043	22,643	97.35	20,908

Caring for development, motivating, and connecting our employees

In the period at hand, Mercator Group held 21,872 hours of training and education that involved 5,228 employees.



The Retail Succession Project at the parent company involved the launch of the Retail Academy that includes 69 employees who we believe have the potential and the ambition to be promoted to a shop manager. Training is supported with individual *coaching* sessions for all program participants, provided by our internal coaches.

A comprehensive training and education package has been prepared for retail unit managers, spanning 32 academic hours. The goal of the program is to allow the new employees to meet and connect, to regulate workplace stress, and to improve management and communication skills. We are looking to activate the potential of the participants, encourage them to seek their own solutions and to improve the quality of interpersonal relations.

Seven executive directors from the parent company opted for the *executive coaching*.



The Selling Skills Development project has also come to life at the Modiana and Tehnika divisions in Slovenia. In March, we launched the two-day workshops which are to be attended by 662 employees from the Tehnika division and 311 employees from the Modiana division by the end of June. We have issued manuals "I am an excellent salesperson and consultant" for participants from the Tehnika division, and "I am an excellent salesperson and stylist" for participants from Modiana.



In mid-January, we held an open-door day in Slovenia for high-school students of the programs butcher, and meat and meat processing. We were visited by 67 students who were presented the concept of Mercator butcher's shop concept by our expert on meat. Our expert also presented more closely the vocation of a butcher from the perspective of a butcher-salesperson. High school students were offered a scholarship to ease the financial burden of education and to make sure there are enough good butchers and meat experts at our stores in the future. We have already signed a scholarship agreement with one of the students.

An educational centre was built and equipped in Novi Sad, Serbia. The Idea Portal was upgraded and a new hiring/employment application was launched. Coaching network for administrative support was also established.

At Mercator - BL, d.o.o., we worked with internal resources to carry out retail employee training aimed at improving the quality of services and selling skills.

Employees from the company Mercator - Emba, d.d., are being 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, we thoroughly revised the induction manual called Handbook for Newcomers, which helps every newly hired employee to learn about Mercator. The 11th print of the manual will include 300 copies.

Coaching network at the company Intersport ISI, d.o.o., has continued good work in retail for successful communication and establishment of better relations with customers during the sales process.

At Intersport ISI, d.o.o., top six employees in retail and the best employee in logistics are rewarded each month.

In Slovenia, Mercator Humanitarian Foundation provided aid to 47 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 26,545. We also granted five social scholarships for children of our employees, in the total amount of EUR 1,500. In Serbia, the Mercator Solidarity Foundation provided aid in the amount of EUR 7,802 to 18 employees. In Montenegro, the Solidarity Foundation helped 8 employees by providing aid in the total value of EUR 1,100. In Croatia, the Solidarity Foundation paid out a total of EUR 4,316 to 9 employees.

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 quarterly or upon change of the heating and air conditioning regime via the intranet portal about such changes and on the compliance with the instructions provided in the manual on efficient use of energy.

Report on environmental aspects (energy sources) is development 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.

Operation of refrigeration equipment is monitored at 51 facilities that are included in the "Retail Care" project. Optimization has resulted in a decrease of refrigeration equipment power consumption by approximately 13% on average.

Our electricity and heating costs are lower due to the operation of 24 combined heat and power generation units that we have installed to this end.

The project of upgrading the current energy accounting with a more detailed targeted power consumption monitoring and implementation of measures for efficient use of energy in cooperation with a third-party contractor Marked Energea involved installing energy meters on 19 facilities. In the future, these facilities are planned to be included in the energy accounting system. In the next step, meters will be installed at other planned facilities and project for efficient use of energy will be carried out.

Our goal at Mercator is to cut power consumption by 1% annually.

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 mitigated negative impact on the environment.

We have evaluated the environmental risks for 2015. These are risks related to the identified environmental aspects at the Mercator Group, such as use of raw materials and energy, emissions into the air, wastewater emissions, solid waste etc. The greatest environmental risks identified for 2015 were risks related to electricity, heating, and waste management. The only critical risk identified pertained to the aspect of electric energy. This risk is related to inefficient use of electric energy due to suboptimal design of business processes and

technologies employed. Two resolutions were adopted, complete with measures to mitigate the effects of the critical environmental risk.

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 seven units and provided waste bins for small waste packaging and biological waste, and thereby **cut the mixed municipal waste handling costs by EUR 8 thousand per year**.

We continue to work with the **recycling and reuse center "Center za ponovno uporabo"** (CPU), providing it with damaged products that are prepared at the CPU for reuse with minor repairs and innovative refurbishment. Moreover, we are reducing the amounts of generated waste and we **manage our resources and raw materials responsibly**.

We have signed an agreement with the certified noise measurement authority to **measure the emission of noise into the natural environment** at 200 locations. The measurements, which are mandatory every three years, will start as soon as all conditions for correct measurement are met (weather conditions and full operation of all sources of noise).

First **wastewater analyses** were made at the Grosuplje Bakery plant in order to identify all types of waste water (municipal wastewater or industrial wastewater).

In order to efficiently manage our environmental aspects, we have prepared and standardized our **technological procedure of medical waste management** and updated the **Instructions for entering the product environmental data** into the GOLD application.

Customs duty and tax inspection was carried out, which included a review of **environmental charges** with regard to which no irregularities were identified.

Environment Protection Inspectorates of the Republic of Slovenia conducted three **inspections**. No irregularities were found in any of them.

Sustainable logistics and supply chain organization

The basic mission of the field of Supply Chains at Mercator, d.d., remains efficient supply of goods, or merchandise, to delivery points, to our sales network, and to our external customers. Logistics infrastructure is available to us – warehouses and means of transport. Adequate operation of both is inevitably related to the use of several fuels or energy sources, which in turn poses a burden for the environment.

Compared to the year before, energy and fuel consumption related to the operation of warehouse infrastructure did not change in the first quarter of 2015 as capacities of the warehouses used have not changed. Physical volume of preparation and distribution of trade goods/merchandise in the first quarter remained comparable to the equivalent period of the year before. In March 2015, a major part of the material flow from the fresh milk and dairy product program distribution was integrated into the centralized own distribution. This material flow had previously been organized partly with direct deliveries from the suppliers, and partly by a logistics partner. Redirecting the distribution of fresh milk and dairy products was completed at the end of March 2015. We fully used our existing in-house logistics capacity, and this will not increase the use of energy resources.

Use of transport capacity in the first quarter of 2015 remains comparable to last year's equivalent period. Slight increase in the number of kilometers covered is consistent with greater number of goods deliveries. Both are a result of gradual integration of the fresh milk and dairy product program distribution, completed in several stages. As a result, redirecting the distribution will decrease the transport capacity of our direct supplier and or logistics partner.

In the first quarter of 2015, we have maintained the favourable trend in the usage of freight vehicles. Compared to last year's corresponding period, transport capacity usage is better by 1.2 percent.

RESPONSIBILITY TO SOCIAL ENVIRONMENT

Donations and sponsorships

In 2015, Mercator Group continues to pursue the tradition of prompt response to the needs of local environments in which we operate, in keeping with our slogan of the best neighbour. We respond to all applications submitted by societies, organizations, clubs, and individuals. Considering the current harsh social and economic situation in the country, our funds are primarily allocated to humanitarian projects. In the first three months of 2015, we supported **over 400 different humanitarian, cultural, educational, and sports projects.**

Donating food surpluses for hot meals

In 2015, we continue the Food Surplus project. Thus, volunteers of the Lions Clubs from Celje, Maribor, Trbovlje, Velenje, Koper, Domžale, Brnik, and Slovenj Gradec, and the Cenacolo Community collect food every evening from 20 stores across Slovenia.

Donations at re-openings of refurbished neighbourhood stores

Upon reopening of each of six neighbourhood stores, we donated EUR 1,000 to Kindergarten Jesenice, Kindergarten Mavrica Izola, Kindergarten Urša, Kobarid Tourism Society, Volunteer Firefighter's Society Podpeč, and Sonček VDC Maribor.



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



Sponsorship

In sports, we sponsored the Slovenian Olympic Committee, Handball Club Krim Mercator, Handball Club Celje Pivovarna Laško, Football Association of Slovenia, Football Club Maribor, Ski Jumping Club Ilirija, wheelchair basketball team of the Ljubljana Region Society of Paraplegics, and stand-up paddle surfer Manca Notar. We are also traditional supporters of the Ptuj's "kurentovanje" carnival, and we are the sponsor of the Sales Summit conference.



Competition protection and legal proceedings

In accordance with the global policy of the company Mercator, d.d., and its subsidiaries, the conduct of Mercator employees, representatives, and proxies, regardless of their location, shall comply with the relevant and binding legislation, rules, and regulations in all fields of work. A part of this commitment represents respecting the legislation on competition and trade regulations that serve the purpose of effective competition in the market both in Slovenia and abroad.

To maintain compliance of its operations in the business and broad social environment, Mercator adopted internal binding guidelines specifying the conduct to prevent corruption, conflict of interests, money laundering etc., and established a mechanism for identification of any disputable practices at the company.

RESPONSIBILITY TO SUPPLIERS

At Mercator, we work with domestic suppliers to offer our customers as much locally grown produce as possible. By expanding Slovenian and local offer for our consumers, we increase the rate of self-sufficiency in Slovenia. We work with proven suppliers who can provide traceability for their products.

Fresh fruit and vegetables of Slovenian origins

We work with over 100 local suppliers of fruit and vegetables, individual growers, and growers included in agricultural cooperatives. In the period 1–3, 2015, we negotiated the purchase volumes for this year. The amounts purchased from all of the above are increasing. In 2015, we will increase the purchase of Slovenian apples, while the purchase of horseradish has decreased.

Produce by Slovenian growers of fruit and vegetables are offered at marketplaces branded "Locally Grown". Consumers can use their mobile devices to scan the QR codes on the tags next to the fruit and vegetables from local growers, and access information on each individual grower. Select growers are also presented at the stands and shelves offering their produce.

For the customers, there are numerous advantages of working with local suppliers. Slovenian fruit and vegetables are fresh and of high quality. Origin is reviewed and guaranteed. Vegetables are grown in soil, picked at maturity, and delivered to our aisles within 48 hours. Due to short transport route and suitable ripeness, it has higher nutritional value, more vitamins, and more pronounced aroma and flavour.

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/medical standards.

Higher quality and safety of Slovenian beef and pork is guaranteed by specially indicated protected farming methods that guarantee safe and healthy meat, and provide super-standard traceability with sustainable raising, often indicated as free-range, which points to care for the environment and well-being of animals. This provides a system of food safety in compliance with international standards.

Raising of Slovenian poultry is also under continuous veterinary control. Poultry growers are educated and have a high level of awareness. They use natural and not genetically modified feed of exclusively plant origin. Control of the processes in raising, processing, and distribution of poultry meat is comprehensive and high quality and safety of products are proven with relevant certificates.

Milk and dairy products made of 100% Slovenian milk

Thirteen Slovenian suppliers of milk and dairy products have committed to deliver selected milk and dairy products made of 100-percent Slovenian milk. Dairy products made of 100% Slovenian milk are also supplied by smaller dairies.

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.

At Mercator, we work with dairies to guarantee quality, safety, and traceability of milk and dairy products by Slovenian producers. We manage the parameters that have a notable effect on food safety provision: origin, quality and safety of the base raw material, raising and processing process, suitability of packaging, and transport of final products. All processes of processing and sale are under strict supervision of the national and European inspection authorities.

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.

No external audits were completed in the period 1–3, 2015.

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. New document management application was accepted well by the employees, as it is more user-friendly than the previous one.

As at March 31, 2015, Mercator Standards Collection included 2,936 valid documents. In the period 1-3, 2015, we published 262 new or revised documents; 267 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 used at all Mercator Group companies. Continuous improvement process is consistent with the adopted strategy, based on the findings of third-party control, internal control, customer and employee satisfaction analyses, councils and workgroups, and improvement proposals provided by those conducting the processes.

System operation is being expanded to various fields of application. Currently, 19 fields of sources of reports are being monitored. In February, 114 risk mitigation measures were adopted via the application, defined based on risk analysis for 2015. We are also completing the project of internal supplier assessment which resulted in 305 implemented measures last year.

In the period 1-3, 2015, 488 measures were processed by the application, of which 323 were resolved. Ninety-nine percent of proposing entities were happy with the solutions for the measure; 69% of all measures were resolved before the deadline.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2015 have been prepared in compliance with International Financial Reporting Standards and they are unaudited. In the period 1–3, 2015, Mercator Group changed the method of reporting its expenses related to revaluation adjustments and write-offs of receivables, by transferring them from finance expenses to selling costs. As a result, the key information for the period 1–3, 2014, is presented in a comparable manner.

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 1-3 2015 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, and Investment Internacional, d.o.o.e.l., Macedonia;

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

Condensed consolidated statement of financial position

EUR thousand	March 31, 2015	Dec. 31, 2014	Index March 31, 2015/ Dec. 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	1,603,644	1,618,839	99.1
Investment property	3,467	3,494	99.2
Intangible assets	16,485	16,764	98.3
Deferred tax assets	22,303	22,301	100.0
Loans and deposits	26,049	25,015	104.1
Available-for-sale financial assets	1,178	1,178	100.0
	1,673,126	1,687,591	99.1
Current assets			
Inventories	258,598	257,323	100.5
Trade and other receivables	297,980	254,286	117.2
Current tax assets	439	702	62.5
Loans and deposits	3,699	3,247	113.9
Cash and cash equivalents	15,070	34,224	44.0
	575,786	549,782	104.7
Total assets	2,248,912	2,237,373	100.5
EQUITY			
Share capital	254,175	254,175	100.0
Share premium	286,772	286,772	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	41,686	41,686	100.0
Fair value reserve	115,411	115,411	100.0
Retained earnings	15,868	(53,485)	-
Profit (loss) for the period	4,082	69,353	5.9
Currency translation reserve	(88,833)	(89,215)	99.6
Total equity attributable to equity owners of the Company	625,926	621,462	100.7
Non-controlling interests	200	215	93.0
Total equity	626,126	621,677	100.7
LIABILITIES			
Non-current liabilities			
Trade and other payables	30,927	6,765	457.2
Financial liabilities	836,297	806,640	103.7
Deferred tax liabilities	30,404	30,392	100.0
Provisions	20,581	20,706	99.4
	918,209	864,503	106.2
Current liabilities			
Trade and other payables	658,020	707,657	93.0
Current tax liabilities	1,440	538	267.7
Financial liabilities	45,117	42,998	104.9
	704,577	751,193	93.8
Total liabilities	1,622,786	1,615,696	100.4
Total equity and liabilities	2,248,912	2,237,373	100.5

Condensed consolidated income statement

EUR thousand	1-3 2015	Plan 2015	1-3 2014	Index 1-3 2015/ 1-3 2014	Index 1-3 2015/ Plan 2015
Revenue	628,721	2,854,401	624,840	100.6	22.0
Cost of goods sold and selling costs	(600,667)	(2,686,856)	(609,421)	98.6	22.4
Administrative expenses	(20,445)	(73,824)	(19,120)	106.9	27.7
Other income	4,568	9,762	7,894	57.9	46.8
Results from operating activities	12,177	103,483	4,193	290.4	11.8
Finance income	1,201	2,951	1,271	94.5	40.7
Finance expenses	(7,968)	(37,957)	(14,002)	56.9	21.0
Net finance expense	(6,767)	(35,006)	(12,731)	53.2	19.3
Profit (loss) before tax	5,410	68,477	(8,538)	-	7.9
Tax expense	(1,344)	(8,825)	-	41.8	15.2
Profit (loss) for the period	4,066	59,652	(8,538)	-	6.8
Profit (loss) for the period attributable to:					
Owners of the parent company	4,082	59,672	(8,532)	-	6.8
Non-controlling interests	(16)	(20)	(6)	262.4	78.7

Condensed consolidated statement of comprehensive income

EUR thousand	1-3 2015	1-3 2014	Index 1-3 2015/ 1-3 2014
Profit (loss) for the period	4,066	(8,538)	-
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss	383	(1,897)	-
Foreign currency translation differences - foreign operations	383	(2,819)	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges (effective hedging)	-	922	-
Other comprehensive income for the period	383	(1,897)	-
Total comprehensive income for the period	4,449	(10,435)	-
Total comprehensive income for the period attributable to:			
Owners of the parent company	4,464	(10,430)	-
Non-controlling interests	(15)	(5)	309.1

Condensed consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2014	157,129	198,872	(3,235)	146,656	140,587	(63,887)	18,695	(80,623)	514,194	100	514,294
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(8,532)	-	(8,532)	(6)	(8,538)
Other comprehensive income	-	-	-	-	922	-	-	(2,820)	(1,898)	1	(1,897)
Total comprehensive income for the period	-	-	-	-	922	-	(8,532)	(2,820)	(10,430)	(5)	(10,435)
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	18,695	(18,695)	-	-	-	-
Balance at March 31, 2014	157,129	198,872	(3,235)	146,656	141,509	(45,192)	(8,532)	(83,443)	503,764	95	503,859

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	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, 2015	254,175	286,772	(3,235)	41,686	115,411	(53,485)	69,353	(89,215)	621,462	215	621,677
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	4,082	-	4,082	(16)	4,066
Other comprehensive income	-	-	-	-	-	-	-	382	382	1	383
Total comprehensive income for the period	-	-	-	-	-	-	4,082	382	4,464	(15)	4,449
Transactions with owners of the parent company directly recognized in equity											
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	69,353	(69,353)	-	-	-	-
Balance at March 31, 2015	254,175	286,772	(3,235)	41,686	115,411	15,868	4,082	(88,833)	625,926	200	626,126

Consolidated cash flow statement

EUR thousand	1-3 2015	1-3 2014	Index 1-3 2015/ 1-3 2014
Cash flows from operating activities			
Gross cash flows from operating activities	29,155	21,623	134.8
Change in inventories	(1,275)	19,390	-
Change in trade and other receivables	(43,237)	22,970	-
Change in trade and other payables	(23,910)	(48,261)	49.5
	(39,267)	15,722	-
Interest paid	(7,348)	(11,095)	66.2
Income tax paid	(1,344)	-	-
Net cash from operating activities	(47,959)	4,627	-
Cash flows from investing activities			
Acquisition of property, plant and equipment and investment property	(5,943)	(2,859)	207.9
Acquisition of intangible assets	(808)	(351)	230.2
Loans and bank deposits made	(1,486)	(2,075)	71.6
Transaction costs related to loans	-	(1,755)	-
Proceeds from sale of subsidiaries, net of cash disposed of	-	550	-
Proceeds from sale of property, plant and equipment and investment property	4,561	954	478.1
Interest received	735	691	106.4
Net cash used in investing activities	(2,941)	(4,846)	60.7
Cash flows from financing activities			
Increase (repayment) in borrowings	31,776	(4,272)	-
Dividends paid	-	(1)	-
Net cash from (used in) financing activities	31,776	(4,273)	-
Net (decrease) increase in cash and cash equivalents	(19,124)	(4,491)	425.8
Cash and cash equivalents at the beginning of the year	34,224	18,505	184.9
Effect of exchange rate fluctuations on cash and cash equivalents held	(30)	(134)	22.4
Cash and cash equivalents as at the end of the period	15,070	13,880	108.6

Notes to Mercator Group condensed consolidated financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1–3, 2015, Mercator Group generated EUR 628,721 thousand of revenue, which is 0.6% more relative to the period 1–3, 2014. Revenue dropped by 0.5% in Slovenia and increased by 2.1% in international markets. In Slovenia, the largest drop in revenue relative to the equivalent period of last year was seen in textile/apparel program and home product program. Sales in fast-moving consumer goods retail rose by 0.7%. In markets beyond Slovenia, change in revenue differs by countries. Revenue was up in Serbia as a result of the takeover of the activities of the company Idea, d.o.o., while revenue in Croatia, Bosnia and Herzegovina, and Montenegro dropped.

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 600,667 thousand in the period 1-3 2015, which is a 1.4-percent decrease on the same period of last year.

Cost of goods sold was lower by 2.4% relative to last year.

Administrative expenses

Mercator Group's administrative expenses in the period 1–3, 2015, amounted to EUR 20,445 thousand, which is 6.9 percent more than in the equivalent period last year. Increase in administrative expenses is mostly related to losses from divestment of property, plant, and equipment, which are reported as a part of these expenses.

Total expenses, consisting of selling and marketing costs, production costs (included in costs of sales), and administrative expenses amounted to EUR 155,806 thousand in the period 1–3, 2015, which is on a par with the last year's figure. All categories of costs were decreased. Labour costs were cut by 5.1% in the period 1-3 2015 relative to the last year's comparable period.

Results from operating activities

In the period 1-3 2015, Mercator Group's result from operating activities amounted to EUR 12,177 thousand.

Net finance expenses

Net finance expenses are lower by EUR 5,964 thousand relative to the last year's equivalent period, which is mostly the result of lower interest expense and currency translation differences.

Profit before income tax

In the period 1–3, 2015, Mercator Group's profit before income tax was at EUR 5,410 thousand.

Profit for the financial period

Mercator Group's net profit for the period 1–3, 2015, amounted to EUR 4,066 thousand.

EBITDA

Mercator Group EBITDA in the period 1–3, 2015, amounted to EUR 30,955 thousand which is 41.4% more than in the equivalent period of last year.

EBITDAR

EBITDAR for the period 1–3, 2015, amounted to EUR 50,159 thousand which is 41.8% more than in the equivalent period of last year.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at March 31, 2015, amounted to EUR 2,248,912 thousand, which is EUR 11,539 thousand more than at the end of 2014, mostly due to higher trade and other receivables and other receivables to Agrokor Group companies.

As at March 31, 2015, the value of Mercator Group non-current assets amounted to EUR 1,673,126 thousand, which is EUR 14,465 thousand less than as at December 31, 2014. The largest share of non-current assets (97.0% or EUR 1,623,596 thousand) is represented by property, plant, and equipment, the value of which was EUR 15,496 thousand lower than as at the end of 2014 as a result of lower investment which was lower than depreciation.

As at March 31, 2015, the value of Mercator Group current assets amounts to EUR 575,786 thousand, which is EUR 26,004 thousand more than at the end of 2014. Trade and other receivables represent the largest portion of total current assets (51.8%), followed by inventories (44.9%). Trade and other receivables increased by EUR 43,694 thousand in the period 1–3, 2015, as a result of seasonal effect and due to change in business model in Croatia and Bosnia and Herzegovina, where core activity becomes real estate management towards the companies in Agrokor Group and external tenants.

Equity and liabilities

As at March 31, 2015, Mercator Group equity amounted to EUR 626,126 thousand, which is EUR 4,449 thousand, or 0.7%, more than as at the end of 2014. The increase pertains to net profit in the amount of EUR 4,066 thousand, and positive currency translation differences in translation of international subsidiaries, amounting to EUR 383 thousand.

As at March 31, 2015, total financial liabilities amounted to EUR 881,414 thousand, which is EUR 31,776 thousand more than as at the end of 2014. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group financial liabilities and financial assets, amounted to EUR 835,418 thousand as at March 31, 2015 (December 31, 2014: EUR 785,974 thousand).

The share of long-term financial liabilities as at March 31, 2015, amounted to 94.9% (94.9% as at December 31, 2014).

As at March 31, 2015, provisions amounted to EUR 20,581 thousand. Compared to the end of 2014, provisions decreased by EUR 125 thousand, mostly due to currency translation differences.

Trade and other payables as at March 31, 2015, amounted to EUR 688,947 thousand, which is EUR 25,475 thousand less than at the end of 2014. The decrease in trade payables results from improvement of liquidity, which in turn is the effect of the agreement of financial restructuring, changed legislation in Slovenia and termination of retail activities in Croatia and Bosnia and Herzegovina.

As at March 31, 2015, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 92.3%, which is 4.2 percentage points more than as at the end of 2014.

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/controlling company of a group of associated companies headquartered 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.

Condensed statement of financial position

EUR thousand	March 31, 2015	Dec. 31, 2014	Index March 31, 2015/ Dec. 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	871,402	877,304	99.3
Investment property	3,467	3,494	99.2
Intangible assets	9,119	9,244	98.6
Deferred tax assets	20,236	20,236	100.0
Loans and deposits	9,852	9,925	99.3
Investment into equity of subsidiaries	386,168	386,169	100.0
Available-for-sale financial assets	1,053	1,053	100.0
	1,301,297	1,307,425	99.5
Current assets			
Inventories	123,557	118,710	104.1
Trade and other receivables	121,270	99,519	121.9
Current tax assets	42	42	100.0
Loans and deposits	94,956	78,567	120.9
Derivative financial instruments	-	-	-
Cash and cash equivalents	8,268	18,571	44.5
	348,093	315,409	110.4
Total assets	1,649,390	1,622,834	101.6
EQUITY			
Share capital	254,175	254,175	100.0
Share premium	286,772	286,772	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	16,624	16,624	100.0
Fair value reserve	84,865	84,865	100.0
Retained earnings	-	-	-
Profit (loss) for the period	8,056	-	-
Equity	647,257	639,201	101.3
LIABILITIES			
Non-current liabilities			
Trade and other payables	7,980	5,354	149.0
Financial liabilities	589,440	559,758	105.3
Deferred tax liabilities	22,819	22,819	100.0
Provisions	16,437	16,577	99.2
	636,676	604,508	105.3
Current liabilities			
Trade and other payables	328,993	341,649	96.3
Current tax liabilities	680	-	-
Financial liabilities	35,784	37,476	95.5
Derivative financial instruments	-	-	-
	365,457	379,125	96.4
Total liabilities	1,002,133	983,633	101.9
Total equity and liabilities	1,649,390	1,622,834	101.6

Condensed income statement

EUR thousand	1-3 2015	Plan 2015	1-3 2014	Index 1-3 2015/ 1-3 2014	Index 1-3 2015/ Plan 2015
Revenue	343,787	1,504,271	347,035	99.1	22.9
Cost of goods sold and selling costs	(324,502)	(1,398,907)	(334,172)	97.1	23.2
Administrative expenses	(10,044)	(37,786)	(10,669)	94.1	26.6
Other income	1,676	5,327	1,010	165.9	31.5
Results from operating activities	10,917	72,905	3,204	340.7	15.0
Finance income	3,424	4,194	2,857	119.8	81.6
Finance expenses	(5,605)	(22,665)	(9,895)	56.6	24.7
Net finance expense	(2,181)	(18,471)	(7,038)	31.0	11.8
Profit (loss) before tax	8,736	54,434	(3,834)	(227.9)	16.0
Tax expense	(680)	(4,627)	-	-	14.7
Profit (loss) for the period	8,056	49,807	(3,834)	(210.1)	16.2

Condensed statement of comprehensive income

EUR thousand	1-3 2015	1-3 2014	Index 1-3 2015/ 1-3 2014
Profit (loss) for the period	8,056	(3,834)	(210.1)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss	-	-	-
Items that may be reclassified subsequently to profit or loss	-	921	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	-	921	-
Other comprehensive income for the period	-	921	-
Total comprehensive income for the period	8,056	(2,913)	(276.6)

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

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, 2015	254,175	286,772	(3,235)	16,624	84,865	-	-	639,201
Total comprehensive income for the period								-
Profit (loss) for the period	-	-	-	-	-	-	8,056	8,056
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	8,056	8,056
Balance at March 31, 2015	254,175	286,772	(3,235)	16,624	84,865	-	8,056	647,257

Condensed statement of cash flows

EUR thousand	1-3 2015	1-3 2014	Index 1-3 2015/ 1-3 2014
Cash flows from operating activities			
Gross cash flows from operating activities	19,728	12,180	162.0
Change in inventories	(4,848)	(7,855)	61.7
Change in trade and other receivables	(21,754)	22,176	-
Change in trade and other payables	(9,199)	2,917	-
	(16,073)	29,418	-
Net exchange rate differences from financing	(2)	-	-
Interest paid	(5,605)	(7,964)	70.4
Net cash from operating activities	(21,680)	21,454	-
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	-	(510)	-
Acquisition of property, plant and equipment and investment property	(3,405)	(2,135)	159.5
Acquisition of intangible assets	(756)	(320)	236.3
Loans and bank deposits made	(16,314)	(22,792)	71.6
Expenses for transaction costs related to loans	-	(1,931)	-
Disposal of subsidiaries, net of cash disposed of	-	551	-
Proceeds from sale of property, plant and equipment and investment property	960	1,117	85.9
Interest received	2,901	700	414.4
Net cash from (used in) investing activities	(16,614)	(25,320)	65.6
Cash flows from financing activities			
Increase (repayment) in borrowings	27,991	3,729	750.6
Dividends paid	-	(1)	-
Net cash from (used in) financing activities	27,991	3,728	750.8
Net (decrease) increase in cash and cash equivalents	(10,303)	(138)	7,465.9
Cash and cash equivalents at the beginning of the year	18,571	6,018	308.6
Cash and cash equivalents as at the end of the period	8,268	5,880	140.6

Notes to condensed financial statements of the company Poslovni sistem Mercator, d.d.

Notes to condensed income statement

Revenue

In the period 1-3, 2015, the company Mercator, d.d., generated EUR 343,787 thousand of revenue, which is 0.9 percent less relative to the period 1–3, 2014. 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 324,502 thousand in the period 1–3 2015, which is a 2.9-percent decrease on the same period of last year.

Relative to the last year's equivalent period, cost of goods sold decreased by 2.2%, while other expenses decreased by 72.4%.

Administrative expenses

Company administrative expenses in the period 1-3, 2015, amounted to EUR 10,044 thousand, which is 5.9 percent less than in the equivalent period last year.

Total expenses, consisting of selling and marketing costs (included in costs of sales), and administrative expenses amounted to EUR 84,032 thousand in the first quarter of 2015, a decrease of 5.5% on the last year's figure for such period. The highest drop was seen in costs of material (by 12.4%) and costs of services (by 9.1%).

Results from operating activities

In the period 1-3, 2015, results from operating activities of the company Mercator, d.d., reached EUR 10,917 thousand, which is 240.7% more than in the equivalent period of last year. Operating profit is higher due to higher profit margin and lower operating costs.

Net finance expenses

Net finance expenses are lower by EUR 4,857 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 1-3, 2015, amounted to EUR 8,736 thousand, which is EUR 12,570 thousand more than in the comparable period of 2014.

Profit for the financial period

The company's net loss for the period 1-3, 2015, amounts to EUR 8,056 thousand.

EBITDA

Mercator, d.d., EBITDA in the period 1-3, 2015, amounts to EUR 19,982 thousand which is 64.0% more than in the equivalent period of last year, for the same reasons that are listed with regard to better results from operating activities.

EBITDAR

EBITDAR of the company Mercator, d.d., in the period 1-3, 2015, amounted to EUR 22,620 thousand which is 49.4% more than in the equivalent period of last year.

Notes to condensed statement of financial position

Assets

Mercator, d.d., assets as at March 31, 2015 amounted to EUR 1,649,390 thousand, which is EUR 26,556 thousand more than at the end of 2014, mostly due to higher other receivables, and loans and deposits to companies within the Group.

As at March 31, 2015, the value of the company's non-current assets was at EUR 1,301,297 thousand, which is EUR 6,128 thousand less than as at December 31, 2014. The decrease in non-current assets is largely a result of lower value of property, plant, and equipment. Property, plant, and equipment represent the largest share of non-current assets at 67.9% (EUR 883,988 thousand), which is EUR 6,128 thousand less than the estimate for the end of 2014. The decrease in property, plant, and equipment is a result of lower investment which was exceeded by the depreciation and amortisation expense, and divestment of some non-operating assets.

As at March 31, 2015, the company's current assets amounted to EUR 348,093 thousand, which is EUR 32,684 thousand more than as the end of 2014. The increase is related predominantly to other receivables and loans granted to subsidiaries. The largest share thereof includes inventories (35.5%) and trade and other receivables (34.8%).

Equity and liabilities

As at March 31, 2015, share capital of the company Poslovni sistem Mercator, d.d., amounted to EUR 647,257 thousand, which is EUR 8,056 thousand, or 1.3%, more than as at the end of 2014. The increase is a result of net profit in the period 1–3, 2015.

As at March 31, 2015, total financial liabilities amounted to EUR 625,224 thousand, which is EUR 27,990 thousand more than as at the end of 2014. The increase pertains to long-term financial liabilities, while the short-term financial liabilities were lower.

As at March 31, 2015, provisions amounted to EUR 16,437 thousand. Compared to the end of 2014, provisions decreased by EUR 140 thousand.

Trade and other payables as at March 31, 2015, amounted to EUR 336,973 thousand, which is EUR 10,030 thousand less than at the end of 2014.

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 March 31, 2015, to their best knowledge, is compiled in compliance with the International Financial Reporting Standards and that it presents a true and fair account of assets and liabilities, financial position, and the income of the company Poslovni sistem Mercator, d.d., and other companies included in the consolidated statements. The Management Board also declares that the transactions between associated entities within the Mercator Group were conducted based on the signed sale and purchase agreements, according to arm's length principle.

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, May 12, 2015