

BUSINESS REPORT OF THE MERCATOR GROUP AND THE COMPANY POSLOVNI SISTEM MERCATOR, D.D., FOR THE PERIOD 1–3, 2016



Ljubljana, May 2016

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	3
MERCATOR GROUP PROFILE AND ORGANIZATION	3
MERCATOR GROUP BUSINESS STRATEGY	5
MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1–3 2016	6
KEY EVENTS	7
BUSINESS REPORT.....	9
EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–3, 2016	9
SALES AND MARKETING	12
EMPLOYEES	20
REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT.....	24
RISK MANAGEMENT.....	27
FINANCIAL MANAGEMENT	32
MERCATOR SHARE AND INVESTOR RELATIONS	33
FINANCIAL REPORT	37
ACCOUNTING POLICIES	37
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP	37
Condensed consolidated statement of financial position	38
Condensed consolidated income statement.....	39
Condensed consolidated statement of comprehensive income	39
Condensed consolidated statement of changes in equity	40
Condensed consolidated cash flow statement	41
Notes to Mercator Group condensed consolidated financial statements	42
CONDENSED FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.	44
Condensed statement of financial position	45
Condensed income statement	46
Condensed statement of comprehensive income	46
Condensed statement of changes in equity	47
Condensed cash flow statement	48
Notes to condensed financial statements of the company Poslovni sistem Mercator, d.d.....	49

EXECUTIVE SUMMARY

In the period 1–3, 2016, Mercator Group generated revenue of EUR 604.9 million, which is 3.8% less than in the corresponding period last year. Mercator Group's bottom line for the first quarter of 2016 is a net profit of EUR 2.3 million, with nearly doubled investment. Mercator Group has also purchased land to build a new logistics and distribution centre. With a total investment value estimated at EUR 100 million, this will be one of the largest investments in Slovenia.

Economic conditions in all Mercator Group target markets are improving

In 2016, further recovery and economic growth are still expected in the euro zone, although the prospects are somewhat weaker than before. Similar forecasts apply to Slovenia where gross domestic product is expected to grow by 1.7% in 2016. It is particularly encouraging that private spending will continue to increase as a result of further positive developments in the labour market. This positive trend thus fuels hope that consumer optimism about the future will continue to improve. Positive economic growth is also forecast for other markets of Mercator Group operations. High unemployment rate, however, remains the biggest problem.

New strategy – foundation for new opportunities

Forecasts of increased household consumption, based on the positive developments in the labour market, raise hopes that consumer confidence will continue to improve. Positive economic growth is also forecast for other markets of Mercator Group operations. High unemployment rate, however, remains the biggest problem. Taking into account the current shopping behaviour of its consumers, Mercator Group has drawn up a new strategy based on fulfilment of the following promises to its customers: to be the best local retailer and to provide the best offer, particularly of fresh produce, while offering the best service for the customers and providing the best value for money.

Revenue in the period 1–3, 2016, lower than in the corresponding period last year

In the period 1–3, 2016, Mercator Group generated revenue of EUR 604.9 million, which is 3.8% less than in the same period of last year. Lower revenue in the markets of Slovenia and Serbia are mostly a result of fewer sales units in non-core activities, i.e. home product, apparel, and beauty product retail, as the number of stores in these segments was cut by nearly a fifth in both markets. The drop in revenue is partly also a result of divestment of non-core operations (M Holidays, Santana etc.), as well as the changes in consumer behaviour. In the market of Croatia, which suffered the highest decrease of revenue (18.5%), revenue is lower especially due to abandonment of the entire FMCG program as of July 2015 following consolidation across markets within the Agrokor Group.

Positive performance continues in 2016

After successful completion of the 2015 fiscal year, which was a year of positive trends, positive performance continues early in 2016. Mercator Group ended the period 1–3, 2016, with an operating profit of EUR 7 million. While this is less than in the same period of the year before, we continued to cut costs and optimize our sales processes. Decrease in operating profit is a result of a drop in revenue which in turn is an effect of closing down the underperforming retail units and scaling down in non-core activities, as well as a result of the divestment of Pekarna Grosuplje (Grosuplje Bakery). Mercator Group ended the first three months of 2016 with a net profit of EUR 2.3 million. The main reason for the decline in profit is major investment into promotion and price competitiveness.

Changes in the composition of the Mercator Group

As at the end of 2015, two companies were founded: Intersport H, d.o.o., Croatia, and Intersport BH, d.o.o., Bosnia and Herzegovina. Both are subsidiaries of the Slovenian company Intersport ISI, d.o.o., and they commenced their business operations in 2016. The companies were founded to improve local responsiveness in these two markets and to allow easier adjustment to the consumers. In February 2016, the subsidiary M - BL, d.o.o., was successfully merged with the company Mercator - BH, d.o.o. The company M - BL, d.o.o., was thus wound up and it was deleted from the court register. In the period 1–3, 2016, activities of focusing on the core activity of fast-moving consumer goods retail continued. In March 2016, a change in the company name was entered into the court register, from Platinum - F, d.o.o., to Mercator - Velpro, d.o.o. The purpose of the company Mercator - Velpro, d.o.o., is independent development of the wholesale segment and boosting the wholesale and logistics operations.

Increase in investment activities

In the period 1–3, 2016, Mercator Group investments amounted to EUR 12.9 million, which is nearly twice as much as in the equivalent period of 2015. Investment was increased especially in Serbia. At the same time, the Group continued its policy of investing into refurbishment of the existing units as 56.6% of total investment funds were allocated to such investments. Investment into new retail facilities accounted for 22.8% of total investment, and IT investments accounted for 12.5%. Remaining 8.1% was invested in logistics and non-trade activities.

New strategic development project: construction of the new Mercator logistics and distribution centre

In April 2016, the agreement was signed between the company Poslovni sistem Mercator, d.d., and the company Slovenske železnice, d.o.o., on the purchase of land for the construction of a new Mercator logistics and distribution centre. The value of the transaction is EUR 17 million, and the value of the entire investment is estimated at approximately EUR 100 million. Start of construction works on the facility is anticipated for the second half of 2017, and construction is expected to be completed by the end of 2018. The purpose of construction of the logistics centre is to centralize the warehousing activity, optimize the operating costs, successfully compete with other retailers, and modernize operations.

INTRODUCTION

MERCATOR GROUP PROFILE AND ORGANIZATION

Mercator Group Profile

Mercator Group is one of the largest business entities and corporate groups in Slovenia. With its subsidiaries, it is also present in the countries of Southeastern Europe. It consists mainly of retail companies, as well as two manufacturing companies. Eleven of the companies comprising the Group are headquartered in Slovenia, while on March 31, 2016, eight more subsidiaries operate in other markets of Southeastern Europe. Poslovni sistem Mercator, d.d., headquartered in Slovenia, is the parent company of the Group.

Poslovni sistem Mercator, d.d.	
Telephone	+3861 560 10 00
E-address	info@mercator.si
Website	www.mercatorgroup.si
Company head office	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT tax code	45884595
Company share capital as at March 31, 2016	EUR 254,175,051.39
Number of shares issued and paid-up as at March 31, 2016	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Corporate governance

In the period 1–3, 2016, the Supervisory Board of Poslovni sistem Mercator, d.d., held two regular meetings.

At the 8th regular session held on February 5, 2016, the Supervisory Board:

- approved the Business Plan of the Mercator Group and the company Poslovni sistem Mercator, d.d., and the strategy for the year 2016;
- received information about the comparative analysis of the competition in the FMCG industry for the year 2014;
- approved the implementation of the Mercator Vič project for the purchase of the warehouse and commercial facilities and the relevant land of the former company Lesnina, d.o.o., and refurbishment thereof into a Mercator centre;

At the 9th regular session held on March 31, 2016, the Supervisory Board:

- adopted the Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2015;
- approved the Supervisory Board report on the 2015 Annual Report audit;
- received information about the Independent Auditor's Report on the statement of relations with affiliated companies pursuant to Article 545 of the Companies Act (ZGD-1);
- approved the signing of the sales agreement for the purchase of real property near the freight railway station Ljubljana–Moste (BTC Letališka) for the construction of a Mercator logistics and distribution centre;
- received the Mercator Group Internal Audit Annual Report for the year 2015;
- appointed Igor Mamuza as Management Board member of the company Poslovni sistem Mercator, d.d., as of April 1, 2016, for the term of office lasting until September 19, 2019; and
- confirmed the revision of the investment plan for 2016.

Mercator Group composition as at March 31, 2016

<p>MERCATOR OPERATIONS SLOVENIA</p> <p>Poslovni sistem Mercator, d.d., Slovenia Mercator - Velpro, d.o.o., Slovenia (100.0%)* Mercator IP, d.o.o., Slovenia (100.0%)</p> <p>MERCATOR OPERATIONS FOREIGN MARKETS</p> <p>Mercator - S, d.o.o., Serbia (100.0%) Mercator - CG, d.o.o., Montenegro (100.0%) Mercator Makedonija, d.o.o.e.l., Macedonia (100.0%)*</p> <p>OTHER OPERATING ACTIVITIES</p> <p>Mercator - Emba, d.d., Slovenia (100.0%) M - Energija, d.o.o., Slovenia (100.0%) Intersport ISI, d.o.o., Slovenia (100.0%): - Intersport BH, d.o.o., Bosnia and Herzegovina (100.0%)** - Intersport H, d.o.o., Croatia (100.0%)**</p>	<p>MERCATOR REAL ESTATE</p> <p>Mercator - H, d.o.o., Croatia (99.7%) Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0%) Investment Internacional, d.o.o.e.l., Macedonia (100.0%)* Platinum-A, d.o.o., Slovenia (100.0%)* Platinum-B, d.o.o., Slovenia (100.0%)* Platinum-C, d.o.o., Slovenia (100.0%)* Platinum-D, d.o.o., Slovenia (100.0%)* Platinum-E, d.o.o., Slovenia (100.0%)*</p>
--	--

*The company does not conduct business operations.

** The company is a subsidiary of company Intersport ISI, d.o.o.

Branch Offices

As at March 31, 2016, 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 (Fondacija solidarnosti Mercator) in Serbia; the company Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation (Fondacija solidarnosti Mercator) in Montenegro, and the company Mercator - BH, d.o.o., is the founder of the Employee Solidarity Fund (Fond solidarnosti zaposlenih) in Bosnia and Herzegovina. The purpose of these three organizations is to provide solidarity aid to employees in social or economic distress.

MERCATOR GROUP BUSINESS STRATEGY

Vision

Mercator will be the biggest, the most successful, and the most efficient retailer in the markets of Slovenia, Serbia, and Montenegro.

Mission

- Happy customers recognize Mercator as the best retailer.
- Motivated employees are the key competitive advantage.
- We enjoy trust from all stakeholders.

Strategy

We are fulfilling five key promises, or propositions, to our customers. Each proposition has a clear purpose and goals:

1. Value for money:

Day in, day out, Mercator fulfils the needs and expectations of its customers, and offers the best value for their money with innovative offer.

2. Local:

Mercator works closely with its environment and continues its local initiatives which are reflected in the most extensive network of stores that are closest to the customers.

3. The best offer:

In addition to the offer of renowned brands, Mercator's private label products offer customers solid quality and competitive pricing. Mercator introduces innovative products and adjusts the offer in each of its stores to customer needs.

4. The ultimate freshness:

Mercator offers its customers the broadest choice of innovative products that are relevant to them, with stable partnership with local and regional suppliers.

5. The best service:

With a friendly and amiable approach, Mercator employees are focused on the customers. With intensified refurbishment of its stores, Mercator offers its customers improved shopping experience in a pleasant ambiance.

MERCATOR GROUP PERFORMANCE

HIGHLIGHTS IN THE PERIOD 1–3 2016

	1–3, 2016	1–3, 2015	Index 1–3, 2016/ 1–3, 2015
Revenue (EUR thousand)	604,873	628,721	96.2
Results from operating activities (EUR thousand)	6,999	12,177	57.5
Profit before income tax (EUR thousand)	2,557	5,410	47.3
Profit for the period (EUR thousand)	2,263	4,066	55.6
EBITDA (EUR thousand)	24,720	30,955	79.9
EBITDAR (EUR thousand)	43,851	50,159	87.4
Equity as at March 31 (EUR thousand)	634,852	626,126	101.4
Assets as at March 31 (EUR thousand)	2,215,225	2,248,912	98.5
Capital expenditure (EUR thousand)	12,864	6,751	190.5
Return on equity *	1.4%	2.9%	49.8
Return on sales	0.4%	0.6%	57.8
EBITDA / revenue	4.1%	4.9%	83.0
EBITDAR / revenue	7.2%	8.0%	90.9
Number of employees based on hours worked	19,956	20,908	95.4
Number of employees as at March 31	21,405	22,043	97.1

* Indicator is adjusted to annual level.

KEY EVENTS

Retail network development

In the period 1–3, 2016:

- we invested EUR 12,864 thousand into property and intangible assets (CAPEX);
- we divested EUR 1,775 thousand worth of property, plant and equipment;
- we added 13 new units or 6,760 m² of new gross retail area in all markets of our operations.

Changes in the composition of the Mercator Group

Merger of the company M - BL, d.o.o., to the company Mercator - BH, d.o.o.

In February 2016, the subsidiary **M - BL, d.o.o.**, was successfully merged with the company **Mercator - BH, d.o.o.** The company M- BL, d.o.o., was thus wound up and it was deleted from the court register.

Focus on the core activity also through boosting wholesale operations

In 2015, Mercator substantially increased the scope and diversity of the offer in fast-moving consumer goods wholesale by acquiring the company Era Good, d.o.o. Activities to boost wholesale continued in the early months of 2016. In March 2016, a change in the company name was entered into the court register, from Platinum - F, d.o.o., to **Mercator - Velpro, d.o.o.** The purpose of the company Mercator - Velpro, d.o.o., is independent development of the wholesale segment and boosting the wholesale and logistics operations.

The companies Intersport H, d.o.o., Croatia, and Intersport BH, d.o.o, Bosnia and Herzegovina, commence their operations

Two companies were founded at the end of 2015: **Intersport H, d.o.o., Croatia**; and **Intersport BH, d.o.o., Bosnia and Herzegovina**. Both are subsidiaries of the Slovenian company Intersport ISI, d.o.o. The companies started to carry out their business activity in 2016. They were founded to improve local responsiveness in these two markets and to allow easier adjustment to the consumers.

Changes in the Management Board composition at the company Poslovni sistem Mercator, d.d.

At the Supervisory Board session held in March, the Supervisory Board approved, upon proposal by the President of the Management Board Toni Balažič, the appointment of **Igor Mamuza**, previously a Senior Vice President, as the new Management Board member in charge of Mercator operations in Slovenia. **Igor Maroša**, previous Management Board member in charge of category management, procurement, wholesale, and marketing, resigned from the position of a Management Board member as of April 30, 2016, based on his statement of resignation. As of May 1, 2016, the Management Board of Poslovni sistem Mercator, d.d., has the following composition: Toni Balažič, Management Board President; and Drago Kavšek and Igor Mamuza, Management Board members.

Cooperation with local suppliers as a part of long-term strategic partnership

Mercator is working with over 2,000 Slovenian growers, farmers, and suppliers. In order to further extend cooperation with the local suppliers, an **Agreement on long-term cooperation and support** was signed with the **Cooperative Union of Slovenia** in March 2016. Thus, Mercator is taking its cooperation with Slovenian cooperatives a step further and providing a long-term framework for it. The strategic partnership involves in-depth cooperation especially in promotion of locally grown food, new product development, and promotion and support to social enterprise activities in the field of locally grown food.

MAJOR EVENTS FOLLOWING THE END OF PERIOD AT HAND**Real estate purchase agreement for the new Mercator logistics and distribution centre**

In April 2016, the companies **Poslovni sistem Mercator, d.d.**, and **Slovenian Railways (Slovenske železnice, d.o.o.)** signed a real estate purchase agreement for the property on which a new Mercator logistics and distribution centre (LDC) is to be built. The property is located at the freight railway station Ljubljana–Moste (BTC Letališka). The value of the transaction is EUR 17 million, and the value of the entire investment is estimated at approximately EUR 100 million. Start of construction works is anticipated for the second half of 2017, and construction of the facility, which will span approximately 88,000 square metres complete with commercial premises, is expected to be completed by the end of 2018. The purpose of construction of the logistics centre is to centralize the warehousing activity, optimize the operating costs, successfully compete with other retailers, and modernize operations. The modern logistics and distribution centre will notably improve the service for the customer. It is one of the most important strategic development projects in Mercator's corporate history.

Founding of the company Intersport S trgovina, d.o.o., Serbia

At the end of April 2016, the company **Intersport S trgovina, d.o.o.**, headquartered in Serbia, was founded as a subsidiary of the Slovenian company Intersport ISI, d.o.o. The company was founded with the purpose of transferring the sportswear retail operations from the company Mercator - S, d.o.o., to an independent company, which would improve local responsiveness. The company has not yet commenced its business operations.

BUSINESS REPORT

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–3, 2016

Economic conditions in the markets of Mercator operations in the period 1–3, 2016¹

Economic growth in the main trade partners in the period 2016–2018 will continue, although the growth prospects have declined somewhat. In 2015, growth of the global economy and trade has slowed down, especially due to lower growth rate in the emerging countries. This has resulted in slower exports from the euro zone. Nevertheless, economic growth (at 1.6%) was higher than in the previous year, especially on account of stronger private consumption. In early 2016, business confidence in the euro zone deteriorated considerably as a result of weaker growth of economic activity in this year. The downward adjustment of expectations is reflected in the most recent forecasts by some international institutions (particularly the OECD), according to which gross domestic product growth in some key trade partners in the euro zone will be lower this year than it was in the year before. Lower growth in the euro zone will be especially the result of further slowdown in export growth, which is expected to pick up pace again next year. Investment recovery is expected to continue as well with better financing terms, higher profits, and lower leverage in the business sector; however, it will remain weak due to lower international demand and uncertainty in the financial markets. Thus, private spending will remain the key factor of economic growth in 2016, resulting from higher real disposable income, which in turn is a result of improved conditions in the labour market and low oil prices.

Conditions in the banking system are stable. Bank deleveraging abroad is gradually subsiding, and liabilities to non-residents are considerably lower than before the onset of the crisis. Net interest income is shrinking as a result of modest credit activity and rapid interest rate adjustment.

Slovenia

Exports were the main motor of economic growth in 2015, exceeding the 2014 figure by 2.9%. Despite the slowdown at the end of the year, they remained the key factor of economic recovery. Export growth was mainly fuelled by international demand, and further improvement of competitiveness. Recovery of domestic demand also continued, with household consumption contributing the most. With stronger growth in employment and higher average gross salary, the growth of household disposable income increased as well, resulting in recovery of private spending. Investment growth slowed down due to another slump in construction investment. Expected growth of potential GDP in 2016 will be lower than in 2015. After that, we can expect the growth to recover to a level of close to 2% until 2018.

Employment started to recover late in 2013 and in 2015, growth picked up pace further (1.4%). With further growth of economic activity, employment increased in most private sector activities, particularly in processing industries of medium technological complexity, hospitality services, transport, and trade. Following a slowdown in 2015, average gross salaries are expected to increase in this year (1.7%), as a result of considerably higher growth in the public sector.

Prices in 2016 will remain, on average, at a similar level, mostly due to the effect of lower oil prices. In the next two years, considering the assumptions on raw material prices and further growth of economic activity, a slow inflation rate can be expected.

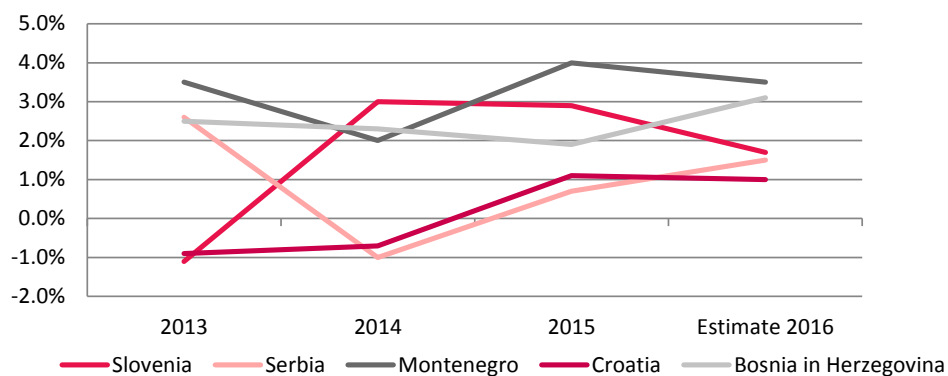
Slovenia's rating remains A- with a positive trend.

¹ Economic conditions are commented based on the following data sources: IMAD (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), EC (European Commission), national central banks of respective countries, and the Standard&Poor's rating agency.

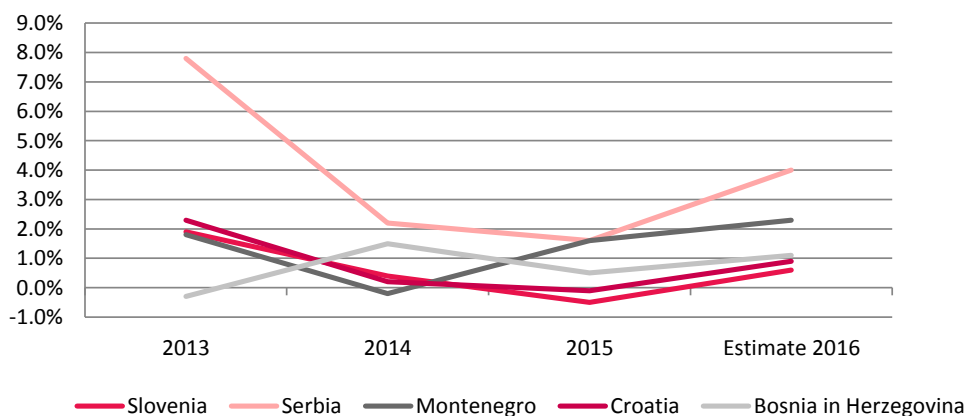
Key macroeconomic indicators in the market of Mercator's operations

Following is an overview of three key macroeconomic indicators by respective markets of Mercator Group operations, from 2013.

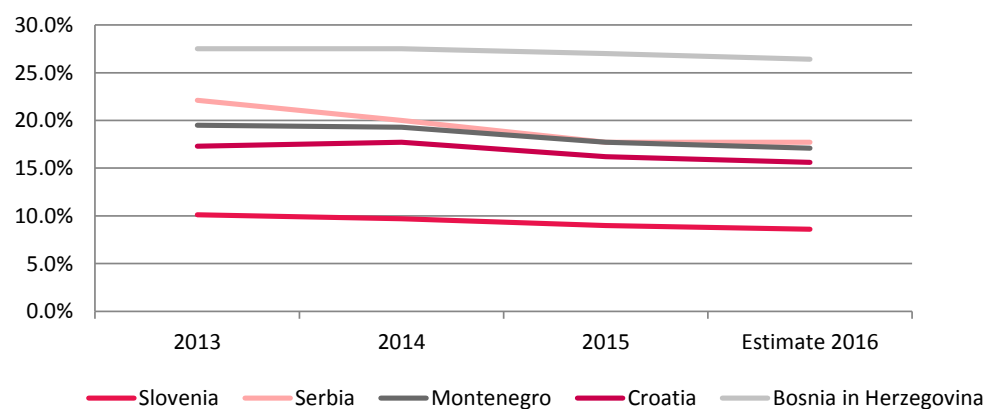
Gross domestic product growth



Inflation rate



Unemployment rate



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

Economic recovery continues in 2016 in all markets of Mercator's operations. In **Slovenia**, recovery of economic activity has had a favourable effect on hiring. Improvement in the general economic situation and conditions in the labour market has had a positive effect on consumer confidence and it has provided an impetus to private spending growth.

For 2016, the Institute of Macroeconomic Analysis and Development (IMAD) forecasts economic growth in Slovenia at 1.7%, which is lower than in 2015. Exports and private spending (household consumption) will be the key factors of economic growth. Lower growth in this year relative to the year before will be mostly a result of lower government investments upon transition to the new financial perspective of drawing on European funds. Contribution from private spending will continue to increase as well. Increase in household consumption which started in 2014 after two years of decline, will be fuelled especially by further positive developments in the labour markets while consumer confidence remains rather high.

According to Nielsen data,² consumer confidence in Slovenia in the last quarter of 2015 is higher relative to the comparable period of the year before, but still below the European average. Seventy percent of respondents believe the country is in a recession (Q4, 2014: 88%). Nearly 75% of respondents believe that the country will not recover from the recession in the next 12 months. Their primary concerns are security of employment, immigrants, and their own health.

According to economic growth forecasts, improvement of economic conditions, or at least no worsening thereof, is also anticipated in the markets of **Serbia, Croatia, Bosnia and Herzegovina**, and **Montenegro**.³ Private spending will rise while unemployment will remain high.

Consumer confidence in **Serbia and Croatia** is slowly but constantly improving;⁴ however, it remains below the European average. High share of respondents – 88% in Serbia and 90% in Croatia – believe the country is in a recession. Two thirds of respondents, both in Serbia and in Croatia, believe that the country will not recover from the recession in the next 12 months. Consumers in both markets are the most concerned about security of employment, health, and work-life balance.

² Nielsen: Consumer Confidence Index, Q4, 2015, Slovenia

³ European Economic Forecast Winter 2016, European Commission, February 2016

⁴ Nielsen: Consumer Confidence Index, Q4, 2015, Croatia & Serbia

SALES AND MARKETING

Sales

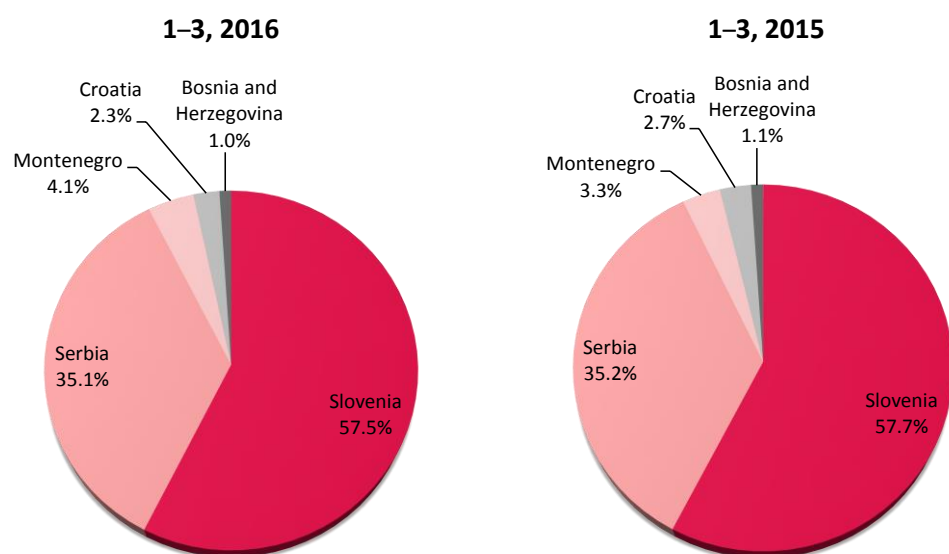
In the euro zone, the year 2015 ended with positive economic growth, which is also the forecast for 2016, although the prospects are somewhat lower than initially anticipated. Worsening in confidence could be perceived early in 2016. Anticipated lower economic growth will be, among other factors, a result of further slowdown in exports, while household consumption will be the key factor of economic growth.

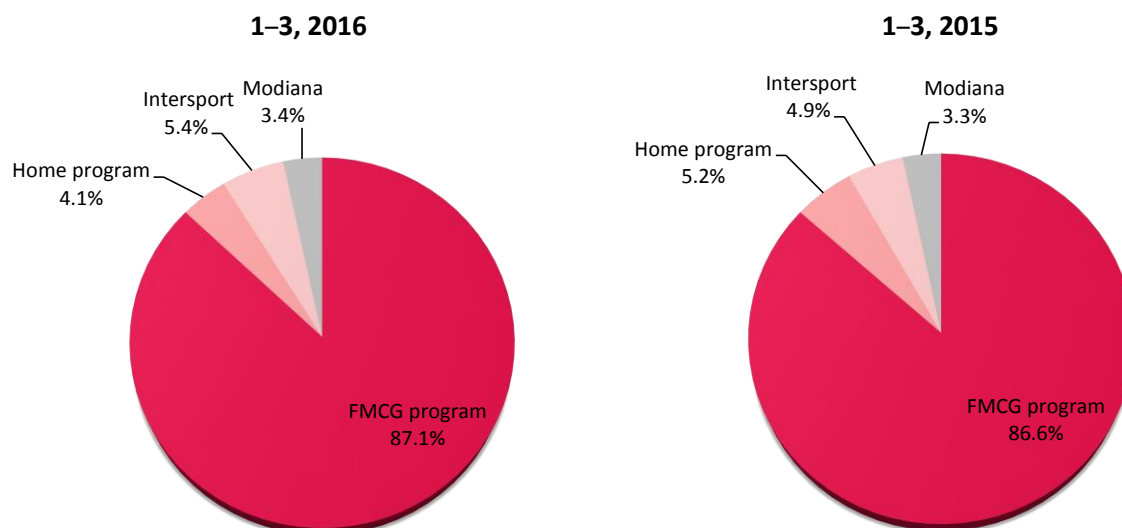
In 2015, Slovenia's economic growth was positive, and it is expected to remain positive in 2016 as well (at 1.7%). Growth of household consumption is particularly encouraging. In Mercator Group's international markets, optimistic development of macroeconomic indicators is also expected, as economic growth is expected to improve, or at least not to worsen, in all markets. However, high unemployment remains a problem in Mercator Group's international markets.

In the period 1–3, 2016, Mercator Group generated EUR 604.9 million of revenue, which is 3.8% less than in the corresponding period of 2015.

Revenue development differed across markets of Mercator Group operations. In Slovenia, revenue dropped by 4.1%. Revenue was also lower in Serbia (4.2%), Bosnia and Herzegovina (5.5%), and in Croatia (18.5%), while in Montenegro, it rose by 19.0%. Lower revenue in Mercator's two largest markets, Slovenia and Serbia, are a result of lower activity in non-core operations and changes in consumer behaviour as they tend to shop more rationally, plan their shopping, respond more to special offers and promotions, and usually distribute their shopping across several minor shopping sessions rather than making one major shopping session. The slowdown in non-core activities pertains especially to home product, apparel, and beauty programs. In both markets combined, the number of retail units in these two programs decreased from 129 as at the end of the first quarter of 2015, to 104 as at March 31, 2016. Lower revenue in the market of Slovenia is also a result of divestment of M Holidays operations at the end of 2015. In the market of Croatia, the drop in revenue is a result of final termination of the market (FMCG) program as of June 30, 2015, due to consolidation by markets within the Agrokor Group. In the markets of Croatia and Bosnia and Herzegovina, Mercator is thus generating revenue from non-core activities only after consolidation, which includes Modiana and Intersport, and leasing out real property. In the market of Montenegro where no changes regarding the consolidation took place within the Agrokor Group, revenue was higher than in the same period last year, also on account of newly opened stores in the direct vicinity of tourist resorts.

Mercator Group revenue by geographical segments:



Mercator Group revenue from trade operations by programs:

Mercator Group core activity, fast-moving consumer goods retail, generated 87.1% of the Group's total revenue in the period 1–3, 2016. The share of sales revenue from other specialized trade programs accounted for 12.9%. Compared to the equivalent period of the year before, the share of revenue dropped at the Mercator Group level within the following programs: fast moving consumer goods, home products, and apparel (Modiana). Drop of share of revenue in non-core activities is mostly a result of further closing down of underperforming units. Share of revenue from the Intersport program rose by 6.3% compared to the same period of 2015.

Store formats, customer segments, and category management

Store Formats

Shopping – a rather simple process once – has been getting increasingly complex in recent years. The power has shifted to the customers. Today's customer is defined by rapidly changing demographic conditions, lifestyle, and technological development. The consumers have become even more demanding, more informed, and aware. They look to get the most for their money and they are less loyal to a single retailer, which further increases the complexity of the business. Pressure on the retailers is mounting to move faster and more to the digital world and the online environment as consumers are willing to spend less and less of their time on shopping. The future lies in selling through several and increasingly interconnected sales channels.

In the digital age, the customer starts its shopping process long before he/she actually enters the store, and continues the process long after he/she has left it. New technology has had a key effect on retail and retailers are working with the customers to focus on improving the shopping experience.

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.

Mercator is looking to offer its customers a shopping environment with modern design, in as many locations as possible, with extended and richer offer of fast-moving consumer goods. Thus refurbished, Mercator stores afford customers an even more pleasant shopping environment, while category structures and new services offered are adapted to the most recent trends.

In the period 1–3, 2016, two neighbourhood stores were refurbished, as well as two hypermarkets, Ptuj and Rudnik, spanning a total gross area of 8,728 m². Currently, hypermarket Rudnik stands out the most among all store formats or retail units. It is located in the Supernova shopping centre in Ljubljana. After the refurbishment, it is Mercator's most modern hypermarket. It offers customers the latest and the best in offer and service. There are many new features, in particular:

- Fresh produce offer: offer was upgraded in all fresh produce departments. One novelty is the offer of the popular Japanese delicacy – sushi, prepared fresh every day at the store. The fruit and vegetables department has been expanded with offer of organically grown fruit and vegetables, sold in bulk; the bakery offers freshly baked pre-packed bread and bakery products; the meat department offers aged meat; the hot bar offers a new service You Choose, We Cook that involves selected a preparation of types of meat and fish from the store; the fish department has excellent selection of fresh fish and seafood; and grab&go offer at the entrance to the store caters to customers looking for a quick snack or lunch;
- the world of beer offers a diverse selection of beer from across the world;
- Dream Factory – an appealing toy department, extended and visually upgraded;
- new technological features such as the M Scan feature which allows Mercator's loyal customers quick and convenient shopping as they can scan and place select products into bags and check out at the quick check-out counter where they only pay for the select products;
- the following departments also stand out in terms of offer and appearance: organic department, wine department, home and ambience department, seasonal offer department, and cosmetics department/drug store.



Composition of sales units as at March 31, 2016

COUNTRY Banner	SLOVENIA	SERBIA		CROATIA		BOSNIA AND HERZEGOVINA	MONTENEGRO		MACEDONIA, ALBANIA and KOSOVO	MERCATOR GROUP		
	Mercator Number of units	Mercator Number of units	Roda Number of units	Idea Number of units	Mercator Number of units	Mercator Number of units	Mercator Number of units	Idea Number of units	Intersport Number of units	Number of units	Gross area	Net sales area
STORE FORMAT												
Hypermarkets	22	2	31	3	-	-	-	2	-	60	268,515	183,194
Supermarkets	128	-	4	82	-	-	-	13	-	227	244,483	159,047
Neighbour stores	321	-	1	205	-	-	-	84	-	611	222,557	132,240
Comfort stores	1	-	-	1	-	-	-	-	-	2	6,296	3,776
Convenience stores	1	-	-	-	-	-	-	-	-	1	159	83
Cash & Carry / VELPRO	14	-	-	9	-	-	-	2	-	25	80,755	36,550
Restaurants	8	-	-	-	-	-	-	-	-	8	2,070	1,379
Total FMCG program	495	2	36	300	-	-	-	101	-	934	824,835	516,269
Technical consumer goods	44	-	-	-	-	-	1	-	-	45	61,511	38,470
Clothing program and drugstores	47	13	-	-	26	13	-	-	-	99	50,317	42,333
Clothing program	40	8	-	-	26	9	-	-	-	83	48,264	40,554
Drugstores and perfumeries	7	5	-	-	-	4	-	-	-	16	2,053	1,779
Intersport	35	12	-	-	37	10	2	-	-	96	58,926	45,076
Total specialised programs	126	25	-	-	63	23	3	-	-	240	170,754	125,879
Total retail units under management	621	27	36	300	63	23	3	101	-	1,174	995,589	642,149
Franchise stores	222	-	-	-	-	-	-	-	7	229	53,028	35,767
TOTAL	843	27	36	300	63	23	3	101	7	1,403	1,048,617	677,916

Customer segments

The needs and desires of our customers are highly diverse. We learn about them by analyzing their shopping behaviour, either through market research or shopping data analysis. Our offer and the space where this offer is provided to the customers are adjusted in accordance with the resulting findings. Thus, every activity involves three dimensions: the customer, the offer, and the place.

Category management and procurement

Our category management and procurement activities in the period 1–3, 2016, continued to pursue the following goals: to build a quality multi-level offer of 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.

Marketing

Our marketing activities are focused on market priorities and the dynamics of changes in the trade industry. In the period 1–3, 2016, we continued to exchange and roll out the best practices across markets. Marketing activities for the fast-moving consumer goods program are targeted at the markets of Slovenia, Serbia, and Montenegro, which is consistent with the corporate vision.

Slovenia

We are pursuing the goal of creating value for the consumer in five key areas:

1. Pricing benefits for the consumers

Mercator is continuously pursuing the goal of offering the most appealing price benefits for the customers. The **My Day, Every Day** campaign involves offering attractive discounts to customers in a number of categories, every day of the week. Monday's and Tuesday's campaigns are a part of the My Start to the Week campaign; double bonus points are occasionally offered on Wednesday to Pika card holders; on Thursdays, retirees are welcomed with extra discounts. As at the end of March 2016, new benefit was added for the retirees. In addition to well-priced shopping, they also receive a coupon for two complimentary cups of coffee at select bars, to round off their shopping trip. My Weekend campaign is devoted to special offers at weekends, and Sundays feature non-alimentary offer in major store formats.



We provided festive atmosphere at the store during Easter celebrations. In addition to regular completions of campaigns and exposures of seasonal offer of food and other items, we also exposed Slovenian Easter products along the main shopping path.



2. 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**. In addition to the Pika discounts on select products and double and extra Pika bonus points which are available to all Pika card holders, additional discounts are offered to all retirees.

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.



3. Homemade, local offer

The **Locally Grown** project is focused on Slovenian offer of fresh produce. We were the first in the market to offer our customers seasonal fruit in vegetables. We also stress our other advantages, such as: meat 100% raised in Slovenia; milk and dairy products from 100% Slovenian milk; and bread made of 100% Slovenian wheat.

4. Proximity to the consumers

At Mercator, we decided to offer extra support to Slovenian ski jumpers (dubbed the Eagles) and their junior teams. Until the end of the world cup we cheered for our team along with our customers, with the slogan **Jump to Mercator, Support our Jumpers!**

From February 1, to the end of the ski jumping world cup, we worked with our customers to raise funds to be donated to the national team and especially to local ski jumping clubs. Our goal was to establish a EUR 100,000 fund, of which three quarters would be donated to the national team, while participating ski jumping clubs would be receive the remaining quarter. Customer votes decided which club received the donation. Donation was presented at a special event immediately after the completion of the World Cup. Customers expressed their support to local ski jumping clubs by casting over 606,000 votes.



In spring this year, we again opened Mercator's gardening centres to our customers, offering a variety of seedling, fresh herbs, tree and shrub saplings, soil and fertilizers, flower pots, gardening equipment, and small and large gardening tools. The offer of vegetable seedlings included a large part of Slovenian seedlings as well as some

organic seedlings. Mercator garden centres are at the following locations: MC Šiška, Domžale, Kranj Primskovo, Novo mesto Bršljin, Celje, Maribor Tabor, and Ptuj Špindlerjeva.

5. Offer of private label products

Mercator private label lines offer a variety of products for all occasions, at all price segments. In the period 1–3, 2016, we continued to communicate our **new private label lines**: dairy products **Mila**, new line of tissue paper products **Natur**, and the **Dax** line for home and household. In March, we presented our new **premium products of the Special Moments line** that allow anyone to enjoy a bit of luxury in everyday life. Also launched were the body care products **Olea and Man Extreme**. Revision of product appearance in the **central Mercator private label line** continues. Flyers and activities of the project **Jump to Mercator, Support our Jumpers!** promoted the sales of key alimentary categories of the Mercator line. This project also included the presentation of the organic products with a new name and assortment, **Bio Zone**, and the redesigned **Lumpi diapers**. Broad communication support across a variety of media outlets and at the stores was provided for the **Lumpi** label.



Serbia

Marketing activities in Serbia in the period 1–3, 2016, took place separately, by respective brands or banners. Main highlights on the Roda and Idea banners are defined through key unique selling propositions (USP).

IDEA

Key activities were focused on the following pricing campaigns: *Choose Healthy, Choose Fresh; This Spring Starts with Idea; and Belgrade, a City of new Ideas.*

The campaign *Choose Healthy, Choose Fresh* took place in January and February of 2016. It was aimed at promoting offer and reasonable prices for products in the fruit and vegetable department, especially citrus fruits, exotic fruit, and other categories. The campaign *This Spring Starts with Idea* took place in March and continued in April. It was developed as a part of the Easter and May first holiday celebrations. In 2016, the campaign *Belgrade, a City of New Ideas* continued. It involved a contest from December 2015 to February 2016, in which the customers chose 4 retail units in Belgrade for refurbishment.



RODA

The following activities took place at Roda retail units in the period 1–3, 2016:

- promotion of products made in Serbia;
- campaign *Roda and Spring*, focused on the offer of products for gardening and promotion of products for the Easter and May First holidays;
- activities from the Super Card catalogue for technical consumer goods;
- new technological feature that allows the Super Card users (both bonus and payment cards) to shop at the retail unit in New Belgrade, from the start of 2016, by scanning the products and thus avoiding the line at the check-out counter.

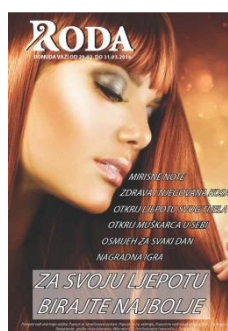


Montenegro

The early months of 2016 were mostly devoted to re-branding of retail units from the Roda to Idea format. Preparations were successfully completed in January and February, so that the entire retail unit re-branding process took place without any complications in March. Marketing activities supported the re-branding process accordingly. This involved releasing the *Neighbourhood News* newsletter. The newsletter was specific for each town, presenting especially products from minor local producers. The activities also included the Cody mascot present in every town. Final events of the entire re-branding process were reopening of the largest Idea Super store in Podgorica, and a concert on the main square in Podgorica.



In the period 1–3, 2016, the following pricing activities took place in the market of Montenegro: *Weekend campaign*, *Super Brand Sunday*, and *Attention, Low Prices*. As a response to aggressive advertising from our competition, intensive advertising was launched in addition to regular catalogues. Catalogues Beauty and Care, and K plus were launched in the market. In March, a new campaign was launched with the slogan *Phenomenal April at Idea*, which includes 4 categories: Spring Cleaning, K Plus, Merry Easter, and I Like to Grill.



EMPLOYEES

In 2016, we continued the processes of restructuring and reorganization which had started in 2014. The goal remains to establish more efficient work processes, reduce administration, and cut labour costs. 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.

As of February 1, 2016, the companies Poslovni sistem Mercator, d.d., and Mercator IP, d.o.o., were reorganized. As a result, most human resource management activities were focused on establishing operations according to the new organizational scheme. Moreover, changes were implemented as of January 1, 2016, to the macro-organizational scheme, which also led to reassignment of employees, at the company Mercator - S, d.o.o. Reassignment of employees at other units was also required by the divestment of 11 units in compliance with the resolution by the competition protection agency of the Republic of Serbia. Employees at hypermarkets signed annexes to their employment contracts, pertaining to transition to fixed salaries. As of March 1, 2016, new macro-organizational scheme was introduced at the company Mercator - H, d.o.o. At the company Mercator - CG, d.o.o., we opened a new business unit Market Cetinje in January 2016, which employs 18 people.



Number of employees

	Number of employees as at March 31, 2016	Number of employees as at December 31, 2015	Index number of employees March 31, 2016/ Dec. 31, 2015	Number of employees based on hours worked in 1–3 2016
Slovenia	10,613	10,550	100.6	9,624
Serbia	8,722	8,843	98.6	8,334
Montenegro	1,368	1,333	102.6	1,234
Croatia	539	557	96.8	605
Bosnia and Herzegovina	163	176	92.6	159
TOTAL	21,405	21,459	99.7	19,956

Hiring, caring for development, motivating, and connecting our employees

In the period at hand, Mercator Group devoted nearly 28,203 hours to training and education that involved 6,380 employees.

Slovenia

In Slovenia, selection of candidates for the **3rd generation of the Retail Academy** took place at the end of last year and early this year. In the process, we selected 45 employees from retail who started the program on April 19, 2016.

In January, we were joined by the employees from Delamaris retail. We prepared presents that were presented to them by their managers or leaders. They also took part in the induction course for fishmongers, as well as the mandatory training courses. In March, we selected 7 trainers from among 45 **workers at fish departments** who will receive additional expert training so that they can transfer their knowledge to new and less experienced employees.



In March, we completed the **2nd Retail Convention** which took place in Ljubljana, Naklo, and Maribor. It was intended for all hypermarket managers and shop managers at supermarkets and markets. The convention was attended by around 500 participants from across Slovenia. The purpose of the convention was to present the activities to be carried out in 2016. The key emphasis was on encouraging the shop managers to sell an additional product on an invoice, which the shop managers accepted very positively.



Activities were also continued on the **Career Challenge** project which involved a 3-day training course Personal Career Plan that was attended by 56 employees. Career interviews were held with 9 directors.

In February, the **third generation of coaches** started their training. Thirteen new internal instructors come from a number of fields within administration and retail: 4 from retail, 1 from wholesale, 6 from administration, and 2 from Mercator IP, d.o.o. Seven of our employees took part in the program **Developing Key Talents for Organization Excellence**. The program conducted by IEDC Bled includes employees of the trade part of the Agrokor corporate group.



In March 2016, we launched the **Shop Manager School**. The five-day program will be attended by over 500 shop managers in this year and the first half of the next year.

The workshop **Creating an Excellent Shopping Experience**, lasting 6 academic hours, has been developed as an upgrade to the two-day program of Sales Skill Development. This year, the training has already been attended by 442 employees.

Consistently with the initiatives, revision of the trainer network involves launching the **revision of the Bread and Bakery Product competence centre**. In February, 400 employees took part in theoretical education, followed up by a 4-hour refreshment training course in March and April. Following the revision of the Bread and Bakery Product competence centre, we continue with the revision of the Meat competence centre and establishment of the Fish competence centre.



We have launched the **Leadership School** for 32 retail unit managers. The training will take place in separate modules. Introductory workshop was conducted in March. Two two-day workshops will follow by June, and the final workshop in autumn.

In March, we took part in the **Career Fair in Nova Gorica**, organized by the company Moje delo, d.o.o., in partnership with the National Employment Agency of the Republic of Slovenia and the Municipality of Nova Gorica. Twenty employers took part in the fair. Mercator was represented by two human resource managers who presented the workplaces of a sales assistant, fishmonger, and butcher. We have recruited some candidates for hiring in the future.



In 2016, the company **Mercator IP, d.o.o.**, carried on the **N Service** implementation project, which involves activities aimed at assessing the attainment of work performance targets. Seventeen assessments were completed in the first quarter. From this source, we obtained a grant in this year for salaries to persons with disabilities, in the amount of EUR 27,712. At the end of the first quarter, the company Mercator IP, d.o.o., had 416 employees, of which 211 were employees with some recognized category of disability. As of February 1, 2016, a new Security sector has been organized at the company.

During the Easter season, employees of the Kranjski kolaček (Kranj Cupcake) and Proizvodnja polenovke (Cod production) prepared a varied offer of traditional holiday cakes (potica) and a new product Cod Istrian Style. Entire offer was supported by tasting events in more than twenty supermarkets. As of end of March, Mercator stores also offer products of the new facial care cosmetics Dvorec Trebnik. A blog's conference was held on Golte for promotional purposes.

Early in the year, **Mercator Humanitarian Foundation** in Slovenia provided aid to 75 employees of Poslovni sistem 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 27,964. We also granted social scholarships to three children of our employees, in the total amount of EUR 900. Activities also took place in markets beyond Slovenia as we granted aid to 30 employees in Serbia, in the total amount of EUR 7,807; and to 4 employees in Croatia, in the amount of EUR 1,571.

Serbia

The **Individual Performance** (IRU – Individualni radni učinak) project was implemented at the company Mercator - S, d.o.o., for the field of retail, and the quarterly employee assessment has been completed. Employees take part in a number of third-party training courses, including the program Developing Key Talents for Organisation Excellence 2016, organized by the institution IEDC Bled. Early in 2016, employees also continued to take English language courses at advanced level for groups, and four employees started individual English courses.



Following the transition to work in HR.net, the need arose to train personnel to keep the working hours records. Thus far, key users have been trained at Roda and Velpro centres; by the end of May, administration workers are expected to complete their training as well.

The program **Top shop manager for a top result**, intended for shop managers and their deputies for the IDEA brand, has been in place for over 5 years. It is one of the most successful specific training programs aimed at unifying and standardizing the business processes at all IDEA retail regions.

Early in 2016, the concept of **Gemification of the new employee induction process** was completed. It includes the concept of play to present the company processes to newly hired employees, thus cutting short the time new employees need to learn and adapt. In practice, the concept will be implemented with the first newly hired administration worker.

Specialized retail training for the fruit and vegetables category has also been completed. It has improved the business processes in this field. Employees working in human resource management and wholesale took part in team-building workshops to strengthen the team spirit among them.

Activities of the sector of selection and development of employees included 10 individual interviews with employees who received feedback on the results of competence assessment, and further defined their career plans.

In February, 19 candidates started their work in retail as a part of the program **The First Deal, the Right Move**. The first one-month contract was an expert development and education contract. After the successful completion of the first month, all signed a 3-month contract for the job of retail assistant. Consistently with the training program, participants prepare and present a final paper, in addition to their work at a certain department.

Potential or talent assessment was carried out for young employees in administration who have been with the company for more than 6 months and less than three years. Team-building session was organized for approximately 40 employees who met the criteria. They were given a number of different tasks based on which their competencies were assessed. Four categories of employees were defined based on the assessments, among which "talents" is the most important category. Career plans and specific future activities have been specified for them.

Montenegro

At the company Mercator - CG, d.o.o., 20 employees from retail and administration received the **Employee of the Year 2015** award. On January 15, twelve university-degree students started their internships according to the government expert training program. In mid-February, 20 employees completed their two-month training for new shop managers, of which 12 employees had already worked as shop managers and 8 were new. In the course of March, all employees took part in retail and administration conventions which also included training and education on re-branding of the Roda banner to Idea, and communication of this change.



Croatia



As of March 1, 2016, the companies **Mercator - H, d.o.o.**, and **Intersport H, d.o.o.**, introduced a **new HRM IT system called HRpro**. In the first quarter, key activities in human resource management were related to the process of transferring the Intersport division to an independent company Intersport H, d.o.o.

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

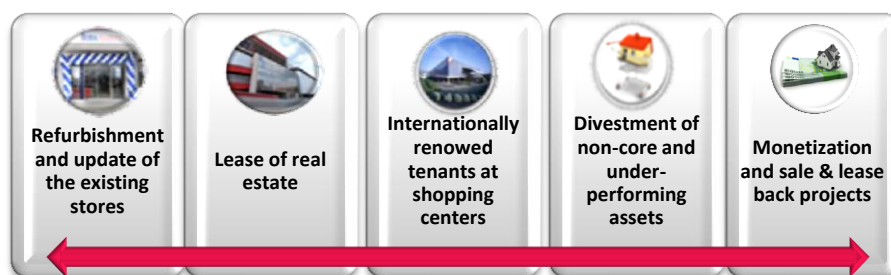
In the period 1–3, 2016, Mercator Group's priority in investment activities, consistently with the investment plan, was refurbishment of retail units and setting up new stores acquired through operating lease. Thus, we opened 13 new stores – 9 with market program, 3 Intersport stores, and one apparel store – Benetton.

We also sought and assessed new potential locations to expand our retail network for all Mercator programs, including a new logistics and distribution centre in Slovenia. The result of the latter process is the acquisition of the site in Ljubljana, based on the purchase agreement signed in April 2016.

There were no new construction developments in the period 1–3, 2016. Investment funds were mostly used for renovation and investment maintenance of the existing retail network, and for investment into new leased stores. Major acquisitions include the refurbished hypermarket in Rudnik, Ljubljana, and the hypermarket in Ptuj.

Activities also took part in sale of non-operating assets, search for investors for sale-and-lease-back deals involving Mercator stores, and looking for investors who would build or provide retail area on behalf of Mercator and then offer it to Mercator for lease.

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



Investment and Divestment

In the period 1–3, 2016, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 12.9 million. Of this amount, 23.7% was used for investments in Slovenia and 76.3% was used for investments in foreign markets.

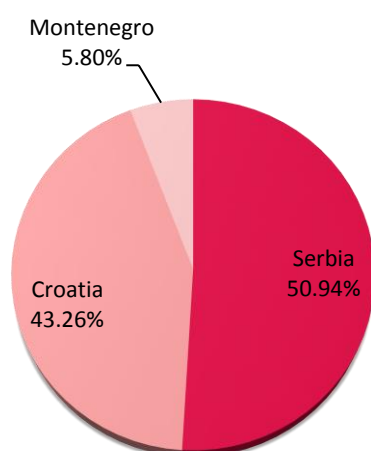
	Capital expenditure in 1–3, 2016 (in EUR 000)	Structure (in %)
Serbia	7,675	59.67 %
Slovenia	3,048	23.69 %
Croatia	1,109	8.62 %
Montenegro	999	7.76 %
Bosnia and Herzegovina	33	0.26 %
TOTAL	12,864	100.00 %

Investment into expansion of retail area represented 22.8% of total investment; refurbishments of existing units accounted for 56.6%; IT investments accounted for 12.5%; and the remaining 8.1% was invested in logistics and non-trade activities.

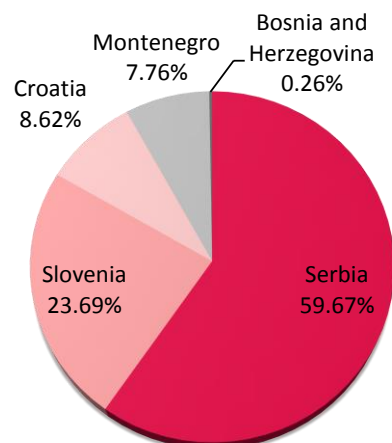
In the period 1–3, 2016, Mercator Group newly acquired 6,760 square meters of gross area. All new gross area was acquired by operating lease.

In the period 1–3, 2016, Mercator Group divested property, plant, and equipment worth EUR 1.8 million, of which EUR 1.5 million pertains to the divestment of real estate property and EUR 0.3 million pertains to plant and equipment.

Share of newly launched facilities by markets:



Share of investments by markets:



Summary of total gross retail area as at March 31, 2016

	Gross area in square meters			
	Used for own operations	Leased out - Konzum	Leased out – third parties	TOTAL
Owned retail area	592,376	108,562	228,045	929,983
Leased retail area	403,213	75,362	113,590	592,165
Total retail area	995,589	183,924	341,635	1,521,148
Owned warehouse capacity	139,583	661	6,305	146,549
Leased warehouse capacity	51,439	25,982	8,237	85,658
Total warehouse capacity	191,022	26,643	14,542	232,207
Owned commercial facilities	17,190	0	1,020	18,210
Leased commercial facilities	7,958	0	0	7,958
Total commercial facilities	25,148	0	1,020	26,168
GROSS AREA UNDER MANAGEMENT	1,211,759	210,567	357,197	1,779,523
- of which owned	749,149	109,223	235,370	1,093,742
- of which leased	462,610	101,344	121,827	685,781



Summary of retail unit launches by markets in the period 1–3, 2016

SLOVENIA

Refurbishments:

Number of refurbished units: 5

CROATIA

Area of new facilities: 2,924 m²

Number of new units: 4

Openings: Intersport COO East Zagreb; Intersport COO Split; Intersport Mall of Split; Benetton COO Split

SERBIA

Area of new facilities: 3,444 m²

Number of new units: 8

Openings: Market Sivac; Market Karađorđeva, Šabac; Market Irig; Market Strahinića bana, Belgrade; Supermarket London, Belgrade; Supermarket Retail park Subotica; Market Kneza Miloša, Kragujevac; Market Sarajevska, Belgrade

Refurbishments:

Number of refurbished units: 2

MONTENEGRO

Area of new facilities: 392 m²

Number of new units: 1

Openings: Market Cetinje



RISK MANAGEMENT

Risk management is an important component of management which is conducted at Mercator in compliance with the new version of the quality management system standard ISO 9001:2015. In the period 1–3, 2016, we continued the planned risk management activities and reviewed the reports of risk administrators and the implementation of measures to alleviate the risk level. The new version of the Risk Register includes updated changes in human resources and the changes in the approach to operational risks in production, operational risks in retail, and accounting risks. We have discontinued the management of project risks and established management of security and safety risks.

Risks are divided into 5 areas, or categories:

- strategic risks,
- financial risks,
- operative risks,
- support risks, and
- compliance risks.

The Mercator Group Risk Register identifies a total of 501 risks. Key risks for the Mercator Group were selected based on the following criterion:

- key risks to be addressed and managed at the Mercator Group level include all risks that exceed 1% of Mercator Group EBITDA or
- the largest risk in each risk category which exceeds 1% of Mercator Group EBITDA in terms of value.

Based on this criterion, we have identified 17 key risks accounting for a combined total of 36% of Mercator Group EBITDA.

At the end of the period 1–3, 2016, we conducted a risk analysis to identify the key potential risks that could occur in the period until the end of 2016, 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 Group operations and performance to be higher.

Strategic risks

Strategic risks pertain to development and implementation of the company strategy, stability of ownership, integration processes, management or governance of the company, compliance with the ethics code, flow of information, company reputation, sustainability of operations etc. These risks pertain to the questions of what our customers, procurement sources, services, and sales channels will be like in the medium run.

CORPORATE GOVERNANCE RISKS

Key risk category	Description of risk management operational activities
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 socially responsible conduct in all areas, the company Poslovni sistem Mercator, d.d., is seeking to build and maintain a positive image in its business and broad environment.

Key risk categories	Description of risk management operational activities
Risk of inefficient system of governance and assumption of responsibility	Changes in the ownership of the parent company may result in more profound changes in the system and structure of management or governance. It is expected from the management to perform their work in a responsible and honest manner with the diligence of a good manager performing their work to the benefit of the company, delivering stable return for the shareholders and taking into account the links of the company with all stakeholders and the company's effect on them. Consistently with the sound practice and applicable legislation, the Management Board of Poslovni sistem 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 Poslovni sistem Mercator, d.d., and the entire Mercator Group.
Risk of failure to reap the synergistic effects of integration	The purpose of integration of the acquired/transferred operations into the Mercator Group is the pursuit of joint synergies, strategic interests, lower costs, and improvement of market position. Project approach was employed by Mercator Group for the takeover and integration of the transferred units. All Mercator Group companies continue to pursue the project for higher cost efficiency and performance improvement. We also continue to conduct other joint projects at the level of all sales units in all markets of Mercator Group operations. These projects are coordinated by the parent company Poslovni sistem Mercator, d.d.

COMPETITIVENESS AND CUSTOMER SATISFACTION RISKS

Key risk category	Description of risk management operational activities
Risk of a decline in market share resulting from new openings of our competitors	Change in market share is related to a change in net retail area of Mercator and that of the competition. If competitors, i.e. other retailers, open more new retail area than Mercator, this could result in a decrease in market share. Therefore, we monitor on a monthly basis the risks of decrease in market share by monitoring the changes in net retail area of Mercator and its competition.

RISKS RELATED TO DEVELOPMENT OF OFFER OF GOODS AND SERVICES

Key risk categories	Description of risk management operational activities
Risk of poor price competitiveness	Executive area of business intelligence and customer relations management compile weekly lists of prices and provide results of consumer pricing perception surveys. The field of category management is compiling monthly lists of prices at the main competitors. Directors of sectors regularly receive reports, price lists, and research reports, and implement measures consistently with the pricing policy laid down.
Risk of sub-optimum assortment and retail area management at the micro level	At the store format development and category management sectors, a database of macro retail area of retail units is being established, complete with a list of area broken down by the following two categories: cosmetics and accessories, and delicatessen, organic, and specialized food products. In the first quarter of 2016, the set-up of the macro retail area database was completed for the category or cosmetics, and planograms were completed for the cosmetics category.

SALES CHANNELS DEVELOPMENT RISKS

Key risk category	Description of risk management operational activities
Inadequate investment into sales channel development and misalignment between stores and customer expectations	<p>In the first three months of 2016, we fully refurbished the Rudnik Hypermarket in Ljubljana in accordance with the new store concept, and partially revised the Ptuj Hypermarket and the markets Savsko naselje and Prušnikova.</p> <p>Simultaneously, we actively approached the projects for comprehensive refurbishments of 25 units, which will be completed in the second quarter of 2016.</p>

Financial risks

Financial risks pertain to financial management. They involve credit, interest rate, currency, liquidity, inflation, price, and other similar risks.

FINANCIAL RISKS

Key risk categories	Description of risk management operational activities
Credit risk related to legal persons (Mercator - S)	The amount of credit limit is specified for customers paying in advance or with deferred payment. Customers are required to provide, as security or collateral, three blank bills of exchange, guarantee statements from third-party legal entities, bank guarantees, or mortgages. Receivables management is the responsibility of the receivables collection department which monitors the payments of such receivables on a daily basis, and prepares regular weekly reports on the receivables status. Based on such reports, the department holds weekly commercial meetings to define the measures for additional collection. Meetings are also held on a two-month basis with the company Agrokor, d.d.
Currency risk (Mercator - S)	At the start of 2016, the Serbian dinar exchange rate was at RSD 121.63 per 1 EUR; at the end of the period at hand, it was at RSD 122.93 per 1 EUR; this means the Serbian dinar depreciated by 1.05%. Comparing the period 1–3, 2016, to the period 1–3, 2015, average depreciation is at 1.08%. In the process of financial restructuring, a part of the Mercator Group loans was converted into euros, which hedged the currency risk to some degree. We continue to continuously monitor the trends and study the macroeconomic indicators. This allows us to adapt our operations and minimize the currency risk in Serbia.

Operational risks

Operational 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	Description of risk management operational activities
Seasonal effects	In the first quarter, we continued to carefully plan and order our seasonal products. We specified relevant dates when seasonal product sales started.
Increase of tradable commodity prices	We stay up to date with the raw material prices on commodity exchanges, on which the prices of our products and product categories depend. Volumes and stable private label product prices are ensured via central procurement tenders.

OPERATIONAL RISKS IN WHOLESALE

Key risk category	Description of risk management operational activities
Risk of loss of franchise partners, third-party customers, transit sales, and agricultural equipment	<p>Measures in franchises: Organization of the franchise conference "intensive processing of existing franchise customers – cooperatives and winning new franchise units"</p> <p>Measures in wholesalers and other third-party buyers: pricing according to competition prices and market demand; abandonment of negative calculations; fixing prices for end buyers; and redistributing supply from to the Cash & Carry channel.</p> <p>Measures in transit sales and agricultural equipment: regular monitoring of sales activity; bi-monthly commercial meetings; detailed analysis at the end of each month</p>

Support risks

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

HUMAN RESOURCE RISKS

Key risk category	Description of risk management operational activities
Lack of human resources	<p>In the first quarter of 2016, many activities were carried out to secure human resources: regular announcement of demand on employment portals, internal calls for applications, interviews, internal invitation to retail workers to perform the work and tasks of butchers and fishmongers, participation at the employment fair in Nova Gorica etc.</p> <p>We also provide regular training and education to provide adequately trained employees. Upon hiring, every new employee completes a 5-day induction training course. Training is also held to provide suitably trained shop managers. Moreover, we work with high schools to invite high school students who will be eligible employment candidates in a few years to do their mandatory practical work at Mercator.</p>

IT RISKS

Key risk category	Description of risk management operational activities
Failure of the central information systems (SAP, GOLD, Login, Hubie, e-mail etc.)	<p>In the first quarter of 2016, many activities were related to improving the informational security of the central IT systems. Based on the corporate rules and regulations on information security, rules and regulations were also developed for the company Poslovni sistem Mercator, d.d. Accordingly, activities were launched in the following areas:</p> <ul style="list-style-type: none"> - adjusting the hardware to new, stricter security requirements; - upgrade and adjustment of the central system for distribution of security fixes to workstations and servers; - replacing of making uniform the anti-virus protection on all systems; - adjusting the firewalls on the central IT system servers and on workstations accessing them; - establishing more controlled workstation connections to the network using an ID certificate; and - establishing vulnerability management for workstations and servers.

DAMAGE RISKS

Key risk category	Description of risk management operational activities
Earthquake and fire	Property insurance was signed in late 2015. No changes are expected in this regard in this year. The same applies to fire risks.

Compliance risks

Compliance 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.

OCCUPATIONAL HEALTH AND SAFETY RISKS

Key risk category	Description of risk management operational activities
Inspections (Mercator- S)	In 2016, activities related to occupational health and safety and fire safety training will continue. In addition, the project of connecting all fire alarm centres will be completed in May 2016. In early 2016, risk assessment was completed for 19 wholesale stores.

FOOD SAFETY RISKS

Key risk category	Description of risk management operational activities
Provision of facilities and equipment	The food safety and internal control department is actively involved in the resolution of inspection matters and pointing to any non-compliance identified during internal controls. Due to restricted possibilities of implementing any measures, the field of control for <i>Provision of facilities and equipment</i> will be eliminated as of 2017. Information on inspection and internal control will be made available to the real estate management sector which will be, as the sector responsible for the field, better suited to implement effective risk control measures in this field.

ENVIRONMENTAL RISKS

Key risk category	Description of risk management operational activities
Use of electric energy	Employees are informed about the measures for efficient use of energy on a quarterly basis. In addition, control over energy use a monthly level is already in place on individual units of the company Poslovni sistem Mercator, d.d. By upgrading the energy accounting system, we will establish faster control over the implementation of measures for efficient use of energy by the employees. Within the project of <i>Upgrading the current energy accounting system with a more detailed targeted power consumption monitoring and implementation of measures for efficient use of energy</i> , the goal is to cut energy consumption at the company Poslovni sistem Mercator, d.d., by 1% annually.

FINANCIAL MANAGEMENT

Stable Financial Operations

As at March 31, 2016, Mercator Group net financial debt amounted to EUR 867,823 thousand, which is 2.2% more than as at the end of 2015, and 3.9% more than as at March 31, 2015. In the last year, Mercator Group thus continued its stable financing activities and maintained a long-term sustainable maturity profile of its financial liabilities.

in EUR thousand	March 31, 2016	December 31, 2015	March 31, 2015	Index March 31, 2016/ Dec. 31, 2015	Index March 31, 2016/ March 31, 2015
Non-current financial liabilities	781,978	758,208	836,297	103.1	93.5
Current financial liabilities	137,924	149,224	45,117	92.4	305.7
Financial liabilities	919,902	907,432	881,414	101.4	104.4
Cash and cash equivalents	19,604	18,998	15,070	103.2	130.1
Available-for-sale financial assets	466	524	1,178	88.9	39.6
Loans and deposits	32,009	38,669	29,748	82.8	107.6
Financial assets	52,079	58,191	45,996	89.5	113.2
NET FINANCIAL DEBT	867,823	849,241	835,418	102.2	103.9

Financial costs

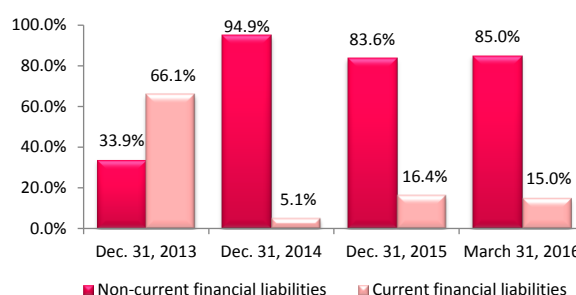
In the period 1–3, 2016, the 6-month EURIBOR averaged at -0.104%. At the end of the period, it was still negative at -0.132%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at 0.125%, this rate declined by 22.84%.

All financial liabilities of the company are variable and tied to the EURIBOR.

Debt to equity and financial liability ratio

As at March 31, 2016, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.4. The ratio is a quotient between equity and net financial debt.

Maturity profile of Mercator Group financial liabilities as at March 31, 2016, was at 85.0%, which presents long-term sustainable maturity profile of its financial liabilities.



Available liquidity lines as at March 31, 2016

As at March 31, 2016, Mercator Group had access to the following liquidity lines:

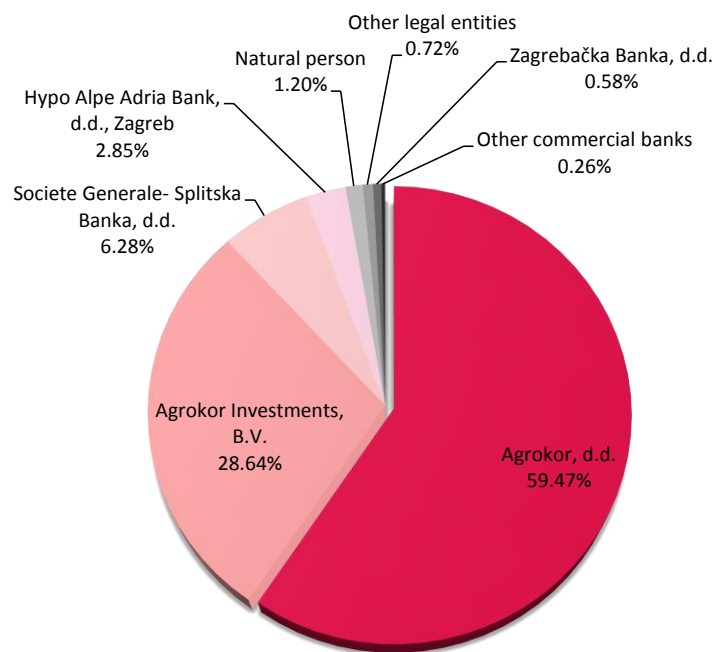
in EUR thousand	March 31, 2016
Cash and cash equivalents	19,604
Standby revolving credit lines	52,159
TOTAL	71,763

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at March 31, 2016

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljana borza, d.d.
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of treasury shares	42,192
Number of shareholders	2,476

Ownership structure of the company Poslovni sistem Mercator, d.d., as at March 31, 2016



Major Shareholders

As at March 31, 2016 the following ten largest shareholders held a combined share of **98.40%** of the company.

		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	382,241	6.28%
4	Hypo Alpe-Adria-Bank d.d.	Croatia	173,334	2.85%
5	Zagrebačka Banka d.d.	Croatia	35,393	0.58%
6	Galić Josip	Croatia	21,525	0.35%
7	Erste Group Bank AG	Austria	9,021	0.15%
8	Zveza Bank Reg.Z.Zo.J.Bank und Revisions	Austria	3,000	0.05%
9	Banque Pictet and CIE SA	Switzerland	1,107	0.02%
10	Clearstream Banking SA	Luxembourg	750	0.01%
TOTAL			5,992,550	98.40%

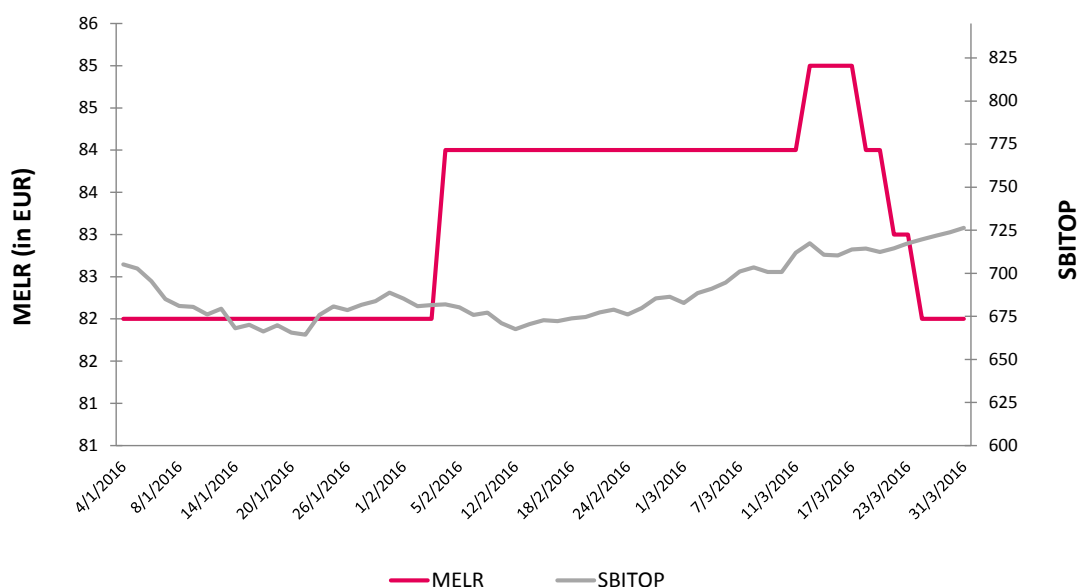
Shares held by Management and Supervisory Board Members as at March 31, 2016

Management Board and Supervisory Board Members did not own shares of the company Poslovni sistem Mercator, d.d., as at March 31, 2016.

Foreign shareholders

As at March 31, 2016, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.47%**, which is 0.02 percentage point more than at December 31, 2015.

Movement of closing price per MELR share in the period 1–3, 2016, compared to the movement of the SBITOP index



Key information for the shareholders

	March 31, 2016	March 31, 2015	Index March 31, 2016/ March 31, 2015
Number of shares entered into the court register	6,090,943	6,090,943	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	499,457,326	441,593,368	113.1
Market price per share (in EUR)	82.00	72.50	113.1
Share book value (in EUR)	104.90	107.01	102.0
Minimum close rate in the period (in EUR)	82.00	70.13	116.9
Maximum close rate in the period (in EUR)	85.00	74.80	113.6
Average close rate in the period (in EUR)	83.15	72.64	144.5
Earnings per share (in EUR)*	2.5	5.9	43.1

* 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 March 31, with market price per share as at March 31.

Share book value is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at March 31, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Earnings per share is calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares.

Dividend policy

The company Mercator, d.d., generated negative result in 2015, because of this no dividend payment is planned for 2016.

Treasury shares

As at March 31, 2016, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1–3, 2016, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

Investors

The company Poslovni sistem Mercator, d.d., communicates important information and major changes in company operations or performance to all stakeholders regularly and in a timely fashion. Such information is conveyed via the website at www.mercatorgroup.si, and the Ljubljana Stock Exchange electronic information dissemination system SEOnet where Mercator is publishing releases in Slovenian and English.

Shareholders holding shares of the same class are treated equally by Mercator. Furthermore, they are motivated to actively and responsibly assert their rights.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d. d., for the period 1–3, 2016, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Condensed consolidated financial statements for the period 1–3, 2016, 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; Mercator - CG, d.o.o., Montenegro; Mercator Macedonia, d.o.o.e.l., Macedonia; Investment Internacional, d.o.o.e.l., Macedonia, Intersport H, d.o.o., Croatia and Intersport BH, d.o.o., Bosnia and Herzegovina.

(hereinafter jointly 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

in EUR thousand	March 31, 2016	March 31, 2015	Index March 31, 2016/ March 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	1,363,783	1,371,405	99.4
Investment property	3,325	3,352	99.2
Intangible assets	19,624	19,538	100.4
Deferred tax assets	18,026	18,057	99.8
Loans and deposits	30,366	30,604	99.2
Available-for-sale financial assets	466	524	88.9
	1,435,590	1,443,480	99.5
Current assets			
Disposal groups	217,482	217,482	100.0
Inventories	281,501	280,853	100.2
Trade and other receivables	258,631	256,189	101.0
Current tax assets	774	656	118.0
Loans and deposits	1,643	8,065	20.4
Cash and cash equivalents	19,604	18,998	103.2
	779,635	782,243	99.7
Total assets	2,215,225	2,225,723	99.5
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	108,865	108,865	100.0
Retained earnings	35,610	15,365	231.8
Profit (loss) for the year	2,261	20,245	11.2
Currency translation reserve	(91,515)	(89,668)	102.1
Total equity attributable to equity owners of the company	634,619	634,205	100.1
Non-controlling interests	233	228	102.2
Total equity	634,852	634,433	100.1
LIABILITIES			
Non-current liabilities			
Trade and other payables	40,715	38,352	106.2
Borrowings and other financial liabilities	781,978	758,208	103.1
Deferred tax liabilities	29,932	29,947	99.9
Provisions	25,782	25,918	99.5
	878,407	852,425	103.0
Current liabilities			
Trade and other payables	562,263	588,117	95.6
Current tax liabilities	1,779	1,524	116.7
Borrowings and other financial liabilities	137,924	149,224	92.4
	701,966	738,865	95.0
Total liabilities	1,580,373	1,591,290	99.3
Total equity and liabilities	2,215,225	2,225,723	99.5

Condensed consolidated income statement

EUR thousand	1–3, 2016	1–3, 2015	Index 1–3, 2016/ 1–3, 2015
Revenue	604,873	628,721	96.2
Cost of goods sold and selling costs	(582,113)	(600,667)	96.9
Administrative expenses	(19,120)	(20,445)	93.5
Other income	3,359	4,568	73.5
Results from operating activities	6,999	12,177	57.5
Finance income	3,375	1,201	281.0
Finance expenses	(7,817)	(7,968)	98.1
Net finance expenses	(4,442)	(6,767)	65.6
Profit (loss) before tax	2,557	5,410	47.3
Tax expense	(294)	(1,344)	21.9
Profit (loss) for the period	2,263	4,066	55.7
Profit (loss) for the period attributable to:			
Owners of the parent company	2,261	4,082	55.4
Non-controlling interests	2	(16)	-

Condensed consolidated statement of comprehensive income

EUR thousand	1–3, 2016	1–3, 2015	Index 1–3, 2016/ 1–3, 2015
Profit (loss) for the period	2,263	4,066	55.7
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss	(1,844)	383	-
Foreign currency translation differences - foreign operations	(1,844)	383	-
Other comprehensive income for the period	(1,844)	383	-
Total comprehensive income for the period	419	4,449	9.4
Total comprehensive income for the period attributable to:			
Owners of the parent company	414	4,464	9.3
Non-controlling interests	5	(15)	-

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 year	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
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

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2016	254,175	286,772	(3,235)	41,686	108,865	15,365	20,245	(89,668)	634,205	228	634,433
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	2,261	-	2,261	2	2,263
Other comprehensive income	-	-	-	-	-	-	-	(1,847)	(1,847)	3	(1,844)
Total comprehensive income for the period	-	-	-	-	-	-	2,261	(1,847)	414	5	419
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	20,245	(20,245)	-	-	-	-
Balance at March 31, 2016	254,175	286,772	(3,235)	41,686	108,865	35,610	2,261	(91,515)	634,619	233	634,852

Condensed consolidated cash flow statement

EUR thousand	1–3, 2016	1–3, 2015	Index 1–3, 2016/ 1–3, 2015
Cash flows from operating activities			
Gross cash flows from operating activities	24,062	29,155	82.5
Change in inventories	(648)	(1,275)	50.8
Change in trade and other receivables	(2,560)	(43,237)	5.9
Change in trade and other payables	(21,314)	(23,910)	89.1
	(460)	(39,267)	1.2
Interest paid	(7,234)	(7,348)	98.4
Income tax paid	(266)	(1,344)	19.8
Net cash from (used in) operating activities	(7,960)	(47,959)	16.6
Cash flows from investing activities			
Acquisition of property, plant and equipment and investment property	(11,808)	(5,943)	198.7
Acquisition of intangible assets	(1,056)	(808)	130.7
Loans and bank deposits made	-	(1,486)	-
Proceeds from sale of property, plant and equipment and investment property	1,775	4,561	38.9
Proceeds from sale of intangible assets	14	-	-
Loans and deposits repayments received	6,660	-	-
Proceeds from sale of available-for-sale financial assets	149	-	-
Interest received	360	735	49.0
Proceeds from sale of property, plant and equipment and investment property	1,775	4,561	38.9
Net cash used in investing activities	(3,906)	(2,941)	132.8
Cash flows from financing activities			
Proceeds (repayment) in borrowings	12,470	31,776	39.2
Net cash from (used in) financing activities	12,470	31,776	39.2
Net (decrease) increase in cash and cash equivalents	604	(19,124)	-
Cash and cash equivalents at the beginning of the year	18,998	34,224	55.5
Effect of exchange rate fluctuations on cash and cash equivalents held	2	(30)	-
Cash and cash equivalents as at the end of the period	19,604	15,070	130.1

Notes to Mercator Group condensed consolidated financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1–3, 2016, Mercator Group generated EUR 604,873 thousand of revenue, which is 3.8% less relative to the period 1–3, 2015. In Slovenian market, revenue dropped by 4.1%; in foreign markets, it decreased by 3.4%. Revenue grew in Montenegro while in Croatia, Serbia, and Bosnia and Herzegovina, it dropped. In the markets of Slovenia and Serbia, lower revenue is especially a result of the changes in consumer behaviour and lower activity in non-core operations.

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 582,113 thousand in the period 1–3, 2016, which is a 3.1% decrease on the same period of last year.

Administrative expenses

Mercator Group's administrative expenses in the period 1–3, 2016, amounted to EUR 19,120 thousand, which is 6.5% less than in the equivalent period last year. The decrease is a result of the continuous cost cutting and business optimization process.

Total expenses, consisting of selling and marketing costs, production costs (included in costs of sales), and administrative expenses amounted to EUR 152,049 thousand in the period 1–3, 2016, a decrease of 3.4% over the last year's figure for such period. Labour costs were cut by 5.7% in the period 1–3, 2016, relative to last year's comparable period.

Results from operating activities

In the period 1–3, 2016, Mercator Group's results from operating activities reached EUR 6,999 thousand, which is 42.5% less than in the comparable period of last year.

Net finance expenses

Net finance expenses are lower by EUR 2,325 thousand relative to the last year's comparable period, which is mostly a result of lower currency translation differences.

Profit before income tax

In the period 1–3, 2016, Mercator Group's profit before income tax was at EUR 2,557 thousand.

Profit for the financial period

Mercator Group's net profit for the period 1–3, 2016, amounted to EUR 2,263 thousand.

EBITDA

Mercator Group EBITDA in the period 1–3, 2016, amounted to EUR 24,720 thousand which is 20.1% less than in the comparable period of last year.

EBITDAR

EBITDAR for the period 1–3, 2016, amounted to EUR 43,851 thousand which is 12.6% less than in the comparable period of last year.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at March 31, 2016, amounted to EUR 2,215,225 thousand, which is EUR 10,498 thousand less than at the end of 2015, mostly due to lower property, plant, and equipment, while inventories and trade receivables increased.

As at March 31, 2016, the value of Mercator Group's non-current assets amounted to EUR 1,435,590 thousand, which is EUR 7,890 thousand less than as at December 31, 2015. The largest share of non-current assets (96.6% or EUR 1,386,732 thousand) is represented by property, plant, and equipment, the value of which was EUR 7,563 thousand lower than as at the end of 2015 as a result of lower investment which was lower than depreciation.

As at March 31, 2016, the value of Mercator Group's current assets amounted to EUR 779,635 thousand, which is EUR 2,608 thousand less than as at the end of 2015. The largest share thereof includes inventories (36.1%) and trade and other receivables (33.2%). Trade and other receivables increased by EUR 2,442 thousand in the period 1–3, 2016, as a result of seasonal effects.

Equity and liabilities

As at March 31, 2016, Mercator Group equity amounted to EUR 634,852 thousand, which is EUR 419 thousand, or 0.1%, more than as at the end of 2015. The increase pertains to net profit in the amount of EUR 2,263 thousand, and negative currency translation differences in translation of international subsidiaries, amounting to EUR 1,844 thousand.

As at March 31, 2016, total borrowings and other financial liabilities amounted to EUR 919,902 thousand, which is EUR 12,470 thousand more than as at the end of 2015. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group financial liabilities and financial assets, amounted to EUR 867,823 thousand as at March 31, 2016 (December 31, 2015: EUR 849,241 thousand).

The share of long-term financial liabilities as at March 31, 2016, amounted to 85.0% (83.6% as at December 31, 2015).

As at March 31, 2016, provisions amounted to EUR 25,782 thousand. Compared to the end of 2015, provisions decreased by EUR 136 thousand, mostly due to reversal/drawing of provisions for severance packages and rewards for loyal service.

Trade and other payables as at March 31, 2016, amounted to EUR 602,978 thousand, which is EUR 23,491 thousand less than at the end of 2015.

As at March 31, 2016, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 105.4%, which is 2.4 percentage points more than as at the end of 2015.

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, 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, 2016	December 31, 2015	Index March 31, 2016/ December 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	637,560	643,311	99.1
Investment property	3,325	3,351	99.2
Intangible assets	10,627	10,844	98.0
Deferred tax assets	16,723	16,748	99.9
Trade and other receivables	419	419	100.0
Loans and deposits	7,056	7,057	100.0
Investment into equity of subsidiaries	352,045	352,045	100.0
Available-for-sale financial assets	296	352	84.1
	1,028,051	1,034,127	99.4
Current assets			
Disposal groups	217,482	217,482	100.0
Inventories	136,332	130,404	104.5
Trade and other receivables	112,978	105,229	107.4
Loans and deposits	112,002	110,608	101.3
Cash and cash equivalents	10,461	10,046	104.1
	589,255	573,769	102.7
Total assets	1,617,306	1,607,896	100.6
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	79,869	79,869	100.0
Retained earnings	(3,181)	619	-
Profit (loss) for the period	3,472	(3,800)	-
Equity	634,496	631,024	100.6
LIABILITIES			
Non-current liabilities			
Trade and other payables	19,769	17,715	111.6
Borrowings and other financial liabilities	537,882	526,865	102.1
Deferred tax liabilities	22,779	22,779	100.0
Provisions	22,031	22,162	99.4
	602,461	589,521	102.2
Current liabilities			
Trade and other payables	287,482	293,323	98.0
Current tax liabilities	327	327	100.0
Borrowings and other financial liabilities	92,540	93,701	98.8
	380,349	387,351	98.2
Total liabilities	982,810	976,872	100.6
Total equity and liabilities	1,617,306	1,607,896	100.6

Condensed income statement

EUR thousand	1–3, 2016	1–3, 2015	Index 1–3, 2016/ 1–3, 2015
Revenue	328,355	343,787	95.5
Cost of goods sold and selling costs	(314,194)	(324,502)	96.8
Administrative expenses	(8,927)	(10,044)	88.9
Other income	1,443	1,676	86.1
Results from operating activities	6,677	10,917	61.2
Finance income	1,655	3,424	48.3
Finance expenses	(4,836)	(5,605)	86.3
Net finance expense	(3,181)	(2,181)	145.9
Profit (loss) before tax	3,496	8,736	40.0
Tax expense	(24)	(680)	3.5
Profit (loss) for the period	3,472	8,056	43.1

Condensed statement of comprehensive income

EUR thousand	1–3, 2016	1–3, 2015	Index 1–3, 2016/ 1–3, 2015
Profit (loss) for the period	3,472	8,056	43.1
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss	-	-	-
Items that may be reclassified subsequently to profit or loss	-	-	-
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	3,472	8,056	43.1

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, 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
Total transactions with owners of the parent company	-	-	-	-	-	-	-	-
Balance at March 31, 2015	254,175	286,772	(3,235)	16,624	84,865	-	8,056	647,257

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, 2016	254,175	286,772	(3,235)	16,624	79,869	619	(3,800)	631,024
Total comprehensive income for the period								-
Profit (loss) for the period	-	-	-	-	-	-	3,472	3,472
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	3,472	3,472
Total transactions with owners of the parent company	-	-	-	-	-	-	-	-
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	(3,800)	3,800	-
Balance at March 31, 2016	254,175	286,772	(3,235)	16,624	79,869	(3,181)	3,472	634,496

Condensed cash flow statement

EUR thousand			Index 1–3, 2016/ 1–3, 2015
	1–3, 2016	1–3, 2015	1–3, 2015
Cash flows from operating activities			
Gross cash flows from operating activities	9,424	19,728	47.8
Change in inventories	(5,927)	(4,848)	122.3
Change in trade and other receivables	(3,749)	(21,754)	17.2
Change in trade and other payables	(2,704)	(9,199)	29.4
	(2,956)	(16,073)	18.4
Net exchange rate differences from financing	4	(2)	-
Interest paid	(4,836)	(5,605)	86.3
Net cash from operating activities	(7,788)	(21,680)	35.9
Cash flows from investing activities			
Acquisition of property, plant and equipment and investment property	(2,169)	(3,405)	63.7
Acquisition of intangible assets	(757)	(756)	100.1
Loans and bank deposits made	(1,393)	(16,314)	8.5
Proceeds from sale of property, plant and equipment and investment property	1,488	960	155.0
Proceeds from sale of available-for-sale financial assets	149	-	-
Interest received	1,028	2,901	35.4
Net cash used in investing activities	(1,654)	(16,614)	10.0
Cash flows from financing activities			
Proceeds (repayment) in borrowings	9,857	27,991	35.2
Net cash from (used in) financing activities	9,857	27,991	35.2
Net (decrease) increase in cash and cash equivalents	415	(10,303)	-
Cash and cash equivalents at the beginning of the year	10,046	18,571	54.1
Cash and cash equivalents as at the end of the period	10,461	8,268	126.5

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

Notes to condensed income statement

Revenue

In the period 1–3, 2016, the company Poslovni sistem Mercator, d.d., generated EUR 328,355 thousand of revenue, which is 4.5% less relative to the period 1–3, 2015. 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 314,194 thousand in the period 1–3, 2016, which is a 3.2% decrease on the same period of last year.

Administrative expenses

The company's administrative expenses in the period 1–3, 2016, amounted to EUR 8,927 thousand, which is 11.1% less than in the equivalent period last year. This is a result of cost optimization and rationalization in the course of 2015 and early in 2016.

Total expenses, consisting of selling and marketing costs (included in costs of sales), and administrative expenses amounted to EUR 81,303 thousand in the period 1–3, 2016, a decrease of 3.2 percent on the last year's figure for such period.

Results from operating activities

In the period 1–3 2016, results from operating activities of the company Poslovni sistem Mercator, d.d., reached EUR 6,677 thousand, which is 38.8% less than in the equivalent period of the last year.

Net finance expenses

Net finance expenses are higher by EUR 1 million relative to the last year's comparable period, which is mostly a result of lower finance income in 2016.

Profit before income tax

The company's profit before income tax for the period 1–3, 2016, amounts to EUR 3,496 thousand, which is EUR 5,240 thousand less than in the comparable period of 2015.

Profit for the financial period

The company's net profit for the period 1–3, 2016, amounts to EUR 3,472 thousand.

EBITDA

EBITDA of the company Mercator, d.d., in the period 1–3, 2016, amounted to EUR 14,290 thousand which is 28.5% less than in the comparable period of last year.

EBITDAR

EBITDAR of the company Mercator, d.d., in the period 1–3, 2016, amounted to EUR 16,977 thousand which is 24.9% less than in the comparable period of last year.

Notes to condensed statement of financial position

Assets

Assets of the company Mercator, d.d., as at March 31, 2016, amounted to EUR 1,617,306 thousand, which is EUR 9,410 thousand more than at the end of 2015, mostly on account of current assets.

As at March 31, 2016, the value of the company's non-current assets amounted to EUR 1,028,051 thousand, which is EUR 6,076 thousand less than as at December 31, 2015. 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 63.4% (EUR 651,512 thousand), which is EUR 5,994 thousand less than as at the end of 2015.

As at March 31, 2016, the value of company's current assets amounted to EUR 589,255 thousand, which is EUR 15,486 thousand more than as at the end of 2015. The increase pertains especially to inventory and other receivables. Assets available for disposal (36.9%) and inventories (23.1%) account for the largest share of current assets. Trade and other receivables account for 19.2%, and loans and deposits account for 19.0% of total current assets.

Equity and liabilities

As at March 31, 2016, equity of the company Poslovni sistem Mercator, d.d., amounted to EUR 634,496 thousand, which is EUR 3,472 thousand, or 0.6%, more than as at the end of 2015. The increase is a result of net profit in the period 1–3, 2016.

As at March 31, 2016, total borrowings and other financial liabilities amounted to EUR 630,422 thousand, which is EUR 9,856 thousand more than as at the end of 2015. The increase pertains to additional long-term financial liabilities taken out to manage short-term liquidity.

As at March 31, 2016, provisions amounted to EUR 22,031 thousand. Compared to the end of 2015, provisions decreased by EUR 131 thousand.

Trade and other payables as at March 31, 2016, amounted to EUR 307,251 thousand, which is EUR 3,787 thousand less than at the end of 2015. The decrease is mostly a result of lower trade payables to suppliers of trade goods as a result of the agriculture legislation in Slovenia.

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, 2016, 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 19, 2016