

**BUSINESS REPORT OF THE MERCATOR
GROUP AND THE COMPANY POSLOVNI
SISTEM MERCATOR, D.D., FOR THE PERIOD
1–6, 2016**



TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	3
MERCATOR GROUP PROFILE AND ORGANIZATION	3
MERCATOR GROUP BUSINESS STRATEGY	6
MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1–6, 2016	7
KEY EVENTS	8
BUSINESS REPORT	11
EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–6, 2016	11
SALES AND MARKETING	14
EMPLOYEES	24
REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT	29
RISK MANAGEMENT	32
FINANCIAL MANAGEMENT	39
MERCATOR SHARE AND INVESTOR RELATIONS	40
FINANCIAL REPORT	43
ACCOUNTING POLICIES	43
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP	43
Condensed consolidated statement of financial position	44
Condensed consolidated income statement	45
Condensed consolidated statement of comprehensive income	45
Condensed consolidated statement of changes in equity	46
Condensed consolidated cash flow statement	47
Notes to Mercator Group condensed consolidated financial statements	48
CONDENSED FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.	50
Condensed statement of financial position	51
Condensed income statement	52
Condensed statement of comprehensive income	52
Condensed statement of changes in equity	53
Condensed cash flow statement	54
Notes to condensed financial statements of the company Poslovni sistem Mercator, d.d.	55

EXECUTIVE SUMMARY

In the period 1–6, 2016, Mercator Group generated net revenue of EUR 1.25 billion, and its operating profit stood at EUR 21.19 million. Sales revenue was down by 3.3% relative to the equivalent period last year which is the result of persistently harsh market conditions, activities related to accelerated store refurbishment and smaller number of stores in Slovenia, Serbia, and Croatia. Nevertheless, Mercator Group wrapped up the first half of 2016 with a net profit of EUR 7.1 million, however results from operating activities and profit are not comparable to the year before due to non-recurring business events and result of divestment of non-core activities (Santana and Loka, Grosuplje Bakery, M Holidays and other divestments of non-operating assets). Following the acquisition of land in April 2016, Mercator Group launched the construction project for a new logistics and distribution centre. In July, a sale and purchase agreement for divestment of Modiana operations was successfully signed, consistently with Mercator Group's pursuit of its strategy of focusing on the core activity.

Economic conditions in all Mercator Group target markets are improving

In Slovenia, gross domestic product increased by 2.5% relative to the same period last year, while the economic growth rate for the entire 2016 is forecast at 1.9% (IMF). It is particularly encouraging that private spending will continue to increase as a result of further positive developments in the labour market. These positive trends indicate that consumer optimism about the future will continue to improve. Positive economic growth is also forecast for other markets of Mercator Group operations in 2016. High unemployment rate, however, remains the biggest problem.




Revised short-term strategy already yielding results

Challenging market conditions and the losses resulting from the fire at our distribution centre compelled us to revise our short-term strategy in order to further improve our performance. The disaster in May 2015 when our largest fresh program distribution warehouse burnt down caused a temporary increase in distribution, logistics, and other costs. This added to the urgency to revise many processes at the company. At the same time, the company faced a more aggressive competition as seen from stepped up investment into promotion and advertising.

Hence, we introduced a number of organizational, process, and tactical changes and revised our short-term strategy which is identified in 6 steps:

- Clear format positioning strategy.
- Network development with further refurbishments and new store formats.
- Careful and more efficient profit margin management.
- Regional platform of competitive suppliers on the purchasing side.
- Attainment of business performance and efficiency on a par with the best competitors in the region.
- Reorganization at Mercator Group: more transparency and responsibility – new organization and spin-off of wholesale as an independent activity.

This led to the following success by the second half of the first quarter:

-  We stabilized our market share; in June 2016, our market share increased relative to the share in June 2015; data for July and August 2016 confirms this trend.
-  In the second half of the first quarter and especially in July and August we have seen gross revenue increase relative to the same period last year.
-  Our profit margin has grown due to improved internal process efficiency.






It should furthermore be noted that the company has resumed the implementation of strategy of focusing on the core activity. This, we successfully completed negotiations and signed a sale and purchase agreement in June to divest the Modiana operations, and we expect to sign an agreement to divest the Intersport operations by the end of August.

Profitability comparable to last year's figures, adjusting for non-recurring business events and the effect of divestments

In the period 1–6, 2016, Mercator Group generated revenue of EUR 1.25 billion, which is 3.3% less than in the same period of last year. In the markets of Slovenia (3.4%) and Serbia (3.9%), lower revenue is a result of closing down of some of the stores for refurbishments, and fewer units in non-core operations – the number of

units in the home product, apparel, and beauty program in both markets was reduced by 15% relative to the comparable period of the previous year. Moreover, the decrease in revenue in Slovenia is a result of divestment of Santana and Loka, Grosuplje Bakery (Pekarna Grosuplje), and M Holidays operations. In the market of Croatia, which saw the highest decrease of revenue (15.3%), revenue is lower especially due to abandonment of the entire FMCG program as of June 2015 following consolidation across markets within the Agrokor Group. Nevertheless, Mercator Group wrapped up the first half of 2016 with a net profit of EUR 7.1 million. Lower profit is a result of non-recurring business events, and divestment of non-core activities and other non-operating assets in 2015.

Changes in the composition of the Mercator Group

-  At the end of 2015, the company Intersport H, d.o.o., was founded in Croatia, and Intersport BH, d.o.o., was founded in Bosnia and Herzegovina. At the end of April, the company Intersport S trgovina, d.o.o., was founded in Serbia. The newly founded companies are subsidiaries of the Slovenian companies Intersport ISI, 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.
-  Organizing wholesale as an independent activity, especially to promote transparency and responsibility.
-  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 new company was founded with the primary purpose of independent development of the wholesale segment and boosting the wholesale and logistics operations.
-  In June 2016, a change in the company name was entered into the court register, from Platinum - E, d.o.o., to Mercator - Maxi, d.o.o. The company does not yet conduct any business activity.

A boost to investment activities

In the period 1–6, 2016, Mercator Group investments amounted to EUR 32.3 million, which is 21.6% more than in the equivalent period of 2015. Focus remains on retail unit refurbishments which accounted for 51.0% of total investment funds. In the period 1–6, 2016, the refurbishment dynamics improved considerably relative to 2015, as seen in improved sales performance.

New strategic development project: construction of 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 was 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.

Sale and purchase agreement on divestment of Modiana operations successfully signed in July 2016

On July 14, 2016, the company Poslovni sistem Mercator, d.d., signed an agreement with the company Montecristo SL, d.o.o., on the transfer of Modiana activities, by which Mercator continues to successfully pursue its strategy of focusing on its core activity. The subject of the sales process at hand includes apparel stores and Beautique drugstores in all markets of Mercator operations (Slovenia, Croatia, Serbia, and Bosnia and Herzegovina). The company also includes the purchase of assets (property, plant, and equipment), transfer of employees, and transfer of operations and activities at all locations. The transaction is expected to be completed in the last quarter of 2016.

INTRODUCTION

MERCATOR GROUP PROFILE AND ORGANIZATION

Mercator Group Profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. In Slovenia, Mercator Group is present with 11 companies, of which 2 are manufacturing companies. In other markets of Southeastern Europe, Mercator Group operated 9 subsidiaries as at June 30, 2016. Poslovni sistem Mercator, d.d., headquartered in the Republic of Slovenia, is the parent company of the Mercator Group.

Poslovni sistem Mercator, d.d.	
Telephone	+386 1 560 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	5300231000
VAT tax code	45884595
Company share capital as at June 30, 2016	EUR 254,175,051.39
Number of shares issued and paid-up as at June 30, 2016	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Corporate governance

In the period 1–6, 2016, the Supervisory Board of Poslovni sistem Mercator, d.d., held two regular meetings and three correspondence sessions.

At the **8th regular session held on February 5, 2016**, the Supervisory Board approved or adopted the following major resolutions:

- 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; and
- 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 approved or adopted the following major resolutions:

- 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.

At the **6th correspondence session held on April 22, 2016**, the Supervisory Board reduced the number of Management Board members at Poslovni sistem Mercator, d.d., by one member, following the resignation of Management Board member Igor Maroš. The company Management Board thus continues to operate with the following composition: Toni Balažič, Management Board President; and Drago Kavšek and Igor Mamuza, Management Board members. At the session, the Supervisory Board also approved the sale of subsidiary Investment Internacional, d.o.o.e.l., in Macedonia.

At the **7th correspondence session held on May 6, 2016**, the Supervisory Board approved the signing of the General Term Sheet between the company Poslovni sistem Mercator, d.d., and the company Numerica partnerji, družba za upravljanje, d.o.o., which pertains to real property monetization.

At the **8th correspondence session held on May 16, 2016**, the Supervisory Board was presented the operations and performance of Mercator Group and the company Mercator, d.d., in the period 1–3, 2016.

Mercator Group composition as at June 30, 2016

MERCATOR OPERATIONS SLOVENIA

Poslovni sistem Mercator, d.d., Slovenia

Mercator - Velpro, d.o.o., Slovenia (100.0%) ¹⁾

Mercator IP, d.o.o., Slovenia (100.0%)

MERCATOR OPERATIONS FOREIGN MARKETS

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%) ¹⁾

OTHER OPERATING ACTIVITIES

Mercator - Emba, d.d., Slovenia (100.0%)

M - Energija, d.o.o., Slovenia (100.0%)

Mercator Maxi, d.o.o., Slovenia (100.0%) ¹⁾

Intersport ISI, d.o.o., Slovenia (100.0%);

- Intersport BH, d.o.o., Bosnia and Herzegovina (100.0%) ²⁾

- Intersport H, d.o.o., Croatia (100.0%) ²⁾

- Intersport S trgovina, d.o.o., Serbia (100.0%) ^{1), 2)}

MERCATOR REAL ESTATE

Mercator - H, d.o.o., Croatia (99.6%)

Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0%)

Investment Internacional, d.o.o.e.l., Macedonia (100.0%) ¹⁾

Platinum-A, d.o.o., Slovenia (100.0%) ¹⁾

Platinum-B, d.o.o., Slovenia (100.0%) ¹⁾

Platinum-C, d.o.o., Slovenia (100.0%) ¹⁾

Platinum-D, d.o.o., Slovenia (100.0%) ¹⁾

¹⁾ The company does not conduct business operations.

²⁾ The company is a subsidiary of company Intersport ISI, d.o.o.

Branch Offices

As at June 30, 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 (Fundacija solidarnosti Mercator) in Serbia; the company Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation (Fundacija solidarnosti Mercator) in Montenegro, and the company Mercator - BH, d.o.o., is the founder of the Employee Solidarity Foundation (Fundacija 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 1–6, 2016




	1–6, 2016	1–6, 2015	Index 1–6, 2016/ 1–6, 2015
Revenue (EUR thousand)	1,245,316	1,287,237	96.7
Results from operating activities (EUR thousand)	21,187	33,405	63.4
Profit before income tax (EUR thousand)	9,149	19,354	47.3
Profit for the period (EUR thousand)	7,053	15,311	46.1
EBITDA (EUR thousand)	57,056	71,266	80.1
EBITDAR (EUR thousand)	95,669	109,593	87.3
Equity as at June 30 (EUR thousand)	639,865	637,791	100.3
Assets as at June 30 (EUR thousand)	2,221,432	2,227,442	99.7
Capital expenditure (EUR thousand)	32,274	26,532	121.6
Return on equity*	2.2%	4.9%	45.2
Return on sales	0.6%	1.2%	47.6
EBITDA / revenue	4.6%	5.5%	82.8
EBITDAR / revenue	7.7%	8.5%	90.2
Number of employees based on hours worked	19,937	20,785	95.9
Number of employees as at June 30	21,762	22,087	98.5

* Indicator is adjusted to annual level.

KEY EVENTS

Retail network development

Following are the highlights for the first half of 2016:

-  we invested EUR 32,274 into property, plant, and equipment (CAPEX);
-  we divested EUR 12,453 worth of property, plant and equipment;
-  we added 33 new units or 20,199 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 have continued in 2016. In March 2016, the change in the name of the company **Platinum - F, d.o.o.**, to **Mercator - Velpro, d.o.o.**, was duly entered in the court register. The purpose of the new company is independent development of the wholesale segment and boosting the wholesale and logistics operations.

Launch of operations for the companies Intersport BH, d.o.o., Bosnia and Herzegovina, and Intersport H, d.o.o., Croatia; and founding of the company Intersport S trgovina, d.o.o., Serbia

Two companies were founded at the end of 2015: **Intersport BH, d.o.o.**, Bosnia and Herzegovina; and **Intersport H, d.o.o.**, Croatia. Both are subsidiaries of the Slovenian company Intersport ISI, d.o.o. The two companies launched their business activity in 2016. At the end of April 2016, the company **Intersport S trgovina, d.o.o.**, was founded, headquartered in Serbia. This company, too, is a subsidiary of the Slovenian company Intersport ISI, d.o.o., and it has not conducted any business activities in the first half of the year. All companies were founded with the purpose of transferring the sportswear retail activities to an independent company, which opens up the way to better local responsiveness.

Founding of the company Mercator Maxi, d.o.o.

In late June 2016, a change in the company name was entered into the court register, from **Platinum - E, d.o.o.**, to **Mercator - Maxi, d.o.o.** The new company was founded with the purpose of transferring the activities of Maxi gostinstvo (HoReCa) to an independent company. The company does not yet conduct any business activity.

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. Since May 1, 2016, the Management Board of Poslovni sistem Mercator, d.d., has been working in the following composition: Toni Balažič, Management Board President; and Drago Kavšek and Igor Mamuza, Management Board members.

Real estate purchase agreement for the new 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.

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 to Slovenian agriculture and Cooperatives** 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.

Awards and other achievements

According to the Reader's Digest readers, the company Poslovni sistem Mercator, d.d., ranks **number 1 in the category of food retailers in the field of environment protection**. The company has striven for a number of years to improve the environment aspects of its operations, and for economical and rational use of energy, raw materials, and other natural resources.



The **QUDAL – Quality Medal** survey, conducted in Slovenia in June this year by the international organization Icertias of Zurich, has shown that in terms of quality when shopping for hand soap bars, Slovenians see the **Dvorec Trebnik soap** as the choice of the highest quality.

Another recipient of the **QUDAL – Quality Medal** accolade is the **IDEA** store format in Serbia, for 2016/2017, which received the **Qudal for the retailer with the highest quality level** in the country of its operation.

At this year's **20th Business Assistant of the Year** contest, our employee Gabrijela Jež reached the **3rd place**.

In May 2016, the **6th Coaching Conference** took place at the National Council, titled Self – on the Way to Oneself and to Others, where our employee Tamara Audič from the HRM and selection department presented the first steps in introducing coaching at our company, and how we use our knowledge to develop our own human resources.

MAJOR EVENTS FOLLOWING THE END OF PERIOD AT HAND

As of July 1, 2016, the company **Intersport S trgovina, d.o.o.**, a subsidiary of Intersport ISI, d.o.o., commenced its business activity in Serbia.

On July 14, 2016, the company **Poslovni sistem Mercator, d.d.**, signed an agreement with the company **Montecristo SL, d.o.o.**, on the **transfer of the Modiana operations**. Thus, Mercator is successfully pursuing the strategy of focusing on its core activity. The subject of the sales process included all apparel retail stores and Beautique drugstores in Slovenia, Serbia, Bosnia and Herzegovina, and Croatia. The agreement also stipulates transfer of activities at all locations, acquisition of assets (property, plant, and equipment), and transfer of all employees. All current Modiana stores will remain at their current locations. The stores are to be partly refurbished, the brand portfolio will be extended, and private labels will be developed to allow pricing attuned to the needs of modern customers. As at the day of signing of the agreement, Modiana operates 47 shops in Slovenia, 22 in Croatia, and 13 in each Bosnia and Herzegovina, and Serbia. The transaction is expected to be completed in the last quarter of 2016.

On July 21, 2016, the updated **Mercator Šiška** Centre was reopened. After the refurbishment, it is Mercator's flagship centre offering an all-around shopping experience on an area of 6,618 square meters.

BUSINESS REPORT

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–6, 2016

Economic conditions in the markets of Mercator operations in the period 1–6, 2016¹

In the first quarter of 2016, economic growth in the euro zone picked up pace and exceeded the expectations. According to Eurostat estimate, GDP grew by 0.6% (deseasonalized); in year-on-year terms, it was higher by 1.7%. Average growth in the euro zone and in most key European trade partners was somewhat higher than European Commission's spring forecasts. Contributing the most to growth was domestic demand, especially household consumption and investment. According to confidence indicators, euro zone economic growth is expected to slow down in the second quarter. The Economic Sentiment Indicator (ESI) and the Purchasing Managers' Index (PMI) remain at a level similar to that of the past few months. Ifo Business Climate Index hit the lowest value in the last year in for the second quarter; however, it remains above its long-term average. In its most recent forecast, the OECD, like other international institutions, did not considerably revise its expectations regarding the economic growth in the euro zone for 2016 (1.6%) and the next year (1.7%).

Slovenia

Gross domestic product rose by 0.5% (deseasonalized) relative to the previous quarter; it also increased by 2.5% relative to the equivalent period last year. Export growth remains the main motor of GDP growth. Fuelled by international demand and favourable competitive position of the tradable sector, it exceeded the expectations.

Active population increased further in the first quarter of 2016. This further growth was seen in most private sector activities (most prominently in trade, traffic, HoReCa, and processing industries). Average gross salary in the private sector increased considerably in the last two quarters (deseasonalized), especially on account of successful corporate performance.

Drop of inflation rate is primarily a result of lower oil prices. Considering the absence of any price pressures, it was also affected by lower prices of durables. Prices of other goods were similar than a year ago, while prices of services continue to increase.

The drop in the amount of credit extended to corporates is gradually slowing down, while credit extended to households (private individuals) is increasing. In the last month, net corporate deleveraging abroad has slowed down as well, mostly as a result of an increase in borrowing by means of short-term credit facilities.

In the entrepreneurial sector, intensive deleveraging has been under way since 2011. Initially this was a result of winding up of excessively indebted companies; after 2013, this has mostly been a result of reducing the debt at existing companies. According to the analysis by the Institute of Macroeconomic Analysis and Development (IMAD), the capacity of corporations to deleverage has seen significant improvement in the last three years.

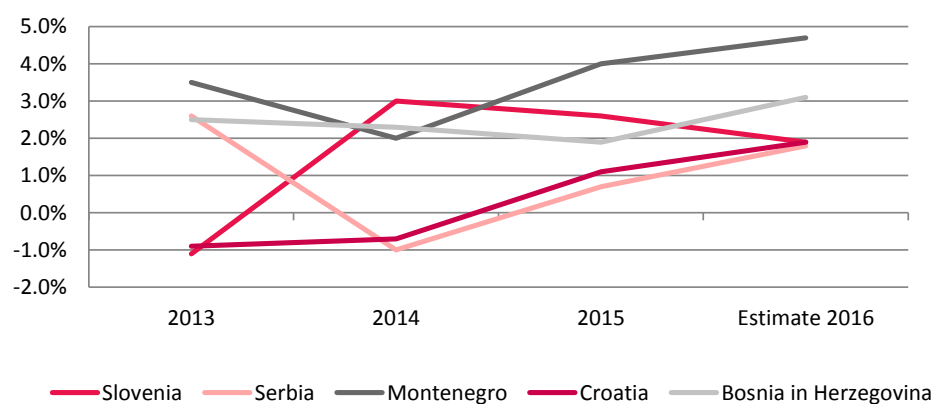
Slovenia's rating has been increased to A with a stable outlook (Standard&Poor's rating agency).

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.

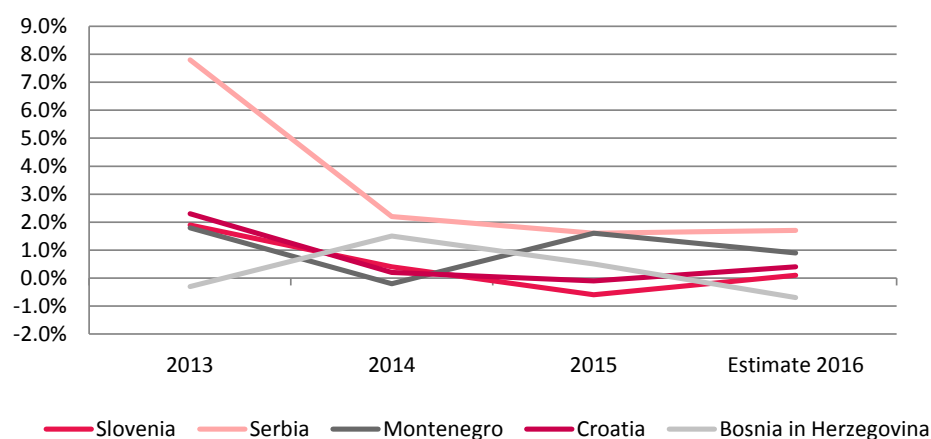
Key macroeconomic indicators in the markets of Mercator Group operations

Following is a presentation of changes in three indicators: GDP, inflation rate, and unemployment rate, since 2013. The data pertains to the countries of Mercator Group operations.

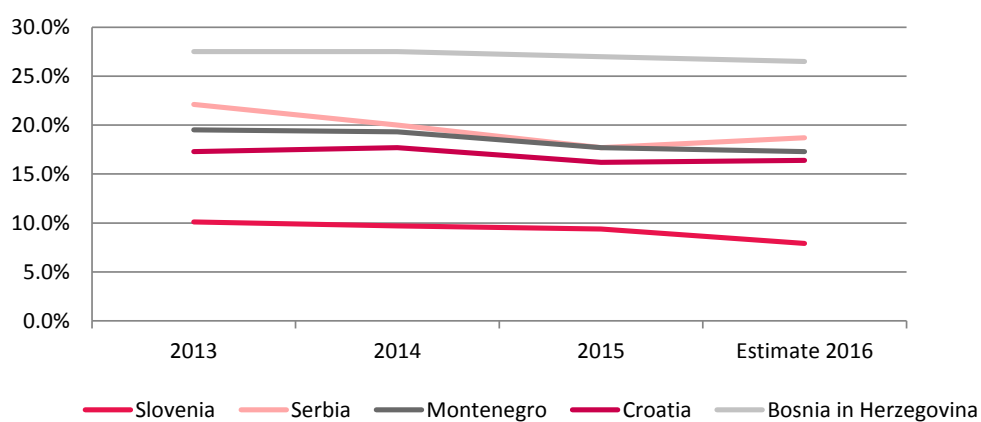
Gross domestic product growth



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. 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 first quarter of 2016 is slightly lower relative to the comparable period of the year before, and still below the European average. Seventy-five percent of respondents believe the country is in a recession (Q1, 2015: 83%). Just over 70% 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 improving⁴; however, it remains below the European average. High share of respondents – 86% in Serbia and 89% in Croatia – believe the country is in a recession. Nearly three quarters 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, work-life balance, and terrorism.

² Nielsen: Consumer Confidence Index, Q1, 2016, Slovenia

³ European Economic Forecast Spring 2016, European Commission, May 2016

⁴ Nielsen: Consumer Confidence Index, Q1, 2016, Croatia & Serbia

SALES AND MARKETING

Sales

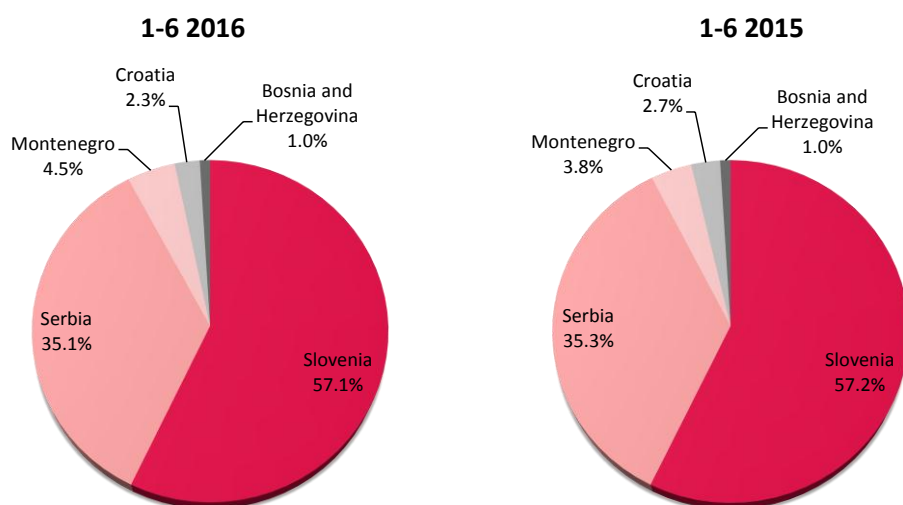
The euro zone wrapped up the year 2015 with positive economic growth. Positive economic growth is also forecast for 2016. In the first quarter of 2016, the growth rate in the euro zone picked up pace and exceeded the expectations. Contributing the most to growth was domestic demand, especially household consumption and investment.

In 2015, Slovenia's economic growth rate was positive, and the International Monetary Fund (IMF) made an upward adjustment to its GDP growth rate forecast for the entire 2016 (to 1.9%). In this respect, strong export remains the key factor. Private spending is expected to continue to increase. In Mercator Group's international markets, optimistic development of macroeconomic indicators is also expected, as economic growth is forecast to improve, or at least not to worsen, in all markets. However, high unemployment remains a problem in Mercator Group's international markets.

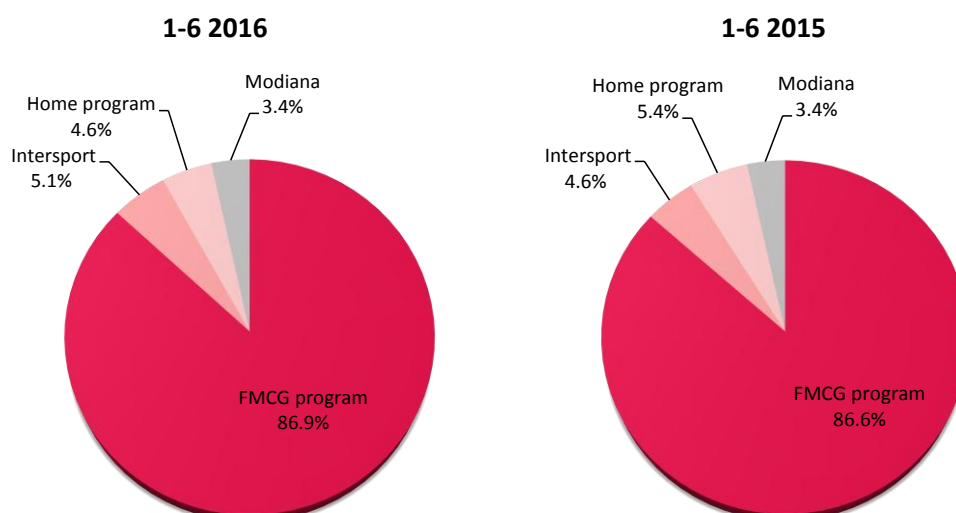
In the period 1–6, 2016, Mercator Group generated EUR 1,245 million of net revenue, which is 3.3% percent less than in the corresponding period of 2015.

Revenue development differed across markets of Mercator Group operations. In Slovenia, revenue dropped by 3.4%. Revenue was also lower in Serbia (3.9%), Bosnia and Herzegovina (4.9%), and in Croatia (15.3%), while in Montenegro, it rose by 13.8%. The drop in revenue includes harsh of market conditions, activities related to accelerated store refurbishment and lower activity in non-core operations. The said decrease of activity in the non-core activities pertains especially to the home product program and the apparel and beauty program where, combined in both markets, the number of retail units decreased from 123 to 105 relative to the comparable period of the year before. Another cause for lower revenue in the market of Slovenia is the divestment of tourist service operations M Holidays, divestment of the Grosuplje Bakery (Pekarna Grosuplje), the Santana and Loka brands, and other divestments of non-operating assets in 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 thus generated in the first half revenue from non-core activities, which includes Modiana and Intersport, and from 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 86.9% of the Group's total revenue in the period 1–6, 2016. The share of sales revenue from other specialized trade programs accounted for 13.1%. Relative to the same period last year, revenue decreased at the Mercator Group level in the following programs: fast moving consumer goods, apparel (Modiana), and home products. The drop of revenue in non-core activities is especially a result of further closing down of underperforming units. The share of Intersport revenue increased relative to the equivalent period of 2015 by 7.3%.

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 further expansion of the number of sales channels and increasingly better integration across them.

In the digital age, the customers start their shopping process long before they actually enter the store, and continue the process long after they have 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 1–6, 2016, a total of 22 stores spanning a combined total area of 24,465 square meters were refurbished, including: 3 hypermarkets (Ptuj, Rudnik, and Koper, spanning a total of 14,305 square meters of gross area); 3 supermarkets (Nove Jarše, Črnuče, Bohinjska Bistrica, spanning a total gross area of 3,268 square meters); and 16 neighbourhood stores (spanning a total gross area of 6,892 square meters). In order to gear up

for the upcoming summer season, our offer was improved and a facelift was carried out at several tourist-oriented units, both at the seaside (Portorož, Piran, Lucija), and in the Gorenjska region (Bled, Bohinj, Bohinjska Bistrica). In addition, Market Obala 53, Portorož, and Market Žiri were entirely refurbished.



Hypermarket Rudnik currently stands out among larger retail store formats. It is located in the Supernova shopping centre in Ljubljana. After the refurbishment, it is Mercator's most modern, flagship 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 new feature 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 select 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 Sken (self 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.

After the refurbishment in July, the **Šiška hypermarket** is now the most modern shopping centre in Slovenia and the broader region.



Composition of sales units as at June 30, 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 sales area	Net sales area
STORE FORMAT												
Hypermarkets	22	2	31	3	-	-	-	2	-	60	267,389	182,467
Supermarkets	109	-	4	86	-	-	-	13	-	212	225,530	148,223
Neighbour stores	339	-	-	205	-	-	-	91	-	635	247,447	147,736
Comfort stores	1	-	-	1	-	-	-	0	-	2	6,296	3,776
Convenience stores	1	-	-	-	-	-	-	0	-	1	159	83
Cash & Carry / VELPRO	14	-	-	9	-	-	-	2	-	25	80,755	36,550
Restaurants	8	-	-	-	-	-	-	0	-	8	2,070	1,379
Total FMCG program	494	2	35	304	-	-	-	108	-	943	829,646	520,214
Technical consumer goods	45	-	-	-	-	-	1	-	-	46	62,132	38,908
Clothing program and drugstores	47	13	-	-	24	13	-	-	-	97	49,449	41,630
Clothing program	40	8	-	-	24	9	-	-	-	81	47,395	39,851
Drugstores and perfumeries	7	5	-	-	0	4	-	-	-	16	2,053	1,779
Intersport	35	13	-	-	38	10	4	-	-	100	60,139	45,867
Total specialised programs	127	26	-	-	62	23	5	-	-	243	171,720	126,404
Total retail units under management	621	28	35	304	62	23	5	108	-	1,186	1,001,366	646,618
Franchise stores	221	-	-	-	-	-	-	-	9	230	53,358	36,031
TOTAL	842	28	35	304	62	23	5	108	9	1,416	1,054,724	682,648

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. Upon this basis, we can adjust the offer and the retail area accordingly, and plan our marketing activities. All major activities are approached with a three-dimensional mindset: offer, store (place), and customer. Moreover, more detailed knowledge of our customers allows us to target our activities at specific customer segments.

Category management and procurement

Our category management and procurement activities in the period 1–6, 2016, pursued the following goals: to build a quality offer of both branded and private label products, to provide competitive prices, 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 1–6, 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 shareholder 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. The first part of the week features 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. My Weekend campaign is devoted to special offers at weekends, such as a coupon for a select product; and Sundays feature offer of non-alimentary products at major store formats. Activities are adjusted regularly in accordance with the season and customer needs.



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.



Homemade is the best. Therefore, over 300 Mercator stores across Slovenia include, as of May this year, special stands and shelves offering exclusively authentic local produce. As we want your nearest Mercator store to be stocked with the best offer of local produce in a single place, we will label with a red heart, on dedicated shelves, the **We Love Local** ("Radi imamo domače") products. This will include offer of authentic products and products from local farms, growers, and producers. Our broad family of partners, numbering over

2,000 Slovenian growers, producers, and suppliers already, has been further extended with new local suppliers and farmers. Thus, our broad offer of Slovenian products has been expanded with over 800 new types of authentic products from local farms. Each year, Mercator purchases approximately EUR 500 million worth of goods from Slovenian suppliers, which is more than total revenue of many retailers operating in Slovenia.

4. Proximity to the consumers

At Mercator, we have decided to offer extra support this year to Slovenian national ski jumping team (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 that were 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 was donated to the national team, while participating ski jumping clubs were eligible to 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 seedlings, 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 have been set up at the following locations: MC Šiška, Domžale, Kranj Primskovo, Novo mesto Bršljin, Celje, Maribor Tabor, and Ptuj Špindlerjeva.

In addition to **store refurbishments**, we are also offering a wide range of marketing activities, depending on the scope of refurbishment and prominence of the location. For smaller refurbishments, we prepare an A5-format flyer and a re-opening day campaign. For major refurbishments, we issue a more extensive flyer with more benefits. We also prepare promotions, surprises for our customers, shopping bonuses, local advertising, labelling, and an opening event.

For **select critical stores**, we devised an activity in June to stop the drop in revenue. We developed a local A4-format flyer with three discount coupons (10-percent discount for purchases over EUR 20; 15% on purchases over EUR 50; and 20% discount on purchases of over EUR 100), and sent it to households in the vicinity of the store for 4 consecutive weeks.

In May and June, some of our **Mercator centres** celebrated their anniversaries which included a lot of entertainment for the visitors and bonuses for the shoppers. The weekend of June 17–19 was the **Crazy Discount Weekend** at all Mercator centres and trade centres. In addition to exclusive discounts by our tenants, we also prepared promotional campaigns and supplier samplings or tastings, promotion of BMW automobiles, and also a lively verve for the children, and a party with a DJ in largest centres.

Mercator Centre Šiška

There was a major clearance sale in the week before the closing.

M sken

Implementation of the M Sken (self scan) as a new feature in the Slovenian market took place at the end of last year at the HM Šmartinska. This year, the project was extended to refurbished stores (in March to HM Rudnik Supernova, and in July to HM Celje and Šiška).



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 1–6, 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.



Upon the launch of the revised line of the Bio products and introduction of the Bio Zone line, we prepared an SMS competition **Choose BIO, travel to Rio**, which took place from June 16 to July 15, 2016.



Serbia

Marketing activities in Serbia in the period 1–6, 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).

Key joint corporate projects:

- We joined the national campaign against children's cancer. On the International Childhood Cancer Day, all employees in retail units wore the yellow ribbons to spread the awareness of this issue.
- At the business forum at the Kopaonik mountain resort in March, the company's presence included promotion of a line of local products **The Flavours of my Town**.
- Moreover, retail units joined the campaign **A Hour for our Planet** which warns of the climate change on planet Earth. By switching off our lightboxes at all stores for one hour, we joined this shared initiative to preserve our planet.
- **Corporate Superbrands:** the company Mercator - Srbija, d.o.o., received this prestigious award 2016, presented to companies operating in Serbia. The award stresses the company's reputation, its corporate image, and socially responsible conduct.



Joint marketing projects:

- At the start of the summer, a **prize contest** was held to promote the sales of products in the beer category. Upon purchasing at least 500 dinar worth of products, the customers were presented a ticket. Each ticket won at least one prize, while two tickets won the first prize – a Harley Davidson motorcycle.
- The campaign further supported the expansion of the **Special Moments** private label line with twenty-one new products. The product line is offered at nine platinum IDEA stores and at Mercator hypermarkets Belgrade and Novi Sad.
- Results of the GfK survey on brands have shown that the customers find **K Plus** to be **the best brand**. Positive results were celebrated with a marketing campaign titled **Thank You**.

IDEA

The IDEA format won the **Qudal** award for the **retailer with the highest quality level** for the period 2016/2017.

At the IDEA format, key activities in the period 1–6, 2016, were targeted at 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 second part of the campaign was held in June when the fruit and vegetables promotion was expanded with the **Apple for Apple** contest and specific workshops for raising the awareness of the importance of fruit and vegetable consumption.

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. Many activities took place during the Easter season, ranging from a contest in which every ticket won an award to an Easter visit and presents for children's homes across Serbia.



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.

Particular attention was also garnered by the opening of the refurbished store **Idea London**. The re-opening event included entertainment with musicians and London-themed activities, as well as a donation to the Children's Theatre for support to culture among youth.



RODA

The following activities took place at Roda retail units in the period 1–6, 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.
- **major prize contest** during the spring in which customers shopping at Roda took part in the contest called **Where Happiness is 100 times Bigger**. The contest included giveaway of 100 refrigerators, cookers, TV sets, and washing machines, and 2,000 small domestic appliances;
- presentation of the broadest seasonal offer in cooperation with the newspaper with the highest circulation, and a photo contest for the customers, in which the winner was presented a large garden pool;
- **sponsorship of the Serbian Basketball Association** which includes various prize contests and game ticket giveaways;
- presentation of the new Serbian national team jerseys, and the **Serbian junior basketball league** competition;
- activities aimed at socially responsible conduct: support to the senior citizen's university, provision of nesting grounds for the storks, and Dragon children's games event.

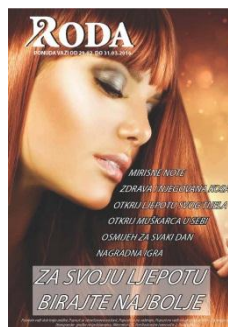


Montenegro

The first half of 2016 was mostly devoted to **project of 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** ("Komšijske novine"). 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 1–6, 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 continue the processes of restructuring and reorganization which 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.; as of April 1, reorganization at the macro level took place at Mercator - CG, d.o.o. As of May 1, 2016, another reorganization took place at the companies Poslovni sistem Mercator, d.d., and Mercator - S, d.o.o.



Number of employees

	Number of employees as at June 30, 2016	Number of employees as at December 31, 2015	Index number of employees June 30, 2016/ Dec. 31, 2015	Number of employees based on hours worked in 1–6, 2016
Slovenia	10,741	10,550	101.8	9,688
Serbia	8,812	8,843	99.6	8,344
Montenegro	1,522	1,333	114.2	1,273
Croatia	526	557	94.4	474
Bosnia and Herzegovina	161	176	91.5	158
TOTAL	21.762	21,459	101.4	19,937

*Indicator is at the level of all companies calculated for the period of 6 months, even if the company was newly founded or deleted from the court register in the period.

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

In the period at hand, Mercator Group devoted nearly 79,910 hours to training and education that involved 14,294 employees.

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. The third generation of participants completed the first half of the program before the end of the first half of the year. They will continue in autumn and complete the training in January 2017.

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 work at fish and seafood departments, as well as the mandatory training courses.

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 the company Mercator IP, d.o.o. At the 6th coaching conference of career coaches, titled **Self – on the Way to Oneself and to Others**, our employee presented the first steps in the introduction of coaching at our company. After passing the exam, three of our employees were awarded the title of a Coach, and they joined the International Coach Federation. The entire training program lasted 20 days, and it included five 4-day modules.

Working with the IEDC Bled, we prepared a training program for our executives. The **Leadership Quest** program is practically oriented and intended to develop and strengthen leadership competencies. It consists of 4 modules.

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. During springtime, participants already completed 3 modules – Leading Self, Strategic Marketing, Effective Organizations and Effective Communications. The other two modules will be held in autumn.



As we are aware of the importance of developing young talent for the future, two of our employees were included in the program **AmCham Young Professionals™**, intended for the young active generation aged 25 to 35. The main goal of the program is to develop a new generation of talented young leaders, with emphasis on the importance of role models, and to raise the awareness of the importance of leadership in the Slovenian business environment. The program takes place once per month from June 2016 to July 2017.

For all other identified candidates, we have prepared the Leadership Academy program and the Business Academy program which will start in autumn. Each participant will receive their own personal development plan.



This year and in the first half of next year, over 500 store managers will take part in the five-day program of the revised **Shop Manager School**. By the end of June, 235 shop managers had already completed their training. The school takes place in the form of two-day modules at Hotel Ribno pri Bledu, and one one-day computer module at the company premises.

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 928 employees. During the refurbishments, 129 employees took part in the training **Refurbishment, Opportunity to Improve our Selling Skills**, and 78 employees took part in the training **Understanding Different Types of Personalities Leads to Successful Sales**.

Consistently with the initiatives, revision of the trainer network involves launching the **revision of the Bread and Bakery Product competence centre**. A total of 663 employees took part in the training in the first half of the year. We also continue the revision of three competence centres. Eighteen of our best meat department trainers took part in the



4-day selling skills training in Zagreb, while 8 new trainers for the fish and seafood department were trained in the same way as the meat department trainers, and they were educated on HACCP. Trainers for the delicatessen department took part in a one-day course at the Slovenian Chamber of Commerce.

As a part of the **Management School**, 32 leaders from retail units completed five out of six modules. The introductory one-day workshop took place in March at the Mercator learning centre; by the end of June, it was followed by two more one-day workshops. The first one took part at hotel Ribno in Bled, and the other took part in the mountainous environment at our mountain hut on Vogel. The sixth, final workshop will take place in the 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.

Leaders in administration were trained to hold development dialogues using the coaching method. Until July 18, leaders will hold interviews with employees in the 25th and higher pay scale levels about the work climate: satisfaction at work, atmosphere in the unit and in the company, and satisfaction with the communication with superiors, peers, and in the company in general. The next dialogue is scheduled for September.



As a part of the Health Promotion project, we launched the **Health Promoter School**. It includes 70 employees who expressed their wish to promote health at units in which they are employed. The education includes one session per month, with 6 academic hours in each session, and the participants will hold five such sessions. Each Monday, the promoters receive a Health Tips newsletter which is the basis for their activities in the current week, aimed at raising the awareness among co-workers about the importance of care for their health.

This year, we decided to photograph our employees for the purposes of internal communication and employment ads. Working with a professional photographer, we photographed in March our administration employees, and from May to the end of June our retail and logistics employees who signed up to take part in the project.

The first part of teambuilding workshops on Vogel is complete. We held a total of 12 workshops attended by 213 employees from the companies Poslovni sistem Mercator, d.d., and Intersport ISI, d.o.o. This year's program was refreshed with new active team tasks. Remaining 14 workshops will be held in September and October.

On May 1, 2016, in the companies Poslovni sistem Mercator, d.d., Intersport ISI, d.o.o., and Mercator IP, d.o.o., 439 employees were awarded their annual promotions.

At the end of the second quarter, the company **Mercator IP, d.o.o.**, had 416 employees, of which one half were employees with a recognized category of disability. In 2016, the company 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. 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 hypermarkets. As of end of March, Mercator stores also offer products of the new facial care cosmetics **Dvorec Trebnik** (Trebnik Mansion). A **blogger conference** was held on Golte for promotional purposes. In June, we worked with the Šentprima Institute to carry out a workshop for 20 experts who strengthened their mentorship competencies needed in their daily work as they face disability at work. Employees of the Food Safety and Internal Control Department upgraded

their knowledge on quality control, and received a special certificate from the Administration of the Republic of Slovenia for Food Safety, Veterinary Sector and Plant Protection (UVHVVR) for successfully completed training on market standards of the European Union for fresh fruit and vegetables.

The **Individual Performance** (IRU – Individualni radni učinak) project was implemented for the field of retail in the first quarter and for administration in the second quarter **at the company Mercator - S, d.o.o.**, 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**, and **Young Managers Program**, organized by the institution IEDC Bled. The employees continue their English language course, while nine employees receive individual English lessons. Ten workshops **English Goes to Store** have been held for 52 employees in Belgrade and Novi Sad. The purpose of the workshops is to teach the retail employees the basics of English language to be able to communicate with customers from abroad.



Following the transition to work in HR.net, the need arose to train personnel to keep the working hours records. To date, training was held for pilot units and working hour registration workers.

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. A 13-day training session was held in June for managers in the Eastern region and their deputies.

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 worker in June.

Specialized retail training for the fruit and vegetables category has been completed. It has improved the business processes in this field. Training for 80 employees to sell meat at meat departments in all IDEA regions was also completed. In July, training is planned for the pilot group for the RODA brand in Belgrade. In Belgrade, 75 employees took part in the training for work at the bakery. As a part of the trainer network, schools and trainers were selected in the second quarter for the Belgrade region. Employees from a number of fields 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 right 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.



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 graduates 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.

In the second quarter, HRM activities were more intense due to hiring for seasonal work, especially in the coastal regions (120 new hirings in the first stage). Retail employees took part in the training course **Usluga plus** ("Service Plus") in order to improve the quality of services at the departments. The project **Idea Manager** is currently in progress, with the aim of training young managers to take over and manage respective business units. Four university graduates have been selected for a 6- to 9-month training in a variety of fields. In order to improve employee satisfaction, a survey was conducted on a sample of 350 employees to determine the level of satisfaction at work in terms of interpersonal relations, salaries, work conditions, training and education possibilities, promotion etc. Based on the results, and action plan will be laid down to improve the level of satisfaction at work.

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 half, 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.



In the first half of the year, **Mercator Humanitarian Foundation** in Slovenia provided aid to 114 employees of Poslovni sistem Mercator, d.d., and Mercator IP, d.o.o., who were in need of help. We have paid out humanitarian aid in the total amount of EUR 50,998. We also granted social scholarships to four children of our employees, in the total amount of EUR 2,000. In Serbia, the Mercator Solidarity Foundation provided aid to 57 employees, in the total amount of EUR 13,380. In Croatia, 6 employees were provided aid in the total amount of EUR 2,356.

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

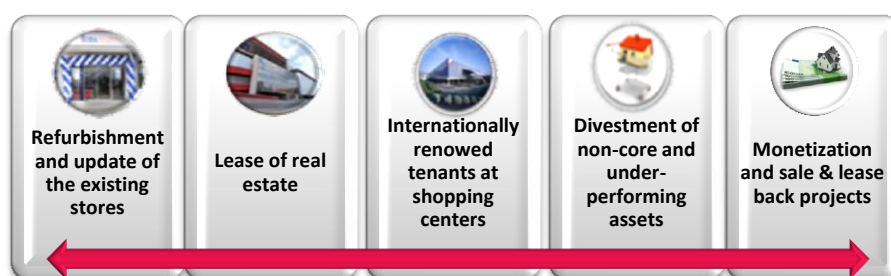
In the first half of 2016, Mercator Group's priority in investment activities, consistently with the investment plan, was refurbishment of retail units and setting up new stores acquired through operating lease. Thus, we newly opened 33 new stores: 23 FMCG program stores, 7 Intersport stores, one apparel store (Benetton), one home product store, and one distribution centre.

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 first half 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. Completed is also refurbishment of the hypermarket at the Mercator centre Ljubljana in Šiška. The hypermarket offers the latest trends in shopping and establishes a new trend in Slovenia and the broader region.

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 first half of 2016, Mercator Group investment into property, plant, and equipment (CAPEX) amounted to EUR 32.3 million. Of this amount, 40.0% was used for investments in Slovenia and 60.0% was used for investments in international markets.

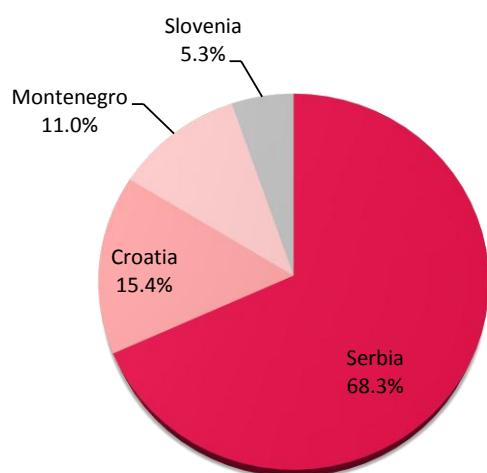
	Capital expenditure in 1–6, 2016 (in EUR 000)	Structure (in %)
Serbia	14,571	45.15%
Slovenia	12,913	40.01%
Croatia	2,604	8.07%
Montenegro	2,123	6.57%
Bosnia and Herzegovina	63	0.20%
TOTAL	32,274	100.00%

Investment into expansion of retail area represented 21.5% of total investment; refurbishments of existing units accounted for 51.0%; IT investments accounted for 18.5%; and the remaining 9.0% was invested in logistics and non-trade activities.

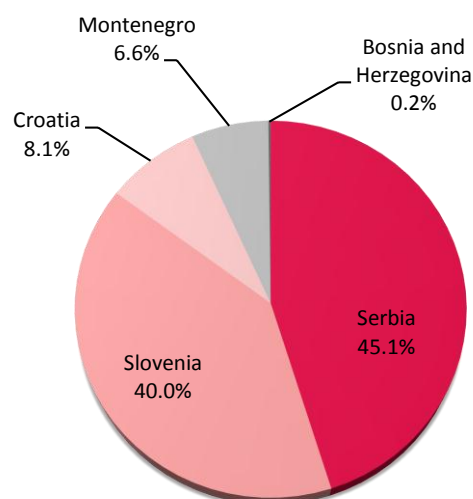
In the first half of 2016, Mercator Group newly acquired 20,199 square meters of gross store area. All new gross area was acquired by operating lease.

In the first half of 2016, Mercator Group divested property, plant, and equipment worth EUR 12.5 million, of which EUR 12.2 million pertains to the divestment of property (real estate) and EUR 0.3 million pertains to plant and equipment.

Share of newly launched facilities by markets:



Share of investments by market:



Summary of total gross retail area as at June 30, 2016

Gross area in square meters				
	Used for own operations	Leased out - Konzum	Leased out - third parties	TOTAL
Owned retail area	591,166	108,562	228,960	928,688
Leased retail area	410,200	75,362	115,679	601,241
Total retail area	1,001,366	183,924	344,639	1,529,929
Owned warehouse capacity	139,583	661	5,470	145,714
Leased warehouse capacity	55,591	25,982	8,237	89,810
Total warehouse capacity	195,174	26,643	13,707	235,524
Owned commercial facilities	18,141	0	1,151	19,292
Leased commercial facilities	8,280	0	0	8,280
Total commercial facilities	26,421	0	1,151	27,572
GROSS AREA UNDER MANAGEMENT	1,222,961	210,567	359,497	1,793,025
- of which owned	748,890	109,223	235,581	1,093,694
- of which leased	474,071	101,344	123,916	699,331



Summary of retail unit launches by markets in the period 1–6, 2016

SLOVENIA

Area of new facilities: 1,072 m²

Number of new units: 1

Openings: Tehnika Nove Jarše, Ljubljana

Refurbishments:

Number of refurbished units: 9

CROATIA

Area of new facilities: 3,118 m²

Number of new units: 5

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

SERBIA

Area of new facilities: 13,792 m²

Number of new units: 17

Openings: Market Sivic; Market Karađorđeva, Šabac; Market Irig; Market Strahinića bana, Belgrade; Supermarket London, Belgrade; Supermarket Retail park Subotica; Market Kneza Miloša, Kragujevac; Market Sarajevska, Belgrade; Supermarket Medijana, Niš; Supermarket Dragana Rakića, Belgrade; Supermarket Novi Banovci; Market Bogatić; Market Vojvode Stepe, Belgrade; Market Titel; Market Bujanovac; Intersport Pančevo; distribution centre Novi Banovci

Refurbishments:

Number of refurbished units: 3

MONTENEGRO

Area of new facilities: 2,217 m²

Number of new units: 10

Openings: Market Cetinje; Market Budva 2; Market City 2, Podgorica; Market Rijeka Crnojevića, Cetinje; Market Totoši, Ulcinj; Market Igalo 2; Market Zaljevo, Ulcinj; Market Dobre vode, Ulcinj; Intersport Bar; Intersport Zelenika



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, and in compliance with the environmental management system ISO 14001:2015. In May 2016, the SIQ certification institute conducted the ISO 9001 and ISO 14001 audit at Poslovni sistem Mercator, d.d. The auditors praised the risk management system in place.

Risks are divided into 5 areas, or categories:

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

In total there are 559 identified risks in the Mercator Group risk register. Key risks for the Mercator Group were selected among them. A key risk for Mercator Group is a risk that meets at least one of the following criteria:

- key risks to be addressed and managed at the Mercator Group level include all risks that exceed 1% of Mercator Group EBITDA in value terms or
- a particular risk shall be deemed a key risk if such risk is the highest within a particular risk group or category that exceeds 1% of Mercator Group EBITDA.

Based on this criterion, we have identified **21 key risks** accounting for a combined total of 46% of Mercator Group EBITDA.

In the period 1–6, 2016, we therefore continued the risk management activities previously laid down. The new version of the Risk Register includes updated changes in human resources and the changes in the approach to operational risks in certain fields. We have discontinued the management of project risks and established management of security and safety risks. At the ninth Risk Management Council session held in June, reports by risk administrators were discussed. The administrators conducted 5 new risk analyses (financial risks, supply chain operation risks, retail risks, wholesale risks, and risks of safety and security). Moreover, implementation of measures to cut the level of risk was reviewed. As at June 30, 2016, a total of 195 measures were being examined, of which 54 have been completed.

Following is a presentation of Mercator Group's key risks, complete with a description of the activities carried out in 2016 in order to reduce the risk level.

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 failure to reap the synergistic effects of integration (Mercator, d.d.)	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 carry out other joint projects at the level of all retail units in respective markets of our 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 (Mercator, d.d.)	Change in market share is related to a change in net retail area of Mercator and that of the competition. If our competition opens more new retail area than Mercator, this may lead to a decline in Mercator's market share. At Mercator, risks of a decline in market shares are being monitored on a monthly basis by keeping track of the changes in net sales area operated by Mercator and its competitors.

RISKS RELATED TO DEVELOPMENT OF OFFER OF GOODS AND SERVICES

Key risk categories	Description of risk management operational activities
Risk of poor price competitiveness (Mercator, d.d.)	Regular monthly price-taking service is provided by a third-party agency. Based on the results of the pricing records, regular monthly reports are prepared for the directors who receive such price-taking reports and surveys and introduce the relevant measures consistently with the pricing policy laid down.
Risk of sub-optimum assortment and retail area management at the micro level (Mercator, d.d.)	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 respective categories: 1) cosmetics and accessories; 2) delicatessen, organic, and specialized food products. Moreover, the category management sector also includes development of planograms for all module-based categories: 1) cosmetics and accessories; 2) delicatessen, organic, and specialized food products. In the first half, the macro area base for the cosmetics category has been completed, and planograms have been made 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 (Mercator, d.d. – market/FMCG)	<p>In the period 1–6, 2016, a total of 22 stores spanning a combined total area of 24,465 m² were refurbished, including 3 hypermarkets, 3 supermarkets, and 16 neighbourhood stores. In order to gear up for the upcoming summer season, our offer was improved and a facelift was carried out at several tourist-oriented units, both at the seaside (Portorož, Piran, Lucija), and in the Gorenjska region (Bled, Bohinj, Bohinjska Bistrica). In addition, Market Obala 53, Portorož, and Market Žiri were entirely refurbished.</p> <p>Simultaneously, refurbishment and update projects are being prepared for around 50 units, to be carried out in the second half 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, d.o.o.)	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, d.o.o.)	At the start of 2016, the Serbian dinar exchange rate was at RSD 121.63 per 1 EUR; at the end of the period 1–6, 2016, it was at RSD 123.31 per 1 EUR; this means the Serbian dinar depreciated by 1.37%. Comparing the average for the period 1–6, 2016, to the average of the period 1–6, 2015, the depreciation amounts to 1.62%, since the average exchange rate in the first half of 2015 was RSD 120.96 per 1 EUR, while in the first half of 2016 it was at RSD 122.92 per 1 EUR. Current trend recognition and examination of macroeconomic indicators thus allows us to adjust our operations and minimize the currency risk in Serbia. A part of the loans in the process of Mercator Group financial restructuring was converted into EUR, which hedged the currency risk to some degree. Additional measures were not required in the period at hand.
Liquidity risk (Mercator - S, d.o.o.)	At the company Mercator - S, d.o.o., the stress will be on improved working capital management which in turn will mitigate the liquidity risk.
Liquidity risk (Mercator - H, d.o.o.)	Liquidity of the company Mercator - H, d.o.o., was stabilized by two measures: <ul style="list-style-type: none"> • transfer of payment transaction function to the parent company Poslovni sistem Mercator, d.d.; and • central liquidity management for both companies via an internal revolving credit facility provided by the parent company to the company Mercator - H, d.o.o.

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 (Mercator, d.d.)	In the first half of the year, we continued to carefully plan and order our seasonal products. We specified relevant dates when seasonal product sales started.
Increase of tradable commodity prices (Mercator, d.d.)	We are monitoring the changes in raw material, product, and category prices on commodity exchanges. 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 and external customers (Mercator, d.d.)	<p>Measures pertaining to franchise stores intensive processing of the current franchise customers – cooperatives, implementation of the "TOP 1,300 products" strategy, repositioning, joint projects (We Love Local), training and education</p> <p>Measures pertaining to key customers migration to the GOLD information system and establishing the assortment and price lists for particular customer segments; pricing relative to the prices of our competitors and signals from the market; discontinuation of negative calculations in special offers or campaigns; development of a list of customers' electronic addresses for notifications of special offers and campaigns.</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 (Mercator, d.d.)	<p>In the first half of 2016, the following activities were carried out to effectively provide the required human resources: active cooperation with employment agencies, regular postings of our requirements on employment portals and the website mercatorgroup.si, looking for candidates with internal calls for applications, posting employment ads at units, and occasionally posting ads on social networks. In the period 1–6, 2016, we announced an internal call for application for re-training for skill shortage (excess demand) jobs. We held interviews with all candidates, and referred them to training courses accordingly.</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. Moreover, training is provided for effective shop managers. We work regularly with high schools and we are a member of the Education Committee at the Slovenian Chamber of Commerce. Also in progress are development dialogues for examining the climate at the company, which will also be used to identify any dissatisfaction and to prepare improvement measures.</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.) (Mercator, d.d.)	<p>In the first half of 2016, many activities were related to improving the informational security of the central IT systems. Based on Agrokor's corporate rules and regulations on information security, rules and regulations were 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; • establishing vulnerability management for workstations and servers; • regular analysis of business information systems to identify and resolve any problems related to the operation thereof; • establishing advanced central registry of changes taking place on the assets and allowing the operation of the central IT systems; • establishment of advanced central records of servers and workstations which will include, in addition to the information on assets, the key infrastructural information regarding these assets.

DAMAGE RISKS

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

SAFETY AND SECURITY RISKS

Key risk categories	Description of risk management operational activities
Fraud by abuse of position	In the first half of 2016, the following activities continued: gathering notifications about any abuse of position, informing the responsible persons along the management hierarchy, participation in the procedures to obtain evidence, and protection/insurance thereof. In addition to these activities, the following measures were launched: considerable increase in cooperation with other internal departments; providing adequate IT support and development of a catalogue of training and education contents for the employees working in the corporate security sector.
Terrorism	Terrorism as a global threat requires response consistent with the security assessment of the relevant national authorities and specifics of trade. Therefore, we take an active approach to monitoring the condition and treat assessment in the country. We have stepped up cooperation with the national security authorities with regard to mutual notification on potential threats, preparation of an action plan for the stakeholders in case of a threat, and occurrence or implementation of risk; and we continued to inform our employees about potential threats.

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, d.o.o.)	<p>We planned the hiring of experts on occupational health and safety, and fire safety. Two experts are now hired, of which one works in Niš and the other one in Novi Sad. The goal with regard to the identified risk was to train the employees on occupational health and safety and fire safety. In the first half of 2016, training was completed in the newly opened facilities and the Belgrade office building. In the first half of 2016, we also completed the project of connecting all switchboards to the security surveillance centres.</p> <p>Inspections of work equipment for occupational health and safety by the occupational health and safety (VZPD) experts and fire safety (VPP) experts are under way simultaneously with the development of risk assessment for respective buildings. Regarding regular controls of buildings and business units, the form or template for the report is still being developed; however, completion of the process with the organized control inspections and audits is planned for the second half of 2016 when certification of buildings according to the standards ISO 14001, ISO 9001, and HACCP will also be completed.</p>

FOOD SAFETY RISKS

Key risk category	Description of risk management operational activities
Design and management of facilities and equipment (Mercator, d.d.)	<p>The food safety department and internal control are actively involved in the resolution of inspection issues. They draw attention to and report any non-compliance identified during internal controls and, if requested, takes part in the process of introducing new features and in refurbishments with regard to facility and equipment layout and design, from the aspect of food safety and compliance.</p> <p>Due to restricted possibilities of implementing any measures, the field of control for "provision of facilities and equipment" 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 better suited to implement effective risk control measures in this field.</p> <p>In testing, the RouteMaster application was introduced, which will allow a much better capture of data on non-compliance, in terms of contents, during internal controls, (also) in the field of design and management of facilities and equipment.</p>

ENVIRONMENTAL RISKS

Key risk category	Description of risk management operational activities
Use of electric energy (Mercator, d.d.)	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. The project of upgrading the current energy accounting with a more detailed targeted power consumption monitoring and implementation of measures for efficient use of energy, the goal of which was to reduce energy consumption at Poslovni sistem Mercator, d.d., by 1% annually, continued with the planned activities: power consumption data capture and transfer in 15-minute intervals; installation of additional meters for major energy users; and implementation of efficient use of energy with regard to electric energy and heating.

FINANCIAL MANAGEMENT

Stable Financial Operations

As at June 30, 2016, Mercator Group net financial debt amounted to EUR 856,330 thousand, which is 0.8% more than as at the end of 2015, and 0.8% less than as at June 30, 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	June 30, 2016	December 31, 2015	June 30, 2015	Index June 30, 2016/ Dec. 31, 2015	Index June 30, 2016/ June 30, 2015
Non-current financial liabilities	756,657	758,208	838,116	99.8	90.3
Current financial liabilities	156,281	149,224	73,625	104.7	212.3
Financial liabilities	912,938	907,432	911,741	100.6	100.1
Cash and cash equivalents	19,175	18,998	19,307	100.9	99.3
Available-for-sale financial assets	473	524	880	90.2	53.8
Loans and deposits	36,960	38,669	28,620	95.6	129.1
Financial assets	56,608	58,191	48,807	97.3	116.0
NET FINANCIAL DEBT	856,330	849,241	862,934	100.8	99.2

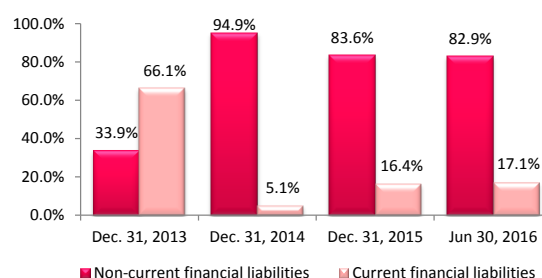
Financial costs

In the period 1–6, 2016, the 6-month EURIBOR averaged at -0.127%. At the end of the period, it was still negative at -0.179%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at 0.092%, this rate fell by 21.89%.

Debt to equity and financial liability ratio

As at June 30, 2016, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.3. The ratio is a quotient between equity and net financial debt.

As at June 30, 2016, the share of Mercator Group's non-current financial assets was at 82.9%, which is consistent with a sustainable maturity profile of financial liabilities.



Available liquidity lines as at June 30, 2016

As at June 30, 2016, Mercator Group had access to the following liquidity lines:

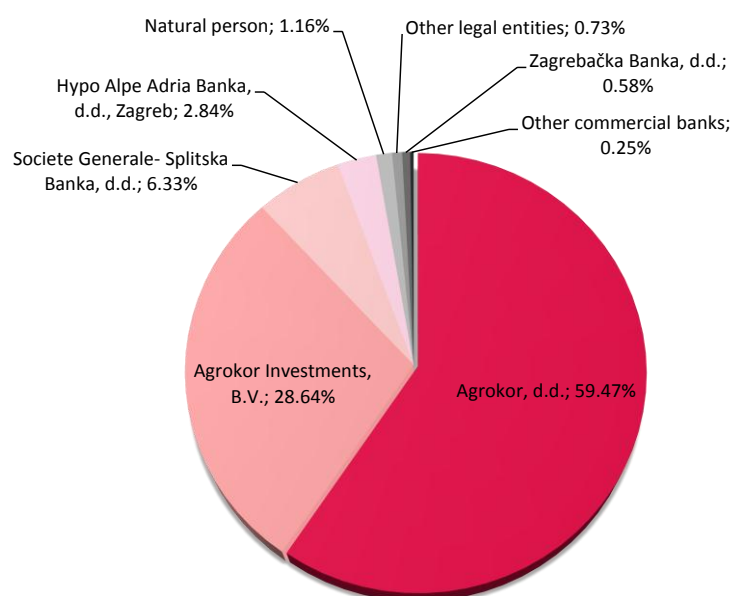
In EUR thousand	June 30, 2016
Cash and cash equivalents	19,175
Standby revolving credit lines	66,572
TOTAL	85,747

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at June 30, 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	2,369

Ownership structure of the company Poslovni sistem Mercator, d.d., as at June 30, 2016



Major Shareholders

As at June 30, 2016 the following ten largest shareholders held a combined share of **98.44%** of the company.

Major shareholders	Country	Number of shares	Share
1 Agrokor, d.d.	Croatia	3,621,992	59.47%
2 Agrokor Investments B.V.	Netherlands	1,744,187	28.64%
3 Societe Generale - Splitska Banka, d.d.	Croatia	385,482	6.33%
4 Hypo Alpe-Adria-Bank, d.d.	Croatia	173,264	2.84%
5 Zagrebačka Banka, d.d.	Croatia	35,393	0.58%
6 Galić Josip	Croatia	21,525	0.35%
7 Erste Group Bank AG	Austria	8,987	0.15%
8 Zveza Bank Reg.Z.Zo.J.Bank und Revisions	Austria	2,950	0.05%
9 Banque Pictet and CIE SA	Switzerland	1,107	0.02%
10 Clearstream Banking SA	Luxembourg	750	0.01%
TOTAL		5,995,637	98.44 %

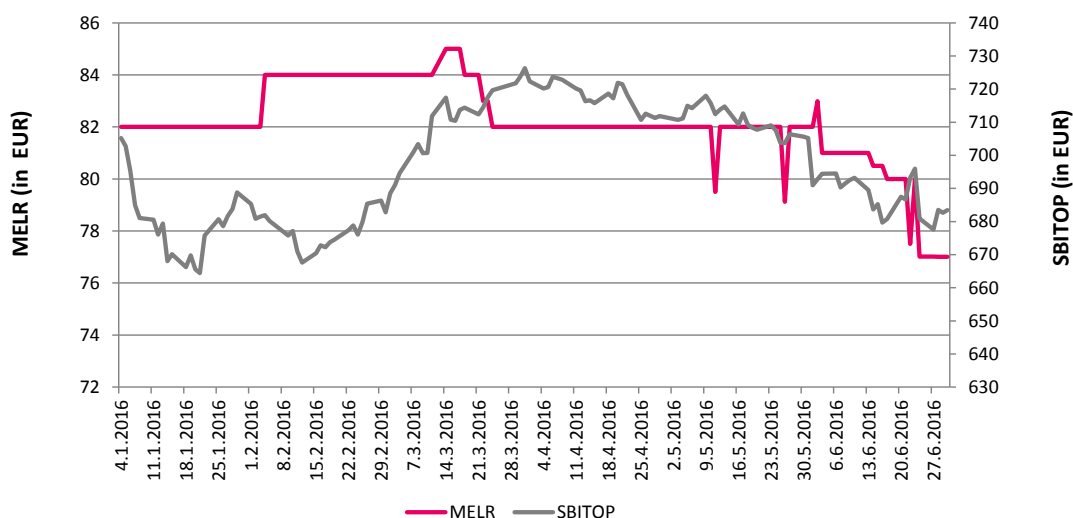
Shares held by Management and Supervisory Board Members as at June 30, 2016

Management Board and Supervisory Board Members did not own shares of the company Poslovni sistem Mercator, d.d., as at June 30, 2016.

Foreign shareholders

As at June 30, 2016, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.47%**, which is 0.05 percentage point more than in 2015.

Movement of closing price per MELR share in the period 1–6, 2016, compared to the movement of the SBITOP index



Key information for the shareholders

	June 30, 2016	June 30, 2015	Index June 30, 2016/ June 30, 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)	469,063,520	499,457,326	93.9
Market price per share (in EUR)	77.01	82.00	93.9
Share book value (in EUR)	105.46	108.32	97.4
Minimum close rate in the period (in EUR)	77.01	70.13	109.8
Maximum close rate in the period (in EUR)	85.00	82.50	103.0
Average close rate in the period (in EUR)	82.13	74.90	109.7
Earnings per share (in EUR)*	3.3	5.3	63.2

* 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 June 30, with market price per share as at June 30.

Share book value is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at June 30, 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 Poslovni sistem Mercator, d.d., does not plan dividend payment for 2016.

Treasury shares

As at June 30, 2016, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1–6, 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 1–6, 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 1–6, 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

EUR thousand	June 30, 2016	December 31, 2015	Index June 30, 2016/ Dec. 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	1,354,944	1,371,405	98.8
Investment property	4,071	3,352	121.4
Intangible assets	22,107	19,538	113.1
Deferred tax assets	16,641	18,057	92.2
Loans and deposits	34,045	30,604	111.2
Available-for-sale financial assets	473	524	90.3
	1,432,281	1,443,480	99.2
Current assets			
Disposal groups	217,482	217,482	100.0
Inventories	268,104	280,853	95.5
Trade and other receivables	280,320	256,189	109.4
Current tax assets	1,155	656	176.1
Loans and deposits	2,915	8,065	36.1
Cash and cash equivalents	19,175	18,998	100.9
	789,151	782,243	100.9
Total assets	2,221,432	2,225,723	99.8
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	108,977	108,865	100.1
Retained earnings	35,288	15,365	229.7
Profit (loss) for the period	7,066	20,245	34.9
Currency translation reserve	(91,081)	(89,668)	101.6
Total equity attributable to equity owners of the company	639,648	634,205	100.9
Non-controlling interests	217	228	95.2
Total equity	639,865	634,433	100.9
LIABILITIES			
Non-current liabilities			
Trade and other payables	43,529	38,352	113.5
Borrowings and other financial liabilities	756,657	758,208	99.8
Deferred tax liabilities	29,725	29,947	99.3
Provisions	25,549	25,918	98.6
	855,460	852,425	100.4
Current liabilities			
Trade and other payables	569,039	588,117	96.8
Current tax liabilities	787	1,524	51.6
Borrowings and other financial liabilities	156,281	149,224	104.7
	726,107	738,865	98.3
Total liabilities	1,581,567	1,591,290	99.4
Total equity and liabilities	2,221,432	2,225,723	99.8

Condensed consolidated income statement

EUR thousand	1–6, 2016	1–6, 2015*	Index 1–6, 2016/ 1–6, 2015
Revenue	1,245,316	1,287,237	96.7
Cost of goods sold and selling costs	(1,193,929)	(1,224,491)	97.5
Administrative expenses	(39,960)	(40,042)	99.8
Other income	9,760	10,701	91.2
Results from operating activities	21,187	33,405	63.4
Finance income	3,613	2,611	138.4
Finance expenses	(15,651)	(16,662)	93.9
Net finance expenses	(12,038)	(14,051)	85.7
Profit (loss) before tax	9,149	19,354	47.3
Tax expense	(2,096)	(4,043)	51.8
Profit (loss) for the period	7,053	15,311	46.1
Profit (loss) for the period attributable to:			
Owners of the parent company	7,066	15,344	46.1
Non-controlling interests	(13)	(33)	39.4

* Data is not entirely comparable due to some non-recurring (one-off) business events and effect of divestments of non-core operations and assets (Santana and Loka, Grosuplje Bakery, M Holidays, and other divestments of non-operating assets).

Condensed consolidated statement of comprehensive income

EUR thousand	1–6, 2016	1–6, 2015	Index 1–6, 2016/ 1–6, 2015
Profit (loss) for the period	7,053	15,311	46.1
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss	(1,621)	803	
Foreign currency translation differences - foreign operations	(1,410)	803	-
Deferred tax	112	-	-
Other changes	(323)	-	-
Other comprehensive income for the period	(1,621)	803	-
Total comprehensive income for the period	5,432	16,114	33.7
Total comprehensive income for the period attributable to:			
Owners of the parent company	5,443	16,145	33.7
Non-controlling interests	(11)	(31)	35.5

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	-	-	-	-	-	-	15,344	-	15,344	(33)	15,311
Other comprehensive income	-	-	-	-	(19)	19	-	801	801	2	803
Total comprehensive income for the period	-	-	-	-	(19)	19	15,344	801	16,145	(31)	16,114
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	69,353	(69,353)	-	-	-	-
Balance at June 30, 2015	254,175	286,772	(3,235)	41,686	115,392	15,887	15,344	(88,414)	637,607	184	637,791

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	-	-	-	-	-	-	7,066	-	7,066	(13)	7,053
Other comprehensive income	-	-	-	-	112	(322)	-	(1,413)	(1,623)	2	(1,621)
Total comprehensive income for the period	-	-	-	-	112	(322)	7,066	(1,413)	5,443	(11)	5,432
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	20,245	(20,245)	-	-	-	-
Balance at June 30, 2016	254,175	286,772	(3,235)	41,686	108,977	35,288	7,066	(91,081)	639,648	217	639,865

Condensed consolidated cash flow statement

EUR thousand	1–6, 2016	1–6, 2015	Index 1–6, 2016/ 1–6, 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross cash flows from operating activities	52,594	69,587	75.6
Change in inventories	12,749	8,847	144.1
Change in trade and other receivables	(24,630)	(30,923)	79.6
Change in trade and other payables	(11,952)	(90,351)	13.2
	28,761	(42,840)	-
Interest paid	(14,675)	(14,964)	98.1
Income tax paid	(2,048)	(1,447)	141.5
Net cash from (used in) operating activities	12,038	(59,251)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries and business operations, net of cash acquired	-	(845)	-
Acquisition of property, plant and equipment and investment property	(26,779)	(23,828)	112.4
Acquisition of intangible assets	(5,494)	(1,904)	288.6
Loans and bank deposits made	-	(358)	-
Proceeds from sale of property, plant and equipment, investment property and intangible assets	12,453	6,476	192.3
Loans and deposits repayments received	1,709	-	-
Proceeds from sale of available-for-sale financial assets	149	1,200	12.4
Interest received	669	1,485	45.1
Dividends received	-	1	-
Net cash used in investing activities	(17,293)	(17,773)	97.3
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds (repayment) in borrowings	5,506	62,103	8.9
Net cash from (used in) financing activities	5,506	62,103	8.9
Net (decrease) increase in cash and cash equivalents	251	(14,921)	-
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	(74)	4	-
Cash and cash equivalents as at the end of the period	19,175	19,307	99.3

Notes to Mercator Group condensed consolidated financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1–6, 2016, Mercator Group generated EUR 1,245,316 thousand of revenue, which is 3.3% less relative to the period 1–6, 2015. The drop in revenue includes harsh of market conditions, activities related to accelerated store refurbishment and lower activity in non-core operations. Another cause for lower revenue in the market of Slovenia is the divestment of tourist service operations M Holidays, divestment of the Grosuplje Bakery (Pekarna Grosuplje), the Santana and Loka brands, and other divestments of non-operating assets in 2015. In the market of Croatia, the drop in revenue is the highest and a result of final termination of the market (FMCG) program as of June 30, 2015, due to consolidation by markets within the Agrokor Group.

Cost of goods sold and selling and marketing costs

Mercator Group costs of sales which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,193,929 thousand in the period 1–6, 2016, which is a 2.5% decrease on the same period of last year.

Cost of goods sold was lower by 2.6% relative to last year's comparable period.

Administrative expenses

Mercator Group's administrative expenses in the period 1–6, 2016, amounted to EUR 39,960 thousand, which is 0.2% less than in the equivalent period last year.

Total expenses, consisting of selling and marketing costs, production costs (included in costs of sales), and administrative expenses amounted to EUR 308,272 thousand in the period 1–6, 2016, a decrease of 2.0% over the last year's figure for such period.

Results from operating activities

In the period 1–6, 2016, Mercator Group's results from operating activities reached EUR 21,187 thousand, which is 36.6% less than in the comparable period of last year.

Net finance expenses

Net finance expenses are lower by EUR 2,013 thousand relative to the last year's comparable period, which is mostly a result of lower net currency translation differences.

Profit before income tax

In the period 1–6, 2016, Mercator Group's profit before income tax was at EUR 9,149 thousand.

Profit for the financial period

Mercator Group's net profit for the period 1–6, 2016, amounted to EUR 7,053 thousand.

EBITDA

Mercator Group EBITDA in the period 1–6, 2016, amounted to EUR 57,056 thousand which is 19.9% less than in the comparable period of last year.

EBITDAR

EBITDAR for the period 1–6, 2016, amounted to EUR 95,669 thousand which is 12.7% less than in the comparable period of last year.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at June 30, 2016, amounted to EUR 2,221,432 thousand, which is EUR 4,291 thousand less than at the end of 2015, mostly due to lower property, plant, and equipment, and inventories, while trade receivables increased.

As at June 30, 2016, the value of Mercator Group's non-current assets amounted to EUR 1,432,281 thousand, which is EUR 11,199 thousand less than as at December 31, 2015. The largest share of non-current assets (96.4% or EUR 1,381,122 thousand) is represented by property, plant, and equipment, the value of which was EUR 13,173 thousand lower than as at the end of 2015 as a result of lower investment which was lower than depreciation.

As at June 30, 2016, the value of Mercator Group current assets amounted to EUR 789,151 thousand, which is EUR 6,908 thousand more than at the end of 2015. Trade and other receivables represent the largest portion of total current assets (35.5%), followed by inventories (34.0%).

Equity and liabilities

As at June 30, 2016, Mercator Group share capital amounted to EUR 639,865 thousand, which is EUR 5,432 thousand more than as at the end of 2015. The increase pertains to the net profit of EUR 7,053 thousand, negative currency translation differences in the amount of EUR 1,410 thousand, and deferred taxes and other changes in the amount of EUR -211 thousand.

As at June 30, 2016, total financial liabilities amounted to EUR 912,938 thousand, which is EUR 5,506 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 856,330 thousand as at June 30, 2016 (December 31, 2015: EUR 849,241 thousand). The share of long-term financial liabilities as at June 30, 2016, was at 82.9% (83.6% as at December 31, 2015).

As at June 30, 2016, provisions amounted to EUR 25,549 thousand. Compared to the end of 2015, provisions decreased by EUR 369 thousand, mostly due to reversal/drawing of provisions for severance packages and rewards for loyal service.

Trade and other payables as at June 30, 2016, amounted to EUR 612,568 thousand, which is EUR 13,901 thousand less than at the end of 2015.

As at June 30, 2016, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 104.4%, which is 1.4 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	June 30, 2016	December 31, 2015	Index June 30, 2016/ December 31, 2015
ASSETS			
Non-current assets			
Property, plant and equipment	635,077	643,311	98.7
Investment property	3,299	3,351	98.4
Intangible assets	13,059	10,844	120.4
Deferred tax assets	15,338	16,748	91.6
Trade and other receivables	419	419	100.0
Loans and deposits	5,349	7,057	75.8
Investment into equity of subsidiaries	354,045	352,045	100.6
Available-for-sale financial assets	296	352	84.1
	1,026,882	1,034,127	99.3
Current assets			
Disposal groups	217,482	217,482	100.0
Inventories	127,949	130,404	98.1
Trade and other receivables	125,155	105,229	118.9
Current tax assets	136	-	-
Loans and deposits	113,672	110,608	102.8
Cash and cash equivalents	12,054	10,046	120.0
	596,448	573,769	104.0
Total assets	1,623,330	1,607,896	101.0
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	78,617	79,869	98.4
Retained earnings	(1,929)	619	-
Profit (loss) for the period	10,095	(3,800)	-
Equity	641,119	631,024	101.6
LIABILITIES			
Non-current liabilities			
Trade and other payables	21,956	17,715	123.9
Borrowings and other financial liabilities	521,538	526,865	99.0
Deferred tax liabilities	22,670	22,779	99.5
Provisions	21,760	22,162	98.2
	587,924	589,521	99.7
Current liabilities			
Trade and other payables	297,249	293,323	101.3
Current tax liabilities	155	327	47.4
Borrowings and other financial liabilities	96,883	93,701	103.4
	394,287	387,351	101.8
Total liabilities	982,211	976,872	100.5
Total equity and liabilities	1,623,330	1,607,896	101.0

Condensed income statement

EUR thousand	1–6, 2016	1–6, 2015*	Index 1–6, 2016/ 1–6, 2015
Revenue	672,874	698,901	96.3
Cost of goods sold and selling costs	(642,746)	(657,985)	97.7
Administrative expenses	(18,595)	(20,077)	92.6
Other income	4,824	3,273	147.4
Results from operating activities	16,357	24,112	67.8
Finance income	5,082	5,721	88.8
Finance expenses	(9,888)	(11,217)	88.2
Net finance expense	(4,806)	(5,496)	87.4
Profit (loss) before tax	11,551	18,616	62.0
Tax expense	(1,456)	(2,640)	55.2
Profit (loss) for the period	10,095	15,976	63.2

*Data is not entirely comparable due to some non-recurring (one-off) business events and effect of divestments of non-core operations and assets (Santana and Loka, Grosuplje Bakery, M Holidays, and other divestments of non-operating assets).

Condensed statement of comprehensive income

EUR thousand	1–6, 2016	1–6, 2015	Index 1–6, 2016/ 1–6, 2015
Profit for the period	10,095	15,976	63.2
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	10,095	15,976	63.2

Condensed statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Total equity
Balance at January 1, 2015	254,175	286,772	(3,235)	16,624	84,865	-	-	639,201
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	15,976	15,976
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(19)	19	15,976	15,976
Total transactions with owners of the parent company	-	-	-	-	(19)	19	-	-
Balance at June 30, 2015	254,175	286,772	(3,235)	16,624	84,846	19	15,976	655,177

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	-	-	-	-	-	-	10,095	10,095
Other comprehensive income	-	-	-	-	(1,252)	1,252	-	-
Total comprehensive income for the period	-	-	-	-	(1,252)	1,252	10,095	10,095
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 June 30, 2016	254,175	286,772	(3,235)	16,624	78,617	(1,929)	10,095	641,119

Condensed cash flow statement

EUR thousand	1–6, 2016	1–6, 2015	Index 1–6, 2016/ 1–6, 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross cash flows from operating activities	28,583	41,572	68.8
Change in inventories	2,456	(449)	-
Change in trade and other receivables	(20,062)	(14,844)	135.2
Change in trade and other payables	9,117	(23,969)	-
	20,094	2,310	869.9
Net exchange rate differences from financing	12	(7)	-
Interest paid	(9,888)	(11,217)	88.2
Income tax paid	-	(50)	-
Net cash from (used in) operating activities	10,218	(8,964)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries and business operations, net of cash acquired	(2,000)	(845)	236.7
Acquisition of property, plant and equipment and investment property	(8,294)	(15,755)	52.6
Acquisition of intangible assets	(4,298)	(1,758)	244.5
Loans and bank deposits made	(1,356)	(26,019)	5.2
Proceeds from sale of property, plant and equipment and investment property	5,668	1,994	284.3
Proceeds from sale of available-for-sale financial assets	149	1,200	12.4
Interest received	2,060	2,099	98.1
Dividends received	2,005	1,760	113.9
Net cash used in investing activities	(6,066)	(37,324)	16.3
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds (repayment) in borrowings	(2,144)	38,321	-
Net cash from (used in) financing activities	(2,144)	38,321	-
Net (decrease) increase in cash and cash equivalents	2,008	(7,967)	-
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	12,054	10,604	113.7

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

Notes to condensed income statement

Revenue

In the period 1–6, 2016, the company Poslovni sistem Mercator, d.d., generated EUR 672,874 thousand of revenue, which is 3.7% less relative to the period 1–6, 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 642,746 thousand in the period 1–6, 2016, which is a 2.3% decrease on the same period of last year.

Administrative expenses

The company's administrative expenses in the period 1–6, 2016, amounted to EUR 18,595 thousand, which is 7.4% 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 165,091 thousand in the period 1–6, 2016, a decrease of 3.5% on the last year's figure for such period.

Results from operating activities

In the period 1–6 2016, results from operating activities of the company Poslovni sistem Mercator, d.d., reached EUR 16,357 thousand, which is 32.2% less than in the equivalent period of the last year.

Net finance expenses

Net finance expenses are lower by EUR 690 million relative to the last year's comparable period, which is mostly a result of somewhat lower finance expenses in 2016.

Profit before income tax

The company's profit before income tax for the period 1–6, 2016, amounts to EUR 11,351 thousand, which is EUR 7,065 thousand less than in the comparable period of 2015.

Profit for the financial period

The company's net profit for the period 1–6, 2016, amounted to EUR 10,095 thousand.

EBITDA

EBITDA of the company Poslovni sistem Mercator, d.d., in the period 1–6, 2016, amounted to EUR 31,681 thousand which is 25.3% less than in the comparable period of last year.

EBITDAR

EBITDAR of the company Poslovni sistem Mercator, d.d., in the period 1–6, 2016, amounted to EUR 36,949 thousand which is 22.5% 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 June 30, 2016, amounted to EUR 1,623,330 thousand, which is EUR 15,434 thousand more than at the end of 2015, mostly on account of current assets.

As at June 30, 2016, the value of the company's non-current assets amounted to EUR 1,026,882 thousand, which is EUR 7,245 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 651,435 thousand), which is EUR 6,071 thousand less than the estimate for the end of 2015.

As at June 30, 2016, the value of company's current assets amounted to EUR 596,448 thousand, which is EUR 22,679 thousand more than as at the end of 2015. The increase pertains especially to trade and other receivables. Assets available for disposal (36.5%) and inventories (21.5%) account for the largest share of current assets. Trade and other receivables account for 21.0%, and loans and deposits account for 19.1% of total current assets.

Equity and liabilities

As at June 30, 2016, share capital of the company Poslovni sistem Mercator, d.d., amounted to EUR 641,119 thousand, which is EUR 10,095 thousand, or 1.6%, more than as at the end of 2015. The increase is a result of net profit in the period 1–6, 2016.

As at June 30, 2016, total financial liabilities amount to EUR 618,421 thousand, which is EUR 2,145 thousand less than as at the end of 2015. The decrease is predominantly a result of lower non-current financial liabilities.

As at June 30, 2016, provisions amounted to EUR 21,760 thousand. Compared to the end of 2015, provisions decreased by EUR 402 thousand.

Trade and other payables as at June 30, 2016 amounted to EUR 319,205 thousand, which is EUR 8,167 thousand more than at the end of 2015.

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 June 30, 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, August 22, 2016