Press conference

January 29, 2013

Mercator

Mercator Group wraps up the year 2012 with revenue comparable to the 2011 figure.
In 2013, focus on restructuring

Management Board responded promptly to the challenges faced by Mercator

- Mercator Group wrapped up the year 2012 with **revenue comparable** to the 2011 figure.
- In the second half of 2012, Mercator introduced extensive measures to cut costs, improve working capital, deleverage, and counter the negative trends in the trade industry.
- With the measures implemented in the field of marketing, Mercator Group succeeded in 2012 in **stopping the trend of declining market shares** (Slovenia, Croatia); some markets saw growth (Serbia).
- As a result of improved cost efficiency in the second half of last year, the **cost curve took a downward turn.**

High debt does not threaten financial stability.

- With measures in financing, Mercator Group succeeded in **reducing the debt by EUR 90 million** in 2012.
- **Net working capital** in 2012 was reduced by **EUR 140 million**.
- Yesterday, we **successfully completed the issue of commercial papers in the amount of EUR 20 million.**

Pursuant to the new strategy, 2013 will be a year of restructuring.

- Measures introduced in the second half of 2012 provide excellent **foundation for the necessary changes** implemented in compliance with the new strategy (Albania, Bulgaria etc.).
- Mercator's **performance solid in core activity**
- In 2013, focus on **intensive restructuring**

Macroeconomic conditions in 2012 grew worse.

1. **Lower GDP growth in three key markets**

- Slovenia: negative GDP growth in 2012: -2.0% (-1.8 percentage points); inflation rate at 2.7 percent (+0.6 percentage point)
- Croatia: negative GDP growth in 2012: -1.8% (-1.8 percentage points); inflation rate at 3.5 percent (+0.5 percentage point)
- Serbia: negative GDP growth in 2012: -1.9% (-3.5 percentage points); inflation rate at 13.0 percent (+3 percentage points)

2. **Declining or stagnant credit ratings in Slovenia and countries of Southeastern Europe** –> higher financing costs

3. **High unemployment rate in most Southeastern European markets**

4. **Depreciation of Serbian dinar by 7.5 percent**

5. **VAT increase in Croatia**

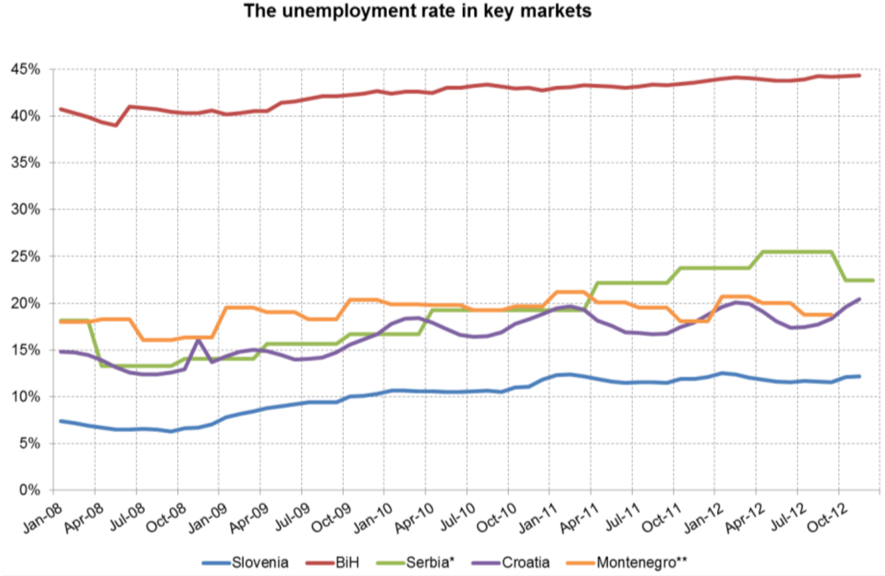

Table 1: Unemployment rate in key markets

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Conditions in the trade industry further aggravated in 2012.

1. Drop of consumer purchasing power as a result of higher unemployment and increase in consumer prices -> shopping for lower-priced products, lower shopping frequency, lower shopping amounts

2. Lower consumer confidence and stronger impact of recession on consumers' daily lives -> stronger trend of rationalization of consumption, more shopping for lower-priced products

3. High competitiveness (including competition from discount retailers)

4. High pressure on **price competitiveness**

5. Lower received discounts related to purchase amounts

Despite harsh conditions in the markets, sales revenue in 2012 comparable to the 2011 figure.

EUR 2,873 mn

sales renevue Mercator Group generated in 2012, index 100.04 relative to 2011.

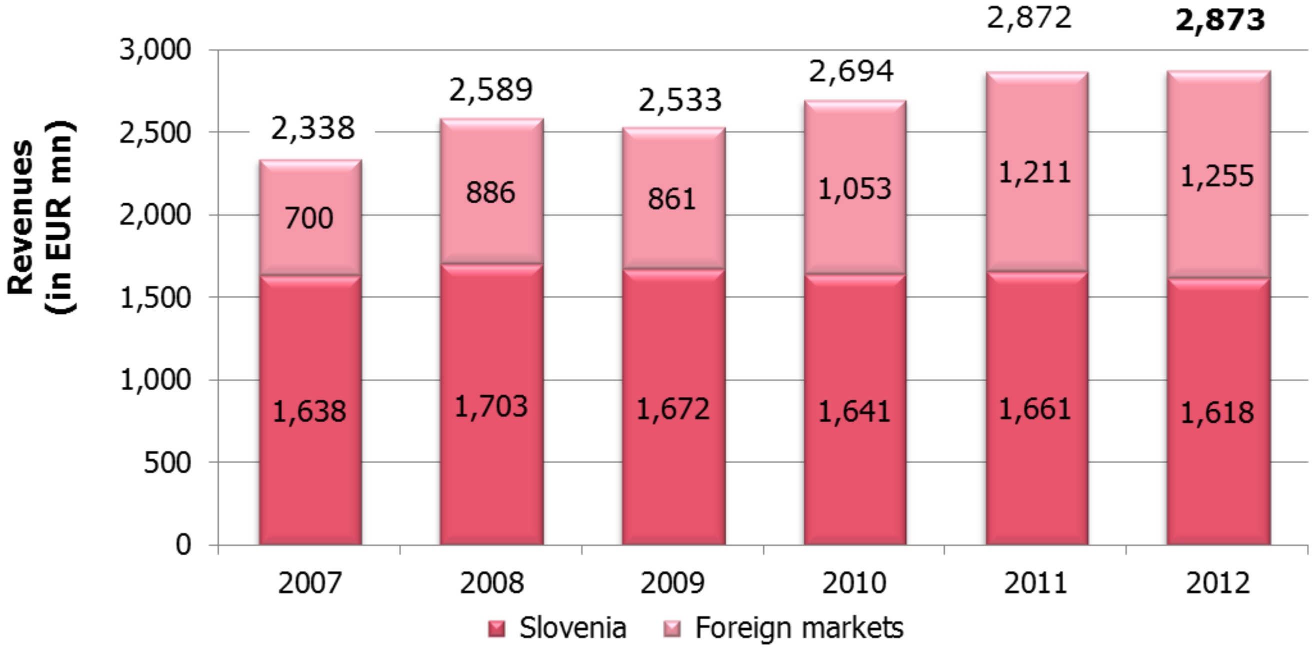
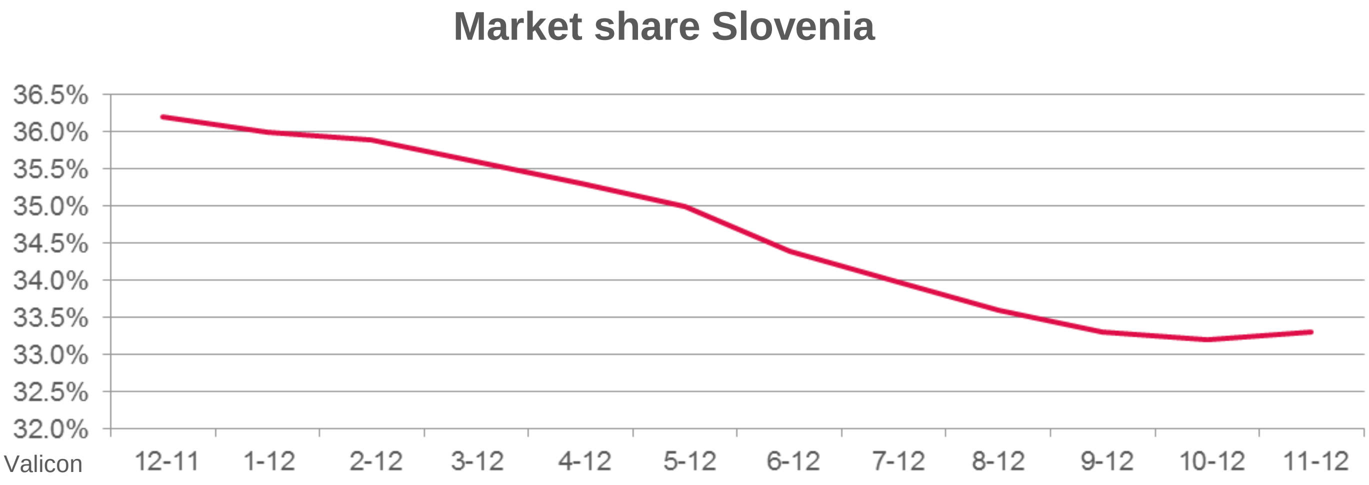


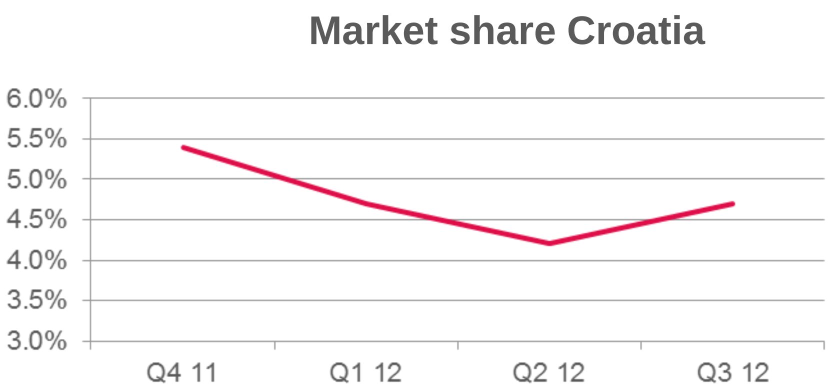
Table 2: Mercator Group sales revenue from 2007 to 2012

Drop in market shares stopped; in some markets, growth rebounded.



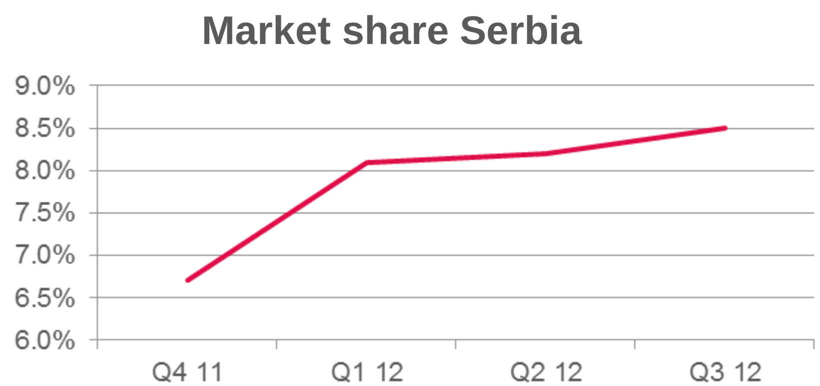
Source: Valicon

Table 3: Mercator's market share in Slovenia in 2012



Source: GfK

Table 4: Mercator's market share in 2012 in Croatia



Source: GfK

Table 5: Mercator's market share in 2012 in Serbia

Instant measures in the last quarter of 2012 resulted in savings of EUR 10 million.

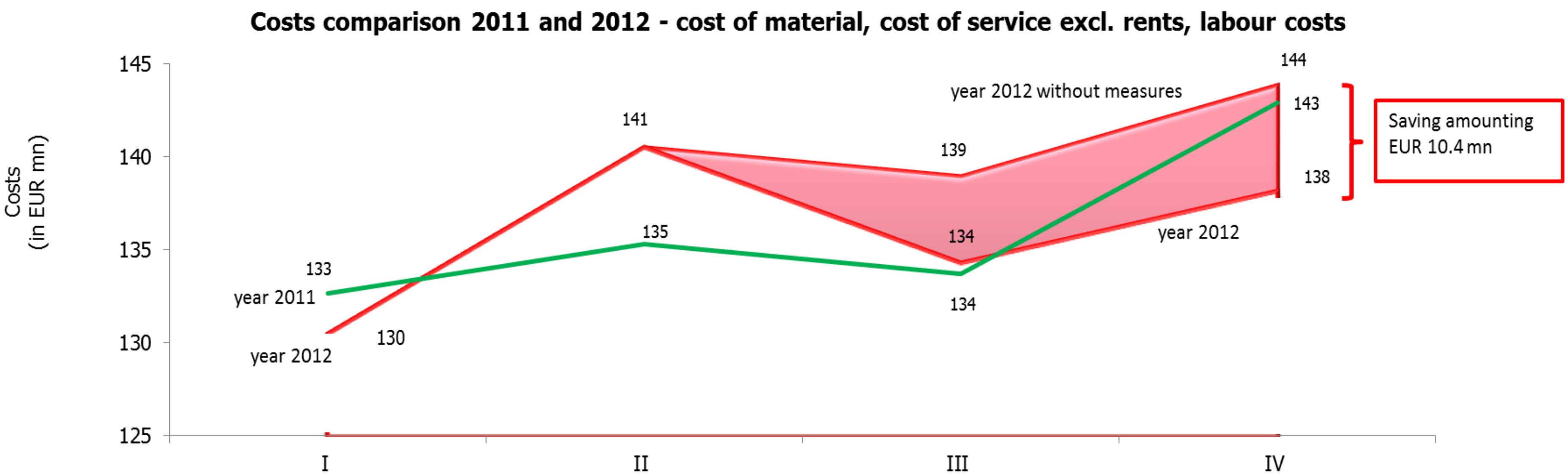


Table 6: Comparison of costs 2011/2012

In the second half of 2012, non-urgent investments stopped; divestment stepped up.

- **Investment in 2012:**

  • value of **total investment** at **EUR 67 million**, which is a quarter less than planned for 2012 as a result of stoppage of non-urgent investment in the second half of the year.

  • **divestment: EUR 6.8 million,** majority of which was completed in the second half of the year

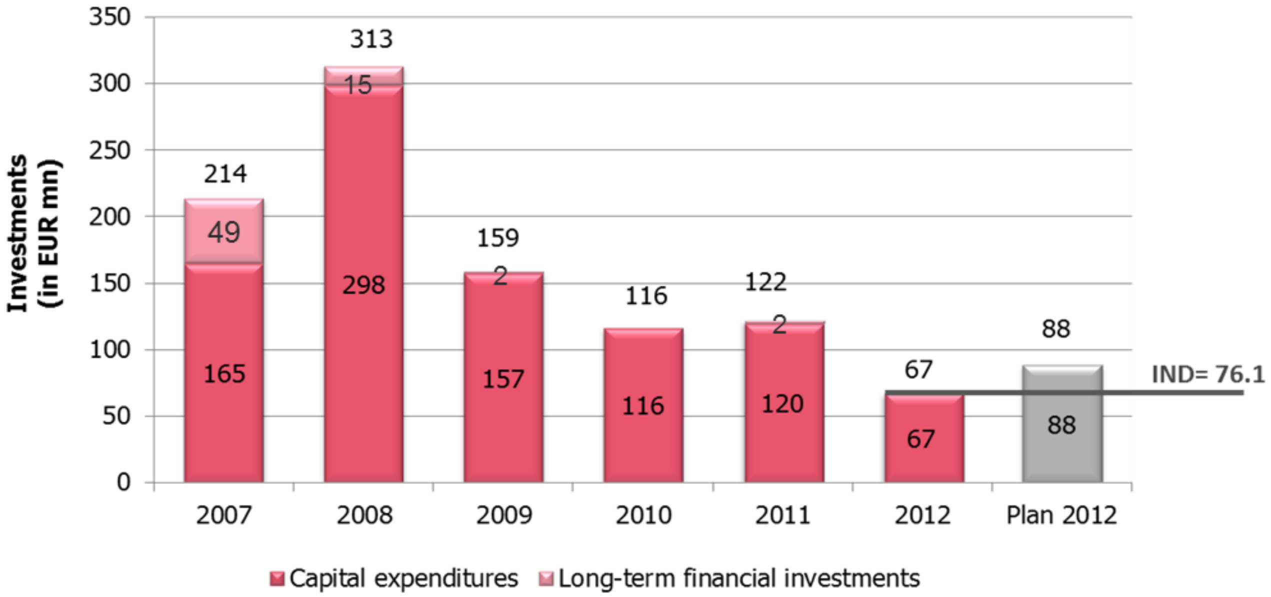


Table 7: Mercator Group investment from 2007 to 2012

Improved working capital management.

Harsh economic conditions compel us to tap into the internal improvement potential within the Mercator Group as much as possible.

Working capital management project will release additional funds tied up in working capital.

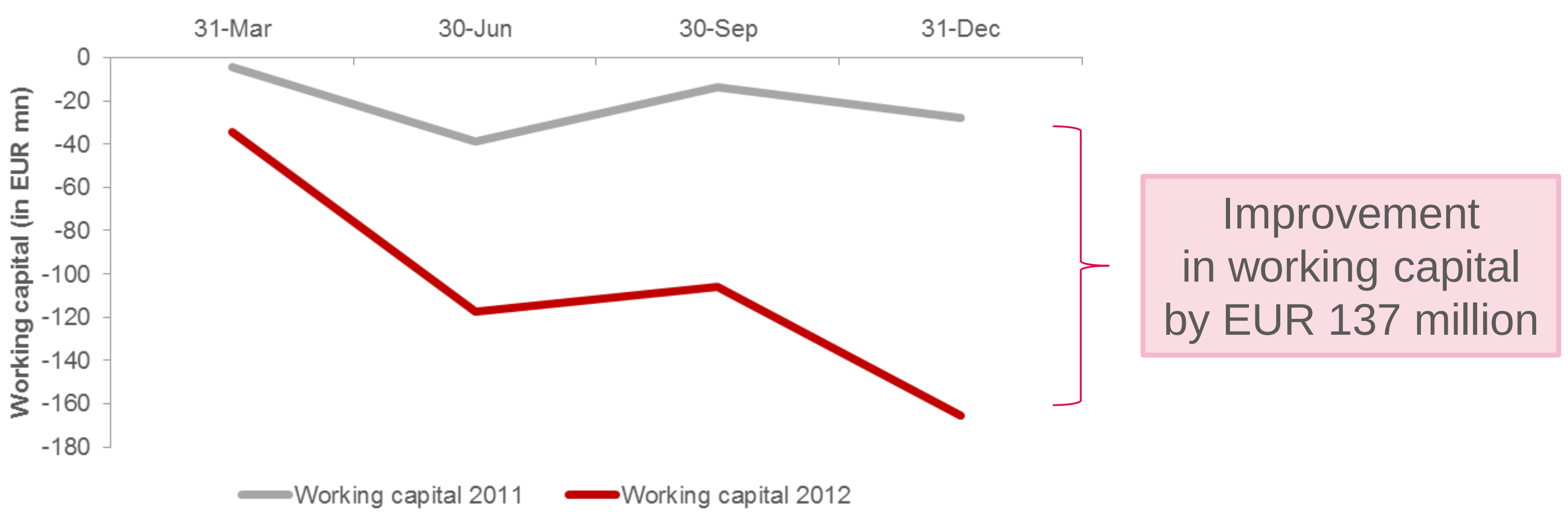


Table 8: Changes in Mercator Group working capital in 2011 and 2012

We reduced our debt by EUR 90 million.

- **Net debt**

Net financial debt as at December 31, 2012 amounts to EUR 1,008 thousand, which is 7.6 % less than as at December 31, 2011.

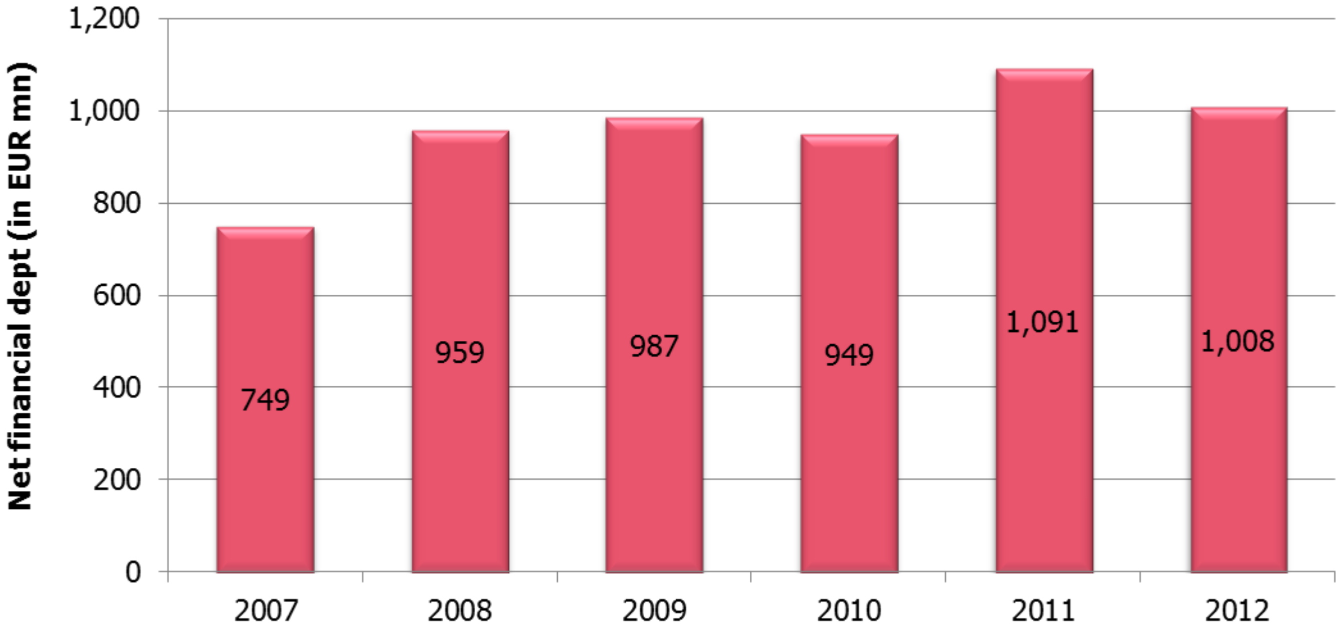


Table 9: Net financial debt (in EUR million) from 2007 to 2012

Mercator Group Consolidated Income Statement for 2012.

EUR thousand	2012	2011	Index 2012 / 2011
Revenue	2,873,186	2,871,999	100.04
Cost of sales	(2,749,199)	(2,706,249)	101.6
Gross profit	**123,987**	**165,750**	**74.8**
Administrative expenses	(186,831)	(103,440)	180.6
Other income	21,491	24,154	89.0
Results from operating activities	**(41,353)**	**86,464**	**-**
Net finance expenses	**(68,908)**	**(56,903)**	**121.1**
Profit before income tax	**(110,261)**	**29,561**	**-**
Tax	6,665	(8,401)	-
Profit for the period	**(103,596)**	**21,161**	**-**
Gross cash flow from operating activities	**109,540**	**167,770**	**65.3**
Gross cash flow from operating activities before rental expenses	**168,037**	**211,953**	**79.3**

Mercator Group's EBITDA for 2012 is taken into account before write-offs and impairments that do not represent cash outflows.

Table 10: Mercator Group Consolidated Income Statement for 2012

Three quarter of the loss represented by write-offs that do not affect the cash flow.

Key write-offs by categories presented in the table below

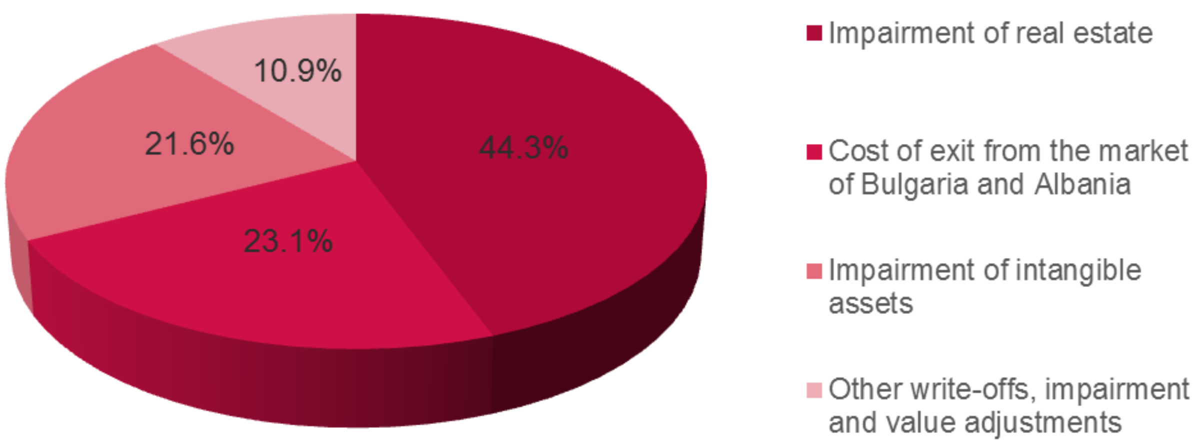


Table 11: Key write-off of value

Core activity in strategic markets solid; problem in non-core activities in the market.

Albania	EUR -2,347 thousand
Bulgaria	EUR -6,635 thousand
Modiana	EUR -8,163 thousand
M Tehnika	EUR -10,901 thousand
M Energija	EUR -2,209 thousand
Net currency translation differences	EUR -9,362 thousand
Total	EUR -39,617 thousand

Mercator is in the process of restructuring which is necessary because lack of focus in the strategy in the past

- **Reorganization** of Mercator Group -> optimization of the number of employees in administration; simplification of organization and processes
- **Centralization of support function**, particularly in our subsidiaries -> optimization of business processes and improvement in cost efficiency
- **Optimization of the entire supply chain** in logistics
- More **focus** on our **core activity**
- **Optimization of operation of Intersport, Modiana, and M Tehnika** through transfer of activity of subsidiaries in Slovenia, Serbia, Bosnia and Herzegovina, and Croatia, to local Mercator companies.
- **Focus of marketing activities:** more focus on the consumers and adjustment to their needs in order to boost consumer confidence and satisfaction
- **Optimization of retail unit operations** -> greater focus on smaller formats of supermarkets and neighbourhood stores; shrinking the Getro stores in Croatia
- **Stepping up the divestment** of non-core assets
- **Further withdrawal from non-strategic markets**: Bulgaria

Four-pillar strategy

Optimization

- Simplify the organization and processes
- Achieving the target productivity
- Optimization of total costs
- Investing part of savings in the market and employees
- Financial stability

Focusing

- Region: focus on countries with growth potential and short-term profitability
- Consumer: to return trust and satisfaction, increase understanding of the needs, constantly adapting
- Activities: the core activity

Strategy

Profitability

- We have to ensure profitable business
- Adequate return for shareholders

Growth

- The size is important in our industry, so we need to continue to grow, mainly organically and through targeted smaller acquisitions

Optimisation

Project	Description and effects
Organization and processes	• Reorganisation of the Group and renovation of key and support processes. • Suspension of subsidiaries on some SEE markets. • Increase productivity, reduce overhead.
Optimisation of all costs	Optimization of costs in the medium term: • materials and non-tradeable goods, • services, • IT with • Insourcing services in IP.
Investment in the market and employees	Increasing the level of service in stores, modernization of the reward system aimed at increasing customer and employee satisfaction.
Financial stability	• Sales of real estate and leaseback (project is put on hold). • Improvement of working capital management. • Disinvestment. • Deleveraging.

Profitability

Project	Description and effects
Exchange rate differences	Project to mitigate FX risk with a goal to minimize unexpected negative effect of translation differences. Activities are already in progress.
Mercator H	Improving the business and exploit synergies with the PSM.
Gross margin	• Establishing global supply. • Consolidation of suppliers. • Improving category management.
EBITDA	• Cost management. • Optimization of the distribution network. • Restructuring of markets / companies.
Return for shareholders	• Restructuring of funding with the deleveraging. • Increased equity value.

Focus

Project	Description and effects
Region	• Exit Albania and Bulgaria market.
Region	• Restructuring of Croatia.
Consumer	• Understanding the needs of local customers and improved loyalty scheme with stabilization and growth of commercial activities in Slovenia, improvement of price perception and improved service.
Activities	• Restructuring of programmes M Tehnika, Modiana, M Energija. Integration of support activities. • Managing banners.

Growth

Project	Description and effects
Organic growth	Target management with customer segments, categories and formats aimed at stopping a decreasing trend in the market of Slovenia and Croatia and growth in Southeastern markets.
Capex	Priority investments with most growth potential and profit.
Mergers and acquisitions	Target, smaller formats, minimal investments, growth potential, capacitity to improve the market position and capacity to create sinergies.

Trade operation and performance by programs.

Mercator Group generated **86.4 %** of revenue by **sale of fast-moving consumer goods.**

- In Slovenia, Serbia, and Montenegro, fast-moving consumer goods program is successful.
- Operations in Croatia are harsh; the result was negative and a restructuring program has been adopted.
- In 2013, Mercator Group is planning to withdraw from the strategically less important markets of Bulgaria and Albania where results were negative as well.

Trade operation and performance by programs.

Sale of **home products** represents **6.7 %, Modiana and Intersport** accounts for **6.9 % of total revenue**.

	Profit for the period		
EUR thousand	**1-12 2012**	**1-12 2011**	**Index 1-12 2012 / 1-12 2011**
Modiana Group	(8,163)	(3,960)	206.1
Intersport Group	12	444	2.8
Tehnika Group	(10,901)	(3,976)	274.2

- Given the current economic conditions, performance of the Intersport program is satisfactory.
- In order to improve the performance of Tehnika (technical consumer goods) and Modiana Group, the Management Board adopted a restructuring plan for both.