

**BUSINESS REPORT OF THE MERCATOR  
GROUP AND THE COMPANY POSLOVNI  
SISTEM MERCATOR, D.D.,  
FOR THE PERIOD 1–6, 2015**



Ljubljana, August 2015



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# EXECUTIVE SUMMARY

**In the period 1–6, 2015, Mercator Group revenue was just short of EUR 1.3 billion. However, performance was improved significantly relative to the corresponding period of 2014. Operating profit at EUR 33.4 million is more than threefold improvement over the same period of last year.**

## **Economic conditions differ across Mercator markets**

In the first half of 2015, economic recovery continued in Slovenia, fuelled in particular by higher domestic demand and process manufacturing industries in which value added is increasing relatively quickly. The share of economically active population continues to increase, especially in the process manufacturing industries, transport, warehousing, and hospitality services. Moreover, the number of registered unemployed persons continues to decline. Economic conditions in Slovenia in general are improving, which has had a stimulative effect on consumer expectations. Economic growth in Serbia and in Bosnia and Herzegovina remains negative while unemployment rate remains high and consumer confidence is low. Gradual improvement of economic growth rate and a decrease in unemployment rate is forecast for Montenegro and Croatia.

## **Mercator's first-half revenue in 2015 slightly lower than in the corresponding period last year**

In the period 1-6 2015, Mercator Group generated EUR 1,287 billion of net revenue, which is 1 percent less than in the corresponding period of the year before. The data is not fully comparable to last year due to the change in our revenue profile as most of our revenue since January 1, 2015, has been generated in Slovenia and Serbia. The structure of revenue by countries has changed considerably relative to last year, especially due to the consolidation of trade operations in respective markets following Agrokor's acquisition of Mercator. In Serbia, revenue was increased considerably due to the transfer of retail units of the company Idea, d.d., to the company Mercator - S, d.o.o.; in Croatia and Bosnia and Herzegovina, revenue dropped substantially due to the transfer of Mercator retail units to the company Konzum, d.d., in Croatia, and to Konzum, d.o.o., in Bosnia and Herzegovina. Most of Mercator revenue in these two markets was generated at the Modiana and Intersport units, and in real estate management operations.

## **Notable improvement of performance over the same period last year**

Mercator's trend of performance improvement has been extended into its second consecutive quarter. Mercator Group operating profit amounted to EUR 33.4 million, which is three times as much as in the same period of the year before. The improvement is a result of focus on our core trade activity in the markets of Slovenia, Serbia, and Montenegro, better performance in our non-core activities, and considerable cost cuts resulting from our cost rationalization efforts.

In the period 1–6, 2015, Mercator Group net profit reached EUR 15.3 million. Comparing to the equivalent period of the year before, this points to a notable performance improvement as the result for the period 1–6, 2014, was negative at EUR -13.7 million. In addition to the improvement in operating activities, progress is evident in our financing as well. In addition to better maturity profile, net finance expenses are down 43% as a result of successful financial restructuring. Thus, Mercator Group mapped out new directions of positive performance after several years of business restructuring as we are looking to provide the best value for our customers while maintaining successful company development in the long run.

## **Marketing activities geared towards creation of value for the customers**

In defining and conducting the marketing activities, we were focused in particular on the following fields: price benefits for the customers, activities for the loyal Pika customers, local offer, proximity to the consumers, and offer of private label products. We continued our projects involving low prices, discount coupons, benefits in the Pika card system, local and homemade offer, and offer of private label products. We also carried out several activities for integration into our immediate social environment and to help, within our capability, in the time of economic recovery: "We Like to do Good Deeds", "Good Deeds Month", and the activity "Hello, neighbour". In Montenegro, we are present with the Roda units; our presence in the Serbian market, previously including Mercator and Roda units, was expanded in the last months of 2014 with Idea retail units which have been integrated into our comprehensive offer and special campaign activities conducted at Mercator stores in this market.

## **Investment more than doubled**

In the period 1–6, 2015, Mercator Group investments amounted to EUR 26.5 million, which is more than 2.5-fold the amount invested in the equivalent period of 2014. We have carried on the policy of investing primarily

in the refurbishment of the existing sales units. Our investment to this end amounted to 53% of total investment in the period 1–6, 2015, which is an increase over the equivalent period last year. Of this amount, 70% was invested in Slovenia where we have refurbished 12 neighbourhood stores, five supermarkets, two hypermarkets, and one convenience store. In Serbia, investment rose relative to the same period of 2014, especially due to the transfer of the Idea, d.d., units to the company Mercator - S, d.o.o. Just over a quarter of investment funds was allocated to expansion of new retail facilities, which is more than two-fold increase over the last year's same period. Investment into logistics, IT, and non-trade activities accounts for just below 22% of total investment funds in this year.

#### **Changes in the ownership structure**

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

#### **Boosting wholesale activities and focusing on the core activity**

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

On April 16, 2015, the company Mercator, d.d., and the company Don don, d.o.o., signed a sale and purchase agreement for the Grosuplje Bakery. Completion of this transaction is anticipated in the second half of 2015, when all formal procedures are completed.

On June 30, 2015, the company Ivero Trade, d.o.o. – an associated company of Franck, d.d. – and the company Mercator - Emba, d.d., signed a sale and purchase agreement on the acquisition of the ground coffee brands Santana and Loka. Products under these two brands will continue to be produced at the plants of the company Mercator - Emba, d.d., in Logatec. With this transaction, Mercator has found a strategic partner who will allow further development of ground coffee products, which in turn will generate positive effects for both the consumers and other key stakeholders.

# INTRODUCTION

## MERCATOR GROUP PROFILE AND ORGANIZATION

### Mercator Group Profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. It consists of trade companies of which 11 are headquartered in Slovenia while 7 more subsidiaries operate in the other markets of Southeastern Europe. Poslovni sistem Mercator, d.d., headquartered in Slovenia, is the parent company of the Group.

Poslovni sistem Mercator, d.d.	
Telephone	+3861 560 10 00
E-address	info@mercator.si
Website	www.mercatorgroup.si
Headquarter	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT number	45884595
Company share capital as at June 30, 2015	EUR 254,175,051.39
Number of shares issued and paid-out as at June 30, 2015	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

### Corporate governance

In the period 1–6, 2015, the Supervisory Board of Poslovni sistem Mercator, d.d., held one regular meeting.

At the 5th session held on April 21, 2015, the Supervisory Board adopted the Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2014, and approved the wording of the Supervisory Board Report on the 2014 Annual Report Audit; specified the deadline for the payment of bonus, or variable share of the salary for the 2013 fiscal year to the Mercator, d.d., Management Board president and the two members; adopted the proposal regarding the appointment of the company auditor for the 2015 fiscal year; confirmed the agenda for the 22nd Mercator, d.d., Shareholders Assembly; approved the divestment of Pekarna Grosuplje to the company DON-DON, d.o.o., as set forth in the share sale and purchase agreement; and received information about the operations and performance of the Mercator Group and the company Mercator, d.d., in the period 1–3, 2015.

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

## Mercator Group composition as at June 30, 2015

### MERCATOR GROUP

MERCATOR OPERATIONS SLOVENIA		MERCATOR REAL ESTATE	
POSLOVNI SISTEM MERCATOR, D.D., SLOVENIA		Mercator - H, d.o.o., Croatia	(99.7%)
Mercator IP, d.o.o., Slovenia	(100.0%)	Mercator - BH, d.o.o., Bosnia and Herzegovina	(100.0%)
		M - BL, d.o.o., Bosnia and Herzegovina	(100.0%)
		Investment Internacional, d.o.o.e.l., Macedonia	(100.0%)*
		Platinum-A, d.o.o., Slovenia	(100.0%)*
		Platinum-B, d.o.o., Slovenia	(100.0%)*
		Platinum-C, d.o.o., Slovenia	(100.0%)*
		Platinum-D, d.o.o., Slovenia	(100.0%)*
		Platinum-E, d.o.o., Slovenia	(100.0%)*
		Platinum-F, 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%)*		
OTHER OPERATING ACTIVITIES			
Intersport ISI, d.o.o., Slovenia	(100.0%)		
Mercator - Emba, d.d., Slovenia	(100.0%)		
M - Energija, d.o.o., Slovenia	(100.0%)		

\* The company does not conduct business operations.

#### Branch Offices

As at June 30, 2015, Mercator Group companies did not have any branch offices.

#### Other Organizations

The company Poslovni sistem Mercator, d.d., is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees.

The company Mercator - S, d.o.o., is the founder of the Mercator Solidarity Foundation in Serbia, and Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro. In the wake of Serbia and Montenegro, also Mercator - BH, d.o.o., and M - BL, d.o.o., established two Solidarity Foundations. The purpose of these organizations is to provide solidarity aid to employees in social or economic distress.

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



# MERCATOR GROUP BUSINESS STRATEGY

## Vision

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

## Mission

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

## Principles of corporate governance

### Our work shall be:

**Motivated**

**Elementarily simple**

**Rational**

**Common goal oriented**

**Ambitious**

**Thorough**

**Oriented on profitability and development**

**Rapturous**

# MERCATOR GROUP PERFORMANCE HIGHLIGHTS IN THE PERIOD 1–6, 2015

	1-6 2015	1-6 2014	Index 1-6 2015/ 1-6 2014
Revenue (EUR thousand)	1,287,237	1,299,927	99.0
Results from operating activities (EUR thousand)	33,405	10,788	309.6
Profit before income tax (EUR thousand)	19,354	(13,707)	-
Profit for the financial period (EUR thousand)	15,311	(13,707)	-
EBITDA (EUR thousand)	71,266	46,223	154.2
EBITDAR (EUR thousand)	109,593	73,185	149.7
Equity as at June 30 (EUR thousand)	637,791	500,651	127.4
Assets as at June 30 (EUR thousand)	2,227,442	2,266,730	98.3
Capital expenditure (EUR thousand)	26,532	9,856	269.2
Return on equity*	4.9%	(5.3%)	-
Return on sales	1.2%	(1.1%)	-
EBITDA / revenue	5.5%	3.6%	155.7
EBITDAR / revenue	8.5%	5.6%	151.2
Number of employees based on hours worked	20,785	21,098	98.5
Number of employees as at June 30	22,087	22,663	97.5

\* Indicator is adjusted to annual level.

In the period 1–6, 2015, Mercator Group changed the method of reporting its expenses related to revaluation adjustments and write-offs of receivables, by transferring them from finance expenses to selling costs. As a result, the key information for the period 1–6, 2014, is presented in a comparable manner.

# KEY EVENTS

## Retail network development

In the period 1–6, 2015:

- our investments amounted to EUR 26,532 thousand,
- our divestments totalled at EUR 6,476 thousand, which relate to the disposal of property, plant and equipment,
- we added 27 new units or 30,363 m<sup>2</sup> of new gross retail area in all markets of our operations.

## Changes in the ownership structure

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

## Changes in corporate governance

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

## Boosting wholesale activities and focusing on the core activity

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

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

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

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

Poslovni sistem Mercator, d.d., and the company **Don don, d.o.o.**, signed on April 16, 2015, the sale and purchase agreement for the **sale and purchase of Mercator's stake in the Pekarna Grosuplje (Grosuplje bakery)**. Completion of this transaction is anticipated in the second half of this year, following the completion of all formal procedures, including the issue of approvals by respective regulators.

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

On June 30, 2015, the company **Ivero Trade, d.o.o. – an associated company of Franck, d.d. – and the company Mercator - Emba, d.d.**, signed a sale and purchase agreement on the **acquisition of the ground coffee brands Santana and Loka**. Products under the Santana and Loka brands will continue to be produced at the plants of the company Mercator - Emba, d.d., in Logatec.

Divestment of the Loka and Santana brands is consistent with the long-term strategy of the company Mercator, d.d., which includes increasing focus on the company's core activity, i.e. trade. With this transaction, Mercator has found a strategic partner who will allow further development of ground coffee products and this product category, which in turn will generate positive effects for both the consumers and other key stakeholders.

## Awards and other achievements

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

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

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

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

At the 4th digital communication conference DiggIt, organized by the "Marketing Magazin" and TSmedia, which took place on June 4, 2015, Mercator's M-Lab team received the **gold DiggIt award for the Good Deed Month strategy. The Good Deed Month was an extension of the project "We Like to do Good Deeds"**. Throughout the month of April, Mercator's communication on the Facebook social network was dedicated to good deeds and to encouraging the neighbours to do good deeds for themselves, their loved ones, or for people they had never met. To make sure the good deeds do not remain merely in words, the M-Lab teamed up with the Young Home Friends society – one of last year's donation recipients – to carry out some of the proposed good deeds.

In May 2015, the Swiss organization ICERTIAS carried out the first private label survey in Slovenia, called the Best buy Award PRIVATE LABEL 2015/2016. The survey was conducted in the form of an online survey and it measured exclusively the experience and opinion of consumers about the providers of private label products in the Slovenian market. The consumers ranked Mercator **first in terms of price to quality ratio of private labels in as many as 9 categories**: fruit juices, ice cream, cookies, breakfast cereals, beer, preserved vegetables, ajvar, carbonated soft drinks, and jams and marmalades.

In March 2015, Mercator's IT solution to support the Click & Collect process reached the **finals of the prestigious European IT & Software Excellence Awards 2015** in the category of the most useful practical solutions. This achievement places Mercator on the European map of software solutions and stands witness to the solid work in provision of innovative IT support to good business ideas.

In the contest for the BMC Engage Customer Innovation Awards, **Mercator was nominated for the award in the category of IT process management solution in the Remedy application**, which is also proof of solid IT process design.

# BUSINESS REPORT

## EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–6, 2015

### Economic conditions in the markets of Mercator operations in the period 1–6, 2015<sup>1</sup>

In the second quarter of 2015, economic activity in the euro zone continued to pick up pace. GDP grew by 0.4% (deseasonalized); year-on-year, it was higher by 1.0%. GDP growth was consistent with the European Commission's spring expectations; it was only somewhat lower in Germany and Austria. Output in process manufacturing industries and construction activity has increased in April. Revenue was also up in retail (0.7%), reaching the highest point in the last four years. Conditions in the labour market have improved as well, as unemployment rate is down (to 11.2%), after being approximately 1 percentage point below the peak from early 2013, in the first quarter of 2015. Youth unemployment rate in the euro zone is in decline as well (currently at 22.7%), but remains high in Greece and Spain (around 50%). Despite the improvement, conditions in the labour market remain harsh and worse than before the onset of the crisis.

In June 2015, the European Central Bank (ECB) left the interest rates unchanged. As expected, the asset purchase programme continues. According to the ECB, the measures to encourage provision of credit to the economy have been successful and their effects are currently evident in better conditions in the financial markets and better borrowing terms for households and enterprises. The ECB adds that monetary policy remains focused on price stability. As a result of their measures, the inflation rate is expected to approach 2% in the medium run.

Slovenian bond yield (denominated in euros) is around 2% on average. Ten-year government bond yields increased slightly in all countries in June 2015 due to the uncertainty regarding Greece's deal with its largest creditors.

According to European Commission forecasts, real GDP will rise in 2015 by 1.8% in the European Union and by 1.5% in the euro zone. Inflation rate will be at 0.1% in both areas, while unemployment rate will be at 9.6% in the European Union, and somewhat higher at 11.0% in the euro zone.

#### Slovenia

Economic recovery has been sustained. Year-on-year GDP growth was fuelled especially by the change in inventories related to higher activity in some industries, which has not shifted entirely to consumption yet. GDP grew by 0.8% (deseasonalized) in the first quarter of 2015 relative to the preceding quarter and by 2.9% relative to the corresponding quarter of the year before. Contributing the most to the economic growth in the first quarter were process manufacturing industries where value added has been increasing rather quickly for a year.

Short-term economic activity indicators in Slovenia, related to domestic demand, have improved at the start of the second quarter, while goods exports declined slightly. After the growth stopped in the first quarter, goods exports decreased in real terms in April (deseasonalized), yet remained higher year-on-year. Following growth in early 2015, output in process manufacturing operations and construction remained similar as in the month before in April 2015. Revenue in trade, which rose further in April, and higher household income, point to sustained, albeit modest, increase of private spending. Sentiment in the economy in June remained similar to the prior months, but reached the highest level of the last eight years among consumers.

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<sup>1</sup> 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), and national central banks of respective countries.

Economically active population continued to rise in the second quarter of 2015 (0.1% in deseasonalized terms, 1.7% year-on-year). The figure has been rising since the start of last year. In the first four months of 2015, active population was larger than in the corresponding period of the year before in most private sector industries, especially in process manufacturing operations, transport, warehousing, and hospitality services where activity indicators are also higher year-on-year. The number of unemployed is decreasing, although at a slower rate than early in the year. Thus, there were 110,245 registered unemployed persons at the end of June 2015, which is 6.1% less than in June 2014.

In June 2015, consumer prices were lower relative to the prior month and the same month of the preceding year. The monthly drop (0.1%) was mostly a result of seasonal factors. Prices decreased for clothing and footwear (0.1%) and fruit (0.1%), while deflation was alleviated by higher prices of holiday or travel arrangements (increase by 0.2%). Year-on-year deflation at -0.7% was mostly a result of lower prices of energy (drop of 0.7% year-on-year) which in turn reflect the changes in euro-denominated oil price in the global markets. Year-on-year, the price of food remains higher (0.2%), with most of the growth coming from higher prices of non-processed food.

Amount of credit to households is increasing this year. The increase of nearly EUR 85 million in the first five months of 2015 is largely an effect of the Swiss franc appreciation in January; however, Bank of Slovenia data points to increase of new credit to households as well. This amounted to EUR 840 million in the first five months of the year, of nearly a quarter more than in the corresponding period last year. Of this amount, over EUR 360 million were real estate loans which were thus a half higher than in the equivalent period of 2014.

Revenue in all segments of trade rose further in April 2015 (deseasonalized), and there are also early signs of further modest recovery of private spending. This is indicated by data on auto sales to individuals, and sales in some segments of non-food and food and beverage retail. Food retail is a highly concentrated trade activity in the country; however, concentration has decreased considerably since 2006. After year 2000, concentration was seen with non-specialized stores largely selling food (hypermarkets, markets, discount stores etc.), mostly as a result of winding up of the majority of smaller retailers or their mergers with major ones.

According to the S&P rating agency, Slovenia's rating remains at A-; however, the trend has improved from stable to positive.

## Serbia

Real GDP growth in Serbia remains negative in 2015. According to the European Commission forecasts, it will amount to -0.1%. GDP growth in 2016 is expected to be positive at 1.2%. Inflation rate is forecast at 2.4% for 2015, and at 4.1% in the year after. Unemployment rate is increasing each year. A further slight increase is expected in 2015 to reach 19.3%, according to the European Commission forecasts. In 2016, it is predicted at 20.3%. Growth of household consumption and public spending remains negative. The former will decrease by 1.7% in 2015, and public spending will be down by 3.8%. Prospects for 2016 are better, yet still negative. Average exchange rate of the Serbian dinar in the period 1–6, 2015, stood at RSD 120.96 per 1 EUR, while the average rate in the equivalent period of last year was RSD 115.66 per 1 EUR. The rating of the Republic of Serbia, as provided by the S&P rating agency, remains unchanged at BB– with negative outlook.

## Croatia

Economic growth in Croatia was negative in 2014 at -0.4%. European Commission forecast regarding economic growth gives some cause for optimism. In 2015, Croatia is expected to bounce back from recession and economic growth rate is expected to return to positive figures with 0.3%. Inflation rate in 2014 was at 0.2%; in 2015 it is forecast at -0.1%. Unemployment rate in 2014 was at 17.3%; in 2015 it is anticipated to decrease slightly to 17.0%. Compared to 2013, public spending growth was negative in 2014 at -1.9%; in 2015, no changes are expected relative to 2014. Private spending also decreased, by -0.7%; forecast for 2015 points to improvement relative to 2014 with the rate at 0.1%. Average exchange rate of the Croatian kuna in the period 1–6, 2015, stood at HRK 7.63 per 1 EUR, while the average rate in the equivalent period of last year was HRK 7.62 per 1 EUR. According to the S&P rating agency, the country's rating is BB with a stable outlook.

## Bosnia and Herzegovina

According to the International Monetary Fund data, GDP growth in Bosnia and Herzegovina in 2014 was at 1.1%. In 2015, growth rate is expected at 2.1%. Inflation rate in early 2015 was at 0.5%. Unemployment rate remains high, as it was in the previous years, at approximately 27.0%. The exchange rate of the Bosnian mark is pegged to euro at the rate of KM 1.95583 per 1 EUR. According to the S&P rating agency, the country's rating is B with a stable outlook.

## Montenegro

Economic growth in Montenegro is gaining momentum. In 2015, the economy is to grow by 3.3% relative to the year before in real terms. For 2016, even higher economic growth rate is anticipated, at 3.9%. Inflation rate is at 1.2%. Unemployment rate is gradually decreasing. In 2014, it was at 18.2%; this year, it is expected at 17.3%; and in 2016, it is forecast at 16.1%. Euro is the country's official currency. Montenegro's rating remains unchanged at BB+.

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

In all markets of Mercator's presence, improvement of economic activity is expected for 2015: increase in private spending, decrease of unemployment in Slovenia, and persistence of high unemployment rate in other markets. Recession continues to be felt in all markets in 2015, except for Slovenia where consumer confidence or sentiment is improving.

Economic activity in **Slovenia** is expected to be higher in 2015 than initially anticipated, with gross domestic product growth at 2.4 percent<sup>2</sup>. Improvement is expected in the labour market by the end of the year, with registered unemployment down to 12.5%. In May 2015, it was at 12.3%. According to the UMAR forecast, household consumption will gradually increase in 2015. It will be higher by 1.1 percentage points relative to the year before, as a result of increase in disposable income and considerable improvement in consumer confidence and their willingness to shop. In June 2015<sup>3</sup>, the consumer confidence index was 15 percentage points higher than a year earlier. Improvement in consumer confidence indicator at the annual level resulted from more optimistic consumer expectations for the next 12 months regarding the unemployment rate, saving possibilities, economic situation in Slovenia, and financial situation in their households.

According to Nielsen<sup>4</sup> data, consumer confidence improved in the second quarter of 2015 relative to the previous quarter; however, it is still below the European average. The effect of recession is felt by more than 80% of the survey respondents. Compared to the second quarter of 2014, this share is down 10 percentage points. The share of those who believe we will bounce back from recession in the next 12 months remains at 70%. Just under 90% of consumers do not see any possibilities for new employment; two thirds believe their financial position will not improve; and just under 80% believe it is not a good time for shopping expenses. After covering their basic living expenses, a quarter of consumers are left with no means to spend; a good third allocates the extra means to savings; and just under a quarter spends them on vacation. Their primary concern is security of employment, followed by debt and work-life balance. Consumers increasingly opt for private label products. They spend less on clothing and save by allocating a smaller part of their budget to out-of-home entertainment.

Improvement of economic conditions, or at least no worsening thereof, is also forecast in the markets of **Serbia, Bosnia and Herzegovina, and Montenegro**. Private spending will rise while unemployment remains high. Consumer confidence in Serbia in the second quarter of 2015<sup>5</sup> was not significantly different than in the previous quarter and it remains below the European average. Ninety percent of respondents believe the economy is still in recession. Relative to the second quarter of 2014, the share has decreased. The share of those who believe the economy will bounce back from recession in the next 12 months is just over 70%. Ninety percent of consumers do not see any possibilities for new employment; just over two thirds believe their

<sup>2</sup> IMAD: Spring Forecast of Economic Trends 2015, March 2015

<sup>3</sup> SORS: Consumer Sentiment, Slovenia, June 2015

<sup>4</sup> Nielsen: Consumer Confidence Index, Q2 2015, Slovenia

<sup>5</sup> Nielsen: Consumer Confidence Index, Q2 2015, Serbia

financial position will not improve; and just under 90% believe it is not a good time for shopping expenses. After covering their basic living expenses, nearly two thirds of consumers are left with no means to spend; a quarter allocates the extra means to savings; and a fifth spends them on vacation. Consumers' primary concerns include security of employment, health, and rising costs of living. Consumers spend less on clothing and save by spending less on out-of-home entertainment and by buying more private label products.

According to Nielsen reports, consumer confidence in **Croatia** in the second quarter of 2015<sup>6</sup> was not significantly different than in the preceding quarter and it remains below the European average. Ninety-five percent of respondents believe the economy is still in recession. Relative to the second quarter of 2014, the share remains roughly the same. The share of those who believe the economy will bounce back from recession in the next 12 months fell to just over 70%. Ninety percent of consumers do not see any possibilities for new employment; 60% believe their financial position will not improve; and good 80% believe it is not a good time for shopping expenses. After covering their basic living expenses, nearly two thirds of consumers are left with no means to spend; just under a third use the extra means to repay their debt; and a quarter allocate them to home improvement. Consumers' primary concerns include job security, work-life balance, and debt. Consumers buy more private label products, spend less on clothing, and save on electricity and gas.

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<sup>6</sup> Nielsen: Consumer Confidence Index, Q2 2015, Croatia



# SALES AND MARKETING

## Sales

Economic activity continued to gain momentum in the euro zone with positive economic growth, increase of private consumption, and improved conditions in the financial system.

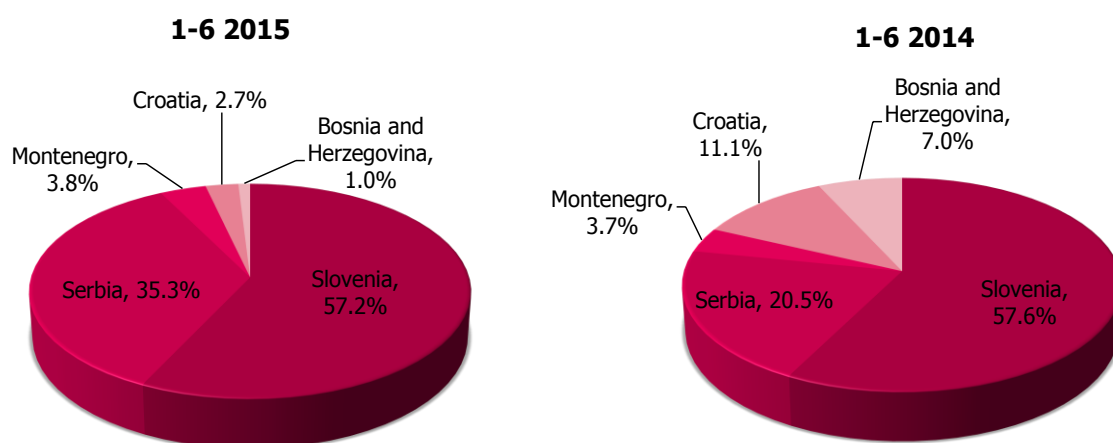
In Mercator markets, the most optimism and positive changes can be observed in Slovenia where economic growth in the first half of 2015 was positive, mostly as a result of fast increase of value added in process manufacturing industries. The share of economically active population continues to increase. Moreover, optimism and positive consumer expectations regarding the future are on the rise as well. In Serbia and Bosnia and Herzegovina, economic growth was negative in the first half of 2015, while unemployment rate remains high and consumer confidence remains exceptionally low. Forecast for Croatia and Montenegro is optimistic with positive economic growth anticipated in 2015 and expectations of decreasing unemployment rate.

In addition to the above factors, revenue in the period 1–6, 2015, was also affected by consolidation in respective markets, which took place in the late months of 2014 following the acquisition of the company Mercator, d.d., by the company Agrokor, d.d. Consolidation resulted in considerably higher revenue in Serbia and lower revenue in Croatia and Bosnia and Herzegovina relative to the period 1–6, 2014.

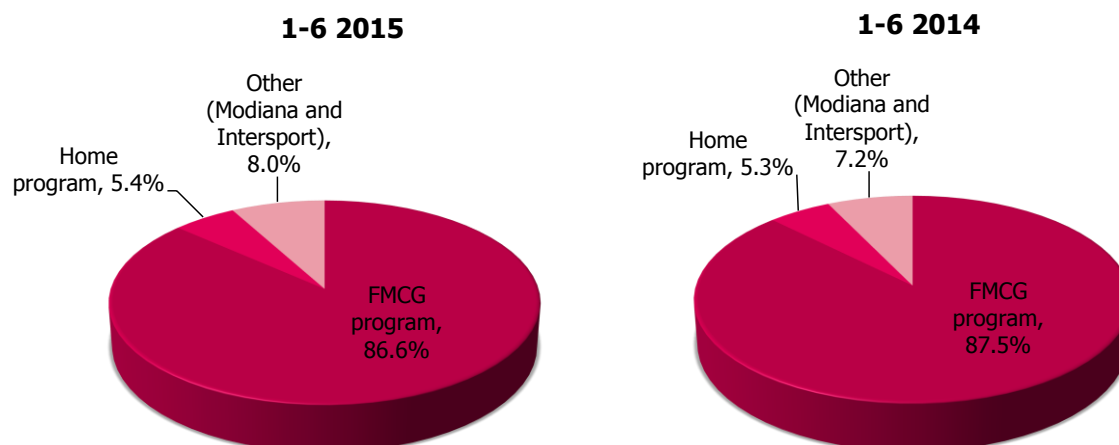
In the period 1–6 2015, Mercator Group generated **EUR 1.3 million of net revenue**, which is **1% percent less than in the corresponding period of 2014**.

Developments regarding revenue differed from one market to the other. In Slovenia, revenue dropped slightly. Revenue increased significantly in Serbia (70.8%); it dropped in Bosnia and Herzegovina (by 84.2%) and in Croatia (by 75.9%). Higher revenue in Serbia is mostly a result of the transfer of retail units of the company Idea, d.d., to the company Mercator - S, d.o.o., at the end of 2014. Lower revenue in Croatia and Bosnia and Herzegovina is a result of the transfer of Mercator retail units to the company Konzum, d.d., in Croatia, and to the company Konzum, d.o.o., in Bosnia and Herzegovina. Most of Mercator revenue in these two markets was generated in non-core activities, i.e. Modiana, Intersport, and asset management operations. In the market of Montenegro where no changes regarding the consolidation of trade operations took place following the integration into the Agrokor Group, revenue was higher than in the same period last year.

### Mercator Group revenue by geographical segments:



## Mercator Group revenue from trade operations by programs:



In the period 1–6, 2015, Mercator Group generated the highest share of its total revenue in its fast moving consumer goods program – 86.6%. The remaining 13.4% was generated in other specialized trade programs. The ratio between revenue from FMCG program and other programs is the same as in the preceding quarter of 1–3, 2015. The drop in revenue relative to the corresponding period last year in other programs was mostly a result of closing down the underperforming units in the home product program and underperforming Modiana units, mostly in Slovenia.

## Store formats, customer segments, and category management

### Store Formats

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

After years of expansion of large stores, **small box stores** are again coming to the forefront. Moreover, **redesign of the existing retail network**, i.e. new concepts at existing locations, is increasingly important, along with **intensive development of e-commerce** in which conventional brick-and-mortar stores take the role of pick-up points for orders placed over the internet. Diversification of store formats thus remains the key strategy of retailer growth.

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

In the period 1–6, 2015 in Slovenia, we have refurbished one convenient store, which after the refurbishment expands of 160 m<sup>2</sup>. Twelve Mercator stores were also refurbished according to the "Neighbour" concept. After the refurbishment, these units span a total gross area of 7,270 m<sup>2</sup>.



In addition to neighbourhood stores, Mercator launched comprehensive refurbishments of its supermarkets, looking to come closer to the customer with a new store concept that is an upgrade to neighbourhood stores with a broader and especially deeper offer of fast-moving consumer goods. Five supermarkets were refurbished according to the new concept in the period 1–6, 2015, spanning a combined total area of 8,580 m<sup>2</sup>.



In addition to smaller store formats, Mercator is also focusing in 2015 on its largest format, i.e. the hypermarkets. Thus, a new and refurbished and extended **hypermarket Domžale** was opened in March. This is currently our flagship hypermarket that employs a modern sales concept as a response to the shopping trends, and offers our customers a pleasant shopping experience. In June 2015, the refurbished **hypermarket Novo mesto Bršljin** was re-opened as well. The refurbished hypermarkets combined span a total gross area of 6,984 m<sup>2</sup>.



#### Composition of sales units as at June 30, 2015

COUNTRY	SLOVENIA				CROATIA		BOSNIA AND HERZEGOVINA	MONTENEGRO		MACEDONIA, ALBANIA AND KOSOVO* Intersport	MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Idea	Mercator	Getro	Mercator	Mercator	Roda				
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units
Hypermarkets	22	2	32	5	-	-	-	-	-	2	-	63	268,124
Supermarkets	130	-	4	82	-	-	-	-	-	13	-	229	248,372
Neighbour stores	322	-	-	196	-	-	-	-	-	84	-	602	219,456
Comfort stores	1	-	-	-	-	-	-	-	-	-	-	1	4,162
Mini stores	1	-	-	-	-	-	-	-	-	-	-	1	159
Cash & Carry / VELPRO	15	-	-	10	-	-	-	-	-	1	-	26	83,322
Restaurants	8	10	-	-	-	-	-	2	-	-	-	20	4,270
TOTAL FMCG program	499	12	36	293	-	-	-	2	-	100	-	942	827,864
Technical consumer goods	47	10	-	-	-	-	-	-	-	1	-	58	83,667
Clothing program and drugstores	52	14	-	-	31	-	13	-	-	-	-	110	56,473
Clothing program	43	8	-	-	31	-	9	-	-	-	-	91	54,133
Drugstores and perfumeries	9	6	-	-	-	-	4	-	-	-	-	19	2,340
Intersport	34	11	-	-	29	-	10	2	-	-	-	86	53,449
M holidays	12	-	-	-	-	-	-	-	-	-	-	12	242
TOTAL specialised programs	145	35	-	-	60	-	23	2	1	-	-	266	193,832
TOTAL retail units under management	644	47	36	293	60	-	25	2	101	-	-	1,208	1,021,696
Franchise stores	224	-	-	-	1	-	-	-	-	-	-	6	231
TOTAL	868	47	36	293	61	-	25	2	101	6	1,439	1,075,291	729,775

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



## Customer segments

A major change was introduced in the field of customer relationship management in the first half of 2015 in Serbia as the Pika card customer loyalty program was discontinued as of January 31, 2015. Rather, the entire customer loyalty program in this market was transferred to the joint Super card. All Pika card holders were sent an invitation to join the Super card system. The package included the card with additional tags, a sign-up form complete with terms and conditions, and a booklet presenting the membership benefits.

In Slovenia and Montenegro, Pika card customer loyalty system remains unchanged.

## Category management and procurement

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

## Marketing

Our marketing activities are focused on the priorities for respective markets and the dynamics of changes in the trade industry. In the period 1–6, 2015, we continued to exchange and roll out the best practices among the markets. Marketing activities for the fast-moving consumer goods program are targeted at the markets of Slovenia, Serbia, and Montenegro.

### SLOVENIA

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

#### Pricing benefits for the consumers

Mercator is continuously pursuing the goal of offering the most appealing price benefits for the customers. The **slashed prices** campaign involves offering attractive discounts in a number of categories.

We carried on the **days of 20-percent discount coupons for a selected product, double Pika bonus point days**, and other sales promotion projects. A lot of emphasis is placed on the offer of fresh produce.

### 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 Pika discounts for select products, which are available to all Pika card holders, additional discounts and benefits are offered to members of the Senior club.



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.

### Local offer

The "Locally Grown" project is focused on Slovenian offer of fresh produce. Thus we were the **first in the market** in this May to offer 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.

### Proximity to the consumers

In April, we carried out for the second time this year the **We Like to do Good Deeds** activity in which buyers in 100 Mercator stores receive a special token to vote for one of the three proposed local societies. The society with the greatest number of votes receives a Mercator donation in the amount of EUR 1,000, while smaller awards were presented to the other two societies. As the best neighbour, Mercator enabled within this project the realization of ideas for the improvement of the quality of life in smaller communities



At the same time, we carried out via Mercator social networking profiles the activity **Good Deed Month** in which we surprised residents of a number of communities with nice gestures.

### Offer of private label products

Mercator private label lines offer a variety of products for all occasions, at all price segments. In the **central Mercator private label line**, we continue to revise the appearance of products. In **Pekarna Grosuplje**, we continue to introduce seasonal products, and in late spring, we introduced a new line of products called Grill Chef. We remain focused on the competitiveness of our offer in all categories.



Focus on the customer is also the key in Serbia with Roda and Idea formats, and in Montenegro with the Roda store format.

## SERBIA

While the key focus of the Idea chain is fresh assortment, modern and innovative offer, and rapid service, Roda is catering to large family shopping trips, tradition, and shopping experience, while maintaining its pricing competitiveness with the project "lowest price guaranteed". Both formats are focused on the local offer and integration into the local environment.



## MONTENEGRO

Price discount campaigns at Roda units in Montenegro were refreshed with a **Weekend campaign**; in the weeks when the catalogue is not published, the customers are offered a new price discount campaign **Sensational RODA prices**.

In the course of spring, activities such as **Spring in Roda** took place, when customers were offered a wide assortment of seasonal products.



# REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

Consistently with the investment plan, Mercator Group was focused in the first half of 2015 primarily on refurbishments and extensions to individual retail units. In addition, new openings include 21 new stores and two distribution centres, one of which is a replacement for the Zalog cold storage in Ljubljana which burned down in May this year. The Group also sought and assessed new potential locations for expansion of retail network for all Mercator programs, as well as for a new logistics and distribution center in Slovenia. The result is the acquisition of a new location in Izola, intended for the construction of a trade center.

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

Activities also took place in divestment of non-operating assets. Pursuant to the adopted legislation effective as of January 1, 2015, we obtained by June 30, 2015, all energy certificates that allow real property to be sold or some real property to be leased out.

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



## Investment and Divestment

In the first half of 2015, Mercator Group investment into property, plant, and equipment (CAPEX) amounted to EUR 26.5 million. Of this amount, 69.6% was used for investments in Slovenia, which is a more than 2.5-fold increase over the same period of the year before; and 30.4% was used for investments in international markets.

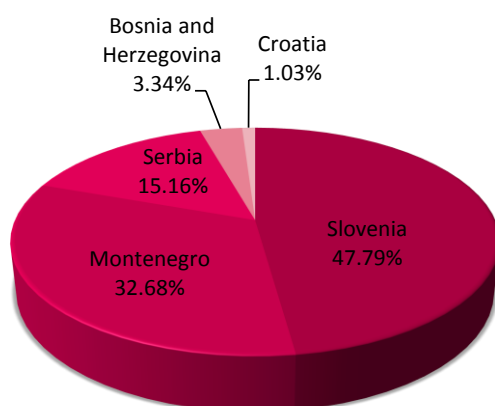
	Capital expenditure in the period 1–6, 2015 (in EUR thousand)	Structure (in %)
Slovenia	18,456	69.56%
Serbia	6,343	23.91%
Montenegro	1,280	4.82%
Croatia	386	1.45%
Bosnia and Herzegovina	67	0.25%
<b>TOTAL</b>	<b>26,532</b>	<b>100.00%</b>

Investment into expansion of retail area represented 25.5% of total investment; refurbishments of existing units accounted for 52.7%; remaining 21.8% was invested in logistics, IT, and non-trade activities.

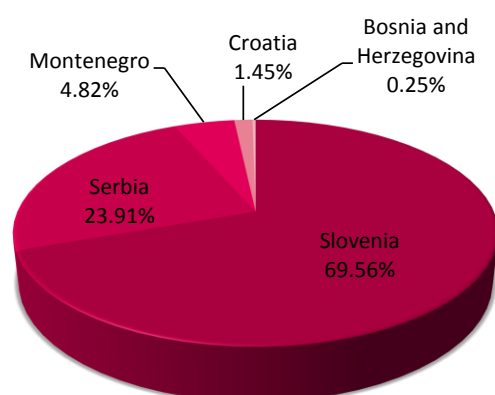
In the first half of 2015, Mercator Group acquired 30,363 m<sup>2</sup> of new gross area, of which 99% was acquired by operating lease, and the remaining 1% was acquired by acquisition or extension to the already owned store.

In the first half of 2015, Mercator Group divested property, plant, and equipment worth EUR 6.5 million, of which EUR 2.3 million pertains to the divestment of store equipment to Agrokor subsidiaries Konzum in Croatia and Bosnia and Herzegovina.

#### Share of newly launched facilities by markets:



#### Share of investments by markets:



#### Summary of total gross retail area as at June 30, 2015:

	Gross area in square meters			
	Used for own operations	Leased out - Konzum	Leased out – third parties	Total
Owned retail area	609,963	108,562	211,175	929,700
Leased retail area	411,733	67,302	101,068	580,103
<b>Total retail area</b>	<b>1,021,696</b>	<b>175,864</b>	<b>312,243</b>	<b>1,509,802</b>
Owned warehouse capacity	124,863	661	5,942	131,466
Leased warehouse capacity	14,722	25,982	6,658	47,362
<b>Total warehouse capacity</b>	<b>139,585</b>	<b>26,643</b>	<b>12,600</b>	<b>178,828</b>
Owned commercial facilities	22,854	0	1,117	23,970
Leased commercial facilities	5,142	0	0	5,142
<b>Total commercial facilities</b>	<b>27,996</b>	<b>0</b>	<b>1,117</b>	<b>29,113</b>
<b>GROSS AREA UNDER MANAGEMENT</b>	<b>1,189,277</b>	<b>202,507</b>	<b>325,959</b>	<b>1,717,743</b>
- of which owned	757,680	109,223	218,234	1,085,136
- of which leased	431,597	93,284	107,726	632,607



## SUMMARY OF RETAIL UNIT LAUNCHES BY MARKETS IN THE PERIOD 1–6, 2015

### SLOVENIA

**Area of new facilities:** 14,508 m<sup>2</sup>\*

**Number of retail units:** 4

**Openings:** C&C Murska Sobota, C&C Ajdovščina, C&C Celje

**Extensions:** Market 78, Izola; Market Kobarid; supermarket Murgle, Ljubljana

*\* Of the total new area the leased storage capacity of LDC Sežana includes 7,474 m<sup>2</sup>.*

#### Refurbishments:

**Number of retail units:** 20

### CROATIA

**Area of new facilities:** 313 m<sup>2</sup>

**Number of retail units:** 1

**Openings:** Intersport Gračani, Zagreb

### SERBIA

**Area of new facilities:** 4,604 m<sup>2</sup>

**Number of retail units:** 5

**Openings:** Santana Caffè bar, Belgrade; Market 328, Subotica; Supermarket 327, Temerin; Megamarket Kiš Ernea, Novi Sad; Modiana Novi Sad

#### Refurbishments:

**Number of retail units:** 28

### BOSNIA AND HERZEGOVINA

**Area of new facilities:** 1,014 m<sup>2</sup>

**Number of retail units:** 2

**Openings:** Modiana and Intesport Emporium, Banja Luka

### MONTENEGRO

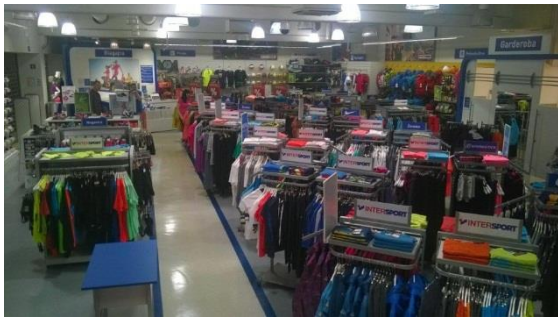
**Area of new facilities:** 9,924 m<sup>2</sup>

**Number of retail units:** 15

**Openings:** Market Solaris Mala Plaža, Ulcinj; Supermarket Solaris mega, Ulcinj; Market Solaris Solaris Centar, Ulcinj; Market Solaris Kruče, Ulcinj; Market Solaris Diskont, Ulcinj; Market Budva Posta; Market Budva II; Market Šušanj, Bar; Market Sutomore plaža, Bar; Market Sutomore II, Bar; LDC Nikšić

#### Refurbishments:

**Number of retail units:** 2



# RISK MANAGEMENT

## Revised Mercator Group risk monitoring and management system

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

Following are the main risk categories:

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

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

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

## Management of key risks in the period 1–6, 2015

### STRATEGIC RISKS

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

#### Corporate risks

Key risk categories	Management approach to perceived risk categories
<b>Risk of loss of reputation</b>	In addition to the actual effect on the assets of the company or the Group, negative information regarding the company Mercator, d.d., and the Mercator Group also affects their reputation. By pursuing a solidly planned communication with the public, providing financial support to numerous cultural and sports events and humanitarian campaigns, and by socially responsible conduct in all areas, the company Mercator, d.d., is seeking to build and maintain a positive image in its business and broad environment.
<b>Risk of inefficient system of governance and assumption of responsibility</b>	Consistently with the sound practice and applicable legislation, the Management Board of Mercator, d.d., shall continue to perform their duties as responsible, honest, and diligent managers, and maintain the flow of information to support the attainment of the goals laid down by the company Mercator, d.d., and the Group.
<b>Risk of failure to comply with covenants to banks</b>	With regard to the acquisition of the company Mercator, d.d., by the company Agrokor, d.d., a special protocol was signed regarding the compliance with the covenants to banks. The protocol is to be reviewed at least once per year by an independent auditor. In 2015, we continue to regularly review all transactions with the Agrokor Group companies, compliance with the commitments of even distribution of synergistic effects, and other commitments laid down in the Agreement.

Key risk categories	Management approach to perceived risk categories
<b>Risk in divestment of non-core activity</b>	<p>In divesting its non-core activities, Mercator Group is exposed to the risk of worsening its procurement terms and conditions, negative effects in the Pika card customer loyalty program, loss of a tenant and resulting vacant facilities at Mercator centers, and move of the current customers to competition as a result of lower synergistic effects of these activities on the core activity.</p> <p>Pursuant to the strategy, activities will continue to take place in 2015 to divest Mercator Group's non-core activities. Sale and purchase agreement on the divestment of Pekarna Grosuplje was signed in April 2015, and the transaction is expected to be completed in the second half of 2015. On June 30, 2015, sale and purchase agreement was signed for the acquisition of the brands Santana and Loka, the products for which are produced at manufacturing plants of the company Mercator Emba, d.d. Sales processes for other non-core activities have not been completed yet. Deals are being negotiated with potential buyers in such way that divestment of activities will not have a negative impact on consumer perception and their shopping behaviour, or any other aspect referred to above.</p>
<b>Risk of integration of acquired/transferred operations</b>	<p>The risk of integration of the transferred activities in the markets where both Mercator and Agrokor are present was perceived in the second half of 2014 when the takeover of Mercator, d.d., by Agrokor, d.d., resulted in consolidation by respective markets.</p> <p>In 2015, we shall maintain transparent communication about the progress of business activities with all employees within the Mercator Group and Agrokor Group, and ensure cooperation of employees in all markets.</p>

#### Competitiveness and customer satisfaction risks

Key risk categories	Management approach to perceived risk categories
<b>Risk of a decline in market share resulting from new openings of our competitors</b>	<p>Change in market share is related to a change in net retail area of Mercator and that of the competition. If our competition opens more new retail area than Mercator, this may lead to a decline in Mercator's market share. Mercator's market share remains stable. 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.</p>

#### Risks related to development of offer of goods and services

Key risk categories	Management approach to perceived risk categories
<b>Risk of poor price competitiveness</b>	<p>We manage our prices based on the pricing policy adopted last year, and regular monitoring of the competitiveness of our regular retail prices. Particular attention is still paid to products that have the strongest impact on price perception. The "Lowest Price Guaranteed" project involves weekly checking of prices of these products and analyses of profit margins; both are adjusted as appropriate. Prices of other products are reviewed and adjusted as necessary at various time intervals as well. We continue to monitor on a monthly basis the results of consumer perception analysis.</p>
<b>Risk of sub-optimum assortment and retail area management at the micro level</b>	<p>We manage our assortments in compliance with the strategies and tactics laid down for individual categories. We continue to actively monitor our competitors and both European and global trends. We are completing the project of material operation process revision which will establish complete infrastructure for effective management and maintenance of assortments and planograms. In the first half of 2015, we designed and posted the planograms for most dry program categories and non-alimentary products of the market (FMCG) program.</p>
<b>Risk of sub-optimum management of sales promotion activities</b>	<p>Sales promotion activities are carried out consistently with the adopted marketing plan. Based on this plan, executive fields of category management and purchasing, and marketing prepare detailed quarterly activity plans. Efficiency of all activities is regularly analyzed and our competitors are monitored. We respond to major market changes by adjusting our activities.</p>

## FINANCIAL RISKS

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

### Financial risks

Key risk categories	Management approach to perceived risk categories
<b>Credit risk related to legal persons</b>	Credit risk of exposure to legal persons is the estimate of risk that the receivables which were not settled immediately remain unsettled or are only partly settled. This pertains to receivables related to deferred payments. Receivables are controlled through the central credit limit management system. The credit limits are assigned to particular external buyers based on past operations with the company Mercator, credit rating by a third-party rating agency, and insurance or collateral offered by the buyer. Insurance or collateral is classified into 4 groups, depending on the quality. Subject to certain conditions, credit limit can be increased or decreased for our customers. Increase of credit limit is possible subject to additional collateral or in case of assessment by the relevant decision-makers that the increase of credit limit is both justifiable and not risky. A proposal for credit limit increase may also be rejected if the opposite is found. A customer's credit limit is decreased when the customer fails to observe the agreed deadlines for settling their trade payables. The last-resort measure is a block for a customer, which occurs if legal proceedings are instituted against the customer (bankruptcy, winding up, compulsory settlement/receivership etc.). Since the probability that payment for the goods or merchandise sold will not be recovered, a block for such customer is a necessary measure at such point.
<b>Liquidity risk</b>	Liquidity risk is the assessment of risk of a company lacking liquidity (becoming insolvent). The effects of financial restructuring in 2014 contributed considerably to Mercator Group's financial stability in 2015. Debt composition and maturity are planned consistently with the company's cash flow and they allow long-term financial sustainability. Financial restructuring includes repayment of the existing financial liabilities by the year 2021. As a result, the liquidity risk in 2015 is significantly lower than it was in previous years.
<b>Currency risk at Mercator—S, d.o.o.</b>	Foreign currency risk is the possibility of a loss of economic benefit due to a change in the EUR/RSD exchange rate. In the past, the Serbian dinar depreciated considerably relative to the euro. In 2014 alone, it lost 5.4 percent. In the restructuring stage, a part of the credit in Serbia was converted into euro to alleviate the risk to some extent. A certain amount of risk remains as the Serbian dinar depreciated further in the first half of 2015 relative to the first half of 2014. By continuously monitoring of macroeconomic conditions, we seek to anticipate the fluctuations and hedge the risks accordingly. Fluctuation of the Serbian dinar affects the company in Serbia as well as the company in Slovenia. Therefore, anticipation and analysis of the exchange rate has to be paid a lot of attention.

## OPERATIONAL RISKS

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

### Operational risks in category management and procurement

Key risk categories	Management approach to perceived risk categories
<b>Supplier failure</b>	<p>In the first half of 2015, we maintained transparent cooperation with suppliers to allow timely identification of any problems faced by them, and prompt adjustment to reduce the probability of delivery failures.</p> <p>Supply failures are supervised on a daily, weekly, and monthly basis and corrective measures are adopted promptly to reduce such occurrences. Delivery failure monitoring process, established in 2014, allows faster adoption of suitable corrective measures.</p> <p>On May 12, 2015, there was a fire at our fruit and vegetables cold storage. The effect of lack of storage capacity on the sales of goods was alleviated by transition to direct distribution to retail units and by leasing free storage capacity in Slovenia.</p>
<b>Seasonal effect</b>	<p>Weather changes and related natural disasters — floods, extensive period of rain — have an increasingly acute effect on the sourcing process. Floods and extended rainy periods in the region in last year have resulted in lower supply of nuts in this year, which in turn has resulted in upward pressure on prices.</p> <p>In April and in the first half of May, the weather was unusually rainy and cold, which had a negative effect on the sales of fruity beverages, beer, ice cream, and especially on the sales of picnic food and beverages. We alleviated the effect of weather on sales performance by timely response.</p> <p>The segment of non-alimentary seasonal products is adjusted to the needs of our customers and their purchasing power. We carefully plan our orders of seasonal products, dates when these are first offered, and clearance sales dates, in order to reduce the risk of a drop of profit margin and the risk of an increase in inventory in this category.</p>
<b>Increase of tradable commodity prices</b>	<p>In the first half of 2015, we closely monitored the effect of the increase of tradable commodity prices on the categories that may be subject to considerable effect from the commodity market. We monitor on a daily basis the prices of sugar, wheat, corn, milk, sunflower seed oil, electricity, and oil, as well as the EUR to USD exchange rate. We stay up to date with trends and causes of any fluctuations through reports on commodity prices.</p> <p>We are in the period in which the calls for offers or negotiations are being completed regionally on the purchase of canned/preserved fruit and vegetables, pasta, and other private label products made from this year's harvests, in order to secure adequate annual amounts and stable prices. Stability of wheat and sugar prices is guaranteed until the next harvest by agreement on long-term purchases.</p> <p>The upward pressure on olive oil prices will persist in the following twelve months because of the expected poor harvest. Due to the depreciation of the euro relative to the USD, there is also pressure on the prices of products that contain cocoa, concentrated orange juice, and other commodities payable in US dollars.</p> <p>We are keeping track of the trade measures introduced by the European Union and Russia, which could result in a rapid increase or decrease of supply in Europe, which would lead to a change in current prices. This applies in particular to milk, meat, fruit and vegetables, and sunflower seed oil.</p>
<b>Risks of failure to attain the planned profit margin and returns on sales promotion activities</b>	<p>The risk of failure to attain the planned profit margin and returns on sales promotion activities is managed by monitoring all key performance indicators, identifying any deviation from the planned figures, and timely adoption of corrective measures.</p> <p>Key performance indicators are regularly monitored on a weekly, monthly, and cumulative basis. We are focused on the attained profit margin on a weekly level and on the invoiced compensations to suppliers on a monthly, quarterly, and cumulative level. In case of identified discrepancies, measures were adopted in the first half of 2015, at the level of particular products, categories, as well as assortments of particular suppliers.</p>



## Operational risks in wholesale

Key risk categories	Management approach to perceived risk categories
<b>Receivables and disputed receivables</b>	<p>The following activities will be carried out by the end of 2015 to manage our credit risks pertaining to deferred payments:</p> <ul style="list-style-type: none"> <li>• closing of receivables according to new specification (by maturity), thus avoiding frequent automatic blocks and increase of disputed receivables;</li> <li>• presenting all agreements signed with respective customers to the legal sector; all receivables will be secured;</li> <li>• automatic block (supply restriction) for customers with receivables overdue;</li> <li>• examining the system in which customers are proposed for enforcement subject to certain criteria;</li> <li>• developing a plan on cooperation with suppliers who are also our customers.</li> </ul> <p>All above measures will decrease the probability of new disputable receivables in the future.</p>
<b>Failure of the refrigeration system and electrical wiring</b>	<p>We have prepared instructions for use of refrigeration equipment. All shop managers and employees at Cash &amp; Carry units have received the instructions.</p> <p>Since the start of the summer season, each store manager is carrying out on regular basis and in an up-to-date manner the preventive activities of promoting awareness among the employees regarding rational use of all refrigeration equipment to attain the highest possible cost efficiency and to comply with the HACCP regulations.</p>

## SUPPORT RISKS

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

### IT risks

Key risk categories	Management approach to perceived risk categories
<b>Failure of the central information systems</b>	<p>Several projects are in progress on central IT systems due to the merger of Mercator companies to the Agrokor Group. IT infrastructure is being consolidated and adjusted to the corporate policies. Infrastructure and network are being adjusted to the new corporate security policy. Due to consolidation of business solutions (applications), operations are being transferred between business solutions.</p> <p>An initiative was launched within the company Mercator, d.d., to improve the efficiency of management of the changes to the central IT systems. Consolidation of requirements for change has been completed for all key IT systems. Advanced IT solution is being put into place to support the management of such changes. With these activities, the effect on risk stemming from regular changes to key IT systems and activities listed above is managed.</p> <p>Environment for more advanced IT equipment error reporting has been developed, which allows structured reports of incidents in retail and more complex analysis of such errors.</p>
<b>This is the risk of incorrect data in central or retail systems as a result of a failure in the procedures transferring and processing the data, or due to a system breach.</b>	<p>The project of IT Service Management (ITSM) principles implementation at the company Mercator, d.d., continues. The project involves optimization of the problem management processes, as well as implementation of an IT solution to support this process. When the process is standardized and the IT solution is implemented, this process will allow identification of weaknesses in procedures in which information on sales is managed (prices and special offers).</p>
<b>Operational failure of a third of the business IT system clients (personal computers, laptops)</b>	<p>The project of IT Service Management (ITSM) principles implementation at the company Mercator, d.d., continues. The project involves optimization of the IT asset management processes, as well as implementation of an IT solution to support this process. When the process is standardized and the IT solution is implemented, advanced records of business IT system clients will be established within the process (personal computers, laptops), which will include information on assets, as well as key infrastructural information regarding these assets (e.g. CPU, memory, and disk). Advanced records will allow recording and monitoring failures on each asset, and an advanced analysis of events on these clients.</p>

## Damage risks

Key risk categories	Management approach to perceived risk categories
Earthquake and fire	<p>Mercator has taken out insurance policies for earthquake and/or fire for all facilities where activities are conducted. Insurance is signed based on cost (new replacement value), meaning that building depreciation is not taken into account in the damage estimate following a loss event and thus insurance benefit payments are not reduced. Insurance benefit payments are reduced by the agreed deductible which Mercator is seeking to decrease or eliminate through negotiations.</p> <p>In order to minimize the probability of occurrence of fire and the best possible response in case of fire, regular controls are carried out pursuant to the effective legislation and sound practice at all Mercator units. Moreover, training is provided for the employees, and all other mandatory preventive activities regarding fire safety are conducted.</p>

## COMPLIANCE RISKS

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

## Environmental risks

Key risk categories	Management approach to perceived risk categories
Electrical energy	<p>All employees were informed via internal newsletter about the changes to the heating and air conditioning regime and about the general measures for efficient use of energy. The project of upgrading the current energy accounting with a more detailed targeted power consumption monitoring and implementation of measures for efficient use of energy in cooperation with a third-party contractor Marked Energiea involves installing energy meters on select facilities. In the future, we are planning to include the said facilities in the energy accounting system, to install additional meters, and to develop projects for efficient use of energy. The goal is to cut power consumption by 1% annually.</p>



# FINANCIAL MANAGEMENT

## Stable Financial Operations

As at June 30, 2015, Mercator Group net financial debt amounted to EUR 862,934 thousand, which is 9.8% more than as at the end of 2014, and 12.5% less than as at June 30, 2014. The increase in net financial debt real to the end of 2014 is mostly related to drawing on available long-term credit lines with banks. Higher borrowings are a result of higher needs for working capital in the period 1–6, 2015.

in EUR thousand	June 30, 2015	Dec. 31, 2014	June 30, 2014	Index June 30, 2015/ Dec. 31, 2014	Index June 30, 2015/ June 30, 2014
Non-current financial liabilities	838,116	806,640	991,932	103.9	84.5
Current financial liabilities	73,625	42,998	54,539	171.2	135.0
Derivative financial instruments (liabilities)	0	0	35	-	-
<b>Financial liabilities including derivative financial instruments</b>	<b>911,741</b>	<b>849,638</b>	<b>1,046,506</b>	<b>107.3</b>	<b>87.1</b>
Cash and cash equivalents	19,307	34,223	18,168	56.4	106.3
Derivative financial instruments (assets)	0	0	1	-	-
Available-for-sale financial assets	880	1,178	807	74.7	109.1
Loans and deposits	28,620	28,262	41,485	101.3	69.0
<b>Financial assets</b>	<b>48,807</b>	<b>63,663</b>	<b>60,461</b>	<b>76.7</b>	<b>80.7</b>
<b>NET FINANCIAL DEBT</b>	<b>862,934</b>	<b>785,975</b>	<b>986,045</b>	<b>109.8</b>	<b>87.5</b>

## Financing costs

In the period 1-6, 2015, the 6-month EURIBOR averaged at 0.092%. At the end of the period, it was at no more than 0.050%. Compared to the equivalent period of 2014 when the 6-month EURIBOR averaged at 0.395%, this rate decreased by 0,303 percentage point.

## Debt to equity and financial liability ratio

As at June 30, 2015, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.35. The ratio is a quotient between equity and net financial debt.

As at June 30, 2015 the maturity profile of Mercator Group's financial liabilities amounted to 91,9%, which is slightly impaired compared to the financial liability ratio as at December 31, 2014.

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

## Available liquidity lines as at June 30, 2015

As at June 30, 2015, Mercator Group had access to the following liquidity lines:

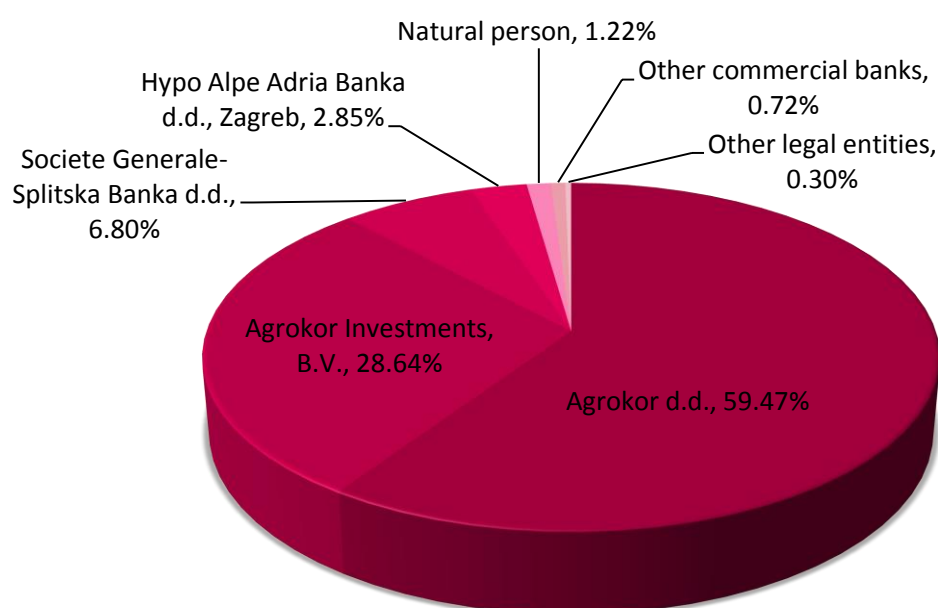
v 000 EUR	June 30, 2015
Cash and cash equivalents	19,307
Standby revolving credit lines	15,046
<b>Total</b>	<b>34,353</b>

# MERCATOR SHARE AND INVESTOR RELATIONS

## Basic information on the share of the company Poslovni sistem Mercator, d.d., as at June 30, 2015

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljana Stock Exchange
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of treasury shares	42,192
Number of shareholders	2,565

## Ownership structure of the company Poslovni sistem Mercator, d.d., as at June 30, 2015



## Major Shareholders

As at June 30, 2015 the following ten largest shareholders held a combined share of **98.39%** 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	413,982	6.80%
4 Hypo Alpe-Adria-Bank d.d	Croatia	173,334	2.85%
5 Galić Josip	Croatia	21,525	0.35%
6 Erste Group Bank AG	Austria	11,571	0.19%
7 Zveza Bank Reg.Z.Zo.J.Bank und Revisions	Austria	2,255	0.04%
8 Clearstream Banking SA	Luxembourg	1,170	0.02%
9 Banque Pictet and CIE SA	Switzerland	1,107	0.02%
10 Zagrebačka Banka d.d.	Croatia	703	0.01%
<b>Total</b>		<b>5,991,826</b>	<b>98.39%</b>

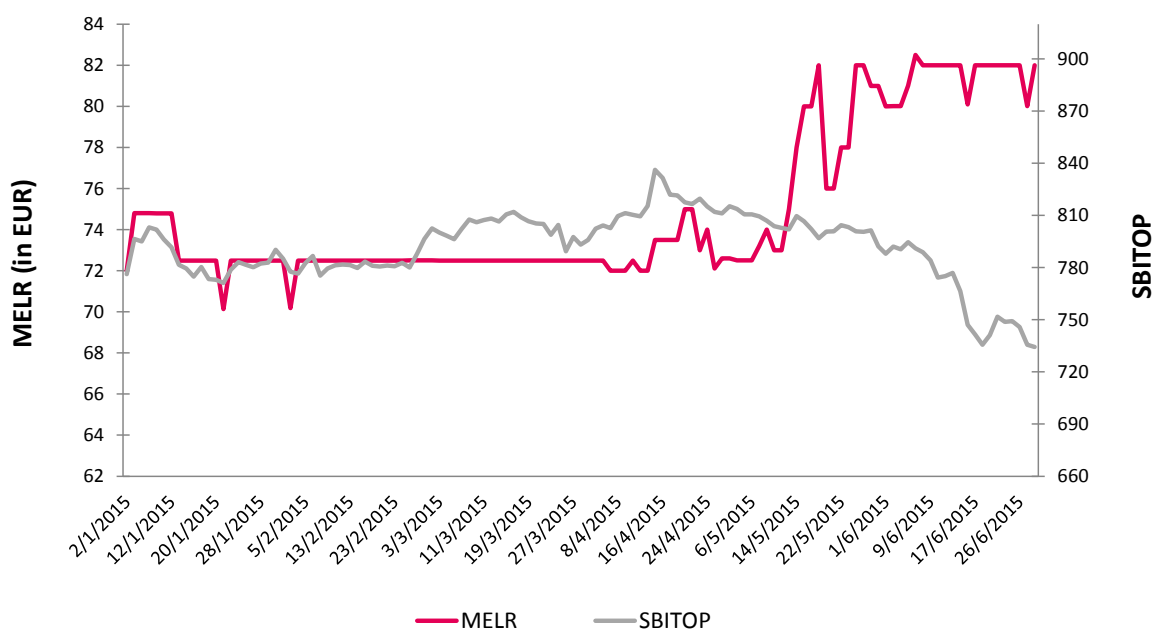
## Shares held by Management and Supervisory Board Members as at June 30, 2015

	First and last name	Position	Number of shares	Share
<b>Management Board</b>				
1	Toni Balažič	Management Board President	0	0.0000%
2	Drago Kavšek	Senior Vice President	0	0.0000%
3	Igor Maroša	Senior Vice President	0	0.0000%
<b>Total</b>			<b>0</b>	<b>0.0000%</b>
<b>Supervisory Board</b>				
1	Ante Todorčić	Supervisory Board Chairman	0	0.0000%
2	Matej Lahovnik	Deputy Supervisory Board Chairman	0	0.0000%
3	Damir Kuštrak	Supervisory Board member	0	0.0000%
4	Ivan Crnjac	Supervisory Board member	0	0.0000%
5	Darko Knez	Supervisory Board member	0	0.0000%
6	Ivica Mudrinić	Supervisory Board member	0	0.0000%
7	Veljko Tatič	Supervisory Board member	0	0.0000%
8	Vesna Stojanovič	Supervisory Board member	0	0.0000%
9	Matjaž Grošelj	Supervisory Board member	0	0.0000%
<b>Total</b>			<b>0</b>	<b>0.0000%</b>

## Foreign shareholders

As at June 30, 2015, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.45%**, which is 77.55 percentage point more than at June 30, 2014.

## Movement of closing price per MELR share in the period 1–6, 2015, compared to the movement of the SBITOP index



## Key information for the shareholders

	June 30, 2015	June 30, 2014	Index June 30, 2015/ June 30, 2014
Number of shares entered into the court register	6,090,943	3,765,361	161.8
Number of treasury shares	42,192	42,192	100.0
Market capitalization (in EUR)	499,457,326	312,524,963	159.8
Market price per share (in EUR)	82.00	83.00	98.8
Share book value (in EUR)	108.32	154.06	70.3
Minimum close rate in the period (in EUR)	70.13	66.01	106.2
Maximum close rate in the period (in EUR)	82.50	84.50	97.6
Average close rate in the period (in EUR)	74.90	73.51	101.9
Earnings per share (v EUR)*	5.3	(2.9)	-

\* The indicator is adjusted to the annual level.

Market capitalization is calculated by multiplying the number of shares entered into the court register as at the end of the period with market price per share as at the end of the period.

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

### Dividend policy

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

### Treasury shares

As at June 30, 2015, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1–6, 2015, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

### Changes in ownership structure

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

# SUSTAINABILITY REPORT

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

## RESPONSIBILITY TO CUSTOMERS

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

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

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

### Care for food safety

In the period 1–6, 2015, we carried out 348 regular and 19 extraordinary controls at our stores. In order to offer safe, compliant, and quality products to our consumers, we analyzed 394 specimens or samples from our private label line, conducted monitoring on 661 samples in our open departments, and carried out 44 other analyses (government control, in-house production, own imports etc.). We have also revised the safety data sheet collection.

## RESPONSIBILITY TO EMPLOYEES

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

On January 29, 2015, the new company-wide collective labour agreement was signed at Mercator - S, d.o.o. Employees of Idea stores were transferred to fixed salary calculation.

At Mercator - H, d.o.o., integration processes with the Agrokor Group companies continue. This has included the transfer of 63 employees to the company Konzum, d.d.; 6 to the company mStart, d.o.o.; 1 to Agrokor, d.d.; and 1 to Zvijezda, d.o.o. At the same time, we are divesting our retail units; 30 retail units have been divested. Wherever possible, new employers were sought to take over the employees. Thus, 42 employees were transferred to our competitor Pevec, d.d.; 14 were transferred to Metss, d.o.o.; 5 were transferred to Lonia, d.o.o.; 4 were transferred to Trgostil, d.o.o.; while others were made redundant.

At Mercator - BL, d.o.o., variable part of the salary was introduced for employees in administration. Two new sets of rules and regulations were adopted on the systematization of jobs and payroll accounting. New job systematization was adopted on May 1, 2015 at Mercator - BH, d.o.o.

In Montenegro, we acquired 5 units of the company Solaris, d.o.o., along with 90 employees; and 4 business units of the company Kaća, d.o.o., along with 60 employees. The parent company acquired 3 business units of the company Era Good, d.o.o., along with 34 employees.

Our social enterprise Mercator IP, d.o.o., had 386 employees as at June 30, 2015, of which 198 (51.3% of all employees) were employees with a certified category of disability. In 2015, we continue the **N Service** project (work performance assessment) which has included 27 assessments. Within the project, we received a subsidy for the salaries of employees with disabilities in the amount of EUR 21,900.

### Number of employees

	Number of employees as at June 30, 2015	Number of employees as at December 31, 2014	Index number of employees June 30, 2015/ December 31, 2014	Number of employees based on hours worked in the period Jan-June 2015
Slovenia	10,978	11,101	98.9	10,197
Serbia	8,677	8,880	97.7	8,417
Montenegro	1,458	1,239	117.7	1,122
Croatia	774	1,207	64.1	848
Bosnia and Herzegovina	200	216	92.6	201
<b>TOTAL</b>	<b>22,087</b>	<b>22,643</b>	<b>97.5</b>	<b>20,785</b>

### Caring for development, motivating, and connecting our employees

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

Young and talented employees of a number of Mercator companies have been included in Agrokor's educational program **Futura 2015**. A part of our employees are trained at the IEDC Bled School of Management.



The **Retail Succession** project included the completion of the **Retail Academy** at the parent company, which involved 69 employees. These are employees who we believe to have the potential and the ambition to become a store manager. Training also included individual *coaching* sessions which are still provided for some program participants. The sessions are conducted by our internal *coaches*. On June 15, 2015, the participants received their certificates at a final award ceremony.

At the parent company, we launched the **Career challenge** project which includes a range of activities for employees with identified potential to assume the most complex and challenging positions at Mercator. The project includes Mercator Group Management Board Council, executive directors, and talented employees with potential for top-ranking positions.

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



The **Selling Skill Development** project carried out in this year at the FMCG retail as well as at the Modiana and Tehnika divisions in Slovenia, includes two-day workshops with the purpose of improving the quality of service. By June 30, 2015, the workshops were attended by 1,807 participants, of which 921 from FMCG retail, 612 from the Tehnika division, and 274 from the

Modiana division. We have issued manuals "I am an excellent salesperson and consultant" for participants from the Tehnika division, and "I am an excellent salesperson and stylist" for participants from Modiana.

Retail employees in Slovenia were invited to refresh their knowledge of working hour registration. In the first half, we held 63 events attended by 564 employees. In autumn, we shall continue with other employees scheduled for this training.



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



An educational centre was built and equipped in Novi Sad, Serbia. The Idea Portal was upgraded and a new hiring/employment application was launched. Coaching network for administrative support was also established. The "English Goes to Store" project should be pointed out, intended for sales personnel who are in contact with international tourists (especially in Belgrade and Novi Sad), to train them in communication in English.

In May and June we also held 16 workshops in which the employees had the opportunity to upgrade their knowledge on a number of aspects of business and life.

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

At Mercator - Emba, d.d., we completed the project **Permanent career orientation**, co-financed by the Public Fund of the Republic of Slovenia for Development of Human Resources and Scholarships. The project involved 96% of all employees who attended workshops on personal and career development and stress management, and a career plan was designed for 62 employees through annual development interviews.



At the parent company, we thoroughly revised the induction manual called **Handbook for Newcomers**, which helps every newly hired employee to learn about Mercator. The 11th print of the manual will include 300 copies.

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

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

In Slovenia, Mercator Humanitarian Foundation provided aid to 341 employees of Mercator, d.d., or Mercator IP, d.o.o., who were in need of help. We have paid out humanitarian aid in the total amount of EUR 106,785. We also granted social scholarships to five children of our employees, in the total amount of EUR 3,000. In Serbia, the Mercator Solidarity Foundation provided aid in the amount of EUR 11,120 to 33 employees. In Montenegro, the Solidarity Foundation helped 20 employees by providing aid in the total value of EUR 3,800. In Croatia, the Solidarity Foundation paid out a total of EUR 7,473 to 17 employees.



# RESPONSIBILITY TO NATURAL ENVIRONMENT

## Reducing power consumption and heating fuel

Efficient use of energy is a result of effort by all Mercator employees. Hence, all employees were notified quarterly or upon change of the heating and air conditioning regime via the intranet portal about such changes and on the compliance with the instructions provided in the manual on efficient use of energy.

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

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

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

## Cutting the use of natural resources and waste generation

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

Following the **fire at the Mercator warehouse in Zalog**, we immediately started to alleviate and eliminate the negative effects of this extraordinary event on the environment. We made sure all environmental protection activities after the fire were carried out by authorized service providers and that all regulations and laws on environmental protection were observed. Despite the rapid expansion of the fire and high temperatures at the time, the fire was successfully restricted and as a result, negative effects on the environment were reduced. No water resources were threatened by the event. Ammonia in the refrigeration system was professionally removed and the authorized transport service provider transported it to a site where it was destroyed or recycled. All biological waste that was a potential source of odour was removed from the location. We are currently in the process of obtaining required permits for demolition work at the site. This work will be carried out in compliance with all mandatory regulations on environment protection.

We have prepared the information for the **environment report** for the 24 Mercator, d.d., buildings or property units newly included in the **monetization project**.

In order to attain the medium-term plan of reducing the amount of mixed waste by 10%, we optimized the volume of waste bins at five units and provided waste bins for small waste packaging and biological waste, and thereby **cut the mixed municipal waste handling costs by EUR 1,500 per year**.

We have submitted the report **Environment Protection Expenses for the Year 2014** to the Statistical Office of the Republic of Slovenia. At Mercator, d.d., nearly EUR 700 thousand was allocated in 2014 for environment protection investments. In addition, current environment protection expenses exceeded EUR 4 million, while revenue from environment protection activities exceeded EUR 1 million.

At the meeting called **2nd Agrokor Days of Environment Protection** (2. Agrokorovi dani zaštite okoliša) we presented sustainable development at the company Mercator, d.d. We also shared good environment protection practices with other Agrokor Group companies.

At the expert conference **Green Strategy of Managing Waste as Resources**, we presented the proposals by Mercator, d.d., for the improvement in packaging and waste packaging management in Slovenia.



Environment Protection Inspectorates of the Republic of Slovenia conducted 2 **inspections** at the company Mercator, d.d. In one case, no irregularities were found; in the other, a fine was imposed for improper waste management. All irregularities were immediately corrected.

### Sustainable logistics and supply chain organization

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

Due to an extraordinary event in May 2015 when fire broke out in the Zalog distribution centre, supply has changed considerably. The structure of supply channels is different as well, and changes have been made to the logistics infrastructure that we employ. As a result, transport flows are different, too. Yet even in these extraordinary circumstances, we continue to pursue maximum optimization of the use of logistics resources, which in turn leads to minimum environmental load.

The one-off environmental damage due to the fire cannot be precisely evaluated. We do believe that the fire has not resulted in any permanent environmental effects. We will thus be able to measure the environmental impact due to the changed operating conditions and our contribution to the alleviation of environmental impact in the future when the new situation becomes reality and comparison of indicators will be possible.

## RESPONSIBILITY TO SOCIAL ENVIRONMENT

### Donations and sponsorships

In 2015, Mercator Group continues to pursue the tradition of prompt response to the needs of local environments in which we operate, in keeping with our slogan of the best neighbour. We respond to all applications submitted by societies, organizations, clubs, and individuals. Considering the current harsh social and economic situation in the country, our funds are primarily allocated to humanitarian projects. In the first half of 2015, we supported **over 900 different humanitarian, cultural, educational, and sports projects**.

### Donating food surpluses for hot meals

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

### Donations at re-openings of refurbished neighbourhood stores

Upon the opening of ten refurbished neighbourhood stores, we also presented a donation of EUR 1,000 to the kindergartens Jesenice, Mavrica Izola, and Urša Domžale; to Kobarid Tourism Society, volunteer fire department Podpeč, cerebral palsy service centre Sonček Maribor, kindergarten Mavrica Brežice, Šent association, volunteer fire department Zgornji Kašelj, and music school Ljubljana Polje Moste.

## We like to do good deeds

In April, a pan-Slovenian donation activity **"We Like to do Good Deeds"** took place at 100 minor Mercator stores for the second year in a row. Three hundred local societies and organizations from around Slovenia competed for a donation of a total of EUR 130,000. The winners were chosen in cooperation with our customers. After each check-out, the customers voted for their favourite organization to be awarded a donation of EUR 1,000 for a project of local importance. Over one million votes were cast by our customers in the course of the campaign. A donation was also presented to the first and second runner up, in the amount of EUR 200 or 100, respectively.



## Humanitarian activities

In addition to aid to numerous societies and individuals, our humanitarian activities also included donations to the Friends of the Youth Association Moste Polje for families in social distress, the Palčica (Thumbelina) Safe house in Grosuplje, and the Safe House in Pilštanj.



## Sponsorship

In sports, we sponsored the Slovenian Olympic Committee, Handball Club Krim Mercator, Handball Club Celje Pivovarna Laško, Football Association of Slovenia, Football Club Maribor, Football Club Olimpija, Ski Jumping Club Ilirija, wheelchair basketball team of the Ljubljana Region Society of Paraplegics, stand-up paddle surfer Manca Notar, and whitewater kayaker Nejc Žnidaršič. This year, we again supported the hike along the Wire of occupied Ljubljana, and the international bicycle race "Tour of Slovenia." We are a traditional supporter of the Ptuj "Kurentovanje" carnival and the main sponsor of the "Zborovski bum" (Choir Boom). We also sponsor the Sales Summit, Slovenian Marketing Conference, and the high school competition in sales techniques.



## Competition protection and legal proceedings

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

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

## RESPONSIBILITY TO SUPPLIERS

At Mercator, we work with domestic suppliers to offer our customers as much locally grown produce as possible. We work with proven suppliers who can provide traceability for their products almost all the way to the fields.

By expanding Slovenian and local offer for our consumers, we improve sustainable use of agricultural land and increase the rate of self-sufficiency in Slovenia.

### Fresh fruit and vegetables of Slovenian origins

We work with over 100 local suppliers of fruit and vegetables, individual growers, and growers included in agricultural cooperatives. Produce by Slovenian growers of fruit and vegetables are offered at marketplaces branded "Locally Grown". Consumers can use their mobile devices to scan the QR codes on the tags next to the fruit and vegetables from local growers, and access information on each individual grower. Select growers are also presented at the stands and shelves offering their produce.

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

On May 12, 2015, a fire destroyed Mercator's central fruit and vegetable warehouse in Zalog. Immediately after the outbreak of the fire, supply of fruit and vegetables was redirected to warehouses in Maribor and Ptuj. In three weeks, an additional fruit and vegetable warehouse was set up in Sežana to supply Mercator stores in Western Slovenia. The additional warehouse in Sežana improved the logistics services and cut short the transport routes.

### Locally grown fresh meat

We continue our continuous purchase of fresh pork, beef, veal, and poultry raised in Slovenia from Slovenian top meat suppliers who are in turn supplied with fresh meat by more than 100 growers. All growers are carefully chosen and tested. By including the meat grown in Slovenia in to our regular offer, we are ensuring traceability and better quality of meat from the aspect of attainment of healthcare/medical standards.

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

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

### **Milk and dairy products made of 100% Slovenian milk**

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

By offering our consumers milk and dairy products made of 100-percent Slovenian milk, we are offering what they recognize as safe products of high quality. Thus, we are carrying on our efforts to promote the production and consumption of locally produced food.

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

## **OUR RESPONSIBILITY AND CARE FOR QUALITY**

### **Maintenance, implementation, and certification of international quality management systems**

Efficient management of business processes is provided through compliance with the requirements of the international quality management systems. Respective systems were connected into an integrated management system, the basic requirements of which are implemented at all Mercator Group companies. The system is continuously updated and developed, as we pursue the principles of sustainable development with our operations and business decisions. Mercator Group maintains **12** certified management systems.

In the period 1–6, 2015, the SQMS – Supplier Quality Management System – external audit took place at the company Mercator – Emba, d.d., while the ISO 9001 and ISO 14001 audits at Mercator, d.d., were completed in July.

### **Documentation management**

Internal rules of operations and documented good practices of the Mercator Group are maintained in the Mercator Standards collection which is easily available to all employees via M–intranet. The revised application operates faster, allows electronic document alignment or editing, and offers multilingual support. Users may search for documents related to their role in a business process and propose recommendations and improvements, which in turn improves the flow of knowledge and information between the employees.

As at June 30, 2015, Mercator Standards Collection included 2,919 valid documents. In the period 1–6 2015, we published 364 new or revised documents; 330 documents were archived.

### **Continuous improvement system**

The continuous improvement system is managed by a new application for the management of non-compliance, recommendations and commendations (praises), and corrective and preventive measures. The application is used at all Mercator Group companies. Continuous improvement process is consistent with the adopted strategy, based on the findings of third-party control, internal control, customer and employee satisfaction analyses, councils and workgroups, and improvement proposals provided by those conducting the processes.

System operation is being expanded to various fields of application. Currently, 20 fields of sources of reports are being monitored. In February, 114 risk mitigation measures were adopted via the application, defined based on risk analysis for 2015. In May, we completed the project of internal supplier assessment which resulted in 305 implemented measures last year.

In the period 1–6, 2015, 683 measures were processed by the application, of which 581 were resolved. Eighty-six percent of proposing entities were happy with the solutions for the measure; 60% of all measures were resolved before the deadline.

# FINANCIAL REPORT

## ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d. d., for the period 1–6, 2015, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited. In the period 1–6, 2015, the Group changed the method of reporting its expenses related to revaluation adjustments and write-offs of receivables, by transferring them from finance expenses to selling and marketing costs. Therefore, company and Group income statement are presented in comparable terms for the period 1–6, 2014, and the 2015 plan.

## 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, 2015, include the company Mercator, d.d., and its subsidiaries, as follows:

- in Slovenia: Intersport ISI, d.o.o., Mercator - Emba, d.d., Mercator IP, d.o.o., M - Energija, d.o.o., Platinum-A, d.o.o., Platinum-B, d.o.o., Platinum-C, d.o.o., Platinum-D, d.o.o., Platinum-E, d.o.o., and Platinum-F, d.o.o.;
- abroad: Mercator - H, d.o.o., Croatia; Mercator - S, d.o.o., Serbia; Mercator - BH, d.o.o., Bosnia and Herzegovina; M - BL, d.o.o., Bosnia and Herzegovina; Mercator - CG, d.o.o., Montenegro; Mercator Makedonija, d.o.o.e.l., Macedonia; Investment Internacional, d.o.o.e.l., Macedonia

(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, 2015	Dec. 31, 2014	Index June 30, 2015/ Dec. 31, 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,603,850	1,618,839	99.1
Investment property	3,405	3,494	97.5
Intangible assets	17,216	16,764	102.7
Deferred tax assets	19,776	22,301	88.7
Loans and deposits	25,611	25,015	102.4
Available-for-sale financial assets	880	1,178	74.7
	<b>1,670,738</b>	<b>1,687,591</b>	<b>99.0</b>
<b>Current assets</b>			
Inventories	248,476	257,323	96.6
Trade and other receivables	285,630	254,286	112.3
Current tax assets	282	702	40.2
Loans and deposits	3,009	3,247	92.7
Cash and cash equivalents	19,307	34,224	56.4
	<b>556,704</b>	<b>549,782</b>	<b>101.3</b>
<b>Total assets</b>	<b>2,227,442</b>	<b>2,237,373</b>	<b>99.6</b>
<b>EQUITY</b>			
Share capital	254,175	254,175	100.0
Share premium	286,772	286,772	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	41,686	41,686	100.0
Fair value reserve	115,392	115,411	100.0
Retained earnings	15,887	(53,485)	-
Profit (loss) for the period	15,344	69,353	22.1
Currency translation reserve	(88,414)	(89,215)	99.1
<b>Total equity attributable to equity owners of the Company</b>	<b>637,607</b>	<b>621,462</b>	<b>102.6</b>
<b>Non-controlling interests</b>	<b>184</b>	<b>215</b>	<b>85.6</b>
<b>Total equity</b>	<b>637,791</b>	<b>621,677</b>	<b>102.6</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	33,589	6,765	496.5
Financial liabilities	838,116	806,640	103.9
Deferred tax liabilities	30,465	30,392	100.2
Provisions	20,154	20,706	97.3
	<b>922,324</b>	<b>864,503</b>	<b>106.7</b>
<b>Current liabilities</b>			
Trade and other payables	592,553	707,657	83.7
Current tax liabilities	1,149	538	213.6
Financial liabilities	73,625	42,998	171.2
	<b>667,327</b>	<b>751,193</b>	<b>88.8</b>
<b>Total liabilities</b>	<b>1,589,651</b>	<b>1,615,696</b>	<b>98.4</b>
<b>Total equity and liabilities</b>	<b>2,227,442</b>	<b>2,237,373</b>	<b>99.6</b>

## Condensed consolidated income statement

EUR thousand	1-6 2015	Plan 2015	1-6 2014	Index 1-6 2015/ 1-6 2014	Index 1-6 2015/ Plan 2015
Revenue	1,287,237	2,854,401	1,299,927	99.0	45.1
Cost of goods sold and selling costs	(1,224,491)	(2,686,856)	(1,264,658)	96.8	45.6
Administrative expenses	(40,042)	(73,824)	(36,376)	110.1	54.2
Other income	10,701	9,762	11,895	90.0	109.6
<b>Results from operating activities</b>	<b>33,405</b>	<b>103,483</b>	<b>10,788</b>	<b>309.6</b>	<b>32.3</b>
Finance income	2,611	2,951	2,434	107.3	88.5
Finance expenses	(16,662)	(37,957)	(26,929)	61.9	43.9
<b>Net finance expenses</b>	<b>(14,051)</b>	<b>(35,006)</b>	<b>(24,495)</b>	<b>57.4</b>	<b>40.1</b>
<b>Profit (loss) before tax</b>	<b>19,354</b>	<b>68,477</b>	<b>(13,707)</b>	-	<b>28.3</b>
Tax expense	(4,043)	(8,825)	-	-	45.8
<b>Profit (loss) for the period</b>	<b>15,311</b>	<b>59,652</b>	<b>(13,707)</b>	-	<b>25.7</b>
Profit (loss) for the period attributable to:					
Owners of the parent company	15,344	59,672	(13,696)	-	25.7
Non-controlling interests	(33)	(20)	(11)	301.8	166.0

## Condensed consolidated statement of comprehensive income

EUR thousand	1-6 2015	1-6 2014	Index 1-6 2015/ 1-6 2014
<b>Profit (loss) for the period</b>	<b>15,311</b>	<b>(13,707)</b>	-
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>	<b>803</b>	<b>64</b>	<b>1,255.1</b>
Foreign currency translation differences - foreign operations	803	(1,265)	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges (effective hedging)	-	1,419	-
Deferred tax	-	(90)	-
<b>Other comprehensive income for the period</b>	<b>803</b>	<b>64</b>	<b>1,255.1</b>
<b>Total comprehensive income for the period</b>	<b>16,114</b>	<b>(13,643)</b>	-
Total comprehensive income for the period attributable to:			
Owners of the parent company	16,145	(13,633)	-
Non-controlling interests	(31)	(10)	305.5



## 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 period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
<b>Balance at January 1, 2014</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>146,656</b>	<b>140,587</b>	<b>(63,887)</b>	<b>18,695</b>	<b>(80,623)</b>	<b>514,194</b>	<b>100</b>	<b>514,294</b>
<b>Total comprehensive income for the period</b>											
Profit (loss) for the period	-	-	-	-	-	-	(13,696)	-	(13,696)	(11)	(13,707)
Other comprehensive income	-	-	-	-	837	492	-	(1,266)	63	1	64
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>837</b>	<b>492</b>	<b>(13,696)</b>	<b>(1,266)</b>	<b>(13,633)</b>	<b>(10)</b>	<b>(13,643)</b>
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	18,695	(18,695)	-	-	-	-
<b>Balance at June 30, 2014</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>146,656</b>	<b>141,424</b>	<b>(44,700)</b>	<b>(13,696)</b>	<b>(81,889)</b>	<b>500,561</b>	<b>90</b>	<b>500,651</b>

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
<b>Balance at January 1, 2015</b>	<b>254,175</b>	<b>286,772</b>	<b>(3,235)</b>	<b>41,686</b>	<b>115,411</b>	<b>(53,485)</b>	<b>69,353</b>	<b>(89,215)</b>	<b>621,462</b>	<b>215</b>	<b>621,677</b>
<b>Total comprehensive income for the period</b>											
Profit (loss) for the period	-	-	-	-	-	-	15,344	-	15,344	(33)	15,311
Other comprehensive income	-	-	-	-	(19)	19	-	801	801	2	803
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19)</b>	<b>19</b>	<b>15,344</b>	<b>801</b>	<b>16,145</b>	<b>(31)</b>	<b>16,114</b>
<b>Transactions with owners of the parent company directly recognized in equity</b>											
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	69,353	(69,353)	-	-	-	-
<b>Balance at June 30, 2015</b>	<b>254,175</b>	<b>286,772</b>	<b>(3,235)</b>	<b>41,686</b>	<b>115,392</b>	<b>15,887</b>	<b>15,344</b>	<b>(88,414)</b>	<b>637,607</b>	<b>184</b>	<b>637,791</b>

# Consolidated cash flow statement

EUR thousand	1-6 2015	1-6 2014	Index 1-6 2015/ 1-6 2014
<b>Cash flows from operating activities</b>			
<b>Gross cash flows from operating activities</b>	<b>69,587</b>	<b>44,883</b>	<b>155.0</b>
Change in inventories	8,847	25,071	35.3
Change in trade and other receivables	(30,923)	(18,578)	166.4
Change in trade and other payables	(90,351)	(31,343)	288.3
	<b>(42,840)</b>	<b>20,033</b>	-
Interest paid	(14,964)	(21,252)	70.4
Income tax paid	(1,447)	-	-
<b>Net cash from operating activities</b>	<b>(59,251)</b>	<b>(1,219)</b>	<b>4,860.6</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries and business operations, net of cash acquired	(845)	-	-
Acquisition of property, plant and equipment and investment property	(23,828)	(7,694)	309.7
Acquisition of intangible assets	(1,904)	(2,162)	88.1
Loans and bank deposits made	(358)	-	-
Transaction costs related to loans	-	(3,281)	-
Proceeds from sale of subsidiaries, net of cash disposed of	-	550	-
Proceeds from sale of property, plant and equipment and investment property	6,476	2,330	277.9
Proceeds from sale of available-for-sale financial assets	1,200	68	1,764.7
Interest received	1,485	1,386	107.2
Dividends received	1	-	-
Loans and deposits repayments received	-	1,124	-
<b>Net cash used in investing activities</b>	<b>(17,773)</b>	<b>(7,679)</b>	<b>231.4</b>
<b>Cash flows from financing activities</b>			
Increase (repayment) in borrowings	62,103	8,664	716.8
Dividends paid	-	(1)	-
<b>Net cash from (used in) financing activities</b>	<b>62,103</b>	<b>8,663</b>	<b>716.9</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(14,921)</b>	<b>(235)</b>	<b>6,349.4</b>
Cash and cash equivalents at the beginning of the year	34,224	18,505	184.9
Effect of exchange rate fluctuations on cash and cash equivalents held	4	(102)	-
<b>Cash and cash equivalents as at the end of the period</b>	<b>19,307</b>	<b>18,168</b>	<b>106.3</b>

# Notes to Mercator Group condensed consolidated financial statements

## Notes to condensed consolidated income statement

### Revenue

In the period 1–6, 2015, Mercator Group generated EUR 1,287,237 thousand of revenue, which is 1.0% less relative to the period 1–6, 2014. Revenue dropped by 1.8% in Slovenia and increased by 0.1% in foreign markets. In Slovenia, the largest drop in revenue relative to the comparable period of last year was seen in textile/apparel program and home product program. Sales in fast-moving consumer goods retail also dropped, by 1.5%. In foreign markets, change in revenue relative to the equivalent period of the year before differs by countries. Revenue was up in Serbia as a result of the takeover of the activities of the company Idea, d.o.o., while revenue in Croatia, and Bosnia and Herzegovina dropped.

### Cost of goods sold and selling and marketing costs

Mercator Group costs of sales which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,224,491 thousand in the period 1–6, 2015, which is a 3.2-percent decrease relative to the comparable period of last year.

Cost of goods sold was lower by 3.9% relative to last year's comparable period.

### Administrative expenses

Mercator Group's administrative expenses in the period 1–6, 2015, amounted to EUR 40,042 thousand, which is 10.1 percent more than in the comparable period last year. Increase in administrative expenses is mostly related to increase in Serbia, resulting from the acquisition of activities of the company Idea, d.o.o., and losses from divestment of property, plant, and equipment, which are reported as a part of these expenses.

Total expenses, consisting of selling and marketing costs, production costs (included in costs of sales), and administrative expenses amounted to EUR 314,477 thousand in the period 1–6, 2015, an increase of 0.6% over the last year's figure for such period. Labour costs were cut by 6.2% in the period 1–6, 2015 relative to last year's comparable period.

### Results from operating activities

In the period 1–6, 2015, Mercator Group's result from operating activities amounted to EUR 33,405 thousand.

### Net finance expenses

Net finance expenses are lower by EUR 10,444 thousand relative to the last year's comparable period, which is mostly a result of lower interest expense and lower currency translation differences.

### Profit before income tax

In the period 1–6, 2015, Mercator Group's profit before income tax was at EUR 19,354 thousand.

### Profit for the financial period

Mercator Group's net profit for the period 1–6, 2015, amounted to EUR 15,311 thousand.

### EBITDA

Mercator Group EBITDA in the period 1–6, 2015, amounted to EUR 71,266 thousand which is 54.2% more than in the comparable period of last year.

### EBITDAR

EBITDAR for the period 1–6, 2015, amounted to EUR 109,593 thousand which is 49.7% more than in the comparable period of last year.

## Notes to condensed consolidated statement of financial position

### Assets

Mercator Group assets as at June 30, 2015 amounted to EUR 2,227,442 thousand, which is EUR 9,931 thousand less than at the end of 2014, mostly due to lower property, plant, and equipment, and lower inventories.

As at June 30, 2015, the value of Mercator Group non-current assets amounted to EUR 1,670,738 thousand, which is EUR 16,853 thousand less than as at December 31, 2014. The largest share of non-current assets (97.2% or EUR 1,624,471 thousand) is represented by property, plant, and equipment, the value of which was EUR 14,626 thousand lower than as at the end of 2014 as a result of lower investment which was lower than depreciation.

As at June 30, 2015, the value of Mercator Group current assets amounts to EUR 556,704 thousand, which is EUR 6,922 thousand more than at the end of 2014. Trade and other receivables represent the largest portion of total current assets (51.3%), followed by inventories (44.6%). Trade and other receivables increased by EUR 31,344 thousand in the period 1–6, 2015, as a result of seasonal impact and the change in the business model in the markets of Croatia and Bosnia and Herzegovina where real estate management, both relative to Agrokor Group companies and third-party tenants, is becoming the Group's main activity.

### Equity and liabilities

As at June 30, 2015, Mercator Group equity amounted to EUR 637,791 thousand, which is EUR 16,114 thousand, or 2.6%, more than as at the end of 2014. The increase pertains to net profit in the amount of EUR 15,311 thousand, and positive currency translation differences in translation of international subsidiaries, amounting to EUR 803 thousand.

As at June 30, 2015, total financial liabilities amounted to EUR 911,741 thousand, which is EUR 62,103 thousand more than as at the end of 2014. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group financial liabilities and financial assets, amounted to EUR 862,934 thousand as at June 30, 2015 (December 31, 2014: EUR 785,974 thousand).

The share of long-term financial liabilities as at June 30, 2015, amounted to 91.9% (94.9% as at December 31, 2014).

As at June 30, 2015, provisions amounted to EUR 20,154 thousand. Compared to the end of 2014, provisions decreased by EUR 552 thousand, mostly due to currency translation differences.

Trade and other payables as at June 30, 2015, amounted to EUR 626,142 thousand, which is EUR 88,280 thousand less than at the end of 2014. The decrease of trade payables is due to improved liquidity/solvency as a result of the financial restructuring agreement, changes in legislation in Slovenia, and closing down of core activity in Bosnia and Herzegovina and in Croatia.

As at June 30, 2015, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 93.4%, which is 5.3 percentage points more than as at the end of 2014.

# CONDENSED FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

Mercator, d.d., is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The company Mercator, d.d., is the parent 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, 2015	Dec. 31, 2014	Index June 30, 2015/ Dec. 31, 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	874,522	877,304	99.7
Investment property	3,405	3,494	97.5
Intangible assets	9,990	9,244	108.1
Deferred tax assets	17,714	20,236	87.5
Loans and deposits	8,741	9,925	88.1
Investment into equity of subsidiaries	386,213	386,169	100.0
Available-for-sale financial assets	710	1,053	67.4
	<b>1,301,295</b>	<b>1,307,425</b>	<b>99.5</b>
<b>Current assets</b>			
Inventories	119,159	118,710	100.4
Trade and other receivables	114,402	99,519	115.0
Current tax assets	-	42	-
Loans and deposits	105,773	78,567	134.6
Derivative financial instruments	10,604	18,571	57.1
Cash and cash equivalents	<b>349,938</b>	<b>315,409</b>	<b>110.9</b>
	<b>1,651,233</b>	<b>1,622,834</b>	<b>101.7</b>
<b>Total assets</b>			
<b>EQUITY</b>			
Share capital	254,175	254,175	100.0
Share premium	286,772	286,772	100.0
Share premium	(3,235)	(3,235)	100.0
Treasury shares	16,624	16,624	100.0
Revenue reserves	84,846	84,865	100.0
Fair value reserve	19	-	-
Retained earnings	15,976	-	-
Profit (loss) for the period	874,522	877,304	99.7
<b>Equity</b>	<b>655,177</b>	<b>639,201</b>	<b>102.5</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	10,045	5,354	187.6
Financial liabilities	582,664	559,758	104.1
Deferred tax liabilities	22,861	22,819	100.2
Provisions	15,989	16,577	96.5
	<b>631,559</b>	<b>604,508</b>	<b>104.5</b>
<b>Current liabilities</b>			
Trade and other payables	311,529	341,649	91.2
Current tax liabilities	76	-	-
Financial liabilities	52,892	37,476	141.1
	<b>364,497</b>	<b>379,125</b>	<b>96.1</b>
<b>Total liabilities</b>	<b>996,056</b>	<b>983,633</b>	<b>101.3</b>
<b>Total equity and liabilities</b>	<b>1,651,233</b>	<b>1,622,834</b>	<b>101.7</b>

## Condensed income statement

EUR thousand	1-6 2015	Plan 2015	1-6 2014	Index 1-6 2015/ 1-6 2014	Index 1-6 2015/ Plan 2015
Revenue	698,901	1,504,271	716,821	97.5	46.5
Cost of goods sold and selling costs	(657,985)	(1,398,907)	(691,208)	95.2	47.0
Administrative expenses	(20,077)	(37,786)	(19,539)	102.8	53.1
Other income	3,273	5,327	2,993	109.4	61.4
<b>Results from operating activities</b>	<b>24,112</b>	<b>72,905</b>	<b>9,067</b>	<b>265.9</b>	<b>33.1</b>
Finance income	5,721	4,194	4,265	134.1	136.4
Finance expenses	(11,217)	(22,665)	(18,818)	59.6	49.5
<b>Net finance expenses</b>	<b>(5,496)</b>	<b>(18,471)</b>	<b>(14,553)</b>	<b>37.8</b>	<b>29.8</b>
<b>Profit (loss) before tax</b>	<b>18,616</b>	<b>54,434</b>	<b>(5,486)</b>	<b>(339.3)</b>	<b>34.2</b>
Tax expense	(2,640)	(4,627)	-	-	57.1
<b>Profit (loss) for the period</b>	<b>15,976</b>	<b>49,807</b>	<b>(5,486)</b>	<b>(291.2)</b>	<b>32.1</b>

## Condensed statement of comprehensive income

EUR thousand	1-6 2015	1-6 2014	Index 1-6 2015/ 1-6 2014
<b>Profit (loss) for the period</b>	<b>15,976</b>	<b>(5,486)</b>	-
<b>Other comprehensive income</b>			
Items that will not be reclassified subsequently to profit or loss	-	-	-
Items that may be reclassified subsequently to profit or loss	-	1,273	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	-	1,419	-
Corporate income tax on items that may be reclassified subsequently to profit or loss	-	(146)	-
<b>Other comprehensive income for the period</b>	<b>-</b>	<b>1,273</b>	-
<b>Total comprehensive income for the period</b>	<b>15,976</b>	<b>(4,213)</b>	-



## 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
<b>Balance at January 1, 2014</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>121,595</b>	<b>103,426</b>	-	-	<b>577,787</b>
<b>Total comprehensive income for the period</b>								
Profit (loss) for the period	-	-	-	-	-	-	(5,486)	(5,486)
Other comprehensive income	-	-	-	-	836	437	-	1,273
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>836</b>	<b>437</b>	<b>(5,486)</b>	<b>(4,213)</b>
<b>Balance at June 30, 2014</b>	<b>157,129</b>	<b>198,872</b>	<b>(3,235)</b>	<b>121,595</b>	<b>104,262</b>	<b>437</b>	<b>(5,486)</b>	<b>573,574</b>

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

# Condensed statement of cash flows

EUR thousand	1-6 2015	1-6 2014	Index 1-6 2015/ 1-6 2014
<b>Cash flows from operating activities</b>			
<b>Gross cash flows from operating activities</b>	<b>41,572</b>	<b>26,132</b>	<b>159.1</b>
Change in inventories	(449)	(6,568)	6.8
Change in trade and other receivables	(14,844)	(310)	4,788.4
Change in trade and other payables	(23,969)	(298)	8,043.3
	<b>2,310</b>	<b>18,956</b>	<b>12.2</b>
Net exchange rate differences from financing	(7)	(3)	233.3
Interest paid	(11,217)	(15,462)	72.5
Income tax paid	(50)	-	-
<b>Net cash from operating activities</b>	<b>(8,964)</b>	<b>3,491</b>	<b>-</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries and business operations, net of cash acquired	(845)	(510)	165.7
Acquisition of property, plant and equipment and investment property	(15,755)	(5,251)	300.0
Acquisition of intangible assets	(1,758)	(1,720)	102.2
Loans and bank deposits made	(26,019)	(59,588)	43.7
Expenses for transaction costs related to loans	-	(3,281)	-
Disposal of subsidiaries, net of cash disposed of	-	551	-
Proceeds from sale of property, plant and equipment and investment property	1,994	2,243	88.9
Proceeds from sale of available-for-sale financial assets	1,200	68	1,764.7
Interest received	2,099	3,917	53.6
Dividends received	1,760	-	-
<b>Net cash from (used in) investing activities</b>	<b>(37,324)</b>	<b>(63,571)</b>	<b>58.7</b>
<b>Cash flows from financing activities</b>			
Increase (repayment) in borrowings	38,321	63,017	60.8
Dividends paid	-	(1)	-
<b>Net cash from (used in) financing activities</b>	<b>38,321</b>	<b>63,016</b>	<b>60.8</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(7,967)</b>	<b>2,936</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year	18,571	6,018	308.6
<b>Cash and cash equivalents as at the end of the period</b>	<b>10,604</b>	<b>8,954</b>	<b>118.4</b>

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

## Notes to condensed income statement

### **Revenue**

In the period 1–6, 2015, the company Mercator, d.d., generated EUR 698,901 thousand of revenue, which is 2.5 percent less relative to the period 1–6, 2014. Majority of company revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods.

### **Cost of goods sold and selling and marketing costs**

Mercator, d.d., costs of sales which include the cost of goods sold, selling and marketing costs, and other expenses, amounted to EUR 657,985 thousand in the period 1–6, 2015, which is a 4.8-percent decrease on the comparable period of last year.

Relative to the last year's comparable period, cost of goods sold decreased by 4.8%, while other expenses decreased by 83.5%.

### **Administrative expenses**

Company administrative expenses in the period 1–6, 2015, amounted to EUR 20,077 thousand, which is 2.8 percent more than in the comparable period last year. The reason for the increase are some impairments that were not required in the period 1–6, 2014.

Total expenses, consisting of selling and marketing costs (included in costs of sales), and administrative expenses amounted to EUR 171,133 thousand in the first half of 2015, a decrease of 3.6 percent relative to the last year's comparable figure. The highest drop was seen in costs of material (by 7.0%) and labour costs (by 4.0%).

### **Results from operating activities**

In the period 1–6, 2015, results from operating activities of the company Mercator, d.d., reached EUR 24,112 thousand, which is 165.9% more than in the equivalent period of last year. Operating profit is higher due to higher profit margin and lower operating costs.

### **Net finance expenses**

Net finance expenses are lower by EUR 9,057 thousand relative to the last year's comparable period, which is mostly a result of the financial restructuring agreement and the resulting lower finance expenses.

### **Profit before income tax**

The company's profit before income tax for the period 1–6, 2015, amounted to EUR 18,616 thousand, which is EUR 24,102 thousand more than in the comparable period of 2014.

### **Profit for the financial period**

The company's net profit for the period 1–6, 2015, amounts to EUR 15,976 thousand.

### **EBITDA**

Mercator, d.d., EBITDA in the period 1–6, 2015, amounts to EUR 42,391 thousand which is 55.1% more than in the comparable period of last year, for the same reasons that are listed with regard to better results from operating activities.

### **EBITDAR**

EBITDAR of the company Mercator, d.d., in the period 1–6, 2015, amounted to EUR 47,663 thousand which is 43.1% more than in the comparable period of last year.

## Notes to condensed statement of financial position

### Assets

Mercator, d.d., assets as at June 30, 2015 amounted to EUR 1,651,233 thousand, which is EUR 28,399 thousand more than at the end of 2014, mostly due to higher other receivables, and loans and deposits to companies within the Group.

As at June 30, 2015, the value of the company's non-current assets was at EUR 1,301,295 thousand, which is EUR 6,130 thousand less than as at December 31, 2014. The decrease in non-current assets is largely a result of lower value of property, plant, and equipment, and lower deferred tax assets. Property, plant, and equipment represent the largest share of non-current assets at 68.2% (EUR 887,917 thousand), which is EUR 2,125 thousand less than the estimate for the end of 2014. The decrease in property, plant, and equipment is a result of lower investment which was exceeded by the depreciation and amortisation expense, and divestment of some non-operating assets.

As at June 30, 2015, the company's current assets amounted to EUR 349,938 thousand, which is EUR 34,529 thousand more than as at the end of 2014. The increase is related predominantly to other receivables and loans granted to subsidiaries. The largest share thereof includes inventories (34.1%) and trade and other receivables (32.7%).

### Equity and liabilities

As at June 30, 2015, share capital of the company Poslovni sistem Mercator, d.d., amounted to EUR 655,177 thousand, which is EUR 15,976 thousand, or 2.5%, more than as at the end of 2014. The increase is a result of net profit in the period 1–6, 2015.

As at June 30, 2015, total financial liabilities amounted to EUR 635,556 thousand, which is EUR 38,322 thousand more than as at the end of 2014. The increase pertains to both long-term and short-term financial liabilities. Short-term financial liabilities also increased due to the issue of 12-month commercial paper in the total amount of EUR 19,541 thousand.

As at June 30, 2015, provisions amounted to EUR 15,989 thousand. Compared to the end of 2014, provisions decreased by EUR 588 thousand.

Trade and other payables as at June 30, 2015, amounted to EUR 321,574 thousand, which is EUR 25,429 thousand less than at the end of 2014. The decrease is predominantly a result of lower payables to trade goods.

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

Poslovni sistem Mercator, d.d.  
Management Board

Ljubljana, August 25, 2015