

BUSINESS REPORT OF THE MERCATOR
GROUP AND THE COMPANY POSLOVNI
SISTEM MERCATOR, D.D.,
FOR THE PERIOD 1–9, 2015



Ljubljana, November 2015

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EXECUTIVE SUMMARY

Mercator Group revenue in the period 1–9, 2015, amounted to EUR 1.95 billion. While the figure is 2% lower than in the last year's corresponding period, our performance has improved significantly in comparison to 1–9, 2014. Operating profit at EUR 61.2 million is nearly threefold improvement over the same period of last year. Mercator ended the period with EUR 31 million net profit.

Optimism appears to be gaining momentum in Mercator's markets

In Slovenia, the economic situation continues to improve, especially on account of growing exports, also private spending is gradually improving, which is also a result of improved conditions in the labour market. Economic growth was also positive in all other countries of Mercator's presence, except for Serbia. Croatia is estimated to bounce back from the economic crisis this year. However, unemployment remains problematic in all international markets, especially in Serbia where further increase in the unemployment rate is predicted. In Montenegro, Bosnia and Herzegovina, and Croatia, unemployment is projected to decline or at least maintaining the unemployment rate at the level of 2015.

Mercator's revenue in 1–9, 2015, lower than in the corresponding period last year

In the period 1–9, 2015, Mercator Group generated revenue of EUR 1,948 million, which is 2% less than in the corresponding period of the year before. The data is not entirely 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 third consecutive quarter. Mercator Group operating profit amounted to EUR 61.2 million, which is nearly 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, considerable cost cuts resulting from our cost rationalization efforts and the sale of certain non-strategic business activities.

In the period 1–9, 2015, Mercator Group net profit reached EUR 31 million. Comparing to the equivalent period of the year before, this points to a notable performance improvement as the result for the period 1–9, 2014, was negative at EUR -12 million. In addition to the improvement in operating activities, progress is evident in our financing as net finance expenses are lower by 35.3% as a result of successful financial restructuring. Thus, Mercator Group mapped out new directions of positive performance after several years of intensive business restructuring, as we are looking to provide the best value for our customers while maintaining successful Group 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. In the third quarter of 2015, we launched a new campaign Moj dan vsak dan (My Day, Every Day) which involves offer of appealing discounts to various customer categories, and a campaign Mercator SvežFest (Mercator FreshFest) in which we offered our customers a wide selection of seasonal fruit and vegetables. 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, such as "We Like to do Good Deeds" and "Good Deeds Month". 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.

Considerable increase of investment budget

In the period 1–9, 2015, Mercator Group investments amounted to EUR 47.4 million, which is nearly 3 times 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 1–9, 2015. Of this amount, 57% was invested in Slovenia where we have refurbished 17 neighbourhood stores, seven supermarkets, three 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.; in Croatia and Bosnia and Herzegovina, it was slightly lower. Just under one fifth of investment budget was allocated to expansion of new retail capacity, while investment into logistics, IT, and non-trade activities accounted for 28% of the total investment funding.

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%.

Mercator, d.d., is mostly held by international shareholders who account for 98.44% of total company shareholders. As at September 30, 2015, ten largest Mercator, d.d., shareholders held 98.37% of Mercator shares.

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 Pekarna Grosuplje (Grosuplje Bakery). The transaction was completed on September 30, 2015, against payment of the purchase price, and the ownership of Pekarna Grosuplje was transferred to the company Don Don, d.o.o., as of October 1, 2015.

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 business entities and corporate groups in Slovenia. With its subsidiaries, it is also present in the countries of Southeastern Europe. It consists mainly of trade companies, as well as two manufacturing companies. Eleven of the companies comprising the Group are headquartered in Slovenia, while seven 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 September 30, 2015	EUR 254,175,051.39
Number of shares issued and paid-out as at September 30, 2015	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

Corporate governance

In the period 1–9, 2015, the Supervisory Board of Poslovni sistem Mercator, d.d., held two regular meetings and one correspondence session.

At the 5th regular 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; adopted the proposal regarding the appointment of the company auditor for the 2015 fiscal year; and approved the divestment of property of Pekarna Grosuplje (Grosuplje Bakery) to the company Don don, d.o.o., as set forth in the share sale and purchase agreement.

At the 3rd correspondence session held on May 12, 2015, the Supervisory Board was presented the performance of Mercator Group and the company Mercator, d.d., in the period 1–3, 2015.

At the 6th regular session held on August 25, 2015, the Supervisory Board was presented the performance of Mercator Group and the company Mercator, d.d., in the period 1–6, 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 September 30, 2015

MERCATOR GROUP

MERCATOR OPERATIONS SLOVENIA

POSLOVNI SISTEM MERCATOR, D.D., SLOVENIA	
Mercator IP, d.o.o., Slovenia	(100.0%)

MERCATOR OPERATIONS FOREIGN MARKETS

Mercator - S, d.o.o., Serbia	(100.0%)
Mercator - CG, d.o.o., Montenegro	(100.0%)
Mercator Makedonija, d.o.o.e.l., Macedonia	(100.0%)*

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%)

MERCATOR REAL ESTATE

Mercator - H, d.o.o., Croatia	(99.7%)
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%)*

* The company does not conduct business operations.

Branch Offices

As at September 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.

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 1–9, 2015

	1-9 2015	1-9 2014	Index 1-9 2015/ 1-9 2014
Revenue (EUR thousand)	1,948,311	1,988,671	98.0
Results from operating activities (EUR thousand)	61,230	22,592	271.0
Profit before income tax (EUR thousand)	40,118	(10,044)	-
Profit for the financial period (EUR thousand)	30,964	(12,049)	-
EBITDA (EUR thousand)	119,026	75,999	156.6
EBITDAR (EUR thousand)	176,840	116,552	151.7
Equity as at September 30 (EUR thousand)	653,568	498,473	131.1
Assets as at September 30 (EUR thousand)	2,235,385	2,215,997	100.9
Capital expenditure (EUR thousand)	47,401	15,944	297.3
Return on equity*	6.6%	(3.1%)	-
Return on sales	1.6%	(0.6%)	-
EBITDA / revenue	6.1%	3.8%	159.9
EBITDAR / revenue	9.1%	5.9%	154.9
Number of employees based on hours worked	20,652	21,017	98.3
Number of employees as at September 30	21,555	19,885	108.4

* Indicator is adjusted to annual level.

In the period 1–9, 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 1–9, 2014, is presented in a comparable manner.

KEY EVENTS

Retail network development

In the period 1–9, 2015:

- we invested EUR 47,401 thousand into property, plant, and equipment (CAPEX);
- we divested EUR 18,963 thousand worth of property, plant and equipment;
- we added 39 new units or 37,828 m² of new gross retail area in all markets of our operations, primarily from takeover of retail units IDEA in Serbia.

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 Matjaž Grošelj as a new employee representative in the company Supervisory Board. 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)**. The transaction was completed on September 30, 2015, against payment of the purchase price, and the ownership of Pekarna Grosuplje was transferred to the company Don don, d.o.o., on October 1, 2015. 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

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 ICERITAS 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.

On September 23, 2015, days of vocational and employment rehabilitation REHA 2015 took place at the Portus conference centre in Portorož. There, **Mercator received a special award as the largest employer of persons with disabilities in the Republic of Slovenia**.

Mercator's humanitarian activities

True to our corporate social responsibility policy, Mercator immediately responded to the call by humanitarian organizations to donate aid for refugees upon their expected arrival to Slovenia.

This, we **donated EUR 2,500 worth of goods to the Red Cross of Slovenia and the Slovenian Caritas organization**. We also **allowed Slovenian Caritas to use Mercator warehouse area in Slovenčeva 19 in Ljubljana as a collection centre for food for the refugees**.

We also invited our customers and our employees to participate in the humanitarian efforts. The customers donated their contributions into special Red Cross and Slovenian Caritas shopping carts located in major Mercator stores.

BUSINESS REPORT

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–9, 2015

Economic conditions in the markets of Mercator operations in the period 1–9, 2015¹

Growth of economic activity in key trade partners is expected to remain at the same rate in the period 2015–2017. In the first half of the year, economic growth in the euro zone was sustained. Year on year GDP growth reached 1.2%. The most recent available forecasts by international institutions assume further economic growth in key euro-zone trade partners, at a similar rate as this year. With further improvement in the labour market and beneficial effect of lower raw material prices on the disposable income, economic growth will rely even more than thus far on growth of private spending. According to the forecasts by international institutions, investment will start to gradually recover as well, especially as a result of improved financing conditions due to ECB non-standard measures, lower corporate debt, and the need for equipment replacement. Given the improvement of competitiveness due to euro depreciation, exports will remain an important factor of recovery, albeit to a lesser extent than thus far, especially considering the slowdown in global growth resulting from expected worsening of conditions in major emerging economies. The international institutions expect the conditions in the financial markets in the euro zone to remain relatively stable, and ECB monetary policy to remain expansionary. Economic growth in Croatia and Russia is expected to gradually increase in the next two years. The latter in particular is an important goods export destination for Slovenia, and it is therefore relevant to our economic growth.

The forecasts rely on the assumption that the prices of oil and other raw materials will remain low. Oil price is not expected to increase in 2016 and it should remain at the current level. Based on the data available for the first eight months of the year, prices of non-energy raw materials will drop at a considerably higher rate than last year. The assumption for average euro to USD exchange rate is USD 1.109 per 1 EUR, which is much lower than last year.

Corporate debt continued to decrease in 2015. With higher profits, this adds up to better outlook for recovery of credit growth. Corporate deleveraging ability has improved as well. This is not only a result of deleveraging to date, but also a result of higher EBITDA.

According to European Commission forecasts, real GDP will rise in 2015 by 1.9% in the European Union and by 1.5% in the euro zone.

Slovenia

Positive developments from the first half of 2015 have been sustained. Gross domestic product will grow by 2.7%. In addition to the exports, growth will be fuelled by recovery of private spending. Recovery of economic activity continues. In the first half of the year, year-on-year GDP growth reached 2.7%. In addition to exports which remain a key engine of recovery despite further slowdown in year-on-year growth, private spending has been picking up pace following the improvements in the labour market. Investment has been decreasing again after the construction activity went back into decline. Exports will continue to grow and the same applies to private spending.

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

In 2015, GDP growth is expected at 2.7%; in 2016 and 2017, it is forecast at 2.3%.

With expected notable increase of real growth of disposable income and high confidence index, private consumption is becoming an increasingly important factor of economic growth. Following the start of recovery last year (0.7%), private consumption growth increased further in the first half of this year. In addition to sustained recovery of consumption of durables which started in late 2013, spending of other goods that represent the predominant share of household consumption is also increasing this year. General uncertainty has decline, which is the key to higher private spending.

With further recovery in the international environment and improved competitiveness, growth of exports will be relatively high again this year (5.0%). According to the forecasts by international institutions, economic growth will increase in most key trade partners this year.

Economic growth also leads to lower unemployment rates. In 2014, unemployment rate was at 13.1%; the estimate for this year is 12.3%; and the forecast for next year is 11.8%:

The inflation rate will remain negative this year at -0.4%. This is mostly a result of lower prices of oil and refined petroleum products. In 2016, inflation rate is expected at 0.8%; in 2017, it is expected at 1.4%.

According to the Standard & Poor's rating agency, Slovenia's rating remains A- with positive outlook.

Serbia

Real GDP growth in Serbia remains negative in 2015. According to IMF forecasts, it will amount to -0.5%. GDP growth in 2016 is forecast to be positive at 1.5%. Inflation rate is forecast at 2.7% for 2015, and at 4.0% in the year after. Unemployment is rising year in, year out, and it remains one of the country's largest problems. In 2015, it is expected to slightly increase further to reach 20.7% according to the IMF forecast; in 2016, it is forecast at 21.9%. Compared to 2014, exports will increase by 3.1% in real terms; next year, export growth will reach 5.0%. Average exchange rate of the Serbian dinar in the period 1–9, 2015, stood at RSD 120.71 per 1 EUR, while the average rate in the equivalent period of last year was RSD 116.40 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

IMF forecasts point to a recovery in the Croatian economy. In 2015, Croatia is expected to bounce back from recession and economic growth rate is estimated at 0.4% while the forecast for 2016 is at 1.0%. Inflation rate in 2015 is negative, estimated at -0.9%. For 2016, it is forecast at 0.9%. Unemployment rate in 2015 was at 17.3%; in 2016 it is anticipated to decrease slightly to 17.0%. Export of goods and services in 2015 will be higher than last year by 7.0%. Average exchange rate of the Croatian kuna in the period 1–9, 2015, stood at HRK 7.61 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, Croatia'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 2015 will be at 2.3%. In 2016, growth rate is expected at 3.1%. Inflation rate in the first half of 2015 was 0.5%. For 2016, inflation is forecast at 1.1%. Unemployment remains high, like in previous years, at approximately 27.0%. In 2015, exports will increase by 5.9%. The exchange rate of the Bosnian mark is pegged to the euro at a 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 increasing. In 2015, the economy is to grow by 4.7% relative to the year before in real terms. For next year, somewhat lower economic growth rate is anticipated, at 3.5%. Inflation rate is at 0.5% in this year, and expected at 1.0% next year. 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%. Exports will rise by 4.2% this year and by 4.0% in 2016. Montenegro's official currency is the euro. Montenegro's rating remains unchanged at BB+.

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

Economic recovery in 2015 continues in all markets of Mercator's operations. In Slovenia, recovery of economic activity has had a favourable effect on hiring and further decline in the number of unemployed persons. Improvement in the general economic situation and conditions in the labour market has had a positive effect on consumer confidence and it has encourage private spending growth.

In 2015, a higher growth of economic activity is forecast for **Slovenia**. Improvement is expected in the labour market by the end of the year. In July 2015, unemployment rate was at 12.0%. According to the IMAD (UMAR) forecast, household consumption will be 2.0 percentage points higher than last year as a result of higher disposable income and considerable improvement in the confidence of consumers and their willingness to shop. In September 2015², the consumer confidence index was 7 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 Nielsen³ data, consumer confidence improved in the second quarter of 2015 relative to the previous quarter; however, it is still below the European average which has reached the 2010 level. The effect of recession is felt by less than 80% of the survey respondents. Compared to the second quarter of 2014, this share is down by 10 percentage points. The share of those who believe we will bounce back from recession in the next 12 months remains at 70%. Slightly less than 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 this 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 spend less on clothing and save on out-of-home entertainment and by buying more private label products.

According to economic growth forecasts, improvement of economic conditions, or at least no worsening thereof, is also anticipated in the markets of **Serbia, Croatia, Bosnia and Herzegovina**, and **Montenegro**⁴. Private spending will rise while unemployment remains high. Consumer confidence in Serbia in the second quarter of 2015⁵ 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 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

² SURS, Consumer Sentiment, Slovenia, September 2015

³ Nielsen: Consumer Confidence Index, Q2, 2015, Slovenia

⁴ European Economic Forecast Spring 2015, European Commission, 5 May 2015

⁵ Nielsen: Consumer Confidence Index, Q2 2015, Serbia

costs of living. Consumers spend less on clothing and save 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 2015⁶ 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 dropped 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 their remaining means to home improvement. Consumers' primary concerns include security of employment, work-life balance, and debt. Consumers buy more private label products, spend less on clothing, and save on electricity and gas.

⁶ Nielsen: Consumer Confidence Index, Q2 2015, Croatia

SALES AND MARKETING

Sales

In 2015, the euro zone economy has seen economic growth, increase in private spending, and improved conditions in the labour market and in the financial system. Forecasts for next year are optimistic as well.

Slovenia saw positive economic growth in 2015, largely fuelled by rising exports and stronger household consumption. The latter is increasing especially on account of better conditions in the labour market and relief in the general uncertainty felt by the consumers. They are again opting to purchase durables and other goods representing a predominant share of private consumption.

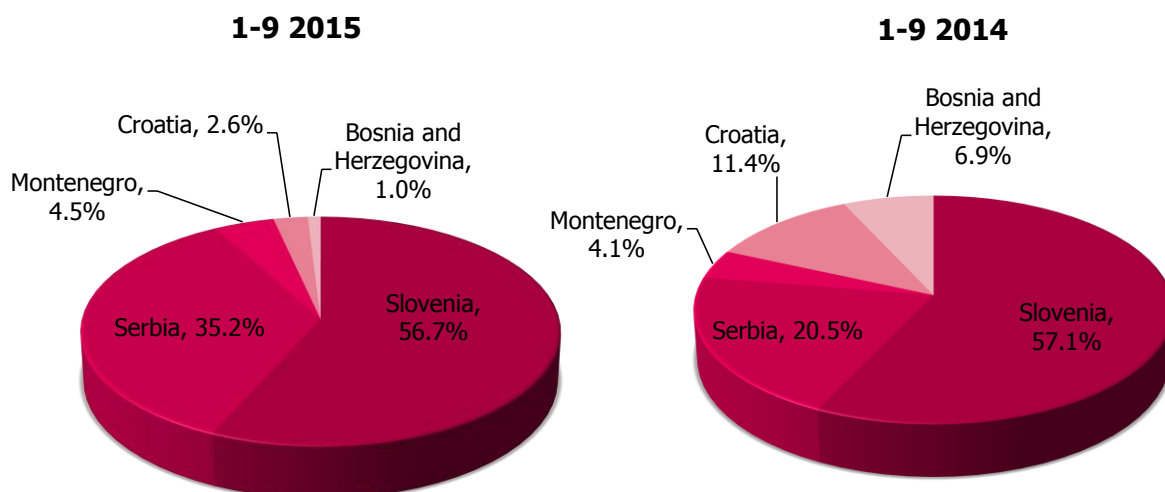
Economic growth was also positive in other countries of Mercator's presence in 2015, except for Serbia. Croatia is expected to recover from its economic crisis this year and return to positive economic growth in the future. High unemployment remains one of the major problems in Mercator's foreign markets, especially in Serbia where it has been increasing each year; in other countries, unemployment rate is expected to decline or at least remain unchanged.

In addition to the above factors, Mercator Group revenue in the period 1–9, 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 1–9, 2014. Also negative affecting the revenue was the fire in Mercator's fruit and vegetable warehouse in Zalog, Ljubljana, in May 2015.

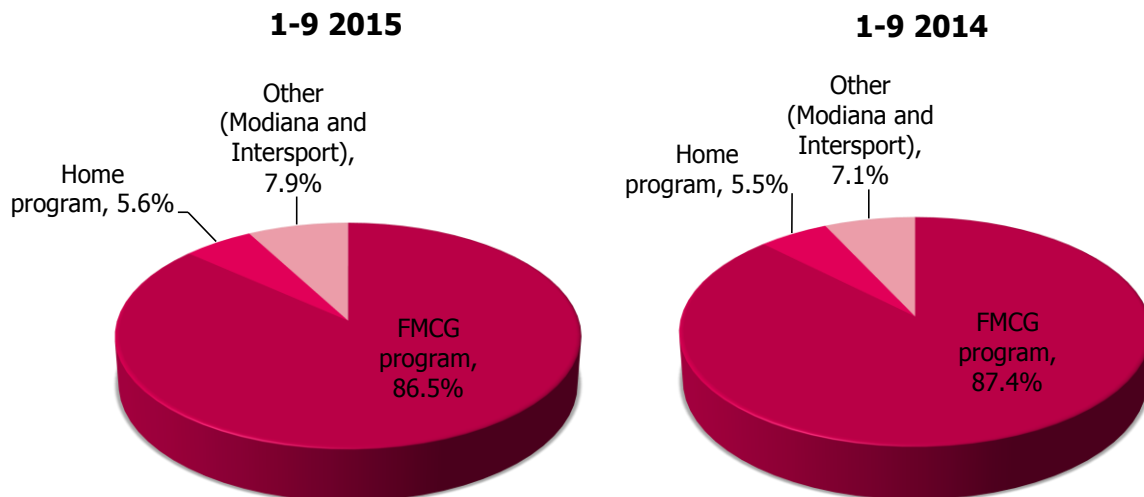
In the period 1–9, 2015, Mercator Group generated **EUR 1.95 million of sales revenue**, which is **2% percent less than in the corresponding period of 2014**.

Developments regarding revenue differed from one market to the other. In Slovenian market, our revenue dropped (by 2.7%), mostly as a result of temporary delivery failures due to the fire at Mercator's warehouse in May 2015 and reducing activities of non-core business operations. Revenue increased significantly in Serbia (68.9%); it dropped in Bosnia and Herzegovina (by 86.5%) and in Croatia (by 78.0%). 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 7.9% 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 1–9, 2015, Mercator Group generated the highest share of its total revenue in its fast moving consumer goods program – 86.5%. The remaining 13.5% was generated in other specialized trade programs. Compared to the equivalent period of last year, the share of revenue in other specialized trade programs increased by 0.9 percentage point. The increase was mostly seen in the Modiana and Intersport programs which included major sales promotion activities in 2015.

Store formats, customer segments, and category management

Store Formats

Shopping – a rather simple process once – has been getting increasingly complex in recent years. The power has shifted to the customers. Today's customer is defined by rapidly changing demographic conditions, lifestyle, and technological development. The consumers have become even more demanding, more informed, and aware. They look to get the most for their money and they are less loyal to a single retailer, which further increases the complexity of the business.

Pressure on the retailers is mounting to move faster and more to the digital world and the online environment as consumers are willing to spend less and less of their time on shopping. After years of expansion of large store formats, **small box** formats are returning to the fore. In addition, **reinventing the existing retail networks** is also becoming increasingly important (i.e. new concepts in existing locations). Diversification of store formats thus remains the key strategy of retailer growth.

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.

Major refurbishments of Mercator stores are taking 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 Slovenia, we refurbished one convenience store in the period 1–9, 2015. After the refurbishment, the store extends across 160 m² of gross area. As many as 17 Mercator stores were redesigned or extended based on the "Neighbour" concept. Their combined gross area after the refurbishment is 10,570 m².

In addition to neighbourhood stores, Mercator has launched comprehensive refurbishments of its supermarkets, looking to come closer to the customers with a new store concept that is an upgrade to neighbourhood stores with a broader and especially deeper offer of fast-moving consumer goods. Seven supermarkets were refurbished according to the new concept in the period 1–9, 2015, spanning a total gross area of 10,757 m².



In 2015, Mercator is also focusing on its largest format, the hypermarket. Three hypermarkets have been refurbished in the period 1–9, 2015, spanning a total gross area of 13,427 m². Standing out among them is the refurbished hypermarket Šmartinska in Ljubljana. After the refurbishment, this is Mercator's most advanced hypermarket. It offers customers the latest and the best in offer and service. There are many new features, in particular:

- **Offer of fresh produce:** Offer was upgraded in all fresh produce departments. The **hot bar** now offers food baked in a Dutch oven ("izpod peke"); **fruit and vegetables department** has been extended to include organically grown fruit and vegetables sold in bulk; **bakery** with freshly baked packed bread and rolls; **fish market** excellently stocked with fresh fish and seafood; and **grab&go offer**.
- **the World of Beer** offers over 300 types of beer
- **Dream Factory** – an appealing toy department, extended and visually upgraded
- In addition, the following stand out in terms of offer and appearance: **organic department, wine department, home and ambiance department, seasonal offer department, and cosmetics department.**



Composition of sales units as at September 30, 2015

COUNTRY	SLOVENIA	SERBIA			CROATIA		BOSNIA AND HERZEGOVINA	MONTENEGRO		MACEDONIA, ALBANIA and KOSOVO*	MERCATOR GROUP		
Banner	Mercator	Mercator	Roda	Idea	Mercator	Getro	Mercator	Mercator	Roda	Intersport	Number of units	Gross area	Net sales area
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	Gross area	Net sales area
Hypermarkets	22	2	32	4	-	-	-	-	2	-	62	265,490	181,174
Supermarkets	129	-	5	83	-	-	-	-	13	-	230	250,590	162,079
Neighbour stores	320	-	201	-	-	-	-	-	83	-	604	220,686	131,019
Comfort stores	1	-	-	-	-	-	-	-	-	-	1	4,162	2,375
Mini stores	1	-	-	-	-	-	-	-	-	-	1	159	83
Cash & Carry / VELPRO	15	-	-	9	-	-	-	-	2	-	26	83,628	38,120
Restaurants	8	6	-	-	-	-	-	-	-	-	16	3,410	2,177
TOTAL FMCG program	496	8	238	96	-	-	2	-	100	-	940	828,125	517,027
Technical consumer goods	47	5	-	-	-	-	-	-	1	-	53	76,802	48,810
Clothing program and drugstores	50	13	-	-	28	-	13	-	-	-	104	54,440	45,910
Clothing program	43	8	-	-	28	-	9	-	-	-	88	52,386	44,131
Drugstores and perfumeries	7	5	-	-	-	-	4	-	-	-	16	2,053	1,779
Intersport	34	11	-	-	32	-	10	2	-	-	89	54,440	41,633
M holidays	12	-	-	-	-	-	-	-	-	-	12	242	242
TOTAL specialised programs	143	29	-	-	60	-	23	3	0	-	258	185,923	136,596
TOTAL retail units under management	639	37	238	96	60	-	25	3	100	-	1,198	1,014,048	653,623
Franchise stores	224	-	-	-	1	-	-	-	-	-	6	231	53,160
TOTAL	863	37	238	96	61	-	25	3	100	6	1,429	1,067,208	689,408

* 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 1–9, 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 1–9, 2015, we continued to transfer the best practice between markets and conduct a single customer loyalty program *Spongebob Squarepants*. 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 **My Day, Every Day** campaign involves offering attractive discounts to customers in a number of categories.



Mondays and Tuesdays are the days for the My Start of the Week campaign; Wednesday is the day for Pika card holder benefits; on Thursdays, discounts are offered to retirees. My Weekend campaign is devoted to special offers at weekends, and Sundays feature non-alimentary offer in major store formats.

In the summer months, we carried out the **Mercator Fresh Fest** campaign at all stores, which involved the fruit and vegetables program, and the **Mercator Beer Fest** campaign that included offer of beer by a range of Slovenian and international breweries, and other complementary products.



Activities for the loyal Pika customers

With a pronounced focus on the consumers, we continue to develop the **benefits of the Pika card customer loyalty system**. In addition to the Pika discounts on select products, and double and triple Pika bonus points which are available to all Pika card holders, additional discounts are offered to all retirees who show their retiree card at the check-out counter.



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.

Homemade, local offer

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

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 network profiles the activity **Good Deed Month** in which we surprised residents of a number of communities with kind gestures.

At the start of the school year, we launched the customer loyalty program **Spongebob Squarepants** for the segment of children and families. The program involves collecting stickers, action figures, and discs, as well as complementary offer of Spongebob toys and other licensed products.



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 the process of product redesign. In **Pekarna Grosuplje**, we continued to introduce innovative products: we included yeast-free bread in our offer. In the late spring, we introduced a new line of **Mercator products** for grilling, called Grill Chef, as well as new flavours of ice cream and fruit beverages. We also introduced a new collection of products **Olea Sun** and we continue to revise and prepare for an overall revision of products lines such as **Minute** and **Lumpi**, and for transition to new labels: from **ProMagic** to **Dax**, from **My Day** to **Olea**; and from **Premium** to **Special Moments**. Also under development is a product redesign from **Bio** to **Biozone**.



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

SERBIA

Main focus on the Roda and Idea banners are defined through key unique selling propositions (USP).

IDEA

From January to September, key activities were focused on pricing campaigns and special offers. In addition to the regular pricing campaigns, two major activities were carried out in the period: IDEA big prize competition, and the campaign "Belgrade, a town of new IDEAs".



Other activities were also introduced to encourage the use of the Super Card, as well as a number of activities to promote new departments like the marketplace, the gastronomy department, and the delicatessen department.

Particular attention was paid to the GO Local project that involved two activities:

- Belgrade, a town of new IDEAs; Niš in our Hearts
- In the Heart of Banat.

All activities were paired with pricing campaigns and events organized with support of local communities.

RODA

From January to September, key activities were focused on pricing campaigns, seasonal offer, and projects. The dynamics of permanent activities remained the same: a catalogue every seven days, and a technical consumer good catalogue once per month.

The most important activities in the period at hand were conducted as a part of the Summer at Roda project.

In addition to strong pricing campaigns, all campaigns were supported by in-store activities.

In the period, particular attention was devoted to the project "The Best from Serbia", aimed at supporting domestic products. On this occasion, talented youngsters from across Serbia were also presented.

In June, Roda megamarkets became the proud sponsor of the Serbian Basketball Association. With support of the Ministry of Sports and in cooperation with the Serbian Basketball Association, we also organized the competition "2,000 basketballs for future aces". This sponsorship spurred many other activities culminating with the opening of the first Shop in Shop.



JOINT PROJECTS

The following projects took place in both banners, IDEA and RODA:

- **Flavours of My Town** promoting a new line of traditional Serbian products made to original recipes; and
- **Spongebob Squarepants** euphoria which has spread to Serbia as well. The customers collected stickers and enjoyed the numerous activities in the campaign.



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.

In the summer months, during the tourist season, the stress was on the stores in the coastal region. An external advertising campaign was launched titled **All you need, anywhere**.



In early August, the **Spongebob Squarepants** campaign was launched in Montenegro as well. An extensive campaign took place at the stores, with advertising support. The project garnered a lot of attention.

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.

At Mercator - H, d.o.o., integration processes continue with the Agrokor Group companies as 46 market program stores were transferred to Konzum, d.d., management. Wherever possible, new employers were sought to take over the employees. In the third quarter of 2015, three new Intersport retail units were opened in Croatia.

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 July, new Modiana and Intersport Emporium units were opened in Banja Luka. Moreover, optimization has been in progress at the company for a year, which has resulted in a decrease of administration employees.

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. During the tourist season, several hiring activities were conducted and the number of employees was increased.

The parent company Mercator, d.d., 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 378 employees as at September 30, 2015, of which 191 (50.53% of all employees) were employees with a certified category of disability. In 2015, we continue the **N Service** project (work performance assessment) within which we received a subsidy for the salaries of employees with disabilities in the amount of EUR 50,000.

Number of employees

	Number of employees as at September 30, 2015	Number of employees as at December 31, 2014	Index number of employees September 30, 2015/ December 31, 2014	Number of employees based on hours worked in the period Jan-Sep 2015
Slovenia	10,827	11,101	97.5	10,156
Serbia	8,616	8,880	97.0	8,356
Montenegro	1,378	1,239	111.2	1,207
Croatia	552	1,207	45.7	754
Bosnia and Herzegovina	182	216	84.3	179
TOTAL	21,555	22,643	95.2	20,652

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

In the period at hand, Mercator Group devoted nearly 124,000 hours to training and education that involved 20,453 employees.

Young and talented employees from various 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 **Sales succession** project involved the launch of the **2nd Retail Academy** at the parent company, which includes 23 employees. These are employees who we believe to have the potential and the ambition to

become store managers. The training also includes **individual coaching** by internal coaches. Upon completion, the participants will receive certificates.



At the parent company, we continue our activities in the project **Career Challenge** for our employees identified as having the potential to take over the most demanding positions at Mercator. In June, members of the Mercator Group Management Board Council, executive directors, and talented employees with prospect to be promoted to the top positions, were invited to a meeting with the president. In the informal social event, the president presented his career path and challenges lying ahead. At the HR department, we prepared a list of management competencies to serve as the basis for further development activities for executive directors. Based on this, career discussions were held with all executive directors and the Development-Assessment Centre. They also received feedback regarding their achievements.



In September and October we organize the **Category Manager Meetings** taking place simultaneously in Slovenia, Serbia, Bosnia and Herzegovina, and Croatia. The purpose of the meetings is to meet, connect, and to reinforce the team spirit and connections between the companies. These are two-day events. The first day includes work meetings, and the second day is intended for informal socializing and outdoor sports activities. Finally, the participants develop a team paper with the target of specifying an innovation in the field of work which can be implemented in all markets involved. A total of 60 participants are expected in all meetings combined.

In the **Selling Skills Development** project, we continue the employee training in the market program in this year. Since the project implementation in 2013, the two-day workshop which is to increase the level of service in retail, was attended by over 2,500 employees. The project was also extended to the Modiana and Tehnika (technical consumer goods) divisions where the workshops will be attended by nearly all retail employees this year. Participants receive the "I am an Excellent Salesperson" as material for the workshop. Use of selling skills in the workplace is encouraged by our sales instructors during regular and extraordinary visits to sales units and by systematic induction training of newly hired employees.

From June to the end of September, we held the traditional **team-building workshops on Vogel**. This year, we revised the program contents and made the team games more interesting. We held a total of 22 workshops attended by 323 employees from the companies Mercator, d.d., Mercator IP, d.o.o., and Intersport ISI, d.o.o.



Retail employees in Slovenia were invited to **refresh their knowledge of working hour registration**. By the end of September, we held 73 events attended by 652 employees. The workshops are planned to take place until mid-November.

In September, we held the **1st Retail Conference** intended for all shop managers and retail managers. The conference was attended by 509 managers and shopping centre managers from across Slovenia. The purpose of the conference was to present the key processes and projects currently in progress in the field of retail.

In Serbia, we equipped the training centre in Novi Sad, which included many training sessions: retail training, shop manager training, team-building activities etc. After the project **English Goes to Store** we also carried out the project **English To Go** with an English conversation workshop. We announced a call for applications for part-time studies in the 2015/2016 academic year. High-school student practical training contracts were signed with 28 high schools across Serbia.

ENGLISH TO GO



In addition, a variety of projects are in progress at Mercator - S, d.o.o., related to human resources and hiring. We carried out the project **360° core competence assessment** (responsibility, ideas, integrity, trust) and

leadership skill assessment (consistency, self-motivation and motivation of others, benevolence) for top and middle management, for a total of 84 employees. Also in progress is an upgrade to the project **Ideal way to a deal** for the young highly educated employees in retail, scheduled for completion in early 2016. We also completed many activities for hiring appropriate human resources in retail: participation at the Link2Job fair; hiring retired employees; working with the national employment agency; integration of persons with disabilities etc. A total of 1,615 interviews were held in the third quarter alone. We also trained eight retail employees to conduct retail job interviews. Also in progress is the project of retraining of sales personnel to butchers. This training includes both theoretical and practical part, and it lasts 12 days.

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

In Montenegro, we held an open door day and issued an information brochure. A part of the corporate culture was included in the **Spongebob** project and we encouraged unity and teamwork. Many activities were organized to this end in nearly all cities of Montenegro, including Budva, Nikšić, Herceg Novi, and Podgorica.



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.

As a socially responsible enterprise, the social enterprise Mercator IP, d.o.o., works actively with six different vocational rehabilitation centres and enables on-the-job training for persons with disabilities or special needs, which improves further employment prospects for such persons. In the period 1–9, 2015, we offered training to eight people. We took part in the REHA days, co-organized by the Ministry of Labour, Family, Social Affairs and Equal Opportunities of the Republic of Slovenia, and the Vocational Rehabilitation Association of the Republic of Slovenia. During this event, the company Mercator, d.d., received a special award as the biggest employer of persons with disabilities in the Republic of Slovenia. As at September 30, 2015, the parent company employed 608 persons with disabilities, or 6.1% of all employees.

The company Mercator IP, d.o.o., ranked among the 100 fastest growing companies in Central Slovenia in the Gazela 2015 project. As stated by the organizers in the invitation to the regional award ceremony, this points to exceptional operations and performance in recent years.

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. In addition, on-the-job training provided by suppliers is also in progress. We organized 2 teambuilding sessions on Vogel for our best salespeople who were selected based on their work performance as assessed by their shop managers. Each month, top six employees in retail and the best employee in logistics are rewarded.

At Slovenian companies of the Mercator Group, we allowed extra leave for parents of first grade students on the first day of school, and to parents of children newly enrolled in kindergartens.

In Slovenia, **Mercator Humanitarian Foundation** provided aid to 467 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 166,874. We also granted social scholarships to five children of our employees, in the total amount of EUR 4,500. In Serbia, the Mercator Solidarity Foundation provided aid in the first half of the year to 59 employees, in the total amount of EUR 20,093. In Croatia, 21 employees were provided aid in the total amount of EUR 9,067. In Montenegro, the Solidarity Foundation helped 28 employees by providing aid in the total value of EUR 5,400.

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

Consistently with the investment plan, Mercator Group was focused primarily on refurbishments and extensions to individual retail units in the period 1–9, 2015. In addition, new openings include 37 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.

There were no new construction developments in the period 1–9, 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 and hypermarket Šmartinka in Ljubljana.

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 period 1–9, 2015, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 47.4 million. Of this amount, 57.0% was used for investments in Slovenia, which is a 2.4-fold increase over the same period of the year before; and 43.0% was used for investments in international markets.

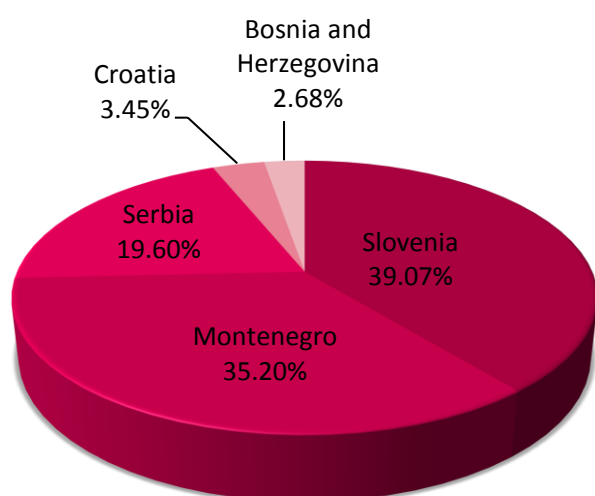
	Capital expenditure in the period 1–9, 2015 (in EUR thousand)	Structure (in %)
Slovenia	27,002	56.97%
Serbia	16,160	34.09%
Montenegro	3,086	6.51%
Croatia	819	1.73%
Bosnia and Herzegovina	334	0.70%
TOTAL	47,401	100.00%

Investment into expansion of retail area represented 18.6% of total investment; refurbishments of existing units accounted for 53.4%; remaining 28.0% was invested in logistics, IT, and non-trade activities.

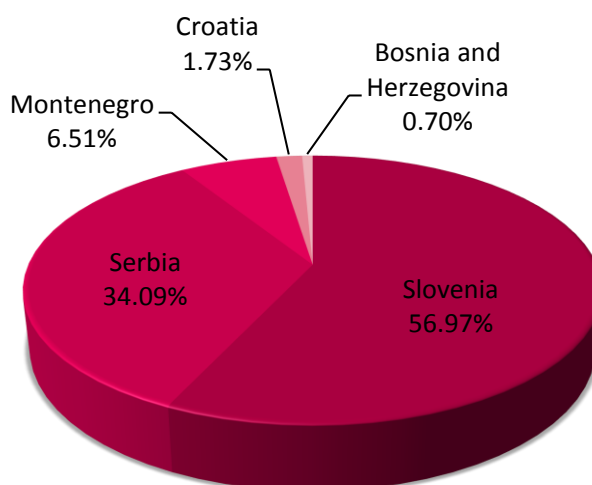
In the period 1–9, 2015, Mercator Group acquired 37,828 m² of new gross area, of which 99% was acquired by operating lease, and the remaining 1% was acquired by acquisition or extension to an already owned store.

In the period 1–9, 2015, Mercator Group divested property, plant, and equipment worth EUR 19.0 million, of which EUR 2.3 million pertains to the divestment of store equipment to Agrokor subsidiaries Konzum in Croatia and Bosnia and Herzegovina. Major divestments include the sale of the Grosuplje Bakery (Pekarna Grosuplje).

Share of newly launched facilities by markets:



Share of investments by markets:



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

	Gross area in square meters			
	Used for own operations	Leased out - Konzum	Leased out – third parties	Total
Owned retail area	601,850	108,562	211,229	921,641
Leased retail area	412,198	76,496	107,703	596,397
Total retail area	1,014,048	185,058	318,932	1,518,037
Owned warehouse capacity	124,309	661	6,201	131,171
Leased warehouse capacity	48,802	25,982	8,237	83,021
Total warehouse capacity	173,111	26,643	14,438	214,192
Owned commercial facilities	21,525	0	1,231	22,756
Leased commercial facilities	8,122	0	0	8,122
Total commercial facilities	29,647	0	1,231	30,878
GROSS AREA UNDER MANAGEMENT	1,216,806	211,701	334,600	1,763,107
- of which owned	747,684	109,223	218,660	1,075,567
- of which leased	469,122	102,478	115,940	687,540

SUMMARY OF RETAIL UNIT LAUNCHES BY MARKETS IN THE PERIOD 1–9, 2015

SLOVENIA

Area of new facilities: 14,779 m²*

Number of retail units: 5

Openings: C&C Murska Sobota; C&C Ajdovščina; C&C Celje; Modiana Maximus, Murska Sobota

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

** Of the total new area the leased storage capacity of LDC Sežana includes 7,474 m², of which 1,580 m² is submitted to sublease.*

Refurbishments:

Number of retail units: 26

CROATIA

Area of new facilities: 1,304 m²

Number of retail units: 4

Openings: Intersport Gračani, Zagreb; Intersport Makarska; Intersport Vodice; Intersport Požega

SERBIA

Area of new facilities: 7,416 m²

Number of retail units: 11

Openings:

Santana Caffè bar, Beograd; Market 328, Subotica; Supermarket 327, Temerin; Megamarket Kiš Ernea, Novi Sad; Modiana Novi Sad; Market 485 Smederevo; Market 484 M.Pupina, Novi Beograd; Market 331 Orač, Belgrade; Market 336 D.Tucovića, Belgrade; Market 492 J.Popovića, Novi Sad; Market 338 R.Končara, B.Topola

Refurbishments:

Number of retail units: 44

BOSNIA AND HERZEGOVINA

Area of new facilities: 1,014 m²

Number of retail units: 2

Openings: Modiana and Intesport Emporium, Banja Luka

MONTENEGRO

Area of new facilities: 13,315 m²

Number of retail units: 17

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; Market Kaća, Polje; Market Kaća Biskupada; Supermarket Kaća Makedonska; Supermarket Kaća Čeluje; C&C Čeluge; Market Kolašin

Refurbishments:

Number of retail units: 2

FINANCIAL MANAGEMENT

Stable Financial Operations

As at September 30, 2015, Mercator Group net financial debt amounted to EUR 835,944 thousand, which is roughly the same as at the end of 2014, and 14.4% less than as at September 30, 2014. The decrease of net financial debt relative to September 30, 2014, is partly a result of the debt-to-equity swap involving the EUR 200 million loan obtained by Mercator, d.d., from Agrokor, d.d., which was converted into Mercator, d.d., shares.

in EUR thousand	Sep. 30, 2015	Dec. 31, 2014	Sep. 30, 2014	Index Sep. 30, 2015/ Dec. 31, 2014	Index Sep. 30, 2015/ Sep. 30, 2014
Non-current financial liabilities	827,318	806,640	983,174	102.6	84.1
Current financial liabilities	72,731	42,998	52,587	169.1	138.3
Financial liabilities including derivative financial instruments	900,049	849,638	1,035,761	105.9	86.9
Cash and cash equivalents	33,571	34,223	24,907	98.1	134.8
Derivative financial instruments (assets)	0	0	5	-	-
Available-for-sale financial assets	999	1,178	824	84.8	121.2
Loans and deposits	29,535	28,262	33,252	104.5	88.8
Financial assets	64,105	63,663	58,988	100.7	108.7
NET FINANCIAL DEBT	835,944	785,975	976,773	106.4	85.6

Financing costs

In the period 1–9, 2015, the 6-month EURIBOR averaged at 0.075%. At the end of the period, it was at 0.029%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at 0.350%, this rate declined by 0.275 percentage point.

Debt to equity and financial liability ratio

As at September 30, 2015, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.28. The ratio is a quotient between equity and net financial debt.

Maturity profile of Mercator Group financial liabilities as at September 30, 2015, was at 91.9%, which is slightly worse than 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 September 30, 2015

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

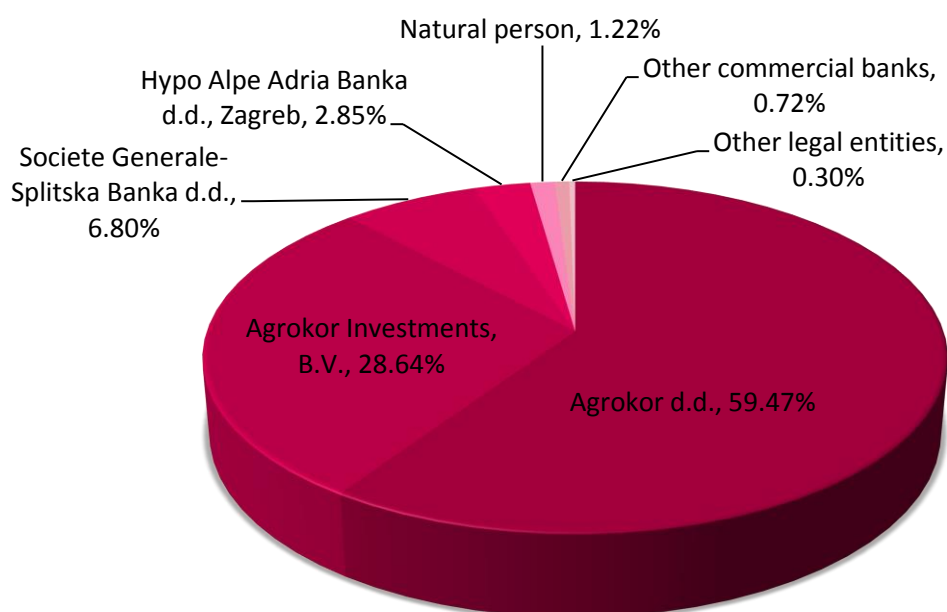
in EUR thousand	September 30, 2015
Cash and cash equivalents	33,571
Standby revolving credit lines	23,223
Total	56,794

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at September 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	2,550

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



Major Shareholders

As at September 30, 2015 the following ten largest shareholders held a combined share of **98.37%** 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	11,147	0.18%
7 Zveza Bank Reg.Z.Zo.J.Bank und Revisions	Austria	2,591	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%
Total		5,991,738	98.37%

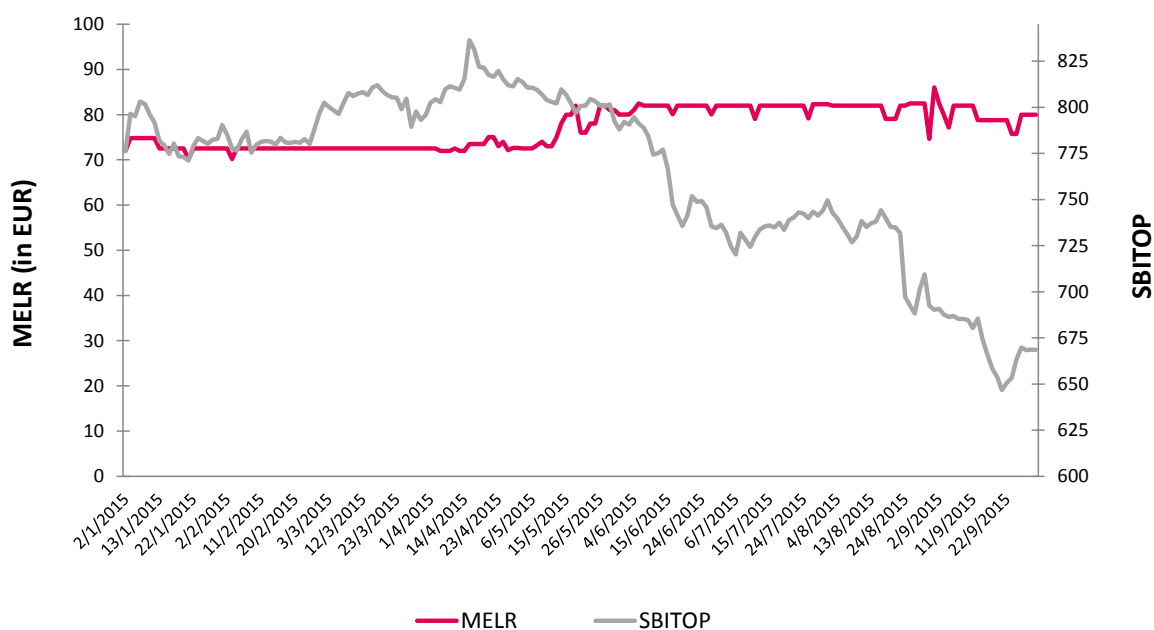
Shares held by Management and Supervisory Board Members as at September 30, 2015

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

Foreign shareholders

As at September 30, 2015, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.44%**, which is 1.04 percentage point more than at September 30, 2014.

Movement of closing price per MELR share in the period 1–9, 2015, compared to the movement of the SBITOP index



Key information for the shareholders

	Sep. 30, 2015	Sep. 30, 2014	Index Sep. 30, 2015/ Sep. 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)	487,275,440	312,524,963	155.9
Market price per share (in EUR)	80.00	83.00	96.4
Share book value (in EUR)	111.34	150.57	73.9
Minimum close rate in the period (in EUR)	70.13	66.01	106.2
Maximum close rate in the period (in EUR)	86.00	85.50	100.6
Average close rate in the period (in EUR)	77.04	76.16	101.2
Earnings per share (v EUR)*	7.6	(2.1)	-

* The indicator is adjusted to the annual level.

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

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

Dividend policy

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

Treasury shares

As at September 30, 2015, the company Poslovni sistem Mercator, d. d., held 42,192 treasury shares. In the period 1–9, 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.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d. d., for the period 1–9, 2015, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited. In the period 1–9, 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 1–9, 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 1–9, 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 Macedonia, 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	Sep. 30, 2015	Dec. 31, 2014	Index Sep. 30, 2015/ Dec. 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	1,589,941	1,618,839	98.2
Investment property	3,378	3,494	96.7
Intangible assets	19,320	16,764	115.2
Deferred tax assets	17,625	22,301	79.0
Loans and deposits	25,718	25,015	102.8
Available-for-sale financial assets	999	1,178	84.8
	1,656,981	1,687,591	98.2
Current assets			
Inventories	263,371	257,323	102.4
Trade and other receivables	276,946	254,286	108.9
Current tax assets	699	702	99.5
Loans and deposits	3,817	3,247	117.6
Cash and cash equivalents	33,571	34,224	98.1
	578,404	549,782	105.2
Total assets	2,235,385	2,237,373	99.9
EQUITY			
Share capital	254,175	254,175	100.0
Share premium	286,772	286,772	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	41,686	41,686	100.0
Fair value reserve	115,224	115,411	99.8
Retained earnings	15,938	(53,485)	-
Profit (loss) for the period	31,046	69,353	44.8
Currency translation reserve	(88,290)	(89,215)	99.0
Total equity attributable to equity owners of the Company	653,316	621,462	105.1
Non-controlling interests	252	215	117.2
Total equity	653,568	621,677	105.1
LIABILITIES			
Non-current liabilities			
Trade and other payables	36,321	6,765	536.9
Financial liabilities	827,318	806,640	102.6
Deferred tax liabilities	30,420	30,392	100.1
Provisions	19,560	20,706	94.5
	913,619	864,503	105.7
Current liabilities			
Trade and other payables	590,991	707,657	83.5
Current tax liabilities	4,476	538	832.0
Financial liabilities	72,731	42,998	169.1
	668,198	751,193	89.0
Total liabilities	1,581,817	1,615,696	97.9
Total equity and liabilities	2,235,385	2,237,373	99.9

Condensed consolidated income statement

EUR thousand	1-9 2015	Plan 2015	1-9 2014	Index 1-9 2015/ 1-9 2014	Index 1-9 2015/ Plan 2015
Revenue	1,948,311	2,854,401	1,988,671	98.0	68.3
Cost of goods sold and selling costs	(1,861,175)	(2,686,856)	(1,930,208)	96.4	69.3
Administrative expenses	(60,860)	(73,824)	(52,209)	116.6	82.4
Other income	34,954	9,762	16,338	213.9	358.1
Results from operating activities	61,230	103,483	22,592	271.0	59.2
Finance income	2,995	2,951	2,816	106.4	101.5
Finance expenses	(24,107)	(37,957)	(35,452)	68.0	63.5
Net finance expenses	(21,112)	(35,006)	(32,636)	64.7	60.3
Profit (loss) before tax	40,118	68,477	(10,044)	-	58.6
Tax expense	(9,154)	(8,825)	(2,005)	456.6	103.7
Profit (loss) for the period	30,964	59,652	(12,049)	-	51.9
Profit (loss) for the period attributable to:					
Owners of the parent company	31,046	59,672	(12,037)	-	52.0
Non-controlling interests	(82)	(20)	(12)	681.6	409.0

Condensed consolidated statement of comprehensive income

EUR thousand	1-9 2015	1-9 2014	Index 1-9 2015/ 1-9 2014
Profit (loss) for the period	30,964	(12,049)	-
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss	926	(3,772)	-
Foreign currency translation differences - foreign operations	926	(5,111)	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges (effective hedging)	-	3,180	-
Deferred tax	-	(174)	-
Other changes	-	(1,667)	-
Other comprehensive income for the period	926	(3,772)	-
Total comprehensive income for the period	31,890	(15,821)	-
Total comprehensive income for the period attributable to:			
Owners of the parent company	31,971	(15,809)	-
Non-controlling interests	(81)	(12)	673.7

Condensed consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2014	157,129	198,872	(3,235)	146,656	140,587	(63,887)	18,695	(80,623)	514,194	100	514,294
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(12,037)	-	(12,037)	(12)	(12,049)
Other comprehensive income	-	-	-	-	2,012	(673)	-	(5,111)	(3,772)	-	(3,772)
Total comprehensive income for the period	-	-	-	-	2,012	(673)	(12,037)	(5,111)	(15,809)	(12)	(15,821)
Transfer of profit (loss) of the previous year to retained earnings	-	-	-	-	-	18,695	(18,695)	-	-	-	-
Balance at September 30, 2014	157,129	198,872	(3,235)	146,656	142,599	(45,865)	(12,037)	(85,734)	498,385	88	498,473

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2015	254,175	286,772	(3,235)	41,686	115,411	(53,485)	69,353	(89,215)	621,462	215	621,677
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	31,046	-	31,046	(82)	30,964
Other comprehensive income	-	-	-	-	(187)	187	-	925	925	1	926
Total comprehensive income for the period	-	-	-	-	(187)	187	31,046	925	31,971	(80)	31,891
Transactions with owners of the parent company directly recognized in equity											
Contributions by and distributions to owners											
Change of share in subsidiary	-	-	-	-	-	(118)	-	-	(118)	118	-
Total transactions with owners of the parent company	-	-	-	-	-	(118)	-	-	(118)	118	-
Transfer of loss of the previous year to retained earnings	-	-	-	-	-	69,353	(69,353)	-	-	-	-
Balance at September 30, 2015	254,175	286,772	(3,235)	41,686	115,224	15,938	31,046	(88,290)	653,316	252	653,568

Consolidated cash flow statement

EUR thousand	1-9 2015	1-9 2014	Index 1-9 2015/ 1-9 2014
Cash flows from operating activities			
Gross cash flows from operating activities	115,359	73,567	156.8
Change in inventories	(6,048)	42,369	-
Change in trade and other receivables	(22,622)	3	-
Change in trade and other payables	(83,283)	(62,454)	133.4
	3,406	53,485	6.4
Interest paid	(22,464)	(26,422)	85.0
Income tax paid	(4,326)	(2,005)	215.8
Net cash from operating activities	(23,384)	25,058	-
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	(845)	-	-
Acquisition of property, plant and equipment and investment property	(41,134)	(13,039)	315.5
Acquisition of intangible assets	(6,267)	(2,905)	215.7
Acquisition of available-for-sale financial assets	(119)	-	-
Loans and bank deposits made	(1,276)	(3,459)	36.9
Transaction costs related to loans	-	(4,056)	-
Proceeds from sale of subsidiaries, net of cash disposed of	-	550	-
Proceeds from sale of property, plant and equipment and investment property	18,949	4,400	430.7
Proceeds from sale of intangible assets	14	-	-
Proceeds from sale of available-for-sale financial assets	1,200	68	1,764.7
Interest received	1,726	2,015	85.7
Dividends received	50	8	625.0
Net cash used in investing activities	(27,702)	(16,418)	168.7
Cash flows from financing activities			
Increase (repayment) in borrowings	50,412	(2,047)	-
Dividends paid	-	(2)	-
Net cash from (used in) financing activities	50,412	(2,049)	-
Net (decrease) increase in cash and cash equivalents	(674)	6,591	-
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	21	(189)	-
Cash and cash equivalents as at the end of the period	33,571	24,907	134.8

Notes to Mercator Group condensed consolidated financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1–9, 2015, Mercator Group generated EUR 1,948,311 thousand of revenue, which is 2.0% less relative to the period 1–9, 2014. Revenue dropped by 2.7% in Slovenia and by 1.1% in foreign markets. In foreign, 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 1,861,175 thousand in the period 1–9, 2015, which is a 3.6-percent decrease on the same period of last year.

Relative to the last year's equivalent period, cost of goods sold decreased by 4.7%, which is 2.7 percentage points more than the decrease in revenue.

Administrative expenses

Mercator Group's administrative expenses in the period 1–9, 2015, amounted to EUR 60,860 thousand, which is 16.6 percent more than in the equivalent 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 476,747 thousand in the period 1–9, 2015, an increase of 1.7% on the last year's figure for such period. Labour costs were cut by 6.5% in the period 1–9, 2015 relative to the last year's comparable period.

Results from operating activities

In the period 1–9, 2015, Mercator Group's results from operating activities reached EUR 61,230 thousand, which is 171% more than in the comparable period of last year.

Net finance expenses

Net finance expenses are lower by EUR 11,524 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 1–9, 2015, Mercator Group's profit before income tax was at EUR 40,118 thousand.

Profit for the financial period

Mercator Group's net profit for the period 1–9, 2015, amounted to EUR 30,964 thousand.

EBITDA

Mercator Group EBITDA in the period 1–9, 2015, amounted to EUR 119,026 thousand which is 56.6% more than in the equivalent period of last year.

EBITDAR

EBITDAR for the period 1–9, 2015, amounted to EUR 176,840 thousand which is 51.7% more than in the equivalent period of last year.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at September 30, 2015 amounted to EUR 2,235,385 thousand, which is EUR 1,988 thousand less than at the end of 2014, mostly due to lower property, plant, and equipment, while inventories and trade receivables increased.

As at September 30, 2015, the value of Mercator Group non-current assets amounted to EUR 1,656,981 thousand, which is EUR 30,610 thousand less than as at December 31, 2014. The largest share of non-current assets (97.3% or EUR 1,612,639 thousand) is represented by property, plant, and equipment, the value of which was EUR 26,458 thousand lower than as at the end of 2014 as a result of lower investment which was lower than depreciation.

As at September 30, 2015, the value of Mercator Group current assets amounts to EUR 578,404 thousand, which is EUR 28,622 thousand more than at the end of 2014. Trade and other receivables represent the largest portion of total current assets (47.9%), followed by inventories (45.5%). Trade and other receivables increased by EUR 22,660 thousand in the period 1–9, 2015, as a result of 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 September 30, 2015, Mercator Group share capital amounted to EUR 653,568 thousand, which is EUR 31,891 thousand, or 5.1%, more than as at the end of 2014. The increase pertains to net profit in the amount of EUR 30,964 thousand, and positive currency translation differences in translation of international subsidiaries, amounting to EUR 926 thousand.

As at September 30, 2015, total financial liabilities amounted to EUR 900,049 thousand, which is EUR 50,411 thousand more than as at the end of 2014. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group financial liabilities and financial assets, amounted to EUR 835,944 thousand as at September 30, 2015 (December 31, 2014: EUR 785,975 thousand).

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

As at September 30, 2015, provisions amounted to EUR 19,560 thousand. Compared to the end of 2014, provisions decreased by EUR 1,146 thousand, mostly due to reversal/drawing of provisions for severance packages and rewards for loyal service.

Trade and other payables as at September 30, 2015, amounted to EUR 627,312 thousand, which is EUR 87,110 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 September 30, 2015, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 94.6%, which is 6.5 percentage points more than as at the end of 2014.

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

Mercator, d.d., is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The company Mercator, d.d., is the parent/controlling company of a group of associated companies headquartered in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, 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	Sep. 30, 2015	Dec. 31, 2014	Index Sep. 30, 2015/ Dec. 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	860,920	877,304	98.1
Investment property	3,378	3,494	96.7
Intangible assets	10,295	9,244	111.4
Deferred tax assets	15,565	20,236	76.9
Loans and deposits	5,516	9,925	55.6
Investment into equity of subsidiaries	386,213	386,169	100.0
Available-for-sale financial assets	829	1,053	78.7
	1,282,716	1,307,425	98.1
Current assets			
Inventories	121,924	118,710	102.7
Trade and other receivables	110,948	99,519	111.5
Current tax assets	15	42	35.7
Loans and deposits	108,976	78,567	138.7
Cash and cash equivalents	25,132	18,571	135.3
	366,995	315,409	116.4
Total assets	1,649,711	1,622,834	101.7
EQUITY			
Share capital	254,175	254,175	100.0
Share premium	286,772	286,772	100.0
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	16,624	16,624	100.0
Fair value reserve	84,677	84,865	99.8
Retained earnings	187	-	-
Profit (loss) for the period	34,291	-	-
Equity	673,491	639,201	105.4
LIABILITIES			
Non-current liabilities			
Trade and other payables	12,135	5,354	226.7
Financial liabilities	572,309	559,758	102.2
Deferred tax liabilities	22,824	22,819	100.0
Provisions	15,418	16,577	93.0
	622,686	604,508	103.0
Current liabilities			
Trade and other payables	295,920	341,649	86.6
Current tax liabilities	1,525	-	-
Financial liabilities	56,089	37,476	149.7
	353,534	379,125	93.2
Total liabilities	976,220	983,633	99.2
Total equity and liabilities	1,649,711	1,622,834	101.7

Condensed income statement

EUR thousand	1-9 2015	Plan 2015	1-9 2014	Index 1-9 2015/ 1-9 2014	Index 1-9 2015/ Plan 2015
Revenue	1,048,265	1,504,271	1,087,161	96.4	69.7
Cost of goods sold and selling costs	(992,991)	(1,398,907)	(1,051,812)	94.4	71.0
Administrative expenses	(30,930)	(37,786)	(27,558)	112.2	81.9
Other income	25,800	5,327	5,383	479.3	484.3
Results from operating activities	50,144	72,905	13,174	380.6	68.8
Finance income	7,201	4,194	5,482	131.4	171.7
Finance expenses	(16,853)	(22,665)	(23,740)	71.0	74.4
Net finance expenses	(9,652)	(18,471)	(18,258)	52.9	52.3
Profit (loss) before tax	40,492	54,434	(5,084)	-	74.4
Tax expense	(6,201)	(4,627)	(844)	734.7	134.0
Profit (loss) for the period	34,291	49,807	(5,928)	-	68.8

Condensed statement of comprehensive income

EUR thousand	1-9 2015	1-9 2014	Index 1-9 2015/ 1-9 2014
Profit (loss) for the period	34,291	(5,928)	-
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss	-	(12,521)	-
Net loss from the acquisition of subsidiaries	-	(12,521)	-
Items that may be reclassified subsequently to profit or loss	(1)	1,275	-
Net gains/losses recognized in revaluation surplus in relation to cash flow hedges	-	1,458	-
Corporate income tax on items that may be reclassified subsequently to profit or loss	(1)	(183)	0.5
Other comprehensive income for the period	(1)	(11,246)	0.0
Total comprehensive income for the period	34,290	(17,174)	-

Condensed statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Total equity
Balance at January 1, 2014	157,129	198,872	(3,235)	121,595	103,426	-	-	577,787
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	(5,928)	(5,928)
Other comprehensive income	-	-	-	-	2,041	(13,287)		(11,246)
Total comprehensive income for the period	-	-	-	-	2,041	(13,287)	(5,928)	(17,174)
Balance at September 30, 2014	157,129	198,872	(3,235)	121,595	105,467	(13,287)	(5,928)	560,613

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit (loss) for the period	Total equity
Balance at January 1, 2015	254,175	286,772	(3,235)	16,624	84,865	-	-	639,201
Total comprehensive income for the period								-
Profit (loss) for the period	-	-	-	-	-	-	34,291	34,291
Other comprehensive income	-	-	-	-	(188)	187	-	(1)
Total comprehensive income for the period	-	-	-	-	(188)	187	34,291	34,290
Balance at September 30, 2015	254,175	286,772	(3,235)	16,624	84,677	187	34,291	673,491

Condensed statement of cash flows

EUR thousand	1-9 2015	1-9 2014	Index 1-9 2015/ 1-9 2014
Cash flows from operating activities			
Gross cash flows from operating activities	75,839	39,031	194.3
Change in inventories	(3,214)	(7,050)	45.6
Change in trade and other receivables	(11,405)	27,330	-
Change in trade and other payables	(35,333)	(26,863)	131.5
	25,887	32,448	79.8
Net exchange rate differences from financing	1	(3)	-
Interest paid	(16,854)	(18,261)	92.3
Income tax paid	(1,383)	-	-
Net cash from operating activities	7,651	14,184	53.9
Cash flows from investing activities			
Acquisition of subsidiaries and business operations, net of cash acquired	(845)	(510)	165.7
Acquisition of property, plant and equipment and investment property	(22,679)	(8,621)	263.1
Acquisition of intangible assets	(3,053)	(2,361)	129.3
Acquisition of available-for-sale financial assets	(119)	-	-
Loans and bank deposits made	(25,998)	(55,008)	47.3
Expenses for transaction costs related to loans	-	(4,056)	-
Disposal of subsidiaries, net of cash disposed of	-	551	-
Proceeds from sale of property, plant and equipment and investment property	14,334	4,130	347.1
Proceeds from available-for-sale financial assets	14	-	-
Proceeds from sale of available-for-sale financial assets	1,200	68	1,764.7
Interest received	3,091	5,041	61.3
Dividends received	1,801	24	7,504.2
Net cash from (used in) investing activities	(32,254)	(60,742)	53.1
Cash flows from financing activities			
Increase (repayment) in borrowings	31,164	52,617	59.2
Dividends paid	-	(2)	-
Net cash from (used in) financing activities	31,164	52,615	59.2
Net (decrease) increase in cash and cash equivalents	6,561	6,057	108.3
Cash and cash equivalents at the beginning of the year	18,571	6,018	308.6
Cash and cash equivalents as at the end of the period	25,132	12,075	208.1

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

Notes to condensed income statement

Revenue

In the period 1–9, 2015, the company Mercator, d.d., generated EUR 1,048,265 thousand of revenue, which is 3.6 percent less relative to the period 1–9, 2015. Majority of company revenue is generated by sales of goods, material, and products, mostly retail and wholesale of trade goods.

Cost of goods sold and selling and marketing costs

Mercator, d.d., costs of sales which include the cost of goods sold, selling and marketing costs, and other expenses, amounted to EUR 992,991 thousand in the period 1–9, 2015, which is a 5.6-percent decrease on the same period of last year.

Relative to the last year's equivalent period, cost of goods sold decreased by 5.8%, while other expenses decreased by 72.6%.

Administrative expenses

Mercator Group's administrative expenses in the period 1–9, 2015 amounted to EUR 30,930 thousand, which is 12.2 percent more than in the equivalent period last year.

Total expenses, consisting of selling and marketing costs (included in costs of sales), and administrative expenses amounted to EUR 260,256 thousand in the period 1–9, 2015, a decrease of 2.7 percent on the last year's figure for such period. The highest drop was seen in labour costs (by 4.4%) and costs of material (by 3.5%).

Results from operating activities

In the period 1–9, 2015, results from operating activities of the company Mercator, d.d., reached EUR 50,144 thousand, which is 280.6% more than in the equivalent period of last year. Operating profit is higher due to higher profit margin, lower operating costs, and higher other income.

Net finance expenses

Net finance expenses are lower by EUR 8,606 thousand relative to the last year's equivalent period, which is mostly a result of the financial restructuring agreement and the resulting lower finance expenses.

Profit before income tax

The company's profit before income tax for the period 1–9, 2015, amounted to EUR 40,492 thousand, which is EUR 45,576 more than in the comparable period of 2014.

Profit for the financial period

The company's net loss for the period 1–9, 2015, amounts to EUR 34,291 thousand.

EBITDA

Mercator, d.d., EBITDA in the period 1–9, 2015, amounts to EUR 78,003 thousand which is 81.5% more than in the equivalent period of last year, for the same reasons that are listed with regard to better results from operating activities.

EBITDAR

EBITDAR of the company Mercator, d.d., in the period 1–9, 2015, amounted to EUR 86,072 thousand which is 66.4% more than in the equivalent period of last year.

Notes to condensed consolidated statement of financial position

Assets

Mercator, d.d., assets as at September 30, 2015 amounted to EUR 1,649,711 thousand, which is EUR 26,877 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 September 30, 2015, the value of company's non-current assets amounted to EUR 1,282,716 thousand, which is EUR 16,384 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 874,593 thousand), which is EUR 15,449 thousand less than as at 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, divestment of some non-operating assets, and divestment of the Grosuplje Bakery (Pekarna Grosuplje).

As at September 30, 2015, the company's current assets amount to EUR 366,995 thousand, which is EUR 51,586 thousand more than as at the end of 2014. The increase is related predominantly to other receivables and loans granted to subsidiaries. Inventories account for the largest share of current assets with 33.2%. Trade and other receivables account for 30.2%, and loans and deposits account for 29.7% of total current assets.

Equity and liabilities

As at September 30, 2015, share capital of the company Poslovni sistem Mercator, d.d., amounted to EUR 673,491 thousand, which is EUR 34,290 thousand, or 5.4%, more than as at the end of 2014. The increase is a result of net profit in the period 1–9, 2015.

As at September 30, 2015, total financial liabilities amounted to EUR 628,398 thousand, which is EUR 31,164 thousand more than as at the end of 2014. The increase pertains to both long-term and short-term financial liabilities. Financial liabilities increased due to the issue of one-year commercial paper and drawing of unused long-term bank credit lines.

As at September 30, 2015, provisions amounted to EUR 15,418 thousand. Compared to the end of 2014, provisions decreased by EUR 1,159 thousand.

Trade and other payables as at September 30, 2015, amounted to EUR 308,055 thousand, which is EUR 38,948 thousand less than at the end of 2014. The decrease is predominantly a result of lower payables to merchandise suppliers.

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 September 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, November 17, 2015