

**BUSINESS REPORT OF THE MERCATOR GROUP AND
THE COMPANY POSLOVNI SISTEM MERCATOR D.D.,
FOR THE PERIOD 1–9, 2018**



Ljubljana, November 2018

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EXECUTIVE SUMMARY

In the first nine months of 2018, Mercator Group retail revenue increased by 5.4% relative to the comparable period of the preceding year, and its EBITDA reached EUR 86.8 million, which is 24.7% more than in the comparable period of the year before. Result from operating activities (EBIT) more than doubled, amounting to EUR 35.8 million in the period 1–9, 2018, which is EUR 21.8 million better than the comparable result in the equivalent period of the year before.

In the first nine months of 2018, Mercator Group improved its business performance and operating efficiency, which is reflected in higher operating profit (EBIT), higher net profit, and higher EBITDA. Mercator Group's operating profit (EBIT) in the first nine months of 2018 amounted to EUR 35.8 million, which is considerably more than the comparable result from last year. Mercator Group's net profit in the period 1-9, 2018, exceeded the comparable figure from the same period of the year before by EUR 19.4 million, as it reached EUR 8.9 million; in the comparable period of the year before, Mercator Group's bottom line was a loss of EUR -10.5 million.

Mercator Group EBITDA in the period 1-9, 2018, amounted to EUR 86.8 million; the comparable figure for the preceding year was at EUR 69.6 million. Improved performance is also evident in higher EBITDA margin that rose by one percentage point to 5.4%.

EBITDA was also higher for the company Poslovni sistem Mercator d.d., amounting to EUR 56.6 million, or 3.5% more than in the comparable period of the year before. Mercator Group's parent company wrapped up the period 1–9, 2018, with a net profit of EUR 14.5 million.

Positive trends persist in the retail industry

The new strategy, new store concept, store refurbishments, and improved competitiveness of service have been yielding positive results in Mercator Group's core activity. In the period 1-9, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 5.4% relative to the comparable period of the previous year. Retail accounts for 78.7% of total revenue. In Slovenia, which remains the most important market for Mercator Group, retail revenue rose by 0.5% relative to the comparable period of the preceding year. Re-establishment of retail operations in the market of Bosnia and Herzegovina in september 2017 also had a positive effect on Mercator Group revenue. Mercator Group's parent company still controls the largest market share in Slovenia. Mercator Group thus remains focused on its core activity, and further improvement of profitability remains its key goal. The Group will continue to focus on the following:

- ▶ care for the consumer as we look to offer the best goods and services that the consumers want and need on a daily basis;
- ▶ modern sales environment in the largest possible number of locations;
- ▶ expanded and enriched offer of fast-moving consumer goods; and
- ▶ consolidation of relations with the local and regional suppliers through the My Brands project, as a long-term bond with the suppliers and their brands enables local and regional development.

Deleveraging and care for long-term sustainability of financial structure

Mercator Group's net financial debt as at September 30, 2018, amounts to EUR 738.3 million, which is 11.2%, or EUR 93.3 million, less than as at September 30, 2017. The net financial debt/normalized EBITDA ratio stood at 7.2 as at September 30, 2018. In 2018, Mercator continues to regularly settle all of its liabilities to financial and business partners.

Events related to the developments at the Agrokor Group

Pursuant to a special piece of legislation, the so-called Lex Agrokor that the Croatian government adopted in April 2017, Mercator Group companies reported until and including June 9, 2017, a total of EUR 43,788,150 of receivables by the Agrokor Group companies. In January 2018, the court in Zagreb acknowledged and confirmed all reported receivables.

On July 4, the Settlement of the Agrokor Group Creditors (called "Nagodba" in Croatian) was voted on and approved; it became final on October 18. All information on the Settlement are available on the website <http://nagodba.agrokor.hr>.

Major events following the end of period at hand

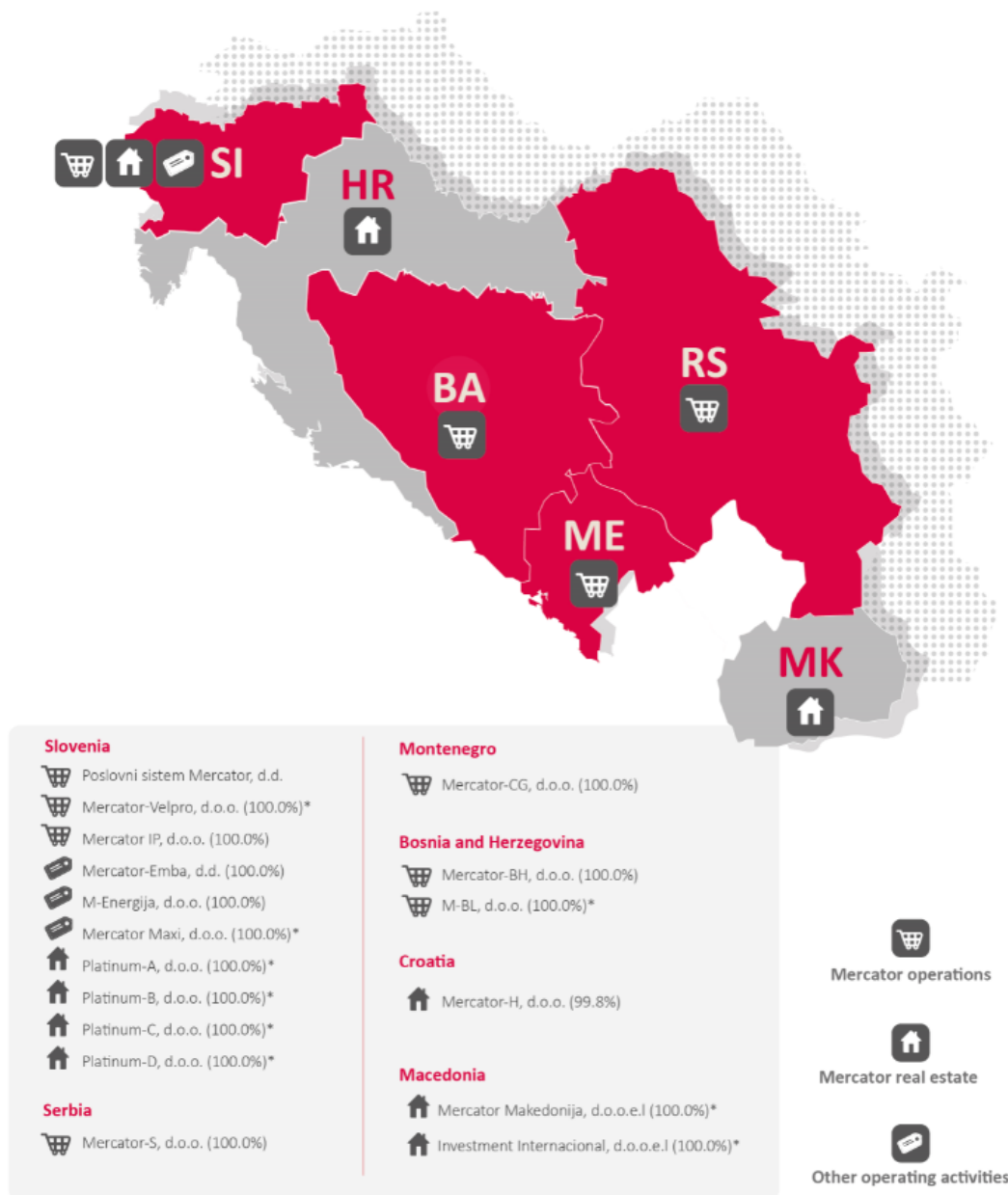
On October 12, 2018, the company Poslovni sistem Mercator d.d. and Supernova signed an agreement on the sale of ten shopping centres in Slovenia. According to the agreement, valued at EUR 116.6 million, the company Poslovni sistem Mercator d.d., will also lease for the long term the parts of the shopping centres in which it is conducting its core activity. The monetization project is primarily intended for deleveraging and it fosters Mercator Group's long-term development.

INTRODUCTION

PROFILE AND ORGANIZATION

Mercator Group Profile as at September 30, 2018

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. Poslovni sistem Mercator d.d., headquartered in the Republic of Slovenia, is the parent company of the Mercator Group.



* The company does not conduct business operations.

Branch Offices

As at September 30, 2018, 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, the company Mercator–CG d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro, and the company Mercator–BH d.o.o., is the founder of the Mercator Solidarity Foundation in Bosnia and Herzegovina. The purpose of all companies is to provide solidarity aid to the employees in social or economic distress.

Presentation of the company Poslovni sistem Mercator d.d.

Company name	Poslovni sistem Mercator d.d.
Company head office	Dunajska cesta 107, 1113 Ljubljana, Slovenia
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT tax code	45884595
LEI (Legal Entity Identifier)	549300X47J0FW574JN34
Company share capital as at September 30, 2018	EUR 254,175,051.39
Number of shares issued and paid-up as at September 30, 2018	6,090,943
Share listing	Ljubljanska borza d.d., official market, prime market, symbol MELR

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Facebook www.facebook.com/mercator



Twitter www.twitter.com/mercator_sl



LinkedIn www.linkedin.com/company/335027



Instagram [@mercatorslovenija](https://www.instagram.com/mercatorslovenija)



Youtube www.youtube.com/user/mercatorslo

Corporate governance of the company Poslovni sistem Mercator d.d.

In the period 1–9, 2018, the Supervisory Board of Poslovni sistem Mercator d.d. held two regular and nine correspondence sessions:

- ▶ At the **21st correspondence session on January 19, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. approved the signing of the agreement for extra audit of the company Mercator–S d.o.o., for the year 2017, by Agrokor's auditor PwC. The additional audit of Mercator–S d.o.o. is based on the internal PwC rules following the integration of one of the more important companies within the Mercator Group into the Agrokor Group audit.
- ▶ At the **22nd correspondence session held on February 9, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d., approved the signing of the Annex to the Lease Agreement, by which the company Mercator–S d.o.o. enters the rights and obligations of the companies IDEA d.o.o., Belgrade, and Dijamant a.d., Zrenjanin, as the Lessee.
- ▶ At the **23rd correspondence session held on February 22, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the Report on all Transactions Effected with the Majority Shareholder Agrokor d.d. and Companies Affiliated to it for the period from November 11, 2017, to January 31, 2018.
- ▶ At the **24th correspondence session held on March 29, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the Annual Report on the work of the Internal Audit of Mercator Group in 2017.
- ▶ At the **20th regular session held on April 25, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d.:
 - adopted the Annual Report for the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2017, and confirmed the wording of the Supervisory Board Report on the 2017 Annual Report audit;
 - received information about the Independent Auditor's Report on the statement of relations with affiliated companies pursuant to Article 545 of the Companies Act (ZGD-1);
 - received information on activities related to appraisal and valuation of Mercator Group real estate in the year 2017;
 - received information on procedures for obtaining approvals, or waivers, by creditor banks regarding change of control at Agrokor, about the procedures of divestment of assets and deleveraging, and about activities for repayment of claims reported pursuant to the Lex Agrokor;
 - received information about the key findings by the internal audit in 2017 and the measures for eliminating the identified deficiencies;
 - approved the agenda for the 25th Shareholders Assembly and proposed five Supervisory Board member candidates for appointment;
 - approved the capital increase at the company Mercator–H d.o.o., and subsequent decrease of the said company's share capital.
- ▶ At the **25th correspondence session held on May 7, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. adopted the resolution to propose at the Shareholders Assembly the auditing company Deloitte revizija, d. o. o., Dunajska cesta 165, Ljubljana, as the company auditor for the year 2018.
- ▶ At the **26th correspondence session held on May 18, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the business performance of the Mercator Group and the company Poslovni sistem Mercator d.d. in the period 1–3, 2018.
- ▶ At the **27th correspondence session held on May 28, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the Report on all Transactions Effected with the Majority Shareholder Agrokor d.d. and Companies Affiliated to it for the period from February 1, 2018, to April 30, 2018.
- ▶ At the **28th correspondence session held on July 2, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the report titled List of Activities for Collection of Mercator Group Receivables Reported in the Procedure of Extraordinary Management of the company Agrokor d.d. in the

period April 2017–June 2018, and agreed that the Mercator Group companies vote in favour of the proposed settlement agreement ("Nagodba").

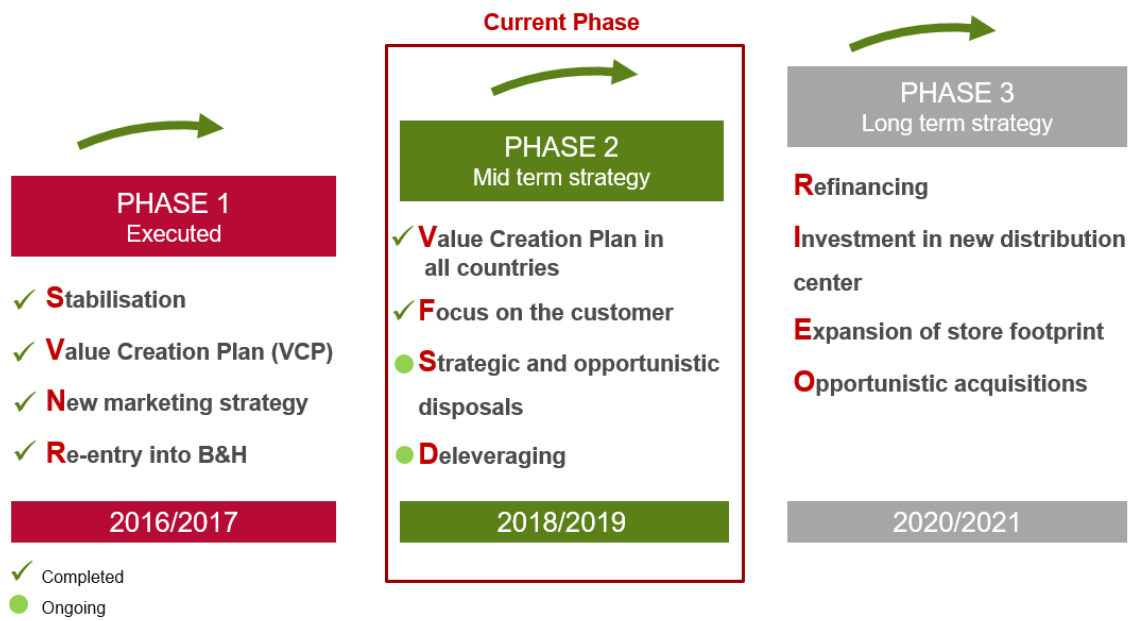
- ▶ At the **29th correspondence session held on July 16, 2018**, the Supervisory Board of the company Poslovni sistem Mercator d.d. approved the sale and conclusion of the sale and purchase agreement for the real estate of the subsidiary Mercator–S d.o.o., spanning a total area of 19,055 m², located in New Belgrade.
- ▶ At its **1st regular session held on September 5, 2018**, when the five newly appointed members were present for the first time, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the results of operations and performance of the company Poslovni sistem Mercator d.d. and the Mercator Group in the period 1–6, 2018, the status of negotiations with the banks regarding their conditions for approval of change of control and refinancing of the Super Senior revolving loan facility, divestment processes within the Mercator Group and the deleveraging processes, covenants committed to by the company Poslovni sistem Mercator d.d. regarding the attainment of the liquidity indicator (2018 end-of-year forecast), a review of the loan agreement between Mercator and banks, Report on all transactions effected with the majority shareholder the company Agrokor d.d. and the companies affiliated to it, in the period from May 1, 2018, to July 31, 2018, and the Report by the Human Resource Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. on the HR issues raised in the letter from the special authorized management representative. At the session at hand, the Supervisory Board of the company Poslovni sistem Mercator d.d., appointed Aleksander Igljčar as the independent expert sitting on the Audit Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d.

BUSINESS STRATEGY

VISION Mercator will be the best local retailer in every market of its operations.

MISSION Mercator is developing the best shopping comfort and investing into value for money and quality for the customers. We contribute to the development of our social environment and we maintain a long-term link with the suppliers, while facilitating local and regional development of their brands.

STRATEGY At the end of 2017, Mercator Group drew up a new long-term strategy and started to consistently implement it across all key processes at the Mercator Group. The strategy was developed for the period until the year 2022, and it will be executed in three stages.



*VCP (Operating plan for business efficiency or Value Creation Plan)

Operating plan for business efficiency

In the first half of 2018, the value creation plan, which also includes activities for attaining the targets specified in the operational plan, was also implemented in international markets. The focus will be on priority initiatives by the end of the year.

Activities for execution of operating plan for business efficiency (Value Creation Plan), with the main goal of increasing free cash flow:



PERFORMANCE INDICATORS OF MERCATOR GROUP IN THE PERIOD 1–9, 2018

		Mercator Group business		
		restated 1–9, 2017*	1–9, 2018	Change 1–9, 2018/ restated 1–9, 2017
INCOME STATEMENT	(in EUR 000)			
	Revenue	1,591,945	1,617,327	1.6%
	Revenue from retail	1,144,618	1,206,365	5.4%
	Results from operating activities (EBIT)	13,920	35,770	157.0%
	Profit (loss) before income tax	-5,866	14,271	-
	Profit (loss) for the period	-10,521	8,903	-
	Gross cash flow from operating activities (EBITDA)	69,634	86,838	24.7%
	Normalized gross cash flow from operating activities (EBITDA)**	67,573	79,910	18.3%
	Gross cash flow from operating activities before rental expenses (EBITDAR)	123,281	137,838	11.8%
BALANCE SHEET	(in EUR 000)			
	Total assets	2,105,663	1,966,346	-6.6%
	Equity	551,654	492,311	-10.8%
	Net financial debt	831,582	738,256	-11.2%
	Net financial debt / normalized EBITDA****	16.0	7.2	-55.1%
PROFITABILITY AND ABILITY TO GENERATE CASH FLOW	(in %)			
	Return on sales	-0.7%	0.6%	-
	Return on equity***	-2.5%	2.3%	-
	Gross cash flow from operating activities (EBITDA) / revenue	4.4%	5.4%	1.0 p.p.
	Normalized gross cash flow from operating activities (EBITDA) / revenue**	4.2%	4.9%	0.7 p.p.
	Gross cash flow from operating activities before rental expenses (EBITDAR) / revenue	7.7%	8.5%	0.8 p.p.
INVESTMENT ACTIVITIES	(in EUR 000)			
	Capital expenditure	36,602	19,105	-47.8%
EMPLOYEES				
	Number of employees as at September 30	20,795	20,322	-2.3%
	Number of employees based on hours worked	18,491	18,960	2.5%

* The Group changed the accounting policy on consignment, discounts and allowances, and reporting of interest (changes to accounting policies are presented in more detail in the financial part of the Report).

** Normalized values are adjusted for the divestment of the MC Belgrade in Serbia, land in Serbia, and other non-recurring (one-off) events.

*** The indicator is adjusted to the annual level.

**** Normalized gross cash flow from operating activities (EBITDA), used to calculate this indicator, is calculated based on EBITDA from the last 12 months of operations.

KEY EVENTS

Retail network development

In the period 1–9, 2018:

- ▶ we invested EUR 19,105 thousand into property, plant, and equipment (CAPEX);
- ▶ we divested EUR 17,806 thousand worth of property, plant and equipment;
- ▶ we added 13 new units with operating lease, or 6,923m² of new gross retail area, in all markets of our operations;
- ▶ we carried out all required activities for divestment of ten shopping centres in Slovenia (monetization project), and signed a sale agreement in October.

Changes in parent company governance

On February 28, 2018, Ante Ramljak resigned from the position of Supervisory Board member at Poslovni sistem Mercator d.d.; as of April 4, 2018, Teo Vujčič resigned from the position of Supervisory Board member, and as of April 16, 2018, Damir Kuštrak resigned from the position of Supervisory Board member.

At the 25th regular Shareholders Assembly of the company Poslovni sistem Mercator d.d., held on June 12, 2018, the following Supervisory Board members representing the interests of capital were appointed for a four-year term of office: Fabris Peruško, Irena Weber and Sergei Volk. Four-year term of office was also extended for incumbent members Matej Lahovnik and Ivica Mudrinić who will start their terms of office on August 30, 2018. Thus, the nine-member Management Board of the company Poslovni sistem Mercator d.d. operates with the following composition: Fabris Peruško, Irena Weber, Sergei Volk, Matej Lahovnik, Ivica Mudrinić, Vladimir Bošnjak, Vesna Stojanovič, Jože Lavrenčič, and Matjaž Grošelj.

Events related to the developments at the Agrokor Group

Pursuant to a special piece of legislation, the so-called Lex Agrokor that the Croatian government adopted in April 2017, Mercator Group companies reported until and including June 9, 2017, a total of EUR 43,788,150 of receivables by the Agrokor Group companies. In January 2018, the court in Zagreb recognized and confirmed all reported receivables.

On July 4, the Settlement of the Agrokor Group Creditors (called "Nagodba" in Croatian) was voted on and approved; it became final on October 18, 2018. All information on the Settlement is available on the website <http://nagodba.agrokor.hr>.

In March 2018, a report by the **extraordinary Management Board member**, whose appointment was proposed by the Government of the Republic of Slovenia, for the period from November 1, 2017, to January 31, 2018, was released, followed by another such report in June for the period from February 1, 2018, to April 30, 2018, and another one in September for the period from May 1, 2018, to July 31, 2018. **All three reports indicate that all transactions signed between the company Poslovni sistem Mercator d.d., and the company Agrokor d.d. and the companies affiliated with it, complied with the principles of diligence, good management and credibility, and that the company did not sustain any loss or damage with regard to such transactions.**

Awards and other achievements



Mercator brand received the **Trusted Brand 2018** award in Slovenia in three categories: shopping centre, food retailer, and environment protection.

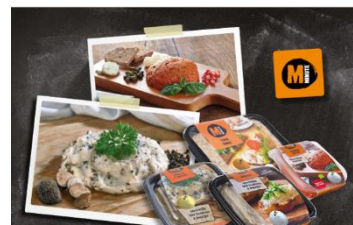
In May 2018, an independent audit took place at Mercator for the extension of the environmental management system certificate; this year, the audit fully followed for the first time the requirements of the new international standard ISO 14001:2015. Mercator is the only trade company in Slovenia engaging in wholesale and retail of fast-moving consumer goods to be awarded the **ISO 14001 certificate**.





The bakery section of the Chamber of Agricultural and Alimentary Companies with the Slovenian Chamber of Commerce and Industry presented the highest award to **seven Mercator baking and pastry products** made at the pastry workshop Kranjski kolaček that is a part of the company Mercator IP d.o.o. The golden awards are proof that Mercator offers superior products also in its dessert and bakery department.

At the 39th International Contest for meat and meat produce, **Minute** products received for the third consecutive year the gold, silver or bronze medal in the category of meat produce. All 11 award-winning products are made by the company Mercator IP d.o.o. The contest included 35 manufacturers or producers from Slovenia, Austria and Croatia, and the expert jury rated 204 different products. The official award ceremony will take place on August 27, 2018, at the 56th International Agriculture and Food Industry Fair AGRA in Gornja Radgona.



M Tehnika webstore is a trustworthy online retailer. It has met the criteria for the **Certified Shop** label and thus acquired the European trust label **EMOTA**. The Certified Shop label means that the M Tehnika webstore complies with the national and EU standards of online shopping.

The company Poslovni sistem Mercator d.d., or the executive area M Tehnika, is the recipient of a **special award for employee motivation** – The Mystery Shopper Star for 2017. The award was presented by the largest specialized mystery shopping agency in Slovenia, which offers the mystery shopping services, and which is also a member of the global Mystery Shopping Providers Association (MSPA).



Mercator brand qualified for this year's selection of Slovenian Superbrands, from among over 10,000 entries. The Superbrands are brands that stand out in the Slovenian market for their distinction, quality, confidence, and emotional charge.

In September, we received the **Select Quality for Fruit** certificate. To this end, we launched special communication at the points of sale.



In **Serbia**, the **IDEA, Roda** and **Mercator** stores received the Superbrands 2017–2018 award, while Roda won three **Qudal medals for the highest quality level**.

Mercator's humanitarian activities

The campaign **Do not Ignore, Support!** ("Ne ignoriraj, podpiraj!") includes projects of support to the Friends of the Youth Association Ljubljana Moste Polje, Slovenian Coeliac Disease Society, and the humanitarian organization Anina Zvezdica ("Anna's Little Star"). The campaign also included cooperation with the company Mars to collect dog and cat food at Mercator stores until May 16, which was then donated to select societies and animal shelters. Together with our customers and Mars donations, we collected and gave away 4.5 tons of pet food. The campaign continued under the slogan "Buy, donate, train" and it took place until the end of August. By buying Friskies products, the customers contributed to the Canis society for training of guide and assistance dogs. From September 20 to October 3, the campaign continued with fund raising for a donation to the dogs of the Mountain Rescue Association, in such way that 10 grams of food for the rescue dogs were donated for each Whiskas, Pedigree, Kitty, or Buddy product sold. Thus, Mercator supports the efforts of shelters and societies for long-term improvement in animal welfare.



In March Mercator donated EUR 135 thousand for the future of Slovenian ski jumping. **Young ski jumpers and ski jumping clubs** received total donations of EUR 45 thousand while the **rest was donated to women's and men's national ski jumping team.**

Working with the Slovenian Red Cross organization, Mercator held in May for the second time this year a humanitarian campaign of collecting food and personal care products for individuals and families in distress.

More than 11 thousand products intended for such aid was collected at 38 major stores under the slogan "**A neighbour is neighbour to a neighbour**" ("Sosed sosedu sosed"). The campaign was repeated in September when we raised nearly 9 thousand products at 27 stores.



Looking to contribute to **preservation of natural environment**, we regularly donate our damaged and sample products from discontinued programs to recycling and reuse centres where they are recycled into useful products, and to high schools where they are used for practical training and education.

In **Montenegro**, IDEA is the proud sponsor of the third season of the humanitarian show "Dnevnic" that includes collecting basic food items for 30 families in distress.





In **Serbia**, IDEA was a proud sponsor of the Belgrade Marathon this year. The activity was attended by a record-breaking number of participants from all continents. They also included renowned athletes from the world of global track and field, many citizens, as well as over 50 Mercator Group employees who supported the marathon under the slogan "Who joins the marathon, creates it. "



In Serbia, IDEA dedicated its efforts in August to babies for the seventh consecutive time. As a part of the "Niš in Our Hearts" campaign, we prepared the campaign "**Baby month**" in Niš and helped young families by donating gift packages.

Major events following the end of period at hand

On October 12, 2018, the company Poslovni sistem Mercator d.d. and Supernova signed an agreement on the sale of ten shopping centres in Slovenia. According to the agreement, valued at EUR 116.6 million, the company Poslovni sistem Mercator d.d., will also lease for the long term the parts of the shopping centres in which it is conducting its core activity. The monetization project is primarily intended for deleveraging and it fosters Mercator Group's long-term development. Divestment of the ten shopping centres in Slovenia completes the second stage of the monetization project which will continue in the future.

BUSINESS REPORT

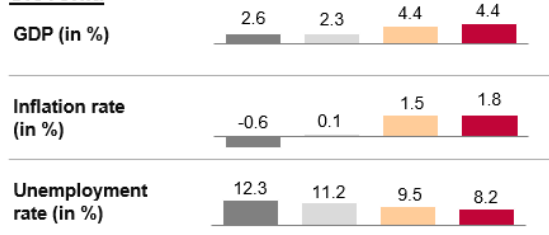
EFFECT OF ECONOMIC CONDITIONS ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–9, 2018

Economic conditions in the period 1–9, 2018¹

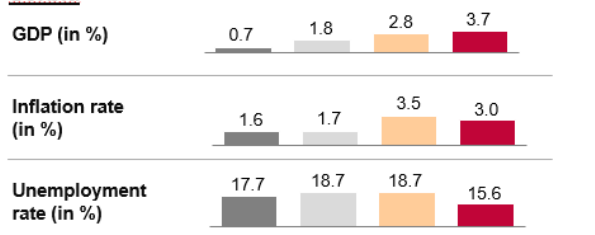
High growth of the global economy continues in this year, while the steep growth of global trade from the past year slowed down in the second quarter of this year. International institutions are also forecasting gradually lower growth rates for the global trade for the years ahead as well, which is partly related to the increase in tariff rates and other trade barriers. More moderate growth of exports is the main reason for this year's slightly lower economic growth in the euro zone, where the economic climate, although still positive, is taking a turn for the worse. In the first seven months of the year, loans to households contributed the most to the increase in bank loans, as households took out loans to finance both their consumption and purchase of real estate.

Key macroeconomic indicators in the markets of Mercator's retail operations

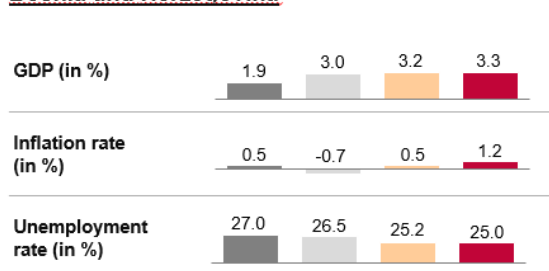
Slovenia



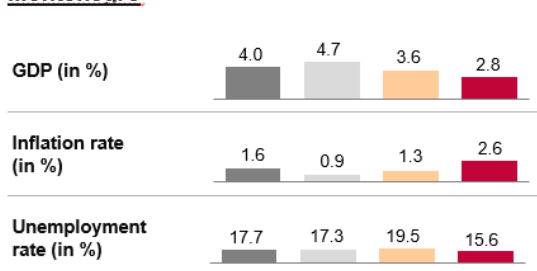
Serbia



Bosnia and Herzegovina



Montenegro



Slovenia

Economic growth will reach 4.4 percent for the year, and it will remain relatively high in the coming two years (3.7% and 3.4%, respectively). Both foreign and domestic demand will contribute in an even more balanced way to further economic prosperity in the period 2018–2020. In addition to the still growing investments, higher

¹ Economic conditions and competition are commented based on the following data sources: UMAR (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), ECB (European central bank), FED (Federal Reserve System), EBRD (European Bank for Reconstruction and Development), S&P (Standard&Poor's ratings services), statistical offices of respective countries, IMF (International Monetary Fund), market research company Nielsen, and EC (European Commission).

increase in private consumption fuelled by relatively high growth of disposable income (especially total salaries) will contribute notably to robust growth of domestic spending. Rapid growth of construction investments, related to the low level of such investments in recent years and an increase in the tapping of European funds, will continue.

Pronounced decrease in the number of registered unemployed in the last year continued in the first half of this year at a somewhat slower rate. Contributing to this was especially the slowdown in hiring of unemployed persons, and somewhat higher increase of the number of unemployed due to the expiry of fixed-term employment contracts.

Inflation rate will increase moderately in this years and the coming two years. In the first seven months of this year (1.6%), inflation rate on average was slightly higher than in the year before when it increased slightly from a very low rate. Inflation rate only started to pick up pace in recent months (in July to 1.9%), which is largely the result of higher growth of the prices of services and energy.

The country's rating is A+ with a stable outlook.



Serbia

Economic growth from the year 2017 continues in 2018, albeit at a somewhat lower rate. Unemployment will continue to decrease. Inflation rate will also decrease further in 2018 relative to 2017.

The country's rating is BB with a positive outlook.



Bosnia and Herzegovina

Economic growth stopped in the third quarter of the year, and unemployment increased at the same time.

The country's rating is B with a stable outlook.



Montenegro

Economic growth for Montenegro is forecast at a slightly lower rate than in 2017. Inflation rate in 2018 will increase further, and unemployment will decrease.

The country's rating is B+ with a negative outlook.

Changes in consumer behaviour and effect of the market situation on consumption²

High economic growth has continued in 2018 in most markets of Southeastern Europe; in the coming years, a gradual slowdown is expected. In **Slovenia**, intensive growth of domestic spending will continue, fuelled mostly by the palpably higher capital expenditure (investment into property, plant, and equipment), while growth of household consumption remains moderate despite further favourable developments in the labour market and sustained high consumer confidence.

High consumer and business confidence could, assuming sustained favourable financing terms and positive developments in the international environment, lead to even higher growth of investment and private consumption, which have recently been reflected in particular in the purchases of durables: cars, real estate, apartment equipment, communication and computer devices, and services related to leisure time.

² Changes in consumer behaviour and effect of the market situation on consumption is commented based on the data presented by the market research company Nielsen and Autumn forecast of economic trends for 2018 issued by Institute of Macroeconomic Analysis and Development of the Republic of Slovenia.

Consumer confidence improved in Slovenia in the second quarter of 2018 and it reached the European average. In the third quarter, it started to worsen, mostly due to pessimistic expectations on the part of the consumers regarding the economic situation in the country, regarding the possibilities of savings, and regarding the financial situation in their households. Thirty-two percent of respondents believe the country is in a recession. Approximately 60% of respondents believe that the country will not recover from the recession in the next 12 months. Their primary concerns include their own health, increase in utility costs (electricity, gas etc.), work-life balance, and security of employment.

In the markets of **Serbia, Montenegro, and Bosnia and Herzegovina**, economic conditions are also expected to improve according to the forecasts of economic growth. Private spending will increase, and the rate of registered unemployment is forecast to decrease, although it will remain at a high level.

Consumer confidence in **Serbia** is constantly improving; however, it remains below the European average. A high share of respondents (75%) believe the country is in a recession. Approximately 62% of respondents believe that Serbia will not recover from the recession in the next 12 months. Consumers are the most concerned about security of employment, health, and work-life balance.

SALES AND MARKETING

Sales

In Slovenia, improvement in the general economic situation and conditions in the labour market has had a positive effect on the growth of private spending and new investment. Based on economic growth forecasts, improvement of economic conditions is also anticipated in foreign markets of Mercator Group operations. Private spending will increase, and the rate of registered unemployment is forecast to decrease, although it will remain at a high level.

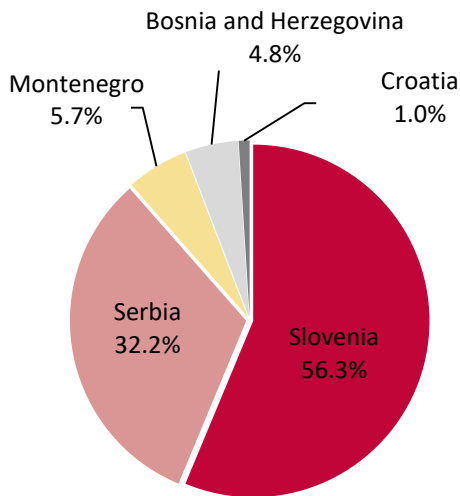
In the period 1–9, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 5.4% relative to the comparable period of the previous year.

In the period 1–9, 2018, Mercator Group generated EUR 1,617.3 million of net revenue, which is 1.6% more than in the corresponding period of the previous year. The new strategy, new store concept, store refurbishments, and improved competitiveness of service have been yielding positive results in Mercator Group's core activity. In the period 1–9, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 5.4% relative to the comparable period of the previous year. Re-establishment of retail operations in the market of Bosnia and Herzegovina in september 2017 also had a positive effect on Mercator Group revenue. Slovenia, where revenue growth of 0.5% relative to the comparable period of the year before was recorded in retail, remains the most important market of Mercator Group operations.

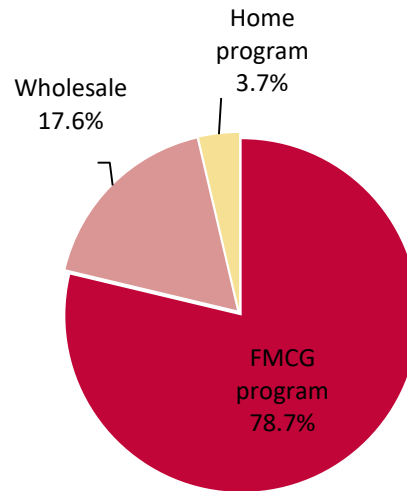
Result from operating activities (EBIT) improved considerably and it reached EUR 35.8 million in the first nine months of 2018, which is EUR 21.8 million better than the comparable result from the same period of the previous year. Mercator Group successfully wrapped up the period 1–9, 2018, with a net profit of EUR 8.9 million, which is EUR 19.4 million more in comparable terms than in the corresponding period of the previous year.

Mercator Group's result from operating activities (EBIT) in the period 1–9, 2018, amounted to EUR 35.8 million, more than doubling relative to the comparable result from the same period of the previous year.

Mercator Group revenue by geographical segments in the period 1–9, 2018:



Mercator Group revenue by programs in the period 1–9, 2018:



The structure of revenue by respective programs has not changed significantly. Retail continues to account for the highest share of revenue with 78.7% of total revenue. The share of sales revenue from other specialized trade programs was at 3.7% in the period 1–9, 2018.

Marketing

1. VALUE FOR MONEY

We provide well-priced shopping

Our key policy is to focus on satisfying the needs of modern consumers and to offer well-priced shopping. Key target tasks are therefore geared towards improving the perception of pricing and value for money, and towards making the offer more appealing in order to retain the existing customers and to attract new ones. We prepare regular and seasonal special offers and campaigns, and various short-term activities that involve well-priced offer. We introduce an increasing number of special offer activities for the customers who are Pika card holders.

We do our best to be competitive every day in as many products as possible, which is also evident in the "Znižano" (Discount) project. We also conducted the "Priporočamo" (Recommended) project that includes labelling products with the best price-to-quality ratio and products with the best price.



We wish to make sure that our basket of products represents the best value to our customer, in terms of both pricing and quality. Therefore, we are constantly adjusting our marketing mix; we conduct campaigns that include favourable shopping, and we keep finding new ways to win discounts or savings. In the first quarter of 2018, we introduced a new activity "3 for 2 is a good deal, because you don't pay for the third one".

With Pika, our customers save more

In the period 1–9, 2018, the Pika card was recognized as the best customer loyalty card.

In addition to the higher share of Pika discounts on select products from the flyers, and double and extra points, Pika coupon -25% on selected product, customer loyalty programs for point redemption (e.g. Hi-Tec hiking equipment), which are available to all Pika card holders, additional benefits are offered to all retirees who show their retiree card at the check-out counter. Moreover, our gold Pika card holders receive special benefits – they can always rely on the satisfaction guarantee, they receive a voucher for the online store, they have access to a special VIP number, a personal assistant, free parking at Mercator Šiška, and many other benefits. We will continue to prepare many exclusive surprises for them.



Even before the introduction of the European Union's new General Data Protection Regulation (GDPR), we obtained from our customers their relevant consents. Thus, we shall continue to prepare special offers for those customers who have allowed us to monitor their shopping habits, as we look to satisfy their wishes and needs as best we can.



Pika Magazine



This spring, we issued the second Pika Magazine of everything delicious, including 45 Easter recipes; the customers also received a notebook as a present. In June, we followed up with the third Pika Magazine containing over 50 summer and refreshing recipes and interviews with celebrities. Pika card holders can



buy the magazine at an even lower price, and the short romantic story by a young writer adds further value to it.

Conversion of the blue Pika card into the green one

In July, we conducted a campaign titled One is Enough – the Green Pika ("Dovolj je ena – Pika zelena"). The goal of the campaign was to increase the number of green Pika cards by 5%, or by 8,000 new debit Pika cards, by the end of the year. We prepared a special campaign for all new Pika card holders in July, including 100 bonus points for the first 500 users, which were deposited on their new green Pika cards.



International activities



"SUPER KLUBIĆ" in Serbia

In order to make shopping for everything that parents need for their babies, Roda and Super card launched the "Super klubić" campaign and founded the club and offer program intended for families with children aged up to 7. The club offers the best products at a single place, and excellent discounts.

IDEA in Serbia

Customers who bought apples or oranges and paid by MasterCard or Maestro card could take part in the sweepstakes "Use the card, win a trip" with five trips for two persons as the main prizes.

The Easter season was the time for the "IDEA for cakes" campaign in which we presented the most delicious cakes and cookies to our customers.

Based on a survey, IDEA's project "**Whom do you cook for**" made it the first retailer in Serbia whose communication combines meat and vegetables as complementary goods.



In order to present all benefits for our customers in a single place, we simplified communication and improved the pricing perception via the "**It Pays**" campaign. It included analyzing the shopping behaviour of retirees, and offering them, as a novelty, the "retiree basket" in which we presented special products only for them.

We also carried out the sweepstakes "**It pays even more for everyone when there is a million of award points**" in which we presented to our customers 50 x 500 points every day, and the main prize at the end of the sweepstakes, which was 200,000 points.

**RODA in Serbia**

To support the Serbian national football team, Roda included in its assortment the original jerseys of the Serbian national team and over 100 other products bearing the national team's name.

Roda and Super Card started the campaign "**Super klubić**" (Super small club) and founded a club and a program of offer intended for families with children.

Continuing with pricing activities for our customers in Montenegro

In addition to the regular catalogue issued every 14 days, we also prepared each month for our customers a special catalogue with special benefits for Super card holders. Moreover, every 20th and 21st day of each month, we offer a 10-percent discount for the retirees; and in the middle of January, we introduced the "Senior Coupon" that allows members of the Senior Club to pay in four instalments. In the period from May 15 to July 1, we repeated the same customer benefit campaign.

In April, we carried out the campaign "**Phenomenal April at IDEA**" which consisted of three parts: Easter, Spring Cleaning, and I Love Grilling.

In May, we issued the first **Super Magazine** that presents the trends for the upcoming season. The magazine is the first lifestyle magazine in Montenegro to be issued by a retail chain; it also involves a sweepstakes.

In the period from June 15 to October 15, we are conducting the project **Golden Friend** in 4 stages. It includes additional benefits for our customers who buy certain products.





Project "Discounted Price" in Bosnia and Herzegovina

We wish to deliver the best value to our customers, with affordable and quality products, and always new ways of offering discounts and savings. At the end of March 2018, we launched the "Discounted Price" project that offers over 400 products at a discounted price for at least a month. Selected products are specially labelled on the shelves and advertised in flyers.

2. FRESH CATEGORIES

Activities related to fresh categories

In the first quarter of 2018, we conducted activities within our fresh categories, related to the offer of **fresh fruit and vegetables**. The fruit and vegetables campaign was a part of the umbrella campaign with athletes **"OURS. THE BEST."** in which we highlighted our sponsorships related to particular categories. In January, we carried out a standard sales promotion campaign for fruit and vegetables, adding to the appeal of the offer with major sweepstakes for the Derby bananas. As the proud sponsor of Slovenian national ski jumping teams, we supported for the third consecutive year the ski jumping clubs and societies raising and training junior ski jumpers with a special campaign **"Jump to Mercator, support our ski jumpers"** carried out in February.



Within the fresh categories, particular attention was paid to the **bread category**. In February, our marketing activities included highlighting the 40 types of bread that have won a gold award by the Chamber of Commerce and Industry. In April, we further developed our cooperation with Pekarna Grosuplje (the Grosuplje Bakery) and advertised **new bread – home-baked**.

At the end of April, the campaign **"Ours. The Best."** also included the campaign **for fresh meat** in which we highlighted the sponsorship of the Slovenian Hockey Association, and famous hockey players took the roles of Mercator's master butchers. The campaign lasted for six weeks, and each week we highlighted a particular type of meat or fish, and underscored the positive effect of eating meat and meat products in a flyer.



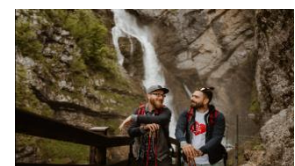
In July, we extended the online store sales program with fresh meat products from our butchers.

3. LOCAL



In Slovenia, the **"We Love Local"** project will be highlighted around five traditional celebrations: carnival, Easter, May 1, St Martin's Day, and Christmas. Each holiday was assigned an ambassador from among domestic suppliers. The two ambassadors shared across all five are Jani Jugovič (Tejani, Coolfotr) and the comedian Gašper Bergant, who together take expert tours as they visit select suppliers. At the end of January, they were baking homemade carnival doughnuts at the Cimerman farm. They baked Easter ham at the Kodila butchery. They cooked the May 1st goulash during the 1st expedition to the mountain huts.

In the summer season of the **We Love Local** campaign, we are exploring the culinary offer at mountain huts of the Ljubljana – Matica Mountaineering Society, and educate followers on social networks. The five-month campaign is called **Climb the mountain and eat well with Gašper and Jani**.





The main feature in the autumn was the campaign **BIO We Love Local** in which we directed the spotlight on local growers and producers of organic food. Music for the TV ad was written by the Slovenian composer Aldo Kumer. The offer of local organic products was further highlighted at 100 stores.

In Serbia, the campaign "The flavours of my town" took part within the Roda format, which included a presentation of special products and campaigns. Customers at Roda can thus buy sausages from Vojvodina, goat cheese from Srem, and other homemade products.



In July, we launched in Bosnia and Herzegovina the project "We Love Local". In its first stage, introduces the currently available products from our suppliers; at the same time, we invited new small suppliers to become our partners in the future and to assist us in offering our customers the best local products.



4. THE BEST SHOPPING EXPERIENCE

Digital

Digitalization of Pika – Smart Pika on the smart phone

In May 2018, we implemented Mercator's **free mobile wallet M Pay** which is a part of the MOJ M mobile application. On the smart phone, it operates the same as the actual Pika card; therefore, the customers can use their phones to pay when they shop. It applies to all Pika cards. M Pay operates based on the QR code principle and it also allows contact-less payment or collection of bonus points.



After the implementation of Mercator's free mobile wallet M Pay, which is a part of the MOJ M mobile application, we have recorded nearly 100,000 downloads of the MOJ M application. Several new functionalities are currently under development for the MOJ M application, which will be announced in the last quarter of 2018. In June 2018, we also upgraded digital communication in our social networks.



2Cellos in an exclusive campaign for Mercator

In April 2017, Mercator rejuvenated its communication campaign, with the song No Roots by then hardly known singer Alice Merton playing the decisive role. In 2018, we further upgraded our revised campaign and invited 2Cellos to take part. They prepared their rendition of the song No Roots by Alice Merton and took part in the video shoot of Mercator's TV campaign 2018. On March 25, they surprised the visitors of Mercator Centre Šiška in Ljubljana with a performance. In the shoot of the TV ad for

Mercator, the main heroine experiences every dimension of what is good in Mercator's offer: **I Know Well** (homemade and home-processed products), **I Eat Well** (enjoying fresh and quality food), and **I am Well** (top-class service and all-around atmosphere at our stores).

Additional activities for select stores

For select stores in Slovenia, we tested additional activities such as the offer of 1,000 products with the "special discount" tag, weekend discounts on select categories etc.

Openings, refurbishments, and layout updates

In Slovenia, we prepared special marketing activities upon every layout update. For comprehensive layout updates, we prepared an A4-format flyer with special reopening offer. For the reopening day, we negotiated a variety of promotional activities and tastings, and carried out guerrilla marketing by distributing flyers and apples around the store. For partial refurbishments, we also prepared reopening A4 flyers and special activities in the

vicinity of the store. In the first half of 2018, we also opened 4 new stores that we acquired from the Krpan Agricultural Cooperative, and opened 1 new store at the Šobec camping site near Bled.



In September, we opened a new supermarket as a part of the Kočevje trade centre. To this end, we prepared a special flyer, opening marketing activities for the entire shopping centre, and special surprises for our customers.

IDEA in Serbia continues to expand its retail network. At the end of February, we opened a new store spanning an area of over 1,000 m², and supported the opening with numerous campaigns, surprises, and benefits. In April, we opened a new Roda unit in Vršac.

New online store in Montenegro

On March 1, 2018, a new online store was launched in Montenegro, offering our customers over 8,000 different types of products.



5. ASSORTMENT

My Brands



In Slovenia, we continue in 2018 the "My Brands" project that will last until the end of the year and extend into the next year. In early March 2018, new suppliers were included in the project. The project was also supported with the activity "Collect the Stamps for a Gorenje Refrigerator". In June, we launched a new activity within the My Brands project, in which customers who bought at least EUR 10 worth of products and at least one My Brands product received a coupon with a code and thus entered the sweepstake for 500 Adria Airways airline tickets.



My Brands project comes to Serbia

In the first half of 2018, joint promotional activities took place across store formats IDEA, Roda, and Mercator, such as the wine catalogue, the "Beer World Championship" campaign that included a presentation of the largest assortment of beverages in Serbia, the campaign "K plus eggs with the GMO-free label" that promotes local eggs free of genetically modified organisms, and the campaign **It is good to be together** that identifies and strengthens the favourite brands. In addition to shared activities, separate promotional activities for the consumers also took place at respective store formats.



In Bosnia and Herzegovina, we also launched the campaign "My Brands, Our Values", which included working with our local suppliers to boost the value and importance of local production and mutual support, thus opening the door for a major regional business platform that will continue next year as well.

In December, the My Brands project will be implemented in Montenegro as well.



Dormeo Dreamcatcher

In 2017, we prepared an attractive customer loyalty program Dormeo Dreamcatcher in Slovenia with top-class products for sleeping, which also extended into the first quarter of 2018.

Hi-TEC

In February 2018, we prepared a new customer loyalty program Hi-Tec in Slovenia, offering our customers the purchase of superior hiking and leisure time products of the Hi-Tec brand. The program lasted until May 20.



In Slovenia, we prepared a new customer loyalty program in May 2018, called **Chop & Grill**. It includes an offer of pans, knives, and a mini grill for the picnic season. The program lasted until August 12.

**Tefal**

In August 2018, we launched a customer loyalty program Tefal. Customers were offered the purchase of products for children and small domestic appliances. The program will last until November 4.

**Private label**

In January this year, we were active with our **Bio Zone** private label as a part of the sponsorship of our Olympic team, and we also presented a comprehensive offer of gluten-free and lactose-free products, and vegetarian and vegan food. In February, we prepared a campaign that also included our athletes and Olympians. Collaborating with the brand ambassador Alenka Košir, we communicate the Bio Zone label through our digital channels. The Donat Mg brand invited us to take part in the "Reset!" project that also includes our products. We prepared an update to the **Minute To-Go** products to be launched in the last days of October. We tested the products with a presentation during the summer season. The products include a line of innovative salads, snacks, and other healthier options for a quick meal on the go. We are also preparing the coffee to go project called **Minutes for coffee** that will be launched in November, in cooperation with Barcaffé.



In June, we launched a five-week campaign in which we promoted dairy products by the Mercator private label. We invited young football players and the Slovenian football legend Sebastjan Cimirotič to take part.



Our new private label **Free Zone** shows that we care for a variety of lifestyles. It was launched last August with a charming slogan "No gluten, but lots of fun". Thus, we will enable the group of people with gluten intolerance problems or who choose not to include gluten in their diets for other reasons to purchase quality yet affordable products.

**Great Britain in Šiška**

The **Days of Great Britain** took place at Mercator Šiška from April 19 to May 19, organized in cooperation with the British-Slovenian Chamber of Commerce and the Embassy of the United Kingdom. The project included introducing new products to our sales assortment and preparing special product features or highlights at the stores, promotion campaigns, tastings, and a flyer. We also prepared generous sweepstakes with a trip to London as the main prize.



In September, we celebrated the **Days of Sparkling Wines** and prepared for our customers a selection of special top-class international sparkling wines produced according to the traditional method. We celebrated the opening with a short interview with the globally renowned and legendary wine expert Steven Spurrier, and Slovenian wine-maker Janez Istenič.



From June to late October when the Ljubljana Marathon and the Lumpi Run will take place, we promote our Lumpi brand through workshops organized for children in kindergartens, and a variety of activities within the project Lumpi workout. In October, these will be merged in the joint project for the promotion of marathon, called **Running brings us together**, intended to encourage an active lifestyle for all generations of people.



Campaign "BIO once ... BIO forever" in Bosnia and Herzegovina

In the "BIO once ... BIO forever" campaign, customers are offered over 1,000 products for a healthy and active lifestyle by Mercator's own Bio Zone label. Thus, Mercator became the leader in raising our customers' awareness of healthy nutrition. The ambassador of the campaign is Tomislav Cvitanušić, a marathon runner, triathlete, and mountaineer.



STORE FORMATS, CUSTOMER SEGMENTS, AND CATEGORY MANAGEMENT

Store Formats

Shopping behaviour of consumers has changed considerably in recent years. The consumers have become more demanding, more informed, and more 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. Customers are willing to spend less and less of their time for shopping, and they expect ever faster shift of retail into the digital world and the online environment.



Mercator is pursuing the market trends with continuous development at its stores and rapid introduction of modern technological solutions. It is increasingly important to intensively develop new store concepts that respond **to the general market trends by emphasizing convenience, speed, and offer of healthy and local products.**

In 2018, we continue to invest into refurbishment of the existing retail network; in addition, we are planning to construct some new facilities. We shall continue to focus on the consumer as we wish to offer the best products and services and a modern shopping environment in as many locations as possible. The refurbished Mercator stores afford customers a more pleasant shopping environment, while category structures and new services offered are adapted to the most recent trends.

In the period 1–9, 2018, **13 units were newly opened** in the markets of Slovenia, Serbia, and Montenegro, while **88 units saw refurbishments or layout updates** (including Bosnia and Herzegovina), of which **57** were in Slovenia. Online store called IDEA Online was launched in Montenegro.

Standing out among the refurbished units in Slovenia is **hypermarket Kamnik** that was comprehensively refurbished with **new design** and **many novelties in the offer**:

- ▶ **fish department,**
- ▶ **new bakery department** that also offers pizza and an expanded offer of self-service small pastry,
- ▶ **larger hot bar with extended offer,**
- ▶ **a large fruit and vegetables department** that also offers a juicer for self-service preparation of fresh orange juice,
- ▶ **expanded department for organic and special food,**
- ▶ **world of beer** with a wide selection of domestic and international beers;
- ▶ **assortment of products for children** in a single place (toys, children's cosmetics, baby food, and equipment),
- ▶ redefined relations between respective categories, with emphasis on the fresh program.



In the period 1–9, 2018, **refurbishments of supermarkets** were also under way. Supermarkets are upgrades to neighbourhood stores with a broader and especially deeper offer of fast-moving consumer goods. The supermarkets serve customers on both their daily and weekly shopping sessions as their offer allows all-around shopping for products purchased on daily and weekly basis, with a focus on fresh program and supplementary offer of non-food items.

In August, a **new modern supermarket** was opened in **Kočevje**. Spanning nearly 1,000 square meters, it offers a wide variety of food, with emphasis on fresh produce. The unit includes a large fresh fruit and vegetables department with an extra offer of a juicer, a bakery offering round pizza, pastry, and self-service offer of bread and dinner rolls. It also includes a hot bar, a delicatessen department, and a meat department with both bulk (service line) and self-service (pre-packed) offer of fresh meat. The wine department is extended with a self-service wine vending machine offering wine from a selected winemaker, which the customers can operate themselves. The unit also includes a seasonal corner in which the currently relevant seasonal products will be offered. The unit includes both conventional check-out counters and the Tik-Tak self-check-out counters.





In 2018, we continue to refurbish our smaller **market stores**, as Mercator carries on the tradition of being the closest to its customer in their local environment.

In the period 1–9, 2018, **47 market stores** were refurbished or saw layout updates in Slovenia. This includes **4 new units** acquired from the Agricultural Cooperative Krpan from Cerknica and **1 new unit** in the Šobec campsite near Bled. Thus, Mercator confirms its awareness of the importance of stores in smaller towns. Quite often, these are the only stores, and the staff is able to establish closer relations with the customers than in larger formats.

Standing out the most among the refurbished units in Serbia is the **IDEA Strumička Belgrade** unit that is based on urban offer and equipment and includes the following new aspects of offer:

- ▶ fish department,
- ▶ broad offer of **gourmet products**,
- ▶ rich offer of **delicatessen products** in circular refrigeration chests,
- ▶ **wine department**.



Composition of sales units as at September 30, 2018

COUNTRY	SLOVENIA		SERBIA			MONTE-NEGRO	BOSNIA AND HERZEGOVINA	MERCATOR GROUP	
	Mercator	Mercator	Roda	Idea	Idea	Mercator		Gross sales area (in m ²)	Net sales area (in m ²)
STORE FORMAT	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units		
Hypermarkets	22	2	33	1	2	6	66	292,247	194,217
Supermarkets	112	-	3	93	15	23	246	269,379	177,336
Markets	331	3	-	186	99	50	669	254,202	152,388
Cash & Carry / VELPRO	13	-	-	6	2	-	21	59,684	35,046
Restaurants	8	-	-	-	-	-	8	2,070	1,379
Total FMCG program	486	5	36	286	118	79	1,010	877,582	560,366
Technical consumer goods	42	-	-	-	-	-	42	61,857	37,567
Total specialised programs	42	-	-	-	-	-	42	61,857	37,567
Total units under management	528	5	36	286	118	79	1,052	939,439	597,933
Franchise stores	187	-	-	-	-	-	187	39,187	25,762
TOTAL	715	5	36	286	118	79	1,239	978,626	623,695

Customer segments

Many customers also mean many different wishes and needs that we discover by data analysis, both from market research and from data on purchases by our Pika card holders. Solid knowledge of our customers allows well thought-out development of sales and marketing activities. All three aspects are important:

- ▶ offer or assortment,
- ▶ point of sale that we adapt depending on the needs of our local customers, and

- ▶ customers to whom we adapt our various activities depending on their personal preferences and on the incentives that they require to remain loyal to us.

Category management and procurement



Slovenia

In the period 1–9, 2018, we continued to **actively support domestic suppliers** and promote Slovenian and local offer at Mercator stores. As to date, we were focused on local fresh meat, local fruit and vegetables, and local dairy products. In addition, we further promoted the offer from local growers and producers (origin, tradition, transparency). We continued to train and educate our employees in the fresh meat departments in order to provide the maximum quality, convenience of offer, and friendly service. In the bread and pastry department, we continued our efforts to provide high-quality service with freshness of products and a varied offer, as well as friendly and professional service of our employees. The offer of fruit and vegetables is based on promotion of seasonal produce, as well as on the quality of fruit and vegetables, and on introduction of proven market trends. We continued to develop our new platform **My Brands**, further upgrading our cooperation with our suppliers.



Key category management activities remained focused on the pursuit of the following key goals:

- ▶ establish quality multi-level offer of branded and private label products of various lines;
- ▶ quality management of seasonal activities and allowing a diverse offer in the non-food segment;
- ▶ providing competitive prices for products of renowned brands and private labels, and attractive offer in sales promotion activities (value for money, Pika);
- ▶ efficiently managing the store area at a level of particular products or product or categories, and the store as a whole; and
- ▶ providing appropriate sales service in our stores (at the point of sales).



Bosnia and Herzegovina

In the period 1–9, 2018, our key category management activities were focused on the following:

- ▶ negotiations with suppliers and signing of agreements;
- ▶ development of the "We Love Local" project;
- ▶ improved margin with pursuit of strategy of higher discounts from suppliers through special campaign activities;
- ▶ focus on our private label;
- ▶ focus on pricing management in order to decrease the differences between price lists across regions (cantons);
- ▶ implementation of the "Discounted Price" project that offers over 400 products at a discounted price for at least a month. Selected products are specially labelled on the shelves and advertised in flyers;
- ▶ preparation and implementation of the "My Brands" project that also includes suppliers;
- ▶ intensive marketing activities to win back Mercator's customers lost during the operation of Konzum;
- ▶ refurbishment and expansion of the sales assortment taken over from Konzum, and expansion thereof with new offer.



Serbia

Category management activities, focused on consumer satisfaction, continued with the following activities:

- ▶ expansion and improvement in the appeal of the assortment in order to satisfy the largest possible number of differing needs of the consumers;
- ▶ making orientation easier and improving the general shopping experience at retail units, with focus on improvement of layouts and planograms, and provision of relevant services;
- ▶ providing competitive regular pricing and appealing product promotions that invite consumers and improve the price perception of the chain;
- ▶ development of a new pricing strategy;
- ▶ improved margin with pursuit of strategy of higher discounts from suppliers through special campaign activities;
- ▶ preparation for the arrival of a new competitor to the market of Serbia;
- ▶ in order to offer quality services, we continued to train our employees to provide friendly service;
- ▶ successfully implemented project "It is Worth it Being Together" that continues in the last quarter;
- ▶ implementation of the "Super Serbia" project that supports entrepreneurs or sole proprietors with the activity "idea to shelf";
- ▶ new method of highlighting and appealingly labelling the key products; and
- ▶ encouraging impulse purchases by an active sales approach.



Montenegro

In the first nine months of 2018, the company Mercator–CG d.o.o. continued its practice of laying down clearly defined goals, with focus on fresh departments – fresh meat, fruit and vegetables, and bakery. We are also focused on the improvement of services with continuous employee training.

In 2018, we shall focus the management of our key categories on the following:

- ▶ choice of optimum assortment that will meet the needs of all our consumers;
- ▶ competitive prices for the best-selling products by respective regions, and innovativeness in promotional sales;
- ▶ signing agreements with suppliers;
- ▶ optimum management of sales area, with additional exposure of key items and projects.

EMPLOYEES

Employees are at the core of our operations as they are the key to customer satisfaction and thereby to the attainment of Mercator Group's goals. Therefore, our activities in human resource management activities are focused on the following:

- ▶ improving the efficiency of the attainment of our goals (optimum usage of the available resources, competencies, and potentials according to the possibilities and situation in the market);
- ▶ the employees are our competitive advantage (quality of service based on integrity and friendly, respectful, and professional communication with the customers);
- ▶ strategic human resource management goals are changing in compliance with the changes in the labour market, consistently with the business policies of the management, regional needs, and characteristics and possibilities or operational implementation at the local level.

At Mercator, communication with the employees takes place in several ways, including meetings, interviews and discussion, and regular notifications on internal websites and in our in-house newsletters.

Our key goal is to have competent, satisfied, and motivated employees.

Regardless of the changes in the business environment (internal and external), Mercator Group complies with the norms laid down by the applicable legislation and restricts any forms of discrimination. We hereby declare that free assembly and association and collective bargaining is not restricted at Mercator Group companies, and that there is no child or forced labour at our companies.

In 2018, we continue the processes of restructuring and reorganization, started in 2014. The goal remains to establish a more efficient work process. The focus remains on our core activity.

As of June 1, 2018, macroorganizational structure at the company Poslovni sistem Mercator d.d. was changed. On the same day, promotions were awarded in the operational part of the company Poslovni sistem Mercator d.d., for the areas of FMCG retail, wholesale, technical consumer goods, hospitality services, and logistics.

On August 15, 2018, the new Collective Contract for the trade/retail activity in Slovenia came into effect, which introduces, among other things, a change in the payment for Sunday work and a restriction regarding work on Sundays and holidays.

On July 1, 2018, changes in macro- and microorganizational structure were introduced at the company Mercator–S d. o. o.; on September 1, 2018, such changes came into effect at Mercator IP d.o.o.

Number of employees

	Number of employees as at September 30, 2018	Number of employees as at December 31, 2017	Index number of employees Sep. 30, 2018 / Dec. 31, 2017	Number of employees based on hours worked in the period 1–9, 2018
Slovenia	9,628	9,762	98.6	8,792
Serbia	8,005	8,301	96.4	7,617
Montenegro	1,434	1,420	101.0	1,332
Croatia	35	38	92.1	37
Bosnia and Herzegovina	1,220	1,280	95.3	1,182
TOTAL	20,322	20,801	97.7	18,960

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

In the period at hand, Mercator Group devoted nearly 109,256 hours to training and education that involved 21,736 employees.

In the period 1–9, 2018, the **Mercator Humanitarian Foundation** provided aid to 111 employees of the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o. in Slovenia, who were in need of help. We paid out humanitarian aid in the total amount of EUR 64,000. In Serbia, we provided aid in the amount of EUR 30,223 to 82 employees.

At the company Poslovni sistem Mercator d.d., expert training for employees at the bread and meat departments were intensively in progress. The 127 workshops held were attended by a total of 756 employees.

Looking to improve the method of expiry date monitoring in retail, we introduced at the company Mercator–S d.o.o. the electronic expiry date records (shelf life management) platform (EKR).

At Mercator–CG d.o.o., we presented at the start of the new school year gifts to 64 first-grade students who are children of our employees. We wished them good luck at the start of their education, and made it easier for the parents to buy school supplies.

At Mercator–BH d.o.o., we introduced, as a trial, team/group rewarding in retail. Such incentives proved an efficient tool for attaining excellent sales results.



Poslovni sistem Mercator d.d.



At the parent company Poslovni sistem Mercator d.d., we carried out **expert training** for employees at the bread and meat departments. 127 workshops on **finishing of pre-baked bread and pastry** was attended by **756 employees**. Category management (UBS) instructors offered 2-hour workshops in the working environment of the organizational units. The participants were able to share experience and expand their practical knowledge.

This spring, the **school for butchers** was conducted in two groups, currently, workshops are in progress for 5 groups of participants. **84 new and existing butchers and their leaders/superiors** will first learn about the strategy of work in the meat departments, selling skills, preparation of products, and management of the working environment. This will be followed by a tour of the meat department. For butchers who have only recently started to work at meat departments, we also provided one-month mentorship programs with experienced employees from the retail units where respective participants work.



This season, we started our **teambuilding workshops on Vogel** in late May. In the autumn, workshops were held in September. The 15 two-day workshops held were attended by a total of **211 employees**. The contents were based on strengthening the bonds in teams, development of competencies of team members, and mutual bonding of the employees.

The project of succession in retail, which currently includes the **5th Retail Academy**, is an example of good practice. The purpose of the project is to create a pool of interior candidates who will be systematically trained in the long run, and prepared to assume key positions in our retail. In February, **60 select candidates** from all parts of Slovenia started their 11-day training.

In May, we also launched the **M Tehnika Academy** that includes **7 employees** from M Tehnika. In the spring part, they joined the participants of the Retail Academy; in the autumn, they continue their work based on the program that is adjusted to the work of M Tehnika, i.e. technical consumer goods.

At Mercator, we are looking to identify **young employees with development potential** who will take over more responsible positions or projects in the future. In May, directors proposed a pool of employees aged up to 35 with at least 7th level of education, working in administration. We continue the activities in autumn when young employees will be included in career interviews and a selection procedure. Employees with high development potential will be included in a talent development program in order to give them an opportunity, to develop them, and to retain them at the company.



Internal coaches also provide continuous support to our development projects. At the company, we started to introduce internal coaching in 2012; currently, there are **13 active internal coaches**. They come from a variety of fields, and they perform the work of an internal coach in addition to their regular work. This year, approximately 60 employees opted for internal coaching; most of them are participants of the 5th Retail Academy. The group of internal coaches also cares for continuous development through regular monthly supervisions and additional training. In this year, they acquired knowledge of new techniques and approaches in coaching, and team

coaching. They also actively take part in conferences and meetings, as the case of introduction of internal coaching at our company is an example of good practice.

In June and August, three groups completed their training at the **stock assistant school**. The participants completed their five-day program in mid-April. In addition to workshops, they spent four days on training at the departments of bread, delicatessen, cash registers, and fruit and vegetables.

To complete the program, the participants also had to write a seminar paper, with support of their personal mentors. The participants addressed a range of topics pertaining to practical work. **Twenty-six employees** successfully completed their training. They all received certificates of internal training for work on the job sales assistant.



Successful work at the **Logistics Management School** has inspired us to continue our in-depth work with key employees. In the summer, we conducted behavioural interviews with some employees, and prepared based on them the **competences complete with description of conduct for the positions of leaders/managers in logistics**. In October, we shall conduct pilot measurements of leader competencies; at the same time, we shall carry out the first sociometric test.

Participants of the School have met again, this time focusing on the topic of **managing emotions for better relations in the team**. They heard a lecture by Izidor Gašperlin, a therapist and the author of the book "I feel, therefore I am!".

As a part of the **Health promotion** project, we:

- ▶ started the training for the **3rd generation of health promoters**. This time, the training includes 36 employees. The training program includes 5 modules and a total of 32 class hours on healthy lifestyle, exercise, nutrition, mental health, and occupational safety.
- ▶ carried out the **week of safe work** titled "**Ergonomic Moving of Loads**" and published on the intranet the materials and a video with highlights on healthy work methods, pointing out the common errors that constitute health hazards.
- ▶ published two **Guides for Leaders**: "Zero tolerance for alcohol and other psychoactive substances in the workplace" and "Disabled persons and work". The purpose of these guides is to promote awareness and to train the leaders on how to act when faced with vulnerable groups of employees.



We made the last days of school holidays more interesting for **59 children** of our employees by inviting them to our **open-door day** that they spent at our office building. We also invited our employees to take part. They responded and successfully played the roles of caretakers for the children. We prepared a musical workshop, a creative workshop, a pastry workshop and a photo workshop for the children.



Parents can use two bonuses for **induction into kindergarten** and **the first day of school**. This year, 83 employees used the extra day of annual leave for kindergarten induction, and 252 employees used the extra day of leave for the first day of school.



In September, we visited **students of the 3rd year of the sales assistant program** at Šolski center Ptuj (Ptuj School Centre). We presented to them the vocation of a sales assistant, especially in terms of skills and knowledge required by a good salesperson, and the opportunities offered by Mercator to students and future employees.



Mercator IP d.o.o.

At the company Mercator IP d.o.o., a new production plant OU Sandwiches and Salads was launched in Slovenske Konjice on January 1, 2018, which makes sandwiches and salads with extended shelf life, and fruit salads. Products made under the **Minute brand** are sold at Mercator's retail stores. At the end of April 2018, we started deliveries of 6 new products to select OMV petrol stations. These products were developed especially for OMV under the label VIVA.

On the last day of May, the **15th Slovenian Symposium of Flour Production (Milling) and Bakery** took place in Portorož. Ingredients for bakery products were the main theme of this expert meeting. Employees from the Food Safety and Internal Control department prepared an interesting lecture titled "Acrylamide and trans fats in bakery products – the time is running out". Thus, they again informed Mercator's suppliers about the new effective legislation on food hazards.



Mercator's **Minute products** won as many as 11 awards at this year's AGRA fair. All award-winning products are made at **Mercator's social enterprise**, proving that freshness and carefully selected ingredients can please the culinary whims of even the most fastidious of customers. We are proud of all employees who take credit for their dedicated and responsible work every day.

As at the end of the third quarter of 2018, the company Mercator IP d.o.o. has 417 employees, of which 218, or 52.3%, are employees with a recognized category of disability.



Mercator-S d.o.o.



"Generation 2018" is a six-month student training program focusing on one of the following areas: category management, IT, logistics, wholesale, human resource management, marketing, legal issues, and finance. **Twenty students** are participating, to whom we wish to offer – with the support of a mentor – knowledge, experience, and the opportunity to become a part of our company after they complete the program. The program will be completed on November 1, 2018.

The project **"Last Day of School, First Day at Mercator"** included in the second quarter the presentation of diplomas to graduates who were hired by the company after they had completed their education. With the new academic year, we continue the project of **dual education**, which is conducted in partnership between the Serbian Chamber of Commerce and Industry, and secondary vocational schools. Mercator-S d.o.o. is working with eight high schools in seven towns in Serbia. For the 2018/19 academic year, practical training was agreed for 141 students in nine different towns.

We continue to work with the National Employment Agency that organizes employment fairs and brokers the hiring of job seekers who find it harder to land a job. We created advanced employer profiles on social networks LinkedIn, Instagram, and Facebook, and through the advertising campaign Infostud.

We are also conducting **socially responsible activities** that include hiring of persons with disabilities, strengthening young Roma families, and hiring of residents of the Zvečanska Maternity Home. As a part of the project "**hiring of persons with disabilities**" we created sales assistant job with adjusted working environment. "**Strengthening of Young Roma Families**" is the next socially responsible project that trains young Roma families for work in retail. We are working with the **Zvečanska Maternity Home** to hire their residents.

In August and September, we organized **specialized training** for the departments of technical consumer goods, healthy food, wine and alcoholic beverages, beauty and care, delicatessen, hospitality services, meat, and fruit and vegetables. The training is intended to improve selling skills and the quality of services at retail stores. In addition to experts from our company, the lecturers included experts working at our suppliers. A total of 1,014 employees took part in the training.

In order to improve the method of monitoring expiry dates in retail, we carried out training for **electronic expiry date records (shelf life management program) platform (EKR)**. Within two months, 674 employees from four regions took part in the training. They learned about the benefits and technical characteristics of the new platform.

In the third quarter, a third-party service provider also organized two 2-day training programs on **manager reporting** which was attended by 27 leaders of respective business areas. In addition, we held a third-party-organized 11-day training for trainers, called **Leader Training**.

At the start of the third quarter, **macro and microorganizational changes** in company management were implemented. Human resource changes were made consistently with the requirements of the work process.



Mercator–CG d.o.o.

In 2018, we established the process of **on-boarding and orientation** for all newly hired employees in retail, which allows structured control over the newly hired employees in the first three months of work at our company. The talent development department and its leaders monitor the newly hired employees from the start of employment to the end of the third month of their work. A list of certain systems and criteria was created to evaluate the progress of newly hired employees. At the end of the third quarter, 26 newly hired employees successfully completed their three-month on-boarding program. Currently, 51 new employees are included in the on-boarding program.



various fields of work.

Coaching network of retail coaches was updated. Human resource management worked with retail, investment, and network development to select 13 business units in 11 towns across Montenegro, which work as so-called employee training centres. This included standardization of all work instructions for trainers and entire educational materials for



Currently, we are focused on training of new employees. The goal of the trainer network is to develop a fast and efficient training method to ensure work according to uniform standards and values. During the operation of the trainer network, 95 newly hired employees were trained.

As a result of higher turnover during the summer, hiring of seasonal workers increases. As many as 181 seasonal workers were hired in coastal towns.

At the start of the new school year, we prepared gift packages for all first-grade students who are children of our employees. A total of 64 children received the presents. In this way, we wished them good luck at the start of their education, and made it easier for the parents to buy school supplies.

**Mercator-BH d.o.o.**

In April and May, we held **training for 24 internal coaches** in order to improve the level of retail employee training and qualification. A total of 9,149 class hours of training and education involving over 4,137 employees were completed by the end of September. The training and education sessions focused on the following subjects: mandatory training, selling skill development, introduction of HACCP standards, security and insurance training, and leadership competence development in retail.



In order to improve the organization and systematization of all jobs for operational units in the sectors of retail and logistics, **new internal acts** were adopted in September for various entities, especially in the fields of department operation, salary calculation and accounting, systematization, and performance appraisal.

Another important activity in the period from April to September was **generating the budgeted revenue and attaining the planned work productivity** at all stores. A decision was made to introduce, on trial basis, **team/group rewarding** in retail. Such incentives have proven an efficient and useful tool for attaining excellent sales results. Therefore, it was included in the acts referred to above.

In order to acquire new skills, knowledge, and work authorizations, and to upgrade the existing ones, the management of the retail and HRM sector conducted in September a **shop manager council** at which the educational contents included issues related to the **system of work and motivation**. The council was conceived of as a combination of interactive presentations and lectures. The goal was to improve the level of expert knowledge and shop manager skills. The lectures were organized in a pleasant and informal environment. The lecturers included in-house directors and heads of sectors. Particular emphasis was placed on issues related to establishment and maintenance of quality in the retail unit systems and processes.

**Mercator-H d.o.o.**

A new gross minimum wage has been effective since January 1, 2018.

Three employees took part in various training and education sessions regarding the European Union's new General Data Protection Regulation (GDPR). We revised our rules and regulations on privacy and appointed a responsible person for personal data protection.

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

In the period 1-9, 2018, Mercator Group's priority in investment activities, consistently with the investment plan, was refurbishment of retail units and setting up new stores acquired through operating lease. Thus, we opened at the period at hand a total of **13 new market (FMCG) program stores**.

We also searched for and evaluated new potential locations to extend Mercator's retail network. Activities took place with regard to divestment of non-operating assets, and regarding the search for investors willing to build or acquire retail area to suit Mercator's needs and then offer these facilities to Mercator on a lease. We released

an international call for quotations for divestment of our non-operating real estate and select shopping centres (within the monetization project). We received multiple non-binding offers, conducted due diligence and negotiations with the selected buyer, and in October, the company Poslovni sistem Mercator d.d. and Supernova already signed the agreement to sell ten shopping centres, with a value of EUR 116.6 million, according to which Poslovni sistem Mercator d.d., will lease for the long term the parts of the shopping centres that it is using for conducting its core activity.

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



Investment and Divestment

In the period 1–9, 2018, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 19.1 million. Of this amount, 56.7% was used for investments in Slovenia and 43.3% was used for investments in international markets.

	Capital expenditure in 1–9, 2018 (in EUR 000)	Structure (in %)
Slovenia	10,830	56.7%
Serbia	4,508	23.6%
Montenegro	1,908	10.0%
Croatia	1,451	7.6%
Bosnia and Herzegovina	408	2.1%
Total	19,105	100.0%

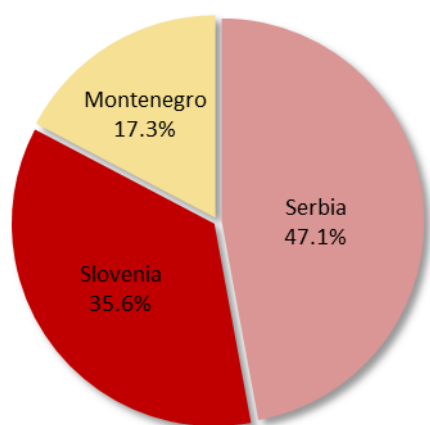
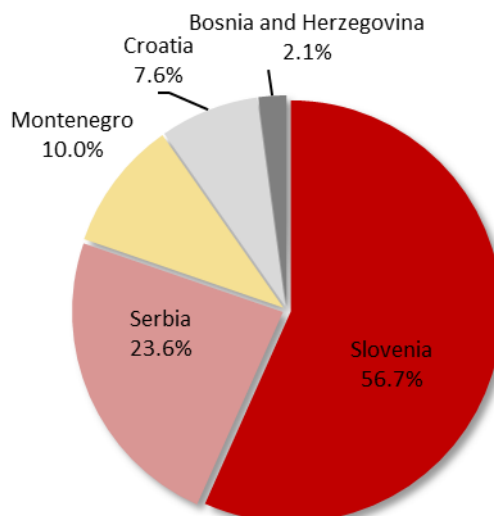
Investment into refurbishment and update existing units accounted for 61.5% of total investments; expansion of new retail units represented 17.5%; IT investments accounted for 13.5%; investments into distribution centres accounted for 2.9%; and the remaining 4.6% was invested in non-trade activities.

In the period 1–9, 2018, Mercator Group newly acquired 6,923 square meters of new gross store area. All new gross area was acquired by operating lease.

In the period 1–9, 2018, Mercator Group divested property, plant, and equipment worth EUR 17.8 million, of which EUR 17.2 million pertains to the divestment of property (real estate) and EUR 0.6 million pertains to plant and equipment.

Monetization project in Slovenia (event after the end of the reporting period)

On October 12, 2018, the company Poslovni sistem Mercator d.d. and Supernova signed an agreement on the sale of ten shopping centres in Slovenia. According to the agreement, valued at EUR 116.6 million, the company Poslovni sistem Mercator d.d., will also lease for the long term the parts of the shopping centres in which it is conducting its core activity. The monetization project is primarily intended for deleveraging and it fosters Mercator Group's long-term development.

Share of newly launched facilities by markets:**Share of investments by market:****Summary of total gross retail area as at September 30, 2018:**

	Gross area in square meters		
	Used for own operations	Leased out	TOTAL
Owned retail area	527,853	390,568	918,421
Leased retail area	411,586	154,574	566,160
Total retail area	939,439	545,142	1,484,581
Owned warehouse capacity	138,318	24,817	163,135
Leased warehouse capacity	63,209	10,508	73,717
Total warehouse capacity	201,527	35,325	236,852
Owned commercial facilities	18,212	3,329	21,541
Leased commercial facilities	7,583	346	7,929
Total commercial facilities	25,795	3,675	29,470
GROSS AREA UNDER MANAGEMENT	1,166,761	584,142	1,750,903
- of which owned	684,383	418,714	1,103,097
- of which leased	482,378	165,428	647,806

Retail unit openings by respective markets in the period 1–9, 2018**SLOVENIA**

Area of new facilities: 2,460 m²

Number of new units: 6

Openings: Market Begunje at Cerknica; Market Unec; Market Godovič; Market Iga vas; Market Šobec; Supermarket Kočevje

Refurbishments/rearrangements:

Number of units: 57

SERBIA**Area of new facilities:** 3,263 m²Number of new units: 2Openings: Market Strumička, Belgrade; Supermarket Roda, Vršac**Refurbishments/rearrangements:**Number of units: 4**MONTENEGRO****Area of new facilities:** 1,200 m²Number of new units: 5Openings: Market Štoj; Market Sutomore 3; Market Gornja Gorica, Podgorica; Market Žabljak; Market Plav**Refurbishments/rearrangements:**Number of units: 13**BOSNIA AND HERZEGOVINA****Refurbishments/rearrangements:**Number of units: 14

RISK MANAGEMENT

At Mercator Group, we are aware of the importance of identifying the potential new risks and opportunities, and implementation of measures to mitigate or hedge the identified risks and to reap the opportunities. Both risks and opportunities are managed within our Value Creation Plan. Consistently with the revised Mercator Group Risk and Opportunity Management Rules of Procedure that specify the requirements, activities, and responsibilities regarding risk and opportunity management at Mercator Group companies, we actively managed in the period 1–9, 2018, the risks and opportunities of the company Poslovni sistem Mercator d.d. and the Mercator Group. We kept the Mercator Group risk and opportunity register up to date. We introduced 160 measures to mitigate the risks or reap opportunities for the year 2018, based on our risk and opportunity analysis.

Key areas of Mercator Group's risks and opportunities

STRATEGIC risks and opportunities	Strategic field includes risks and opportunities pertaining to devising and executing the company strategy, stability of ownership, and company reputation. These risks and opportunities pertain to the questions of what our customers, procurement sources, services, and sales channels will be like in the medium run.
FINANCIAL risks and opportunities	Financial field includes risks and opportunities pertaining to financial management. They involve credit, interest rate, currency, liquidity, inflation, price, and other similar risks.
OPERATIONAL risks and opportunities	Operational field includes risks and opportunities that can threaten the operations in category management and purchasing, production, logistics, retail, and wholesale.
SUPPORT risks and opportunities	Support field includes risks and opportunities pertaining to employees, legal affairs, property and equipment management, IT support, and management of loss events.
COMPLIANCE risks and opportunities	The field of compliance includes risks and opportunities pertaining to compliance with the requirements of the accounting legislation and standards, tax requirements, occupational health and safety, requirements regarding health compliance and safety of food in production and trade, and risks related to identified environmental aspects.

Based on the analysis of risks and opportunities for 2018, we find that the Mercator Group will be the most exposed in 2018 to financial, corporate, and support risks. With regard to all groups of risks and opportunities, we find that among all companies of the Mercator Group, the company Poslovni sistem Mercator d.d. as the controlling and largest company within the Group has the highest exposure.

FINANCIAL MANAGEMENT

Stable Financial Operations

As at September 30, 2018, Mercator Group's net financial debt amounted to EUR 738,256 thousand, which is 10.9% less than as at the end of 2017, and 11.2% less than as at September 30, 2017.

	Sep. 30, 2017	Dec. 31, 2017	Sep. 30, 2018	Change Sep. 30, 2018/ Sep. 30, 2017	Change Sep. 30, 2018/ Dec. 31, 2017
in EUR thousand					
Non-current borrowings and other financial liabilities	791,822	765,309	641,713	-19.0%	-16.1%
Current borrowings and other financial liabilities	100,373	116,391	141,884	41.4%	21.9%
Financial liabilities	892,194	881,700	783,598	-12.2%	-11.1%
Cash and cash equivalents	30,232	24,112	14,992	-50.4%	-37.8%
Available-for-sale financial assets	462	391	386	-16.5%	-1.3%
Non-current and current loans and deposits	29,918	28,980	29,963	0.2%	3.4%
Financial assets	60,612	53,483	45,342	-25.2%	-15.2%
Net financial debt*	831,582	828,217	738,256	-11.2%	-10.9%
Net financial debt / normalized EBITDA	16.0	9.1	7.2	-55.1%	-21.5%

*At the end of 2017, consistently with the revised accounting policy, the interest due for payment upon loan maturity (PIK interest) was re-classified from long-term operating liabilities to long-term financial liabilities. For comparability of data, changes are also presented as at September 30, 2017. Moreover, financial interest is calculated in the interim report based on the average effective interest rate. As a result, financial liabilities are adjusted relative to the preceding reporting period.

Financing costs

In the period 1–9, 2018, the 6-month EURIBOR averaged at -0.270%. At the end of the period, it was at -0.268%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at -0.255%, this rate fell by 0.015 percentage point.

Security of bank loans

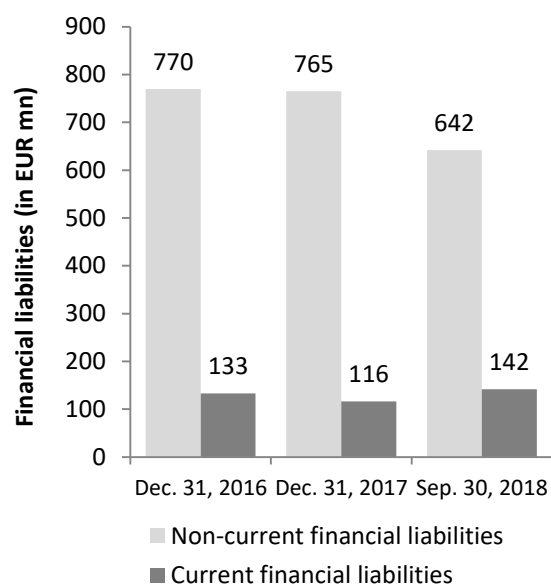
Restructuring of Mercator Group's financial liabilities included securing such liabilities with mortgages on Mercator's own real property, with financial investments into subsidiaries, receivables, inventories, and funds/deposits in bank accounts.

Debt to equity and financial liability ratio

As at September 30, 2018, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.50. The ratio is a quotient between equity and net financial debt.

In recent years, Mercator Group succeeded in improving the composition of financial liabilities by maturity (maturity profile) by completing its financial restructuring. The share of non-current financial liabilities in total financial liabilities as at September 30, 2018, amounted to 81.9% (86.8% as at December 31, 2017). A considerable part of current financial liabilities is of non-current nature as the creditors are committed to revolving or renewing the loans until their final maturity, based on the Master Restructuring Agreement (MRA). The WGD finally matures in 2021, and the Serbian Deal finally matures in 2020.

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

**Available liquidity lines as at September 30, 2018**

As at September 30, 2018, Mercator Group had access to the following liquidity lines:

in EUR thousand	Sep. 30, 2018
Cash and cash equivalents	14,992
Standby revolving credit lines	31,116
Total	46,108

MERCATOR SHARE AND INVESTOR RELATIONS

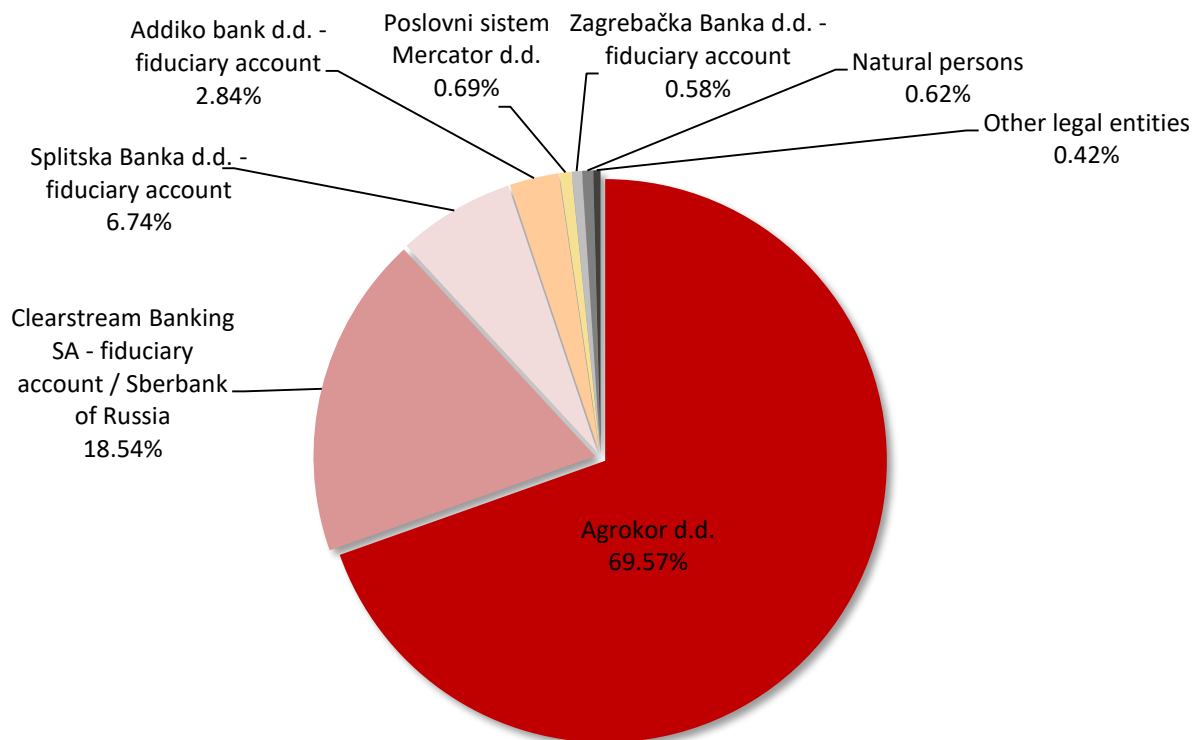
Share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator d.d., as at September 30, 2018:



Code/Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska Borza d.d.
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of treasury shares	42,192
Number of shareholders	1,617

Ownership structure of the company Poslovni sistem Mercator d.d., as at September 30, 2018:



Major Shareholders

As at September 30, 2018 the following ten largest shareholders held a combined share of **98.66%** of the company.

	Major Shareholders	Country	Number of shares	Share
1	Agrokor d.d.	Croatia	4,237,376	69.57%
2	Clearstream Banking SA -fiduciary account / Sberbank of Russia	Luxembourg	1,129,058	18.54%
3	Splitska Banka, d.d. - fiduciary account	Croatia	410,339	6.74%
4	Addiko bank, d.d. - fiduciary account	Croatia	172,755	2.84%
5	Zagrebačka Banka, d.d. - fiduciary account	Croatia	35,143	0.58%
6	Hrvatska poštanska banka, d.d. - fiduciary account	Croatia	21,575	0.35%
7	BNP Paribas Securities Services S.C.A	France	1,107	0.02%
8	Fortunat Miloš	Slovenia	800	0.01%
9	Verbič Tomaž	Slovenia	600	0.01%
10	Bahovec, d.o.o.	Croatia	556	0.01%
	Total		6,009,309	98.66%

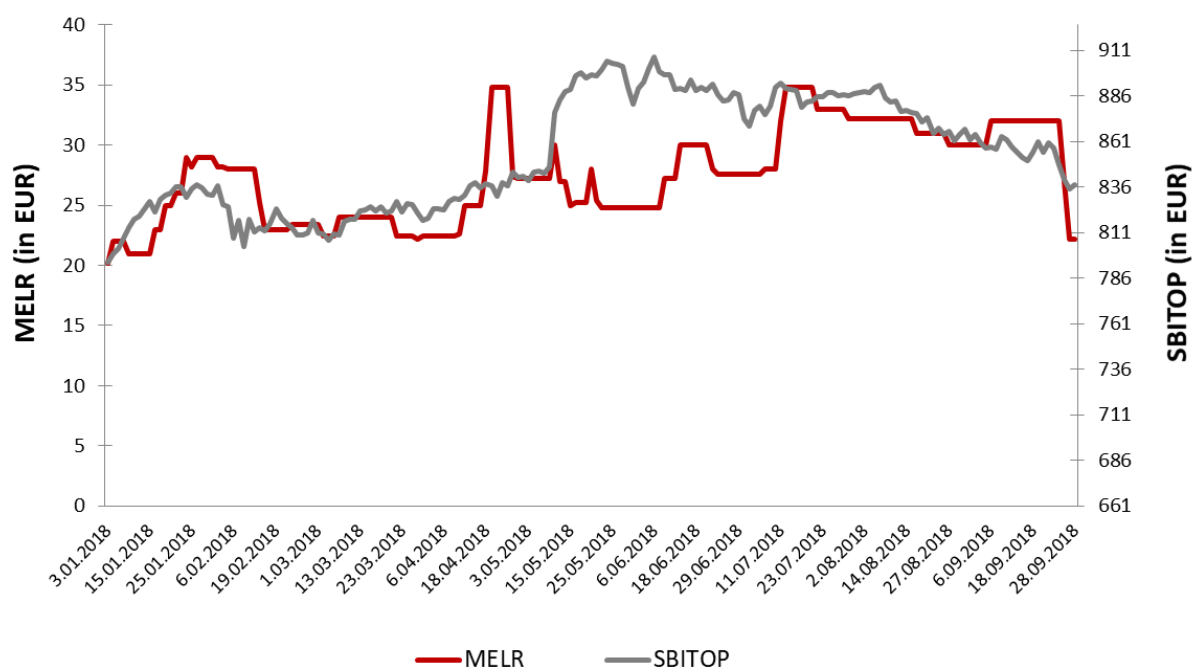
Shares held by Management and Supervisory Board Members as at September 30, 2018

Management Board and Supervisory Board Members of Poslovni sistem Mercator d.d. did not own shares of the company Poslovni sistem Mercator d.d., as at September 30, 2018.

Foreign shareholders

As at September 30, 2018, the share of international investors in the company Poslovni sistem Mercator d.d. was **98.68%**, and it did not change in comparison to December 31, 2017.

Movement of closing price per MELR share in the period 1–9, 2018, compared to the movement of the SBITOP index



Key information for the shareholders

	restated Sep. 30, 2017*	Sep. 30, 2018	Change Sep. 30, 2018/ restated Sep. 30, 2017*
Number of shares registered in Court Register	6,090,943	6,090,943	0.0%
Number of treasury shares	42,192	42,192	0.0%
Market capitalization (in EUR)	213,183,005	135,218,935	-36.6%
Market value of share (in EUR)	35.00	22.20	-36.6%
Book value per share (in EUR)	93.61	72.52	-22.5%
Minimum close rate in the period (in EUR)	35.00	20.20	-42.3%
Maximum close rate in the period (in EUR)	68.00	34.80	-48.8%
Average close rate in the period (in EUR)	49.62	27.49	-44.6%
Earnings per share (in EUR)	3.23	3.21	-0.8%

Market capitalization is calculated by multiplying the number of shares entered into the court register as at September 30 with market price per share as at September 30.

Book value per share is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator d.d. as at September 30, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Earning per share is calculated as the ratio between net profit of the company Poslovni sistem Mercator d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares. The indicator is adjusted to the annual level.

* The Group changed the accounting policy on reporting of interest (changes to accounting policies are presented in more detail in the financial part of the Report).

Dividend policy

Dividend payment in 2018, pertaining to the distributable profit from 2017, is not planned.

Treasury shares

As at September 30, 2018, the company Poslovni sistem Mercator d.d., held 42,192 treasury shares. In the period 1–9, 2018 the company Poslovni sistem Mercator d.d., neither acquired nor disposed of treasury shares.

Investors

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

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

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d., for the period 1–9, 2018, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND THE COMPANY POSLOVNI SISTEM MERCATOR D.D.

Poslovni sistem Mercator d.d. is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Consolidated financial statements for the period 1–9, 2018, include the company Poslovni sistem Mercator, d.d., and its subsidiaries (hereinafter jointly referred to as the "Mercator Group"), as follows:

- ▶ in Slovenia: Mercator–Emba d.d., Mercator IP d.o.o., M–Energija d.o.o.,
- ▶ abroad: Mercator–H d.o.o., Croatia; Mercator–S d.o.o., Serbia; Mercator–BH, d.o.o., Bosnia and Herzegovina; Mercator–CG d.o.o., Montenegro; Mercator Macedonia, d.o.o.e.l., Macedonia; Investment Internacional, d.o.o.e.l., Macedonia.

Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

Consolidated Statement of Financial Position of the Mercator Group and Statement of Financial Position of the company Poslovni sistem Mercator d.d.

in EUR thousand	<i>Mercator Group</i>		<i>Poslovni sistem Mercator d.d.</i>	
	Sep. 30, 2018	Dec. 31, 2017	Sep. 30, 2018	Dec. 31, 2017
ASSETS				
Total non-current assets				
Property, plant and equipment	1,122,425	1,159,237	719,253	736,152
Investment property	238,374	244,316	4,552	4,838
Intangible assets	20,339	20,632	12,253	12,573
Deferred tax assets	38,095	42,920	35,375	40,184
Loans/deposits given	27,153	24,491	2,564	99,641
Available-for-sale financial assets	386	391	259	259
Capital investments in Group companies			321,666	190,798
	1,446,772	1,491,988	1,095,922	1,084,445
Total current assets				
Assets held for sale	117,508	117,146	95,485	95,203
Inventories	199,161	210,233	101,666	104,950
Trade and other receivables	184,810	228,168	73,887	71,239
Current tax assets	292	244	-	-
Loans/deposits given	2,810	4,833	130	27,180
Cash and cash equivalents	14,992	24,112	7,358	11,635
	519,574	584,736	278,526	310,208
Total assets	1,966,346	2,076,723	1,374,448	1,394,652
EQUITY				
Nominal capital	254,175	254,175	254,175	254,175
Capital surplus	6,381	207,523	6,381	207,523
Treasury shares	(3,235)	(3,235)	(3,235)	(3,235)
Revenue reserves	42,830	42,830	16,624	16,624
Fair value reserve	200,008	200,181	145,599	149,214
Retained net profit or loss	66,551	45,102	4,561	2,584
Net profit/loss for the period	8,902	(184,284)	14,547	(203,726)
Currency translation reserve	(83,582)	(84,029)		
Equity attributable to the controlling company owners	492,030	478,261		
Non-controlling interests	282	140		
Total equity	492,311	478,401	438,652	423,159
LIABILITIES				
Total non-current liabilities				
Trade and other payables	7,128	7,174	1,012	1,012
Loans received and other financial liabilities	641,713	765,309	440,577	539,291
Deferred tax liabilities	50,672	51,534	39,816	40,684
Provisions	27,743	29,683	24,220	25,377
	727,255	853,701	505,625	606,365
Total current liabilities				
Trade and other payables	604,430	626,963	310,588	303,621
Current tax liabilities	465	1,268	-	-
Loans received and other financial liabilities	141,884	116,391	119,583	61,507
	746,779	744,622	430,170	365,128
Total liabilities	1,474,035	1,598,322	935,795	971,493
Equity and liabilities	1,966,346	2,076,723	1,374,448	1,394,652

Consolidated Income Statement of the Mercator Group and Income Statement of the company Poslovni sistem Mercator d.d.

in EUR thousand	Mercator Group		Poslovni sistem Mercator d.d.	
	1–9, 2018	1–9, 2017 restated*	1–9, 2018	1–9, 2017 restated*
Sales revenue	1,617,327	1,591,945	880,009	886,462
Cost of goods sold and selling costs	(1,549,596)	(1,533,736)	(827,214)	(836,253)
Administrative expenses	(51,818)	(56,011)	(25,357)	(27,393)
Other operating revenue	19,857	11,721	4,854	7,448
Results from operating activities	35,770	13,919	32,291	30,264
Finance revenue	3,762	6,500	7,650	4,540
Finance expenses	(25,260)	(26,286)	(20,508)	(15,922)
Net finance expense	(21,498)	(19,786)	(12,857)	(11,382)
Profit or loss before tax	14,271	(5,866)	19,434	18,882
Tax	(5,368)	(4,655)	(4,887)	(4,213)
Net profit/loss for the period	8.903	(10.521)	14.547	14.669
Net profit/loss for the period attributable to:				
Owners of the controlling company	9,054	(10,492)		
Non-controlling interests	(151)	(29)		

*Following are the adjustments and effects of changes on the financial statements:

- ▶ Since January 1, 2018, Mercator Group and the company Poslovni sistem Mercator d.d. have recorded consignment in compliance with the IFRS 15, according to net method. Mercator has also revised reports for the preceding period, which were based on the gross method.
- ▶ At the end of 2017, Mercator Group and the company Poslovni sistem Mercator d.d. changed their accounting policies for discounts and allowances to comply with the IFRS 15. Before, these were included in sales revenue; after the change of the accounting policy and pursuant to IFRS 15, they are now subtracted from the cost of goods sold. The change is, in compliance with the IFRS 15, also presented for the period 1–9, 2017.
- ▶ Mercator Group and the company Poslovni sistem Mercator d.d. report their financial interest based on average effective interest rate for the borrowings at the annual level (i.e. based on the per annum interest rates); since January 1, 2018, Mercator also reports their financial interest expense at the interim level.

Consolidated Statement of Other Comprehensive Income of the Mercator Group and Statement of Other Comprehensive Income of the company Poslovni sistem Mercator d.d.

in EUR thousand	<i>Mercator Group</i>		<i>Poslovni sistem Mercator d.d.</i>	
	1–9, 2018	1–9, 2017 restated	1–9, 2018	1–9, 2017 restated
Net profit/loss for the period	8,903	(10,521)	14,547	14,669
Other comprehensive income:				
Items subsequently not reclassified to profit or loss	1,093	-	947	259
Other changes	142	-	-	-
Deferred tax for items subsequently not reclassified to profit or loss	951	-	947	259
Items that may be reclassified subsequently to profit or loss	449	4,829	-	-
Foreign currency translation differences	448	4,859	-	-
Net change in fair value of available-for-sale financial assets	1	-	-	-
Deferred tax for items that may be reclassified subsequently to profit or loss	-	(30)	-	-
Other comprehensive income for the period	1,542	4,829	947	259
Total comprehensive income for the period	10,446	(5,692)	15,493	14,928
Total comprehensive income for the period attributable to:				
Owners of the controlling company	10,304	(5,745)		
Non-controlling interests	142	53		

Consolidated Statement of Changes in Equity of the Mercator Group

Mercator Group

in EUR thousand	Nominal capital	Capital surplus	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/loss for the period	Currency translation reserve	Equity attributable to the controlling company owners	Non-controlling interests	Total equity
Balance as at January 1, 2017	254,175	286,772	(3,235)	41,686	104,541	37,514	(72,463)	(91,720)	557,270	107	557,376
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(10,492)	-	(10,492)	(29)	(10,521)
Other comprehensive income	-	-	-	-	(476)	446	-	4,777	4,747	82	4,829
Total comprehensive income for the period	-	-	-	-	(476)	446	(10,492)	4,777	(5,745)	53	(5,692)
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit for the previous year to retained earnings	-	-	-	-	-	6,786	72,463	-	79,249	-	79,249
Coverage of losses pursuant to the Management Board decision	-	(79,249)	-	-	-	-	-	-	(79,249)	-	(79,249)
Total transactions with owners	-	(79,249)	-	-	-	6,786	72,463	-	-	-	-
Balance as at September 30, 2017 restated	254,175	207,523	(3,235)	41,686	104,065	44,746	(10,492)	(86,943)	551,524	160	551,684

in EUR thousand	Nominal capital	Capital surplus	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/loss for the period	Currency translation reserve	Equity attributable to the controlling company owners	Non-controlling interests	Total equity
Balance as at January 1, 2018	254,175	207,523	(3,235)	42,830	200,181	45,102	(184,284)	(84,029)	478,261	140	478,401
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	8,902	-	8,902	2	8,903
Other comprehensive income	-	-	-	-	(3,637)	4,592	-	447	1,402	140	1,542
Total comprehensive income for the period	-	-	-	-	(3,637)	4,592	8,902	447	10,304	142	10,446
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit (loss) for the previous year to retained earnings	-	-	-	-	-	19,442	(19,442)	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	(201,141)	-	-	3,464	(2,584)	203,726	-	3,465	-	3,465
Total transactions with owners	-	(201,141)	-	-	3,464	16,857	184,285	-	3,465	-	3,465
Balance as at September 30, 2018	254,175	6,381	(3,235)	42,830	200,008	66,551	8,902	(83,582)	492,030	282	492,311

Statement of Changes in Equity of the company Poslovni sistem Mercator d.d.

Poslovni sistem Mercator d.d.

in EUR thousand	Nominal capital	Capital surplus	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/loss for the period	Total equity
Balance as at January 1, 2017	254,175	286,772	(3,235)	16,624	76,196	(1,802)	(77,447)	551,283
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	14,669	14,669
Other comprehensive income	-	-	-	-	(475)	735	-	259
Total comprehensive income for the period	-	-	-	-	(475)	735	14,669	14,928
Transactions with owners directly recognized in equity								
Contributions by and distributions to owners								
Transfer of net profit for the previous year to retained earnings	-	-	-	-	-	1,802	77,447	79,249
Coverage of losses pursuant to the Management Board decision	-	(79,249)	-	-	-	-	-	(79,249)
Total transactions with owners	-	(79,249)	-	-	-	1,802	77,447	-
Balance as at September 30, 2017 restated	254,175	207,523	(3,235)	16,624	75,721	735	14,669	566,212

in EUR thousand	Nominal capital	Capital surplus	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/loss for the period	Total equity
Balance as at January 1, 2018	254,175	207,523	(3,235)	16,624	149,214	2,584	(203,726)	423,159
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	14,547	14,547
Other comprehensive income	-	-	-	-	(3,614)	4,561	-	947
Total comprehensive income for the period	-	-	-	-	(3,614)	4,561	14,547	15,493
Transactions with owners directly recognized in equity								
Contributions by and distributions to owners								
Transfer of net profit for the previous year to retained earnings	-	-	-	-	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	(201,141)	-	-	-	(2,584)	203,726	-
Total transactions with owners	-	(201,141)	-	-	-	(2,584)	203,726	-
Balance as at September 30, 2018	254,175	6,381	(3,235)	16,624	145,599	4,561	14,547	438,652

Consolidated Cash Flow Statement of the Mercator Group and Cash Flow Statement of the company Poslovni sistem Mercator d.d.

in EUR thousand	<i>Mercator Group</i>		<i>Poslovni sistem Mercator d.d.</i>	
	1–9, 2018	1–9, 2017 restated	1–9, 2018	1–9, 2017 restated
Cash flows from operating activities				
Cash flow from operating activities before changes in working capital	74,671	65,140	55,334	50,506
Change in inventories	11,993	12,143	4,006	11,518
Change in trade and other receivables	(1,477)	(3,953)	(3,200)	(2,566)
Change in trade and other payables, and provisions	(17,081)	(18,998)	5,771	(27,499)
	68,106	54,332	61,912	31,959
Net foreign exchange differences from financing activities	2,780	5,530	(2)	46
Interest expenses	(23,151)	(25,219)	(14,939)	(14,223)
Cash from operating activities	47,734	34,643	46,971	17,782
Cash flows from investing activities				
Acquisition of subsidiaries and business operations, net of cash acquired, recapitalization of companies			-	(35,620)
Acquisition of property, plant and equipment, investment property and intangible assets	(19,105)	(36,602)	(10,192)	(13,227)
Proceeds from sale of property, plant and equipment, investment property and intangible assets	62,107	12,193	4,239	8,347
Net other financial revenue (expenses)	(1,925)	-	(970)	-
Interest income	790	706	3,053	4,205
Net loans and deposits made/received	(640)	9,577	(6,741)	24,035
Cash from investing activities	41,228	(14,126)	(10,610)	(12,260)
Cash flows from financing activities				
Net proceeds (repayment) in borrowings	(98,102)	(16,790)	(40,638)	1,657
Cash from financing activities	(98,102)	(16,790)	(40,638)	1,657
Net increase (decrease) in cash and cash equivalents	(9,141)	3,727	(4,277)	7,179
Cash and cash equivalents at beginning of the year	24,112	26,318	11,635	13,344
Effect of exchange rate fluctuations on cash and cash equivalents	21	187		
Cash and cash equivalents at end of the period	14,992	30,232	7,358	20,523

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR D.D.

Notes to consolidated Statement of Financial Position of the Mercator Group and the Statement of Financial Position of the company Poslovni sistem Mercator d.d.

MERCATOR GROUP

POSLOVNI SISTEM MERCATOR D.D.

Assets

Mercator Group assets as at September 30, 2018, amounted to EUR 1,966,346 thousand, which is EUR 110,377 thousand less than at the end of 2017.

As at September 30, 2018, the value of Mercator Group's non-current assets amounted to EUR 1,446,772 thousand, which is EUR 45,215 thousand less than as at December 31, 2017. Fixed assets represent the largest share of non-current assets at 95.5% (EUR 1,381,139 thousand), which is EUR 43,046 thousand less than at the end of 2017.

As at September 30, 2018, the value of Mercator Group's current assets amounted to EUR 519,574 thousand, which is EUR 65,162 thousand less than as at the end of 2017. The largest share thereof includes inventories (38.3%) and trade and other receivables (35.6%).

Equity and liabilities

As at September 30, 2018, Mercator Group share capital amounted to EUR 492,311 thousand, which is EUR 13,910 thousand more than as at the end of 2017.

As at September 30, 2018, Mercator Group's total financial liabilities amounted to EUR 783,598 thousand, which is EUR 98,102 thousand less than as at the end of 2017. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group's financial liabilities and financial assets, amounted to EUR 738,256 thousand as at September 30, 2018 (December 31, 2017: EUR 828,217 thousand).

As at September 30, 2018, Mercator Group's provisions amounted to EUR 27,743 thousand. Compared to the end of 2017, provisions have decreased by EUR 1,941 thousand.

Mercator Group's trade and other payables as at September 30, 2018, amounted to EUR 611,557 thousand, which is EUR 22,579 thousand less than at

Assets of the company **Poslovni sistem Mercator d.d.** as at September 30, 2018, amounted to EUR 1,374,448 thousand, which is EUR 20,204 thousand less than at the end of 2017.

As at September 30, 2018, the value of the company's non-current assets amounted to EUR 1,095,922 thousand, which is EUR 11,477 thousand more than as at December 31, 2017. Fixed assets represent the largest share of non-current assets at 67.2% (EUR 736,059 thousand), which is EUR 17,504 thousand less than at the end of 2017.

As at September 30, 2018, the value of company's current assets amounted to EUR 278,526 thousand, which is EUR 31,682 thousand less than as at the end of 2017. The largest share of current assets includes inventories (36.5%) and assets available for sale (34.3%).

Equity of the company Poslovni sistem Mercator d.d. as at September 30, 2018 amounts to EUR 438,652 thousand, which is an increase of EUR 15,493 thousand relative to the end of 2017, pertaining mostly to net profit.

As at September 30, 2018, total financial liabilities of the company amount to EUR 560,160 thousand, which means that the company has deleveraged by EUR 40,638 thousand since December 31, 2017.

As at September 30, 2018, the company's provisions amounted to EUR 24,220 thousand. Compared to the end of 2017, provisions have decreased by 4.6%.

The company's trade and other payables as at September 30, 2018, amounted to EUR 311,600

the end of 2017, mostly due to decrease in current trade payables.

As at September 30, 2018, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 84.3%, which is 5.0 percentage points less than as at the end of 2017.

thousand, which is 2.3% more than at the end of 2017.

Notes to consolidated Income Statement of the Mercator Group and the Income statement of the company Poslovni sistem Mercator d.d.

MERCATOR GROUP

Revenue

In the period 1–9, 2018, Mercator Group generated EUR 1,617 million of net revenue, which is 1.6% more than in the corresponding period of the previous year. New strategy, new store concept, store refurbishments, and improved competitiveness have yielded positive results in the core activity where we saw our revenue increase by 5.4% relative to the comparable period of the year before. Re-establishment of retail operations in the market of Bosnia and Herzegovina in september 2017 also had a positive effect on Mercator Group revenue.

Costs

Mercator Group costs of sales, which include the cost of goods sold, production costs, selling costs, and other expenses, amounted to EUR 1,549,596 thousand in the period 1–9, 2018, which is 1,0% more than in the comparable period last year.

Mercator Group's administrative expenses in the period 1–9, 2018, amounted to EUR 51,818 thousand, which is 7.5% less than in the comparable period last year.

Results from operating activities

In the period 1–9, 2018, Mercator Group's results from operating activities (EBIT) reached EUR 35,770 thousand, which is a considerable improvement over the comparable result for the same period last year, by EUR 21,850 thousand.

Net finance expenses

In the period 1–9, 2018, Mercator Group's finance income amounted to EUR 3,762 thousand, which is EUR 2,738 thousand less than in the comparable period of the year before, especially due to lower effect of positive currency translation differences in Serbia.

POSLOVNI SISTEM MERCATOR D.D.

In the period 1–9, 2018, the company Poslovni sistem Mercator, d.d., generated EUR 880,009 thousand of revenue, which is 0.7% less than in the period 1–9, 2017. Performance of the core activity in which our revenue was higher than compared to the equivalent period of the year before had a positive effect on the revenue of the company Poslovni sistem Mercator d.d. The drop of total revenue was mostly a result of the events and developments regarding the Agrokor Group, decrease of revenue in transit, and loss of revenue in the agricultural equipment program.

Costs of sales of the company Poslovni sistem Mercator d.d., which include the cost of goods sold, production costs, selling costs, and other expenses, amounted to EUR 827,214 thousand in the period 1–9, 2018, which is a 1.1% decrease relative to the comparable period of last year.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–9, 2018, amounted to EUR 25,357 thousand, which is 7.4% less than in the comparable period last year.

In the period 1–9, 2018, results from operating activities (EBIT) of the company Poslovni sistem Mercator d.d. reached EUR 32,291 thousand, which is 6.7% more than the comparable result for the same period of last year.

Finance income of the company Poslovni sistem Mercator d.d. amounted to EUR 7,650 thousand in the period 1–9, 2018, which is more than in the comparable period of the preceding year, due to a reversal of impairment of a loan extended to the

Mercator Group's finance expenses in the period 1–9, 2018, amounted to EUR 25,260 thousand, which is 1,026 thousand EUR less than in the comparable period of last year. Impairments at the company Poslovni sistem Mercator d.d. relative to the company M-Energija d.o.o., did not affect Mercator Group's net financial result.

MERCATOR GROUP

Profit before income tax

In the period 1–9, 2018, Mercator Group's results profit before income tax amounted to EUR 14,271 thousand, which is EUR 20,138 thousand more than the comparable figure for the same period of last year.

Profit for the financial period

Mercator Group's net income (profit) for the period 1–9, 2018, amounts to EUR 8,903 thousand, which is EUR 19,425 thousand more than the comparable result for the same period of last year.

EBITDA and EBITDAR

Mercator Group EBITDA in the period 1–9, 2018, amounted to EUR 86,838 thousand which is 24.7% more than comparable result for the equivalent period of last year.

Mercator Group EBITDAR in the period 1–9, 2018, amounted to EUR 137,838 thousand, which is 11.8% more than the comparable result for the equivalent period of last year.

subsidiary M-Energija d.o.o., in the amount of EUR 4,413 thousand.

In the period 1–9, 2018, finance expenses also increased especially due to impairment of the long-term financial investment into the company M-Energija d.o.o., in the amount of EUR 4,413 thousand; thus, they amounted to EUR 20,508 thousand.

As a result, impairments related to the company M-Energija d.o.o. have a neutral effect on net finance expenses in the period 1–9, 2018.

POSLOVNI SISTEM MERCATOR D.D.

Profit before income tax for the company Poslovni sistem Mercator d.d. for the period 1–9, 2018, amounted to EUR 19,434 thousand, which is EUR 552 thousand more than the comparable result for the equivalent period of last year.

Net profit of the company Poslovni sistem Mercator d.d. in the period 1–9, 2018, amounted to EUR 14,547 thousand, which represented comparable result for the equivalent period of the year before.

EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–9, 2018, amounted to EUR 56,608 thousand, which is 3.5% more than the comparable result for the same period of last year.

EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–9, 2018, amounted to EUR 63,645 thousand which is 3.3% more than the comparable result for the equivalent period of last year.

MANAGEMENT RESPONSIBILITY STATEMENT

The Management Board of the company Poslovni sistem Mercator d.d., hereby confirms that the interim financial report of the company Poslovni sistem Mercator d.d., and the Mercator Group for the period ended on September 30, 2018, 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 net 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.

Ljubljana, November 12, 2018



Tomislav Čizmić
President of the Management Board



Draga Cukjati
Member of the Management Board



Igor Mamuza
Member of the Management Board



Gregor Planteu
Extraordinary Member of the Management Board