



**BUSINESS REPORT OF THE MERCATOR GROUP  
AND THE COMPANY POSLOVNI SISTEM  
MERCATOR D.D. FOR THE PERIOD 1–3, 2019**



**Mercator**  
*moj najboljši sosed*

# TABLE OF CONTENTS

• EXECUTIVE SUMMARY .....	1
<b>INTRODUCTION.....</b>	<b>2</b>
• PROFILE AND ORGANIZATION .....	2
• BUSINESS STRATEGY .....	4
• PERFORMANCE HIGHLIGHTS .....	6
• REVIEW OF KEY EVENTS .....	7
<b>BUSINESS REPORT.....</b>	<b>8</b>
• SALES.....	8
• SALES NETWORK.....	9
• FINANCIAL MANAGEMENT.....	11
• MERCATOR SHARE AND INVESTOR RELATIONS .....	13
<b>FINANCIAL REPORT .....</b>	<b>16</b>
• ACCOUNTING POLICIES .....	16
• CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND THE COMPANY POSLOVNI SISTEM MERCATOR D.D.....	16
• NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR D.D.....	23
• MANAGEMENT RESPONSIBILITY STATEMENT .....	27

# EXECUTIVE SUMMARY

**In the first three months of 2019, Mercator Group sales revenue amounted to EUR 499,798 thousand, and its operating profit (EBIT) amounted to EUR 9,648 thousand. In February, the transaction of divestment of ten shopping centres in Slovenia was successfully completed. In March, the retail company Mercator celebrated its 70th anniversary in Slovenia.**

## **Mercator Group performance highlights in the period 1–3, 2019**

In the first quarter of 2019, Mercator Group revenue amounted to EUR 499,798 thousand. Slovenia remains Mercator Group's most important market and the company Poslovni sistem Mercator d.d. saw its revenue increase in this market relative to the same period of last year. Sales revenue at the Mercator Group level in the first quarter is consistent with the budget, but it is lower than in the comparable period of the preceding year, especially due to a different date of the Easter holidays, and opening of new store area by our competitors. In 2018, most of Easter shopping was done in late March, while in 2019, most Easter shopping was done in mid-April and it is therefore not included in the results reported herein. The effect of opening of new retail area by our competitors could be felt particularly in Serbia where a new competitor entered the market in late 2018.

Mercator Group operating profit (EBIT) in the period 1–3, 2019, amounted to EUR 9,648 thousand, which is 5.6% more than in the equivalent period of the year before; however, the data is not entirely comparable between the two periods. As of January 1, 2019, a new international accounting standard (International Financial Reporting Standard) IFRS 16 Leases came into effect, which affects the operating profit (EBIT). Mercator Group and the company Poslovni sistem Mercator d.d. decided for the modified retrospective approach to application of the IFRS 16 (retroactive use with cumulative effect). Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR), which is not affected by the introduction of the new standard, amounted to EUR 40,586 thousand in 1–3, 2019, which is an improvement of 1.7%. Normalized EBITDAR margin increased by 0.4 percentage point in the period 1–3, 2019 relative to the comparable period of the preceding year, to reach 8.1%.

## **Completion of the transaction for real estate monetization in Slovenia**

On October 12, 2018, the company Poslovni sistem Mercator d.d. and companies Supernova signed an agreement on the sale of ten shopping centres in Slovenia. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator will take on long-term lease the parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities.

## **Mercator celebrates its 70th anniversary**

In March, Mercator celebrated 70 years since the founding of the retailer's legal predecessor in Slovenia. A communication campaign was devised on this occasion, describing Mercator's presence in our everyday life.

## **Major events following the end of period at hand**

As of April 1, 2019, the company Fortenova grupa d.d. commenced its operations, which was founded based on the implementation of the agreement between the Agrokor creditors. The healthy companies from the Agrokor Group system will be gradually transferred to the new company (including Mercator). One of the prerequisites for the company Poslovni sistem Mercator d.d. to be transferred to the newly founded Fortenova Group is the approval by Mercator's creditor banks, approval by competent institution for the protect competition, and successfully completed takeover bid for the shares of the company Poslovni sistem Mercator d.d.

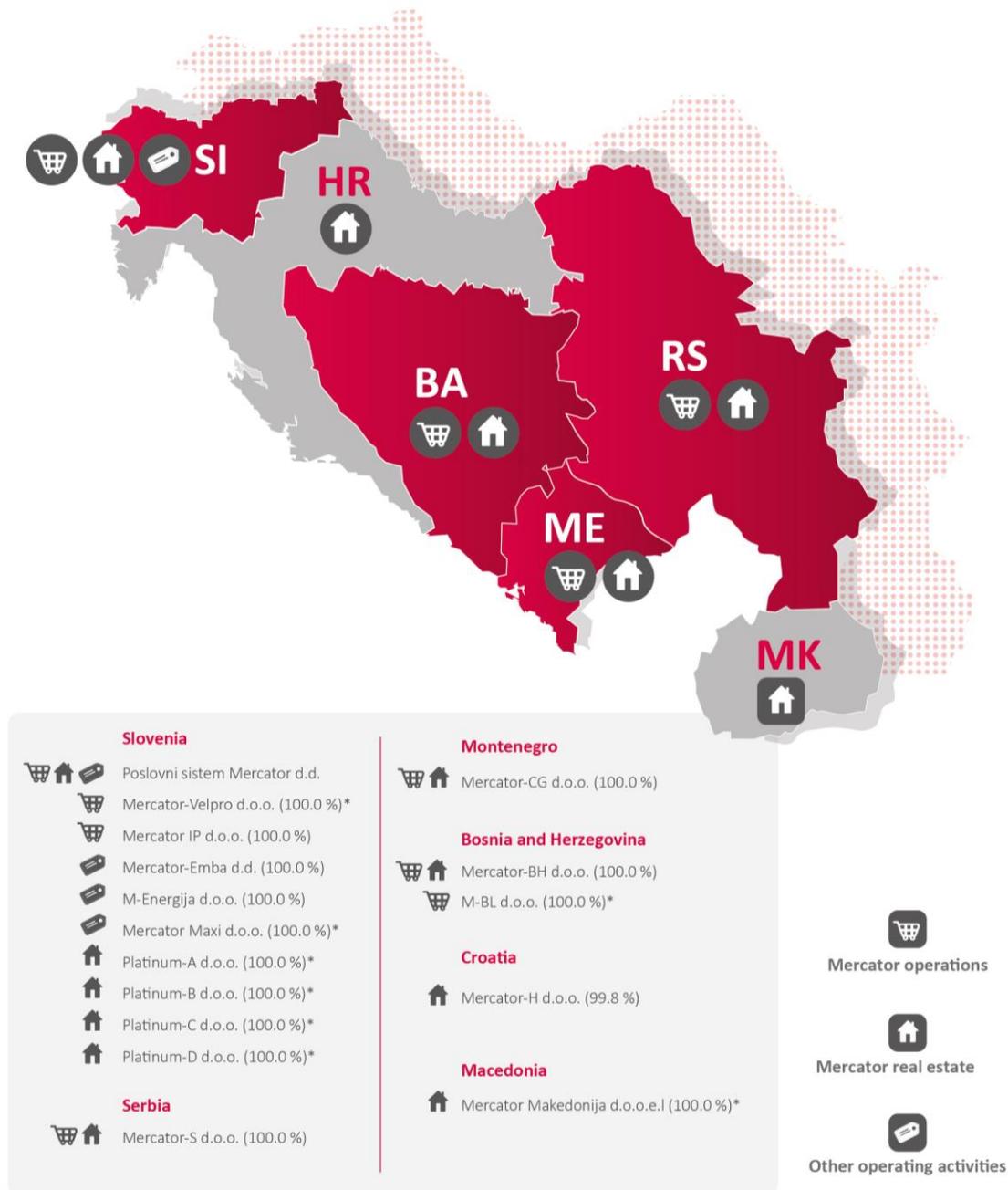
Companies of Mercator Group and VTB Bank (Europe) SE signed contract documentation for refinancing of the Mercator Group's Super-Senior Facility. The new Super-Senior Facility, amounting to EUR 80 million and at considerably better terms, is an important part of the pursuit of Mercator's long-term strategy.

# INTRODUCTION

## PROFILE AND ORGANIZATION

### Mercator Group Profile as at March 31, 2019

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 March 31, 2019, 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.**

<b>Company name</b>	Poslovni sistem Mercator d.d.
<b>Company head office</b>	Dunajska cesta 107, 1113 Ljubljana, Slovenia
<b>Activity</b>	Retail in non-specialized food retail outlets (G 47.110)
<b>Registration number</b>	5300231
<b>VAT tax code</b>	45884595
<b>LEI (Legal Entity Identifier)</b>	549300X47J0FW574JN34
<b>Company share capital as at March 31, 2019</b>	EUR 254,175,051.39
<b>Number of shares issued and paid-up as at March 31, 2019</b>	6,090,943
<b>Share listing</b>	Ljubljanska borza d.d., official market, prime market, symbol MELR

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



Youtube [www.youtube.com/user/mercatorslo](http://www.youtube.com/user/mercatorslo)

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

In the period 1–3, 2019, the Supervisory Board of Poslovni sistem Mercator d.d. held one regular session.

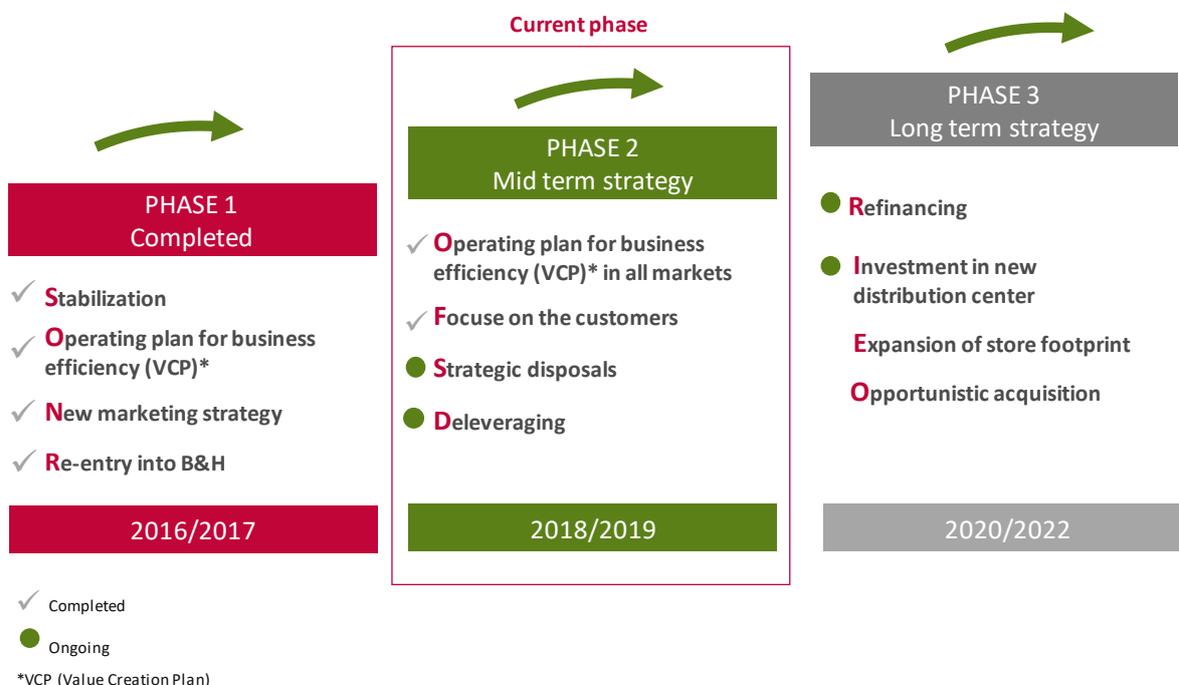
At the **5th regular session dated February 13, 2019**, the Supervisory Board of the company Poslovni sistem Mercator d.d. received information about liquidity and about negotiations with the financial partners on refinancing of the Super Senior Facility, and a report about the monetization and the final stage of the deal with Supernova.

## 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.



## Operating plan for business efficiency

The Value Creation Plan is being executed in all markets of Mercator Group operations. In the first quarter of 2019, Value Creation Plan was devised and put into action for the current year. It includes 113 initiatives in all markets. There are 52 planned initiatives in Slovenia, 24 in Serbia, 20 in Bosnia and Herzegovina, 11 in Montenegro, and 6 in Croatia.

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



## PERFORMANCE HIGHLIGHTS

Mercator Group business			
	1–3, 2018	1–3, 2019	Change 1–3, 2019/ 1–3, 2018
<b>INCOME STATEMENT (in EUR 000)</b>			
Sales revenue	515,756	499,798	-3.1%
Results from operating activities (EBIT) <sup>1</sup>	9,135	9,648	5.6%
Earnings before interest, tax, depreciation and amortization (EBITDA) <sup>1</sup>	25,811	39,762	54.0%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) <sup>1</sup>	22,865	40,091	75.3%
Earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR) <sup>2</sup>	42,870	40,257	-6.1%
Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR normalized)	39,923	40,586	1.7%
<b>CASH FLOWS (x-times/ in %)</b>			
Net financial debt / EBITDAR normalized <sup>3</sup>	6.9x	5.6x	-18.6%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) / sales revenue <sup>1</sup>	4.4%	8.0%	3.6 p.p.
Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR normalized) / sales revenue	7.7%	8.1%	0.4 p.p.
<b>STATEMENT OF FINANCIAL POSITION (in EUR 000)</b>			
Total assets as at March 31	1,998,603	2,092,363	4.7%
Equity as at March 31	485,260	475,712	-2.0%
Net financial debt as at March 31 (without the effect of IFRS 16)	814,949	666,772	-18.2%
Net financial debt as at March 31 (with the effect of IFRS 16)	n/a	990,353	-
<b>OTHER INDICATORS</b>			
Capital expenditure (in EUR 000)	7,202	3,498	-51.4%
Number of employees as at March 31	20,640	20,242	-1.9%

<sup>1</sup> Data is not comparable between the two periods, as the new international accounting standard IFRS 16 Leases came into effect as of January 1, 2019. Mercator Group and the company Poslovni sistem Mercator d.d. decided to use the modified retrospective approach to application of the IFRS 16 (retroactive use with cumulative effect). Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach. We estimate that without implementation of IFRS 16 simulation of EBITDA normalized would amount to EUR 24.1 million in the first quarter of 2019 and the net financial debt would amount to EUR 666.7 million as at March 31, 2019. It means that the comparable indicator net financial debt/EBITDA normalized would decrease from 7,2x as at the end of 2018 to 6,1x as at March 31, 2019.

<sup>2</sup> Earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR) in the period 1–3, 2019, is lower than in the equivalent period of the preceding year due to the proceeds from the divestment of MC Belgrade in Serbia in March 2018. This business event is of a non-recurring (one-off) nature and it is eliminated from the normalized figures in 2018.

<sup>3</sup> For comparability of the indicator between the two periods, the calculation for the equivalent period of the year before also includes new lease liabilities pertaining to the implementation of the IFRS 16 standard as at March 31, 2019, in the amount of EUR 323.6 million. Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR), used to calculate this indicator, is calculated based on EBITDAR from the last 12 months of operations.

## REVIEW OF KEY EVENTS

### Retail network development and divestment activities:

In the period 1–3, 2019:

- we invested EUR 3,498 into property, plant, and equipment (CAPEX);
- we completed the divestment of ten shopping centres in Slovenia, as well as some other minor divestments, for total divestment proceeds of EUR 122,800 thousand, which pertains to divestment of property, plant and equipment;
- we added 5 new units, or 3,088 m<sup>2</sup>, of new gross retail area through operating lease in all markets of our operations.

### Real estate monetization

On October 12, 2018, the company Poslovni sistem Mercator d.d. and companies Supernova **signed an agreement on the sale of ten shopping centres in Slovenia**. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator will take on long-term lease the parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities.

### Activities related to the construction of a new logistics and distribution centre in Slovenia

In 2019, we launched the **process of collecting bids for project documentation development** for the construction of Mercator's new logistics and distribution centre in Ljubljana. The process will be completed presumably by the end of June 2019 with the selection of the building designer. The new logistics and distribution centre will bring about a number of positive changes: lower logistics costs, higher efficiency and profitability, and improvement of business processes that will relieve the employees in retail, wholesale, and logistics of considerable amount of workload.

### Events related to the developments at the Agrokor Group

In March 2019, the seventh 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, 2018, to January 31, 2019, was released. The report indicates that all transactions signed between the company 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.

### Mercator's conference The Opportunities of the Future

In February, **Mercator held a conference** whose key goal was to present Mercator's position in the preceding year and to present its development strategy. The first day of the conference was intended for the employees to whom the Management Board presented the key aspects of operation; the second day was intended for suppliers and other major business partners.

### Major events following the end of period at hand

As of April 1, 2019, the company **Fortenova grupa d.d.** commenced its operations, which was founded based on the implementation of the agreement between the Agrokor creditors. The healthy companies from the Agrokor Group system will be gradually transferred to the new company (including Mercator). One of the prerequisites for the company Poslovni sistem Mercator d.d. to be transferred to the newly founded Fortenova Group is the approval by Mercator's creditor banks, approval by competent institution for the protect competition, and successfully completed takeover bid for the shares of the company Poslovni sistem Mercator d.d.

Companies of Mercator Group and VTB Bank (Europe) SE signed contract documentation for refinancing of the Mercator Group's Super-Senior Facility. The new Super-Senior Facility, amounting to EUR 80 million and at considerably better terms, is an important part of the pursuit of Mercator's long-term strategy.

# BUSINESS REPORT

## SALES

In the period 1–3, 2019, Mercator Group sales revenue amounted to EUR 499,798 thousand. Relative to the comparable period of the year before, sales revenue is down by 3.1%, especially due to a different date of the Easter holidays, and opening of new retail area by Mercator's competitors. Like the Christmas and the New Year's holiday season, Easter holidays are a time of intensive seasonal shopping and they strongly affect the retailers' business results. In 2018, most of Easter shopping was conducted in March, since the Easter Monday was on April 2, 2018; in 2019, however, Easter Monday was on April 22, 2019, which means that most of Easter shopping was done in mid-April.

**Slovenia** remains Mercator Group's most important market and the company Poslovni sistem Mercator d.d. saw its revenue increase in this market relative to the same period of last year. Revenue increased in particular due to successful implementation of the Value Creation Plan initiatives focusing on differentiation, and on highlighting and reliance on our key competitive advantages:

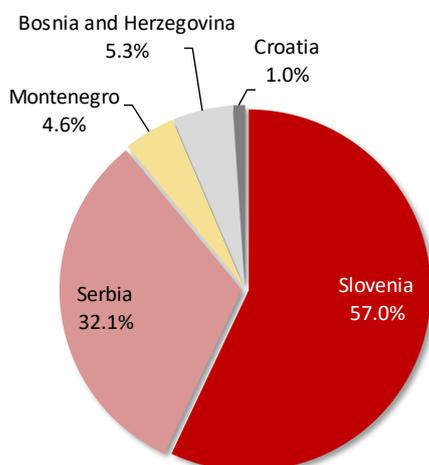
- opening and refurbishment of retail units based on a new store concept;
- category management activities, with particular emphasis on local and fresh assortment;
- successful rearranging of assortment in the home product segment, and signing of partnership with strategic suppliers.

The effect of opening of new retail area by our competitors was the most pronounced in **Serbia** where a new competitor entered the market in late 2018. Moreover, other competitors opened new units as well. The drop in revenue was partially neutralized with a revision of marketing strategy following Slovenia's example, and with rearranging of the largest store formats in the retail network.

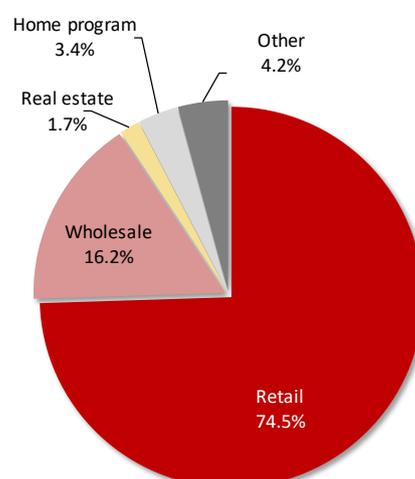
In the market of **Montenegro**, Mercator successfully neutralized the said negative effects on revenue especially by opening new units in the second half of 2018 and in the first quarter of 2019, and by conducting activities for optimization of promotion and pricing policy.

Mercator saw the highest sales revenue growth in the market of **Bosnia and Herzegovina**, which is largely the effect of stabilization and establishment of partner relationship with the suppliers, as well as successful implementation of best practices from other Mercator Group markets, which followed Mercator's return to the retail market of Bosnia and Herzegovina in September 2017.

**Mercator Group sales revenue by markets in the period 1–3, 2019:**



**Mercator Group sales revenue by program in the period 1–3, 2019:**



## SALES NETWORK

### Composition of retail units by store formats as at March 31, 2019



### Investment and Divestment

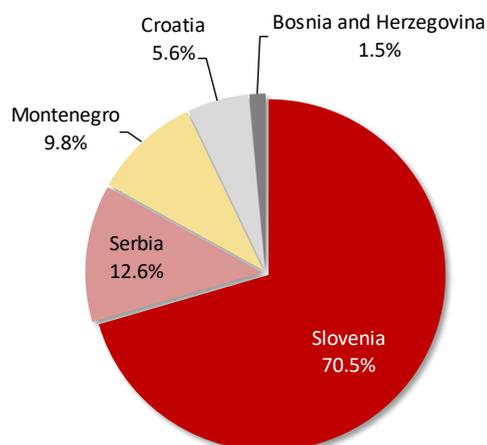
In the period 1–3, 2019, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 3.5 million. Of the total investment amount, 70.5% was used for investments in Slovenia and 29.5% was used for investments in international markets.

	Capital expenditure in the period 1–3, 2019 (in EUR 000)	Structure (in %)
Slovenia	2,467	70.5%
Serbia	442	12.6%
Montenegro	344	9.8%
Croatia	194	5.6%
Bosnia and Herzegovina	51	1.5%
<b>TOTAL</b>	<b>3,498</b>	<b>100.0%</b>

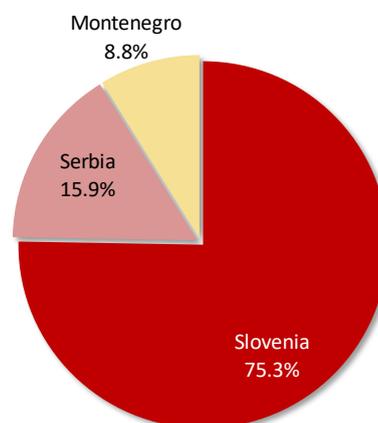
Investment into refurbishment and update existing units accounted for 51.9% of total investments; IT investments accounted for 16.0%; expansion of new retail units represented 12.9%; investments into distribution centres accounted for 3.4%; and the remaining 15.8% was invested in non-trade activities.

In the period 1–3, 2019, Mercator Group newly acquired 3,088 square meters of gross store area. All new gross area was acquired by operating lease.

Share of investments by markets:



Share of newly launched facilities by markets:



In the period 1–3, 2019, Mercator Group divested property, plant, and equipment worth EUR 122.8 million, of which EUR 122.6 million pertains to the divestment of property (real estate) and EUR 0.2 million pertains to plant and equipment.

### Summary of total gross retail area as at March 31, 2019:

Gross area in square meters

	Used for own operations	Leased out	TOTAL
Owned retail area	472,981	339,746	812,727
Leased retail area	457,847	156,387	614,234
<b>Total retail area</b>	<b>930,828</b>	<b>496,133</b>	<b>1,426,961</b>
Owned warehouse capacity	137,484	19,798	157,282
Leased warehouse capacity	63,438	10,508	73,946
<b>Total warehouse capacity</b>	<b>200,922</b>	<b>30,306</b>	<b>231,228</b>
Owned commercial facilities	18,029	3,720	21,749
Leased commercial facilities	7,368	596	7,964
<b>Total commercial facilities</b>	<b>25,397</b>	<b>4,316</b>	<b>29,713</b>
<b>GROSS AREA UNDER MANAGEMENT</b>	<b>1,157,147</b>	<b>530,755</b>	<b>1,687,902</b>
- of which owned	628,494	363,264	991,758
- of which leased	528,653	167,491	696,144

### Retail unit openings by respective markets in the period 1–3, 2019



#### SLOVENIA

**Area of new facilities:** 2,324 m<sup>2</sup>

Number of new units: 3

Openings: Market Levstikov trg, Ljubljana; Supermarket Mengeš; Market Sedejev trg, Cerkno

**Refurbishments/rearrangements:**

Number of units: 9



#### SERBIA

**Area of new facilities:** 491 m<sup>2</sup>

Number of new units: 1

Openings: Market Novi Bečej

**Refurbishments/rearrangements:**

Number of units: 1



#### MONTENEGRO

**Area of new facilities:** 273 m<sup>2</sup>

Number of new units: 1

Openings: Market Nikšič, Duklo



#### BOSNIA AND HERZEGOVINA

**Refurbishments/rearrangements:**

Number of units: 1



## FINANCIAL MANAGEMENT

### Stable Financial Operations

As at March 31, 2019, Mercator Group's net financial debt (not taking into account the new IFRS 16 Leases) amounted to EUR 666,772 thousand, which is 13.5% less than as at the end of 2018, and 18.2% less than as at March 31, 2018. Decrease of non-current financial liabilities as at March 31, 2019, was also a result of the completion of transaction and payment of the acquisition price related to the monetization project in Slovenia in February 2019.

As of January 1, 2019, a new international accounting standard IFRS 16 Leases is in force, which affects the amount of lease liabilities. Mercator Group and the company Poslovni sistem Mercator d.d. decided for the modified retrospective approach to application of the IFRS 16 (retroactive use with cumulative effect). Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach.

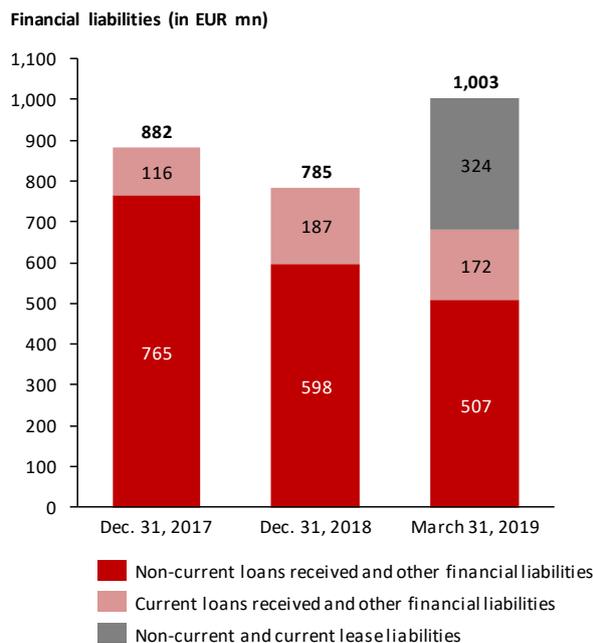
in EUR 000	March 31, 2018	Dec. 31, 2018	March 31, 2019	Change March 31, 2019/ March 31, 2018	Change March 31, 2019/ Dec. 31, 2018
Non-current loans received and other financial liabilities	727,554	597,999	507,265	-30.3%	-15.2%
Current loans received and other financial liabilities	102,381	186,748	172,250	68.2%	-7.8%
<b>Financial liabilities</b>	<b>829,935</b>	<b>784,746</b>	<b>679,516</b>	<b>-18.1%</b>	<b>-13.4%</b>
Cash and cash equivalents	14,986	13,534	12,743	-15.0%	-5.8%
<b>Financial assets</b>	<b>14,986</b>	<b>13,534</b>	<b>12,743</b>	<b>-15.0%</b>	<b>-5.8%</b>
<b>Net financial debt (without the effect of IFRS 16 Leases)</b>	<b>814,949</b>	<b>771,212</b>	<b>666,772</b>	<b>-18.2%</b>	<b>-13.5%</b>
<b>New liabilities related to the new standard IFRS 16 Leases</b>					
Non-current lease liabilities	-	-	316,057	-	-
Current lease liabilities	-	-	7,523	-	-
<b>Total liabilities related to the new IFRS 16 Leases</b>	<b>-</b>	<b>-</b>	<b>323,580</b>	<b>-</b>	<b>-</b>
<b>Net financial debt (with the effect of IFRS 16 Leases)</b>	<b>814,949</b>	<b>771,212</b>	<b>990,353</b>	<b>21.5%</b>	<b>28.4%</b>

### Financing costs

In the period 1–3, 2019, the 6-month EURIBOR averaged at -0.236%. At the end of the period, it was at -0.231%.

### 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 December 31, 2019, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:2.08. 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 long-term financial liabilities in total financial liabilities as at March 31, 2019, was at 82.1% (76.2% as at December 31, 2018); however, the increase in financial liabilities is the result of introduction of the new IFRS 16 that came into effect as of January 1, 2019.

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 March 31, 2019**

As at March 31, 2019, Mercator Group had access to the following liquidity lines:

In EUR 000	March 31, 2019
Cash and cash equivalents	12,743
Standby revolving credit lines and current given deposits	22,260
<b>Total</b>	<b>35,003</b>

## MERCATOR SHARE AND INVESTOR RELATIONS

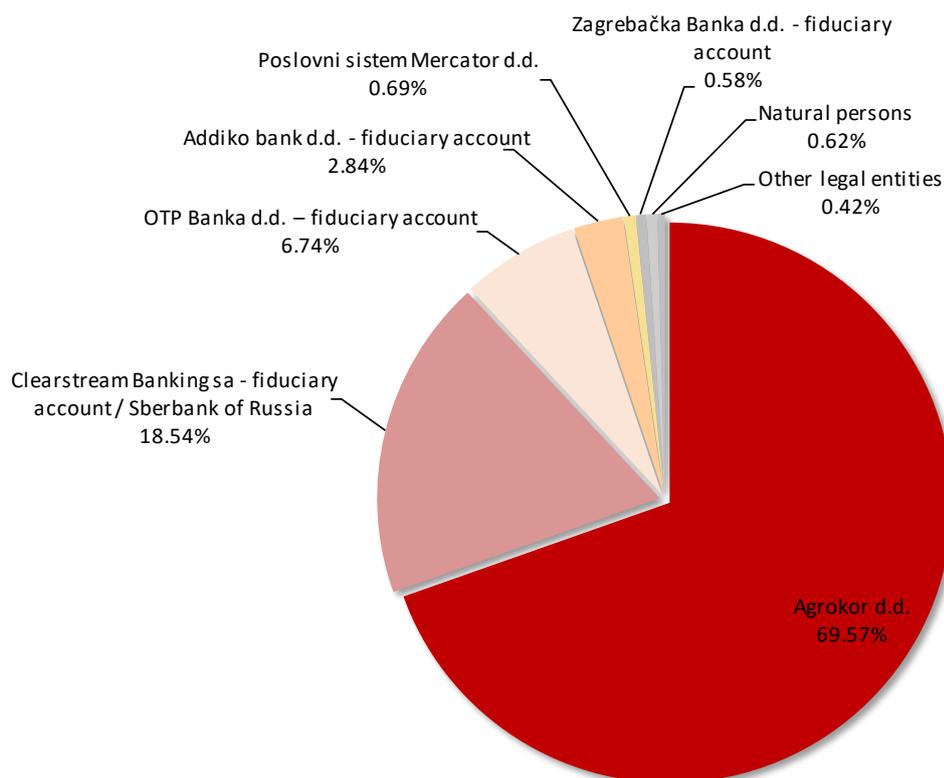
### Share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator d.d. as at March 31, 2019:



Code/Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska Borza, d.d.
Nominal capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of own shares	42,192
Number of shareholders	1,599

Ownership structure of the company Poslovni sistem Mercator d.d. as at March 31, 2019:



**Structure of company shareholders as at March 31, 2019**

As at March 31, 2019, the four largest shareholders combined owned **97.69%** of the company.

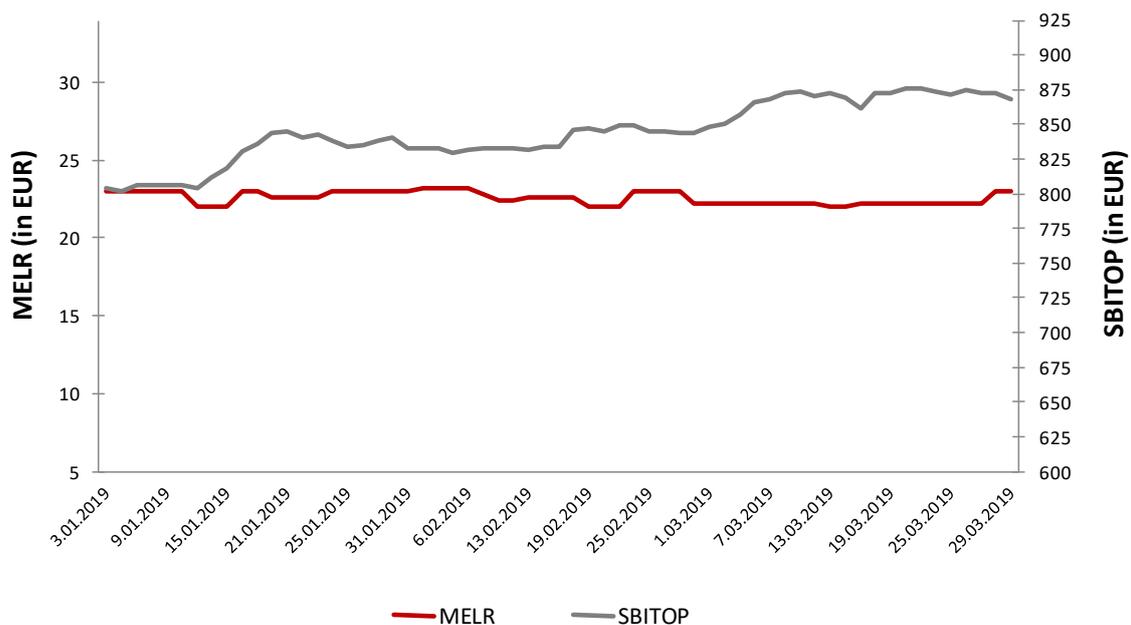
Shareholders	Countries	Number of shares	Share
Agrokor d.d.	Croatia	4,237,376	69.57%
Clearstream Banking sa - fiduciary account / Sberbank of Russia	Luxembourg	1,129,058	18.54%
OTP Banka d.d. – fiduciary account	Croatia	410,339	6.74%
Addiko bank d.d. - fiduciary account	Croatia	172,755	2.84%
Other		141,415	2.31%
<b>Total</b>		<b>6,090,943</b>	<b>100.00%</b>

**Shares held by Management and Supervisory Board Members as at March 31, 2019**

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 March 31, 2019.

**Foreign shareholders**

As at March 31, 2019, 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, 2018.

**Movement of closing price per MELR share in the period 1–3, 2019, compared to the movement of the SBITOP index**

**Key information for the shareholders**

	March 31, 2018	March 31, 2019	Change March 31, 2019/ March 31, 2018
Number of shares registered in Court Register	6,090,943	6,090,943	0.0%
Number of own shares	42,192	42,192	0.0%
Market capitalization (in EUR)	136,437,123	140,091,689	2.7%
Market value of share (in EUR)	22.4	23.0	2.7%
Book value per share (in EUR)	70.7	69.3	-1.9%
Minimum close rate in the period (in EUR)	20.2	22.0	8.9%
Maximum close rate in the period (in EUR)	29.0	23.2	-20.0%
Average close rate in the period (in EUR)	24.3	22.6	-7.2%
Earnings per share (in EUR)	3.1	3.2	1.5%

Market capitalization is calculated by multiplying the number of shares entered into the court register as at March 31 with market price per share as at March 31.

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 March 31, and the weighted average number of ordinary shares in the period at hand, excluding own 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 own shares. The indicator is adjusted to the annual level.

**Dividend policy**

In 2019 is planned no dividend payment relating to accumulated net profit for 2018.

**Own shares**

As at March 31, 2019, the company Poslovni sistem Mercator d.d. held 42,192 own shares. In the period 1–3, 2019, the company Poslovni sistem Mercator d. d, neither acquired nor disposed of own 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](http://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 1–3, 2019, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

### **Transition to IFRS 16**

The financial statements are not entirely comparable between the two periods. As of January 1, 2019, a new international accounting standard IFRS 16 Leases is in force, which affects results from operating activities (EBIT) and the amount of financial expenses. Mercator Group and the company Poslovni sistem Mercator d.d. decided for the modified retrospective approach to application of the IFRS 16 (retroactive use with cumulative effect) as of January 1, 2019, which means that comparable information for 2018 is not re-calculated or adjusted; rather, all changes resulting from the transition to the new standard are reported as adjustments to the opening balance in the balance sheet as at the day of the start of use of the new standard. Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach.

## 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 1–3, 2019, 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.

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 000	Mercator Group		Poslovni sistem Mercator d.d.	
	March 31, 2019	Dec. 31, 2018	March 31, 2019	Dec. 31, 2018
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	1,047,543	1,074,997	646,144	654,982
Right of use assets	362,587	-	97,089	-
Investment property	242,249	242,890	4,498	4,498
Intangible assets	20,476	20,945	12,736	12,953
Deferred tax assets	36,882	38,528	33,698	35,339
Trade and other receivables	6,847	4,083	5,239	2,585
Loans/deposits given	3,354	18,976	15,083	2,103
Available-for-sale financial assets	393	393	261	261
Capital investments in Group companies	-	-	287,159	297,757
<b>Total non-current assets</b>	<b>1,720,331</b>	<b>1,400,811</b>	<b>1,101,907</b>	<b>1,010,479</b>
<b>Current assets</b>				
Assets held for sale	-	148,439	-	148,439
Inventories	208,857	210,319	108,859	103,752
Trade and other receivables	148,128	158,388	65,998	60,183
Current tax assets	293	258	-	-
Loans/deposits given	2,010	4,550	2,018	30
Cash and cash equivalents	12,743	13,534	4,625	6,298
<b>Total current assets</b>	<b>372,032</b>	<b>535,487</b>	<b>181,501</b>	<b>318,702</b>
<b>Total assets</b>	<b>2,092,363</b>	<b>1,936,298</b>	<b>1,283,408</b>	<b>1,329,180</b>
<b>EQUITY</b>				
Nominal capital	254,175	254,175	254,175	254,175
Capital surplus	6,381	6,381	6,381	6,381
Own shares	(3,235)	(3,235)	(3,235)	(3,235)
Revenue reserves	42,830	42,830	16,624	16,624
Fair value reserve	189,551	194,658	138,865	143,971
Retained net profit or loss	73,573	66,441	1,690	7,071
Net profit/loss for the period	(3,692)	1,597	4,820	(10,882)
Currency translation reserve	(84,019)	(83,471)	-	-
<b>Equity attributable to the controlling company owners</b>	<b>475,565</b>	<b>479,376</b>		
<b>Non-controlling interests</b>	<b>147</b>	<b>149</b>		
<b>Total equity</b>	<b>475,712</b>	<b>479,525</b>	<b>419,320</b>	<b>414,106</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Trade and other payables	2,164	926	170	170
Loans received and other financial liabilities	507,265	597,999	350,066	422,563
Lease liabilities	316,057	-	65,853	-
Deferred tax liabilities	48,891	50,198	38,062	39,338
Provisions	29,401	30,143	25,362	25,708
<b>Total non-current liabilities</b>	<b>903,779</b>	<b>679,267</b>	<b>479,515</b>	<b>487,779</b>
<b>Current liabilities</b>				
Trade and other payables	531,015	589,177	271,034	297,730
Current tax liabilities	2,083	1,582	890	-
Loans received and other financial liabilities	172,250	186,748	112,295	129,565
Lease liabilities	7,523	-	355	-
<b>Total current liabilities</b>	<b>712,872</b>	<b>777,506</b>	<b>384,574</b>	<b>427,295</b>
<b>Total liabilities</b>	<b>1,616,651</b>	<b>1,456,773</b>	<b>864,088</b>	<b>915,075</b>
<b>Total equity and liabilities</b>	<b>2,092,363</b>	<b>1,936,298</b>	<b>1,283,408</b>	<b>1,329,180</b>

## Consolidated income statement of the Mercator Group and income statement of the company Poslovni sistem Mercator, d.d.

in EUR 000	Mercator Group		Poslovni sistem Mercator d.d.	
	1–3, 2019	1–3, 2018	1–3, 2019	1–3, 2018
Sales revenue	499,798	515,756	281,235	280,436
Cost of goods sold and selling costs	(477,522)	(495,936)	(264,940)	(263,534)
Administrative expenses	(16,844)	(17,304)	(7,790)	(7,993)
Other operating revenue	4,215	6,620	2,910	1,276
<b>Results from operating activities</b>	<b>9,648</b>	<b>9,135</b>	<b>11,415</b>	<b>10,185</b>
Finance revenue	1,287	2,650	617	5,706
Finance expenses	(12,832)	(8,690)	(5,563)	(9,981)
<b>Net finance expenses</b>	<b>(11,545)</b>	<b>(6,041)</b>	<b>(4,946)</b>	<b>(4,275)</b>
<b>Profit or loss before tax</b>	<b>(1,897)</b>	<b>3,095</b>	<b>6,469</b>	<b>5,910</b>
Tax	(1,797)	(1,229)	(1,649)	(1,156)
<b>Net profit/loss for the period</b>	<b>(3,694)</b>	<b>1,866</b>	<b>4,820</b>	<b>4,754</b>
Net profit/loss for the period attributable to:				
Owners of controlling company	(3,692)	1,859		
Non-controlling interests	(2)	6		

## 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 000	Mercator Group		Poslovni sistem Mercator d.d.	
	1-3, 2019	1-3, 2018	1-3, 2019	1-3, 2018
<b>Net profit/loss for the period</b>	(3,694)	1,866	4,820	4,754
<b>Other comprehensive income</b>				
<b>Items subsequently not reclassified to profit or loss</b>	428	(7)	394	-
Other changes	34	(7)	-	-
Deferred tax for items subsequently not reclassified to profit or loss	394	-	394	-
<b>Items that may be reclassified subsequently to profit or loss</b>	(548)	1,029	-	-
Foreign currency translation differences	(548)	1,029	-	-
<b>Other comprehensive income for the period</b>	(119)	1,022	394	-
<b>Total comprehensive income for the period</b>	(3,813)	2,888	5,214	4,754
<b>Total comprehensive income for the period attributable to:</b>				
Owners of the controlling company	(3,811)	2,888		
Non-controlling interests	(2)	0		

## Consolidated statement of changes in equity of the Mercator Group

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Currency translation reserve	Equity attributable to the controlling company owners	Non-controlling interests	Total equity
<b>As at January 1, 2018</b>	<b>254,175</b>	<b>207,523</b>	<b>(3,235)</b>	<b>42,830</b>	<b>200,180</b>	<b>45,101</b>	<b>(184,284)</b>	<b>(84,029)</b>	<b>478,261</b>	<b>140</b>	<b>478,400</b>
<b>Total comprehensive income for the period</b>											
Net profit/loss for the period	-	-	-	-	-	-	1,859	-	1,859	6	1,866
Other comprehensive income	-	-	-	-	-	-	-	1,028	1,028	(6)	1,022
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,859</b>	<b>1,028</b>	<b>2,888</b>	<b>-</b>	<b>2,888</b>
<b>Transactions with owners directly recognized in equity</b>											
<b>Contributions by and distributions to owners</b>											
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	19,442	(19,442)	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	(201,141)	-	-	3,971	(2,584)	203,726	-	3,972	-	3,972
<b>Total transactions with owners</b>	<b>-</b>	<b>(201,141)</b>	<b>-</b>	<b>-</b>	<b>3,971</b>	<b>16,858</b>	<b>184,284</b>	<b>-</b>	<b>3,972</b>	<b>-</b>	<b>3,972</b>
<b>Balance as at March 31, 2018</b>	<b>254,175</b>	<b>6,381</b>	<b>(3,235)</b>	<b>42,830</b>	<b>204,152</b>	<b>61,959</b>	<b>1,859</b>	<b>(83,000)</b>	<b>485,120</b>	<b>140</b>	<b>485,260</b>

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Currency translation reserve	Equity attributable to the controlling company owners	Non-controlling interests	Total equity
<b>As at January 1, 2019</b>	<b>254,175</b>	<b>6,381</b>	<b>(3,235)</b>	<b>42,830</b>	<b>194,658</b>	<b>66,441</b>	<b>1,597</b>	<b>(83,471)</b>	<b>479,376</b>	<b>149</b>	<b>479,525</b>
<b>Total comprehensive income for the period</b>											
Net profit/loss for the period	-	-	-	-	-	-	(3,692)	-	(3,692)	(2)	(3,694)
Other comprehensive income	-	-	-	-	(5,107)	5,536	-	(547)	(119)	(0)	(119)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,107)</b>	<b>5,536</b>	<b>(3,692)</b>	<b>(547)</b>	<b>(3,811)</b>	<b>(2)</b>	<b>(3,813)</b>
<b>Transactions with owners directly recognized in equity</b>											
<b>Contributions by and distributions to owners</b>											
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	1,597	(1,597)	-	-	-	-
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,597</b>	<b>(1,597)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance as at March 31, 2019</b>	<b>254,175</b>	<b>6,381</b>	<b>(3,235)</b>	<b>42,830</b>	<b>189,551</b>	<b>73,573</b>	<b>(3,692)</b>	<b>(84,019)</b>	<b>475,565</b>	<b>147</b>	<b>475,712</b>

## Statement of changes in equity of the company Poslovni sistem Mercator d.d.

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Total equity
<b>As at January 1, 2018</b>	<b>254,175</b>	<b>207,523</b>	<b>(3,235)</b>	<b>16,624</b>	<b>149,214</b>	<b>2,584</b>	<b>(203,726)</b>	<b>423,159</b>
<b>Total comprehensive income for the period</b>								
Net profit/loss for the period	-	-	-	-	-	-	4,754	4,754
Other comprehensive income	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,754</b>	<b>4,754</b>
<b>Transactions with owners directly recognized in equity</b>								
<b>Contributions by and distributions to owners</b>								
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	(201,141)	-	-	-	(2,584)	203,726	-
<b>Total transactions with owners</b>	<b>-</b>	<b>(201,141)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,584)</b>	<b>203,726</b>	<b>-</b>
<b>Balance as at March 31, 2018</b>	<b>254,175</b>	<b>6,381</b>	<b>(3,235)</b>	<b>16,624</b>	<b>149,214</b>	<b>(0)</b>	<b>4,754</b>	<b>427,913</b>

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Total equity
<b>As at January 1, 2019</b>	<b>254,175</b>	<b>6,381</b>	<b>(3,235)</b>	<b>16,624</b>	<b>143,971</b>	<b>7,071</b>	<b>(10,882)</b>	<b>414,106</b>
<b>Total comprehensive income for the period</b>								
Net profit/loss for the period	-	-	-	-	-	-	4,820	4,820
Other comprehensive income	-	-	-	-	(5,107)	5,501	-	394
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,107)</b>	<b>5,501</b>	<b>4,820</b>	<b>5,214</b>
<b>Transactions with owners directly recognized in equity</b>								
<b>Contributions by and distributions to owners</b>								
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	(10,882)	10,882	-
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,882)</b>	<b>10,882</b>	<b>-</b>
<b>Balance as at March 31, 2019</b>	<b>254,175</b>	<b>6,381</b>	<b>(3,235)</b>	<b>16,624</b>	<b>138,865</b>	<b>1,690</b>	<b>4,820</b>	<b>419,320</b>

## Consolidated cash flow statement of the Mercator Group and cash flow statement of the company Poslovni sistem Mercator d.d.\*\*

in EUR 000	Mercator Group		Poslovni sistem Mercator d.d.	
	1-3, 2019	1-3, 2018 adjusted*	1-3, 2019	1-3, 2018 adjusted*
<b>Cash flows from operating activities</b>				
<b>Cash from operating activities before the change of working capital</b>	<b>37,131</b>	<b>20,040</b>	<b>19,157</b>	<b>17,205</b>
Change in inventories	1,917	4,868	(4,869)	(836)
Change in trade and other receivables	10,597	12,429	(5,470)	3,072
Change in trade and other payables, and provisions	(47,004)	(30,638)	(21,037)	(2,020)
Tax paid	(991)	(329)	(394)	(0)
<b>Cash from operating activities</b>	<b>1,650</b>	<b>6,370</b>	<b>(12,613)</b>	<b>17,420</b>
<b>Cash flows from investing activities</b>				
Expenses for acquisition of property, plant and equipment, investment property and intangible assets	(3,498)	(7,202)	(1,931)	(2,209)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	122,800	45,739	121,884	825
Net receipts (expenses) for loans given and deposits	3,157	4,474	(14,809)	(5,447)
<b>Cash from investing activities</b>	<b>122,460</b>	<b>43,011</b>	<b>105,144</b>	<b>(6,831)</b>
<b>Cash flow from financing activities</b>				
Net receipts/expenses for loans received	(101,131)	(50,430)	(86,858)	(9,584)
Interest expenses	(7,258)	(8,042)	(4,742)	(5,170)
Repayment of lease liabilities	(16,507)	-	(2,604)	-
<b>Cash from financing activities</b>	<b>(124,897)</b>	<b>(58,472)</b>	<b>(94,203)</b>	<b>(14,754)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(788)</b>	<b>(9,091)</b>	<b>(1,672)</b>	<b>(4,164)</b>
Cash and cash equivalents at beginning of the year	13,534	24,112	6,298	11,635
Effect of exchange rate fluctuations on cash and cash equivalents	(3)	(34)	-	-
<b>Cash and cash equivalents at the end of the period</b>	<b>12,743</b>	<b>14,986</b>	<b>4,625</b>	<b>7,471</b>

\*Adjustments relate to the methodological comparability of cash flow statements with the year 2019.

\*\*Notes to cash flow statements:

- Cash flow from operating activities before changes in working capital improved** at the Mercator Group level by approx. EUR 17 million relative to the comparable period of the year before.
- Cash flow from operating activities after changes in working capital** in the first quarter of 2019 is lower than in the equivalent period of the year before, mostly due to a substantial decrease of trade payables, which pertains to the following:
  - introduction of new agriculture legislation in Slovenia, which cuts the payment terms to suppliers of trade goods regulated by the new Act;
  - payments made to suppliers for large deliveries in December as a result of the holiday season (Christmas and New Year, which pertains to the Mercator Group trade companies), which are due in the first quarter of the year.
- For both the company Poslovni sistem Mercator d.d. and the Mercator Group, **cash flow from investing activities** in the first quarter of 2019 was affected especially by the monetization project in Slovenia and the related proceeds of approx. EUR 117 million.
- In **cash flows from financing activities**, repayment of lease liabilities increased in 2019 (IFRS 16), moreover, total proceeds from the monetization project were used for repayment of financial liabilities towards banks, which results in expenses for the loans received, reported within cash flow from financing activities.

# 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

#### Assets

Mercator Group assets as at March 31, 2019, amounted to EUR 2,092,363 thousand, which is EUR 156,065 thousand more than at the end of 2018.

As at March 31, 2019, the value of Mercator Group non-current assets amounted to EUR 1,720,331 thousand, which is EUR 319,520 thousand more than as at December 31, 2018. The cause for the increase is the item right to use of assets, which is related to the introduction of the new IFRS 16 as of January 1, 2019. Property, plant, and equipment accounts for the largest share of non-current assets with 97.2%, amounting to EUR 1,672,856 thousand.

As at March 31, 2019, the value of Mercator Group's current assets amounted to EUR 372,032 thousand, which is EUR 163,455 thousand less than as at the end of 2018. The cause of decrease is the completion of the divestment transaction for ten shopping centres in Slovenia (monetization project) in February 2019. The largest share thereof includes inventories (56.1%) and trade and other receivables (39.8%).

#### Equity and liabilities

As at March 31, 2019, Mercator Group equity amounted to EUR 475,712 thousand, which is EUR 3,813 thousand less than as at the end of 2018.

As at March 31, 2019, Mercator Group's total financial liabilities amounted to EUR 1,003,096 thousand, which is EUR 218,350 thousand more than as at the end of 2018. The cause for the increase is the lease liabilities, which is related to the introduction of the new IFRS 16 as of January 1, 2019. Mercator Group and the company Poslovni sistem Mercator d.d. decided for the modified retrospective approach to application of the IFRS 16 (retroactive

### POSLOVNI SISTEM MERCATOR D.D.

Assets of the company Poslovni sistem Mercator d.d. as at March 31, 2019, amounted to EUR 1,283,408 thousand, which is EUR 45,772 thousand less than at the end of 2018.

As at March 31, 2019, the value of the company's non-current assets amounted to EUR 1,101,907 thousand, which is EUR 91,429 thousand more than as at December 31, 2018. The cause for the increase is the item right to use of assets, which is related to the introduction of the new IFRS 16 as of January 1, 2019. Property, plant, and equipment accounts for the largest share of non-current assets with 69.0% (amounting to EUR 760,467 thousand).

As at March 31, 2019, the value of company current assets was EUR 181,501 thousand, which is EUR 137,201 thousand less than at the end of 2018. The cause of decrease is the completion of the divestment transaction for ten shopping centres (monetization project) in February 2019. The largest share thereof includes inventories (60.0%) and trade and other receivables (36.4%).

Equity of the company Poslovni sistem Mercator d.d. as at March 31, 2019, amounts to EUR 419,320 thousand, which is an increase of EUR 5,214 thousand relative to the end of 2018.

As at March 31, 2019, the company's total financial liabilities amount to EUR 528,570 thousand, which is a decrease of EUR 23,558 relative to December 31, 2018. The deleveraging was funded with the proceeds of EUR 116.6 million received upon divestment of ten shopping centres, which were used for repayment of financial liabilities. Also affecting the financial liabilities as at March 31, 2019 were the newly recognized lease liabilities, which is related to

use with cumulative effect). Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach. Also affecting the total financial liabilities as at March 31, 2019, was the amount of EUR 116.6 million received as purchase consideration upon divestment of ten shopping centres, which was used for repayment of financial liabilities. The said new financial liabilities as at March 31, 2019, amounted to EUR 323,580 thousand. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group's financial liabilities and financial assets, amounted to EUR 990,353 thousand as at March 31, 2019 (December 31, 2018: EUR 771,212 thousand); however, the figure is not comparable to the end of last year due to new financial liabilities related to the implementation of the new IFRS 16 Leases.

As at March 31, 2019, Mercator Group's provisions amounted to EUR 29,401 thousand. Compared to the end of 2018, provisions have decreased by EUR 742 thousand.

Mercator Group's trade and other payables as at March 31, 2019, amounted to EUR 533,179 thousand, which is EUR 56,924 thousand less than at the end of 2018, mostly due to the effect of the new agriculture legislation in Slovenia and payments made to suppliers for large deliveries in December as a result of the holiday season (Christmas and New Year, which pertains to the Mercator Group trade companies), which are due in the first quarter of the year.

As at March 31, 2019, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 80.2%, which is 2.5 percentage points less than as at the end of 2018.

the introduction of the new IFRS 16 as of January 1, 2019. Mercator Group and the company Poslovni sistem Mercator d.d. decided for the modified retrospective approach to application of the IFRS 16 (retroactive use with cumulative effect). Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach. The said new financial liabilities as at March 31, 2019, amounted to EUR 66,209 thousand. Net financial debt, calculated as the difference between financial liabilities and financial assets, amounted to EUR 523,944 thousand as at March 31, 2019 (December 31, 2018: EUR 545,830 thousand); however, the figure is not comparable to the end of last year due to new financial liabilities related to the implementation of the new IFRS 16 Leases.

As at March 31, 2019, the company's provisions amounted to EUR 25,362 thousand. Compared to the end of 2018, provisions have decreased by EUR 345 thousand.

The company's trade and other payables as at March 31, 2019, amounted to EUR 271,204 thousand, which is EUR 26,696 thousand less than at the end of 2018, mostly due to the effect of the new agriculture legislation.

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

### MERCATOR GROUP

#### Sales revenue

In the period 1–3, 2019, Mercator Group's sales revenue amounted to EUR 499,798 thousand, which is 3.1% less than in the equivalent period of the year before. Revenue was lower especially because of the different timing of Easter holiday, and opening of new store area by Mercator's competitors. In 2018, most of Easter shopping was conducted in March, since the Easter Monday was on April 2, 2018; in 2019, however, Easter Monday was on April 22, 2019, which means that most of Easter shopping was done in mid-April. The effect of opening of new retail area

### POSLOVNI SISTEM MERCATOR D.D.

In the period 1–3, 2019, the company Poslovni sistem Mercator d.d. generated revenue of EUR 281,235 thousand, which is 0.3% more than in the period 1–3, 2018. Revenue growth is the result of successful implementation of the Value Creation Plan initiatives focusing on differentiation, and on highlighting and reliance on key competitive advantages.

by our competitors could be felt particularly in Serbia where a new competitor entered the market in late 2018. Revenue at the level of the company Poslovni sistem Mercator d.d. increased relative to the preceding year in particular due to successful implementation of the Value Creation Plan initiatives focusing on differentiation, and on highlighting and reliance on key competitive advantages.

#### **Costs**

Mercator Group costs of goods sold and selling costs which include the purchase value of goods and material sold, production costs, selling costs, and other expenses, amounted to EUR 477,522 thousand in the period 1–3, 2019, which is a 3.7% decrease on the comparable period of last year.

Mercator Group's administrative expenses in the period 1–3, 2019, amounted to EUR 16,844 thousand, which is 2.7% less than in the comparable period last year.

#### **Results from operating activities**

In the period 1–3, 2019, Mercator Group generated results from operating activities (EBIT) of EUR 9,648 thousand, which is an increase of EUR 512 thousand over the same period last year. However, the data is not entirely comparable between the two periods due to the implementation of the new IFRS 16 as of January 1, 2019.

#### **Net finance expenses**

Mercator Group's finance revenue in the period 1–3, 2019, amounted to EUR 1,287 thousand, which is 1,362 thousand EUR less than in the comparable period of last year.

In the period 1–3, 2019, Mercator Group's finance expenses amounted to EUR 12,832 thousand, which is EUR 4,141 thousand more than in the comparable period of the year before, especially due to introduction of the new accounting standard IFRS 16 Leases as of January 1, 2019, which stipulates additional interest expense from operating lease. This interest expense amounted to EUR 5,257 thousand in the period 1–3, 2019.

Costs of goods sold and selling costs of the company Poslovni sistem Mercator d.d., which include the purchase value of goods and material sold, production costs, selling costs, and other expenses, amounted to EUR 264,940 thousand in the period 1–3, 2019, which is a 0.5% increase relative to the comparable period of last year.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–3, 2019, amounted to EUR 7,790 thousand, which is 2.5% less than in the comparable period last year.

In the period 1–3, 2019, results from operating activities (EBIT) of the company Poslovni sistem Mercator d.d. amounted to EUR 11,415 thousand, which is an increase of EUR 1,230 thousand. However, the data is not entirely comparable between the two periods due to the implementation of the new IFRS 16 as of January 1, 2019.

Finance revenue of the company Poslovni sistem Mercator d.d. amounted to EUR 617 thousand in the period 1–3, 2019, which is EUR 5,089 thousand less than in the comparable period of the preceding year, especially due to a reversal of impairment of a loan extended to the subsidiary M-Energija d.o.o. in the amount of EUR 4,413 thousand in 2018.

Finance expenses in the period 1–3, 2019, amounted to EUR 5,563 thousand, which is EUR 4,418 thousand less than in the comparable period of the preceding year, especially due to a reversal of impairment of a financial investment in 2018 in the company M-Energija d.o.o. in the amount of EUR 4,413 thousand. Total financial expenses were also affected by the introduction of the new accounting standard IFRS 16 as of January 1, 2019, which stipulates additional interest expense from operating lease. This interest expense amounted to EUR 860 thousand in the period 1–3, 2019.

As a result, impairments related to the company M-Energija d.o.o. have a neutral effect on net finance expenses in the period 1–3, 2019.

**MERCATOR GROUP****Profit or loss before tax**

In the period 1–3, 2019, Mercator Group's result before tax was negative, i.e. a pre-tax loss of EUR 1,897 thousand, which is EUR 4,991 thousand worse than in the comparable period of last year.

**Net profit/loss for the period**

Mercator Group's net loss for the period 1–3, 2019, amounts to EUR -3,694 thousand, which is EUR 5,559 thousand less than the comparable result for the same period of last year.

**EBITDA and EBITDAR**

Mercator Group EBITDA in the period 1–3, 2019, amounts to EUR 39,762 thousand, which is EUR 13,950 thousand more than in the same period last year; however, the data is not entirely comparable between the two periods due to the implementation of the new IFRS 16 as of January 1, 2019.

Mercator Group EBITDAR in the period 1–3, 2019, amounted to EUR 40,257 thousand, which is 6.1% less than in the equivalent period of last year, mostly due to the proceeds and gains from the divestment of MC Belgrade in Serbia in March 2018. This business event is of a non-recurring (one-off) nature and it is eliminated from the normalized figures.

Mercator Group's normalized EBITDAR in the period 1–3, 2019, amounted to EUR 40,586 thousand, which is 1.7% more than in the same period of last year.

**POSLOVNI SISTEM MERCATOR D.D.**

Bottom line of the company Poslovni sistem Mercator d.d. in the period 1–3, 2019, was a profit before tax of EUR 6,469 thousand, which is EUR 559 thousand more than the profit in the same period of the preceding year.

Mercator Group's net profit for the period 1–3, 2019, amounts to EUR 4,820 thousand, which is an improvement of EUR 66 thousand relative to the comparable period of last year.

EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–3, 2019, amounts to EUR 21,067 thousand, which is 15.5% more than in the same period last year; however, the data is not entirely comparable between the two periods due to the implementation of the new IFRS 16 as of January 1, 2019.

EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–3, 2019, amounts to EUR 21,304 thousand, which is 3.3% more than in the same period of last year.

Normalized EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–3, 2019, amounted to EUR 21,637 thousand, which is 1.2% more than in the same 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 March 31, 2019, 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, May 15, 2019



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