

**BUSINESS REPORT OF THE MERCATOR GROUP AND
THE COMPANY POSLOVNI SISTEM MERCATOR D.D.,
FOR THE PERIOD 1–6, 2018**



Ljubljana, September 2018

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EXECUTIVE SUMMARY

In the first half of 2018, Mercator Group retail revenue increased by 6.6% relative to the comparable period of the preceding year, and its EBITDA reached EUR 50.5 million, which is 13.2% more than in the comparable period of the year before. Result from operating activities more than doubled, amounting to EUR 16.9 million for the first half of 2018, which is EUR 8.9 million better than in the comparable period of the year before.

In 2018, Mercator Group improved its business performance and operating efficiency, which is reflected in higher operating profit, higher net profit, and higher EBITDA. Mercator Group's result from operating activities in the first half of 2018 amounted to EUR 16.9 million, which is considerably more than the comparable result from the same period last year. Mercator Group's net profit in the period 1–6, 2018, exceeded the comparable figure from the same period of the year before by EUR 6.1 million, as it reached EUR 1.5 million; in the comparable period of the year before, Mercator Group's bottom line was a loss of EUR -4.6 million.

Mercator Group EBITDA in the period 1–6, 2018, amounted to EUR 50.5 million; the comparable figure for the preceding year was at EUR 44.6 million. Improved performance is also evident in higher EBITDA margin which rose by 0.5 percentage point.

EBITDA was also higher for the company Poslovni sistem Mercator d.d., amounting to EUR 36.9 million, or 4.7% more than in the equivalent period of the year before. Mercator Group's parent company wrapped up the first half of 2018 with a net profit of EUR 9.3 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 1–6, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 6.6% relative to the comparable period of the previous year. Slovenia, where revenue growth of 0.8% was recorded in retail, and Serbia, where revenue from retail operations grew by 1.1% relative to the comparable period of the year before, remain the most important markets of Mercator Group operations. 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 products 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 June 30, 2018, amounts to EUR 771.1 million, which is 9.5%, or EUR 80.8 million, less than as at June 30, 2017. 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

With regard to the so-called Lex Agrokor, 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.

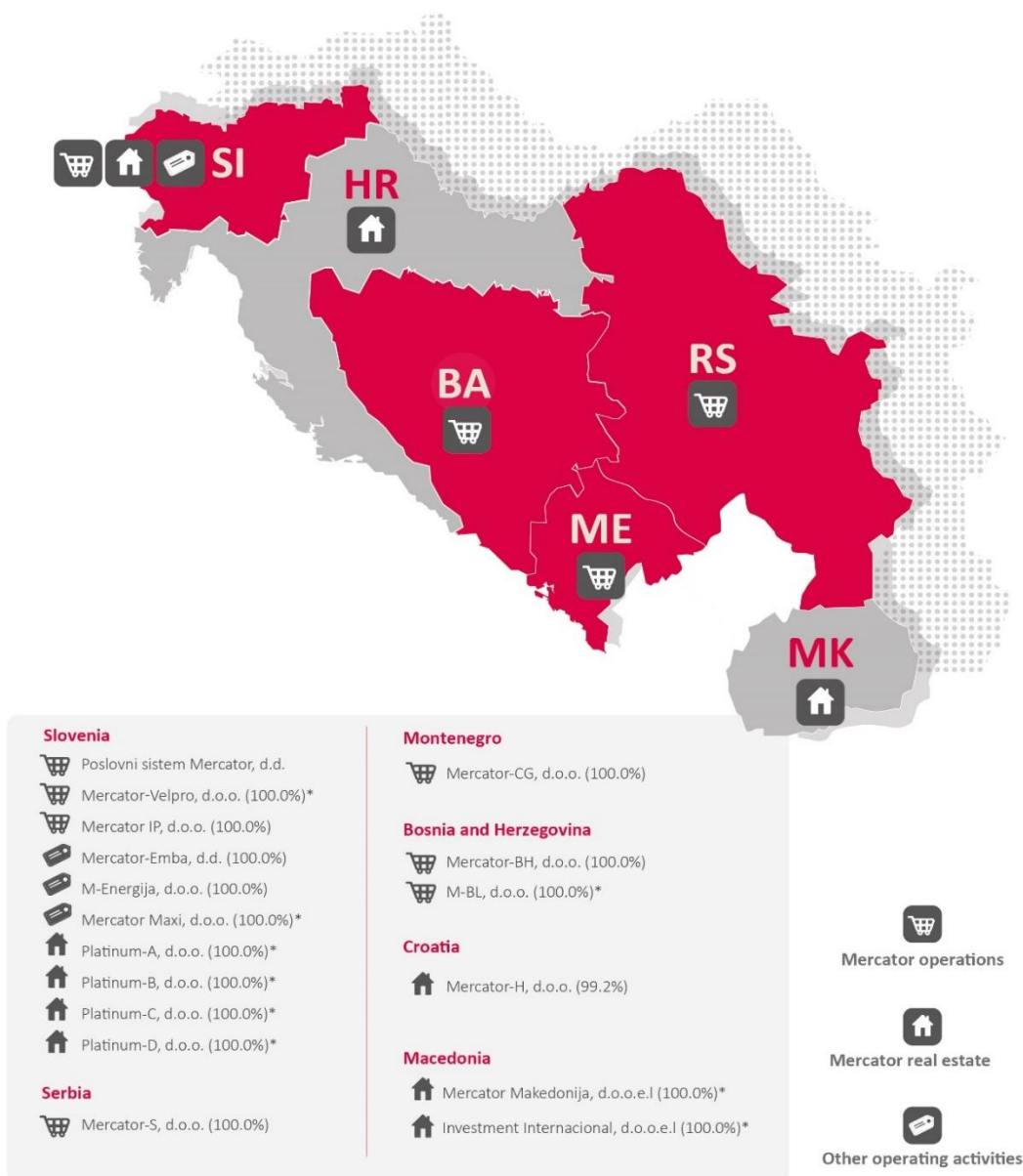
On July 4, the Settlement of the Agrokor Group Creditors (called "Nagodba" in Croatian) was voted on and approved. All information on the Settlement are available on the website <http://nagodba.agrokor.hr>.

INTRODUCTION

PROFILE AND ORGANIZATION

Mercator Group Profile as at June 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.



Branch Offices

As at June 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 June 30, 2018	EUR 254,175,051.39
Number of shares issued and paid-up as at June 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 1–6, 2018, the Supervisory Board of Poslovni sistem Mercator d.d. held one regular and seven 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.

BUSINESS STRATEGY

VISION

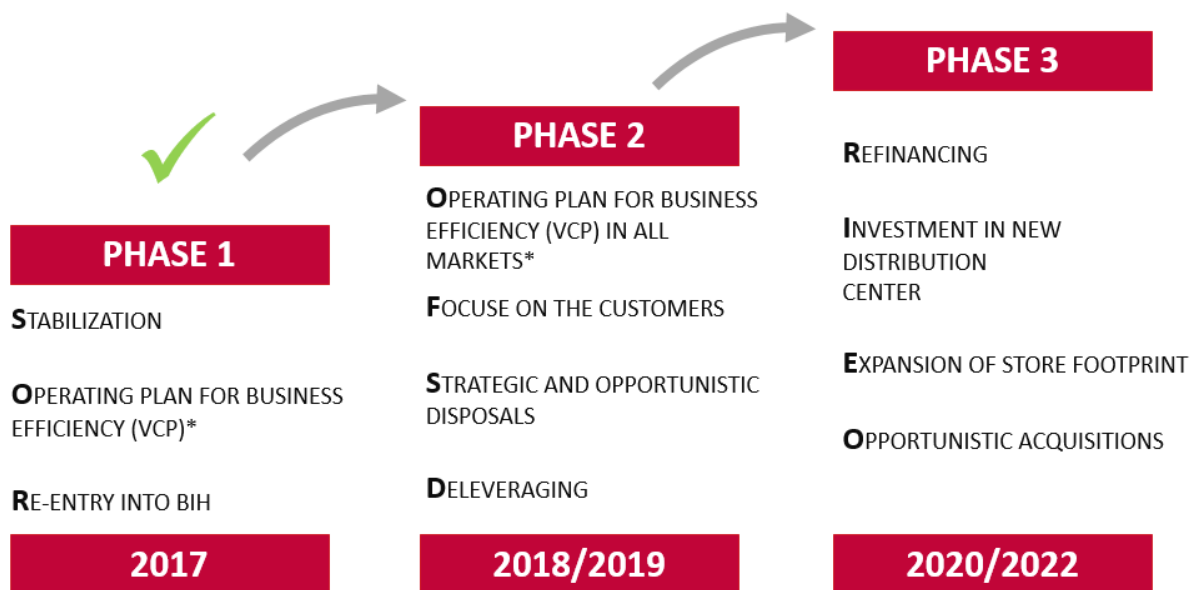
Mercator will be the best local retailer in every market of its operations.

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. In the second half of 2018, the focus will be on priority initiatives by the end of the year.

Activities for implementation of operating plan for business efficiency (Value Creation Plan):



PERFORMANCE INDICATORS OF MERCATOR GROUP IN THE PERIOD 1–6, 2018

Mercator Group business				
		restated 1–6 2017*	1–6 2018	Change 1–6, 2018/ 1–6, 2017 restated
INCOME STATEMENT	Revenue (in EUR 000)	1,048,951	1,057,038	0.8%
	Revenue from retail (in EUR 000)	738,680	787,297	6.6%
	Results from operating activities (in EUR 000)	8,020	16,927	111.1%
	Profit (loss) before income tax (in EUR 000)	-1,160	5,054	-
	Profit (loss) for the period (in EUR 000)	-4,643	1,489	-
	Gross cash flow from operating activities (EBITDA) (in EUR 000)	44,582	50,452	13.2%
	Normalized gross cash flow from operating activities (EBITDA) (in EUR 000)**	41,970	48,078	14.6%
	Gross cash flow from operating activities before rental expenses (EBITDAR) (in EUR 000)	80,375	84,585	5.2%
BALANCE SHEET	Total assets (in EUR 000)	2,085,735	1,992,280	-4.5%
	Equity (in EUR 000)	554,214	485,032	-12.5%
	Net financial debt (in EUR 000)	851,933	771,122	-9.5%
PRODUCTIVITY AND ABILITY TO GENERATE CASH FLOW	Return on sales	-0.4%	0.1%	-
	Return on equity***	-1.7%	0.6%	-
	Gross cash flow from operating activities (EBITDA) / revenue	4.3%	4.8%	0.5 p.p.
	Normalized gross cash flow from operating activities (EBITDA) / revenue**	4.0%	4.5%	0.5 p.p.
	Gross cash flow from operating activities before rental expenses (EBITDAR) / revenue	7.7%	8.0%	0.3 p.p.
INVESTMENT ACTIVITIES	Capital expenditure (in EUR 000)	25,953	13,713	-47.2%
EMPLOYEES	Number of employees as at June 30	19,887	20,569	3.4%
	Number of employees based on hours worked	18,553	18,973	2.3%

* 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, and other non-recurring (one-off) events.

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

KEY EVENTS

Retail network development

In the period 1–6, 2018:

- ▶ we invested EUR 13,713 into property, plant, and equipment (CAPEX);
- ▶ we divested EUR 4,225 worth of property, plant and equipment;
- ▶ we added 9 new units with operating lease, or 4,651 m² of new gross retail area, in all markets of our operations;
- ▶ we took over from Konzum Sarajevo and refurbished two more former Mercator stores that again operate as a part of Mercator's company in Bosnia and Herzegovina.

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 Vujčić 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

With regard to the so-called Lex Agrokor, 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. All information on the Settlement are available on the website <http://nagodba.agrokor.hr>.

In March 2018, a report by the **extraordinary Management Board** member 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, **which 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.**

Awards and other achievements



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

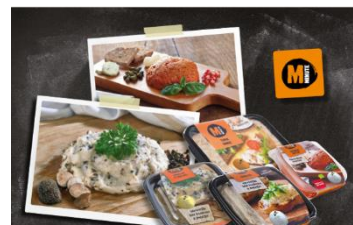
In May 2018, an independent audit took place at Mercator for the extension of the environmental management system certificate; this year, the audit fully followed for the first time the requirements of the new international standard ISO 14001:2015. Mercator is the only trade company in Slovenia engaging 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 **Serbia**, the **IDEA**, **Roda** and **Mercator** stores received the Superbrands 2017–2018 award.

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 Slovenian animal shelters. Thus, Mercator also supports the efforts of shelters and societies promoting long-term improvement of the life of animals, while also promoting sales of pet food by the partner company Mars, and its private labels Buddy and Kitty.



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").



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. "

BUSINESS REPORT

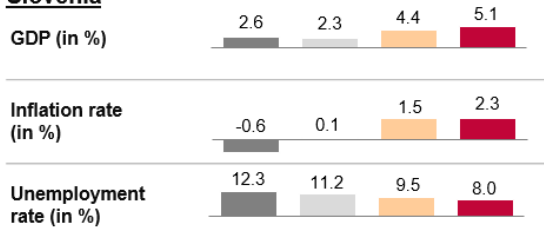
EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–6, 2018

Economic conditions in the period 1–6, 2018¹

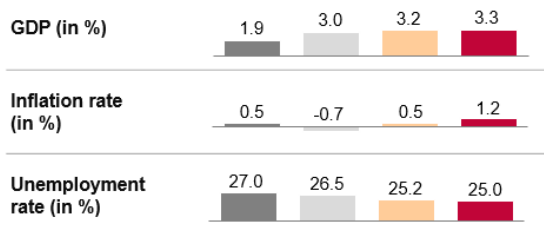
Economic growth in the eurozone slowed down in the first quarter; due to uncertainty in the international environment, the outlook is less optimistic than it was in the autumn. In Slovenia, economic growth slowed down early in the year as well, which is mostly due to the steadying of the growth of foreign demand, and adverse effects of weather on the construction industry. Conditions in the labour market continue to improve. Active population has been increasing and it has reached a similar level as in 2008. Year-on-year salary growth in this year exceeds last year's growth rate. Inflation rate increased in the last two months. Growth of credit to domestic non-banking sectors remains low.

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

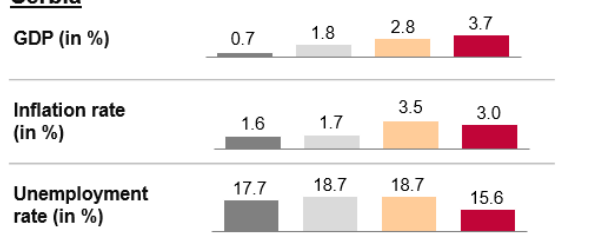
Slovenia



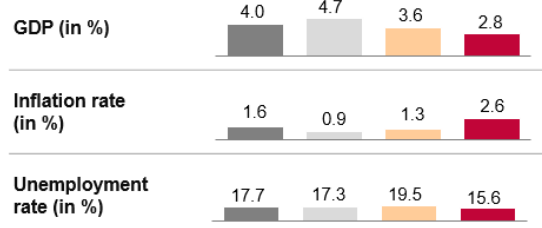
Bosnia and Herzegovina



Serbia



Montenegro



Slovenia

After considerable growth in the last year, real exports and imports of goods have decreased somewhat in recent months; however, year-on-year, they remain high. Following a slowdown at our major trade partners, exports dropped by 0.4% in the first quarter. Nevertheless, exports remain higher year-on-year, with exports of vehicles contributing the most to the exports. Since the start of the year, imports have decreased as well, especially

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).

imports for intermediate consumption, which is also related to the stagnation in manufacturing. Retail sales remained on a par with the preceding quarter in the first quarter, and it was 3.9% higher than a year ago. The highest year-on-year growth was again seen in the motor vehicle trade (12.4%). Due to intense activity of the industries related to trade (especially manufacturing and transport), revenue in wholesale was higher year-on-year as well (4.0%). Following growth in the last year, retail sales of food and motor fuels was lower year-on-year, while year-on-year growth of non-food sales continued.

Increase of active population continued in the first quarter, and the number is now equivalent to that from 2008. Year-on-year, active population was up in all private sector activities. Inflation rate has increased in the last two months. In addition to higher prices of fuel and energy, resulting from high growth of oil in the global markets and depreciation of euro, the prices of services, which saw the highest increase of the last three years in the last 12 months, also contributed palpably to the growth.

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



Serbia

Economic growth from the year 2017 continues in 2018. 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 in the country is still getting steeper, but it is steadying. Unemployment rate remains high, with a trend of decline. Inflation rate has been constantly increasing in 2018.

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

In **Slovenia**, improvement in the general economic climate and conditions in the labour market have had a positive effect on growth of private spending and new investment. However, there is a labour shortage in the labour-intensive industries, which also includes retail, due to lower average wages.

According to the forecast, growth of private spending will increase in 2018; thereafter, it will be somewhat lower due to subsiding growth of employment. 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 Spring forecast of economic trends for 2018 issued by Institute of Macroeconomic Analysis and Development of the Republic of Slovenia.

Consumer confidence increased in Slovenia in the first quarter of 2018; however, it is still below the European average. Thirty-four percent of respondents believe the country is in a recession. Approximately 61% of respondents believe that the country will not recover from the recession in the next 12 months. Their paramount concerns include personal health, security of employment, work-life balance, and increase in utility costs (electricity, natural gas etc.).

In the markets of **Serbia, Montenegro, and Bosnia and Herzegovina**, economic conditions are also expected to improve according to the forecast, with an increase in household consumption.

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 59% 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

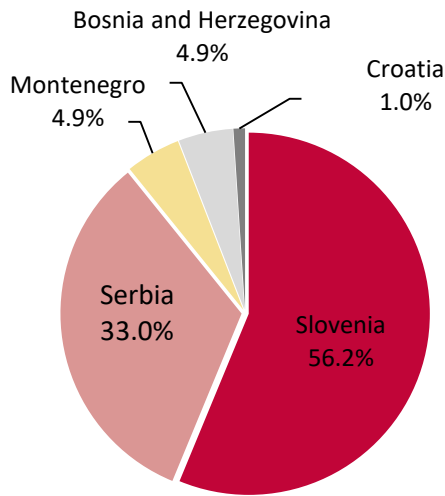
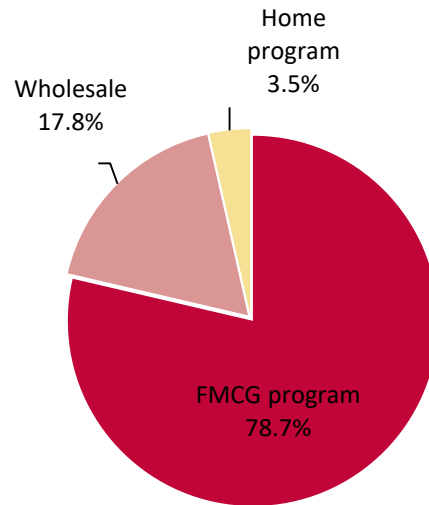
In Slovenia, improvement in the general economic situation and conditions in the labour market has had a positive effect on the growth of private spending and new investment. Based on economic growth forecasts, improvement of economic conditions is also anticipated in foreign markets of Mercator Group 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 1–6, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 6.6% relative to the comparable period of the previous year.

In the period 1–6, 2018, Mercator Group generated EUR 1,057.0 million of net revenue, which is 0.8% 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 1–6, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 6.6% relative to the comparable period of the previous year. Re-establishment of retail operations in the market of Bosnia and Herzegovina in 2017 also had a positive effect on Mercator Group revenue. Slovenia, where revenue growth of 0.8% was recorded in retail, and Serbia, where revenue from retail operations grew by 1.1% relative to the comparable period of the year before, remain the most important markets of Mercator Group operations.

Result from operating activities improved considerably and it reached EUR 16.9 million in the first half of 2018, which is EUR 8.9 million better than in the equivalent period of the year before. Mercator Group successfully wrapped up the period 1–6, 2018, with a net profit of EUR 1.5 million, which is EUR 6.1 million more in comparable terms than in the corresponding period of the previous year.

Mercator Group's result from operating activities in the first half of 2018 amounted to EUR 16.9 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 1–6, 2018:**Mercator Group revenue by programs in the period 1–6, 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. In the period 1–6, 2018, wholesale revenue decreased relative to the comparable period of the preceding year, which is a result of events and developments regarding the Agrokor Group, decrease of revenue in transit, and loss of revenue in the agricultural equipment program. The share of sales revenue from other specialized trade programs was at for 3.5% in the period 1–6, 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 1–6, 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.

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 × 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.



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**.





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.

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.



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.

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 buy at least EUR 10 worth of products and at least one My Brands product receive a coupon with a code and thus enter 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 the second half of 2018, the story of My Brands will also be **launched in Bosnia and Herzegovina, and Montenegro.**



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 will last until August 12.

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 were preparing the refreshment of the offer of **Minute To-Go** products, which will be the basis for our offer upon the start of the new school year.



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

**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.

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. The future of retail lies in a multi-channel approach and increasingly better integration across the respective sales channels.



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 shall 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 1–6, 2018, **9 units were newly opened** in the markets of Slovenia, Serbia, and Montenegro, while **72 units saw refurbishments or layout updates** (including Bosnia and Herzegovina), of which 48 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.



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.**





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 first half of the year, **42 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.

In the first half of 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.



Composition of sales units as at June 30, 2018

COUNTRY	SLOVENIA		SERBIA			MONTE-NEGRO	BOSNIA AND HERZEGOVINA	MERCATOR GROUP	
	Mercator	Mercator	Roda	Idea	Idea	Mercator	Number of units	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	293,567	195,704
Supermarkets	110	-	3	94	15	23	245	264,646	174,427
Markets	334	3	-	188	95	50	670	258,584	154,722
Cash & Carry / VELPRO	13	-	-	6	3	-	22	64,038	35,789
Restaurants	8	-	-	-	-	-	8	2,070	1,379
Total FMCG program	487	5	36	289	115	79	1,011	882,905	562,021
Technical consumer goods	44	-	-	-	-	-	44	63,809	38,829
Total specialised programs	44	-	-	-	-	-	44	63,809	38,829
Total units under management	531	5	36	289	115	79	1,055	946,714	600,849
Franchise stores	187	-	-	-	-	-	187	39,219	25,794
TOTAL	718	5	36	289	115	79	1,242	985,933	626,643

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 1–6, 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:

- ▶ establishing 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

Key activities in category management in 2018 will be focused on:

- ▶ 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; and
- ▶ focus on pricing management in order to decrease the differences between price lists across regions ("cantons").



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;
- ▶ improved margin with pursuit of strategy of higher discounts from suppliers through special campaign activities;
- ▶ preparing for the entry of a new competitor on the Serbian market;
- ▶ the first part of the project "It is Worth Being Together" has been successfully completed as sales of this assortment increased by a third. The second part of the project will follow shortly.



Montenegro

In the first half 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.

In Slovenia, the Annex No. 3 to the Collective Labour Agreement for the Retail Industry in Slovenia came into effect on January 1, 2018, which regulates the rights of employees in retail for work beyond normal or desirable working hours (i.e. unevenly distributed working hours, work on Sundays and holidays). It redefines the quotas or restrictions, as well as payment for work at such hours.

As of June 1, 2018, 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.

Number of employees

	Number of employees as at June 30, 2018	Number of employees as at December 31, 2017	Index number of employees June 30, 2018 / Dec. 31, 2017	Number of employees based on hours worked in the period 1–6, 2018
Slovenia	9,692	9,762	99.3	8,805
Serbia	8,140	8,301	98.1	7,639
Montenegro	1,459	1,420	102.7	1,305
Croatia	36	38	94.7	36
Bosnia and Herzegovina	1,242	1,280	97.0	1,188
TOTAL	20,569	20,801	98.9	18,973

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

In the period at hand, Mercator Group devoted nearly 84,525 hours to training and education that involved 17,729 employees.

In the period 1–6, 2018, the **Mercator Humanitarian Foundation** provided aid to 97 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 56,458. In Serbia, we provided aid in the amount of EUR 17,109 to 54 employees.

The 4th Retail Conference took place at Mercator d.d., as 400 store managers and hypermarket managers met with the Management Board. We also got the second generation of health promoters – their total number is now at 106.

At Mercator–S d.o.o., the socially responsible activities in progress include the following: hiring of persons with disabilities, strengthening the power of young Roma families, and hiring of residents of the Zvečanska Maternity Home.

At Mercator–CG d.o.o., we updated in the first half the retail coaching network, organized training for regional managers and store managers called "From Manager to Leader" in order to transfer knowledge and share experience.

At Mercator–BH d.o.o., extensive analyses and estimates were carried out in the first half for the new organization and systematization of jobs, scheduled for the start of the last quarter this year.



Poslovni sistem Mercator d. d.

In addition to the workshops for standard selling skills for employees in the market (FMCG) program retail, workshops are also held this year at the parent company titled **Creating an Excellent Shopping Experience** for employees in wholesale. The goal of the training is to motivate the employees towards a more open and frequent sales communication with the customers, in order to increase sales and improve customer satisfaction. To date, the workshops have been attended by **139 employees** who actively took part in the training and shared their experience, opinions, and proposals for even better work at the retail units. Improvement proposals were combined in a report presented to the management at wholesale.

*Kaj so prodajne veščine?
Zakaj jih potrebujem?
Katere veščine mi pri
prodaji še koristijo?*

PRODAJNE VEŠČINE



In fast-moving consumer goods retail, we provided **expert training** in the first half of the year for employees of the bread and meat departments. A total of 82 workshops focusing on **finishing pre-baked bread and pastry** were attended by **548 employees**. UBS inspectors 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 year, our **butchers' school** took place in the Štajerska region. The program, taking place in two groups, was attended by **23 new and current butchers**. In the first part of the training, they learned about the strategy of work at the meat departments, selling skills, preparation of produce, and workplace management. This was 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.



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 will continue their work based on the program that is adjusted to the work of M Tehnika, i.e. technical consumer goods.



Internal coaches also provide continuous support to our development projects. At the company, we started to introduce internal coaching in 2012; currently, there are **14 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 their own 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, two groups completed their training in 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-one employees** successfully completed their training. In July, they received from retail unit managers their certificates of internal training for work on the job of shop assistant, and a new contract.





Sixty employees successfully completed the **Logistics Management School** that lasted 52 educational hours. During the training, participants acquired knowledge that will help them communicate, organize the work and manage stress. In group coaching sessions, they addressed the issues of current relevance and set several challenges for improvements.

At the **4th Retail Conference** held in May at the Ljubljana Kolosej, managers in operations (approximately 400 store managers and hypermarket managers) met with the Management Board. The company's operations and performance to date, and challenges lying ahead, were presented at the meeting.



In May, the managers completed the **5th Development Dialogue** with key employees in administration. Through a discussion about commitment, we identified the needs of key employees, which have to be satisfied for them to be committed, and determined which of these needs are in fact being satisfied by the leaders, and where there is still room for improvement. The communication skills model was used for assistance. The results of the dialogues will also be used to develop a proposal for systemic measures.

Most hypermarkets and supermarkets got their **health promoter**. The closing ceremony of the 2nd generation of the **School for Health Promoters** was opened by Sanela Banović, MD, with a lecture on the importance of mental health. Participants received certificates on acquired internal title of health promoter. At the company Poslovni sistem Mercator d.d., we now have a total of **106 health promoters**.



As of June 1, 2018, **promotions were awarded in the operations** part of the company Poslovni sistem Mercator d.d., for the areas of FMCG retail, wholesale, technical consumer goods, hospitality services, and logistics.

Due to the introduction of the European Union's new General Data Protection Regulation (GDPR), we launched the activities of our employees' personal data management in compliance with this new regulation.



Mercator IP d.o.o.

On January 1, 2018, a new production plant Sandwiches and Salads was launched in Slovenske Konjice, 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.

At the 18th bakery section contest that rates the quality of bread and pastry under the auspices of the Slovenian Chamber of Commerce and Industry, the company Mercator IP d.o.o. received in February 2018 seven golden medals for products of the pastry shop Kranjski kolaček. The highest, i.e. gold awards, were presented to Mercator's biscuits Domači prijatelj, coconut cubes, crostata with fruit, crostata Čokolešnik, spelt strudel with plums, spelt strudel with apricots, and raspberry cake.





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 the suppliers of the company Poslovni sistem Mercator d.d. about the new effective legislation on food hazards.

In May, we attended this year's **1st meeting of leaders and key employees** at Mercator IP d.o.o. In the first part of the meeting, we reviewed our business performance and laid down the guidelines for the months ahead. In the second part of the meeting, we together listened to an interesting lecture on the subject of "Good Relations in a Team".

At the end of the first half of 2018, the company Mercator IP d.o.o. had 428 employees, of which 222 were employees with a recognized category of disability.



Mercator-S d.o.o.

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



In addition to the School of Agriculture PK Belgrade, the **youth hiring program** has been joined by the School of Agricultural Technology Subotica, Grocka High School, Čačak High School of Business and Economics, and the Čačak School of Food and Hospitality Services. The number of students who were hired through the dual system increased from 9 last year to 16 in this year. For the second year in a row, we worked with the School of Agriculture PK Belgrade, the Ministry of Education, Science and Technological Development, and the Serbian Chamber of Commerce to organize the

event **Last Day of School, First Day at Mercator** at which we presented the diplomas to the graduates who were hired by the company after graduation. The purpose of the event is to promote a dual system of education and vocational practical work.

Working with the National Employment Agency, we organize **career fairs** (or job fairs) for jobs in retail, wholesale, and other categories where hiring is more difficult. By using new platforms and digitalizing the existing ones, we have improved our hiring and recruitment procedure. We created advanced employer profiles on social networks LinkedIn, Instagram, and Facebook, and through the HR advertising campaign Infostud.

At the company, 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. The project of "**Hiring Persons with Disabilities**" included creating a new job sales assistant, with working environment adjusted to the special needs of individuals with disabilities. We also continue to develop our cooperation with companies who only hire persons with disabilities. »**Strengthening of Young Roma Families**« is the next socially responsible project that trains young Roma families for work in retail. In 2018, also we started working with the **Zvečanska Maternity Home** by hiring their residents.



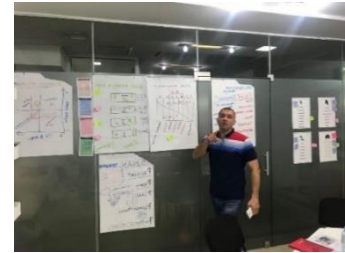
Mercator–CG d.o.o.

Early in the year, 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 has been created to evaluate the progress of newly hired employees.

Coaching network of retail coaches was updated. We selected 13 business units in 11 towns throughout Montenegro where employees are to be trained. This update also included revising all work instructions for coaches, full educational material for a variety of fields of work (meat department, delicatessen department, fruit and vegetables, bakery, work at the cash register, issue of goods etc.). Currently, we are focused on training of new employees. The goal of the coaching network is to develop a fast and efficient training method to ensure work according to uniform standards and values.



The HR department organized training for store managers and regional retail managers, titled "From Manager to Leader". Participants had the opportunity to share their experience and challenges they encounter, as well as to find the ways to resolve the current open challenges.



Mercator–BH d.o.o.

In the period 1–6, 2018, we introduced extensive administrative, analytical, and legal evaluations for the preparation of a **new job organization and systematization** which is scheduled to be introduced on October 1, 2018. Salary accounting will change as well. The goal is to improve productivity, to motivate the employees, and to optimize our organization.

In April and May, we also held **training for 24 internal coaches** in order to improve the rate of retail employee training. A total of 3,386 employees in operations attended 7,412 class hours of training and education. They dealt with topics such as selling skill development, HACCP regulations, safety training, and insurance.



Important activities also include attainment of the planned sales revenue and improvement of productivity in the FMCG program. We decided to introduce, as a test, group rewards in retail in April, May and June. If the reward system proves an efficient and beneficial tool for attainment of excellent sales results, it will be extended to subsequent quarters.



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 1–6, 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 **9 new market (FMCG) program stores**.

In February and March 2018, we took over from Konzum Sarajevo two more former Mercator stores that again operate as a part of Mercator's company in Bosnia and Herzegovina.

We also searched for and evaluated new potential locations to extend Mercator's retail network. Activities took place with regard to divestment of non-core or 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 several non-binding offers, as well as, following and based on due diligence, some binding offers.

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



Investment and Divestment

In the period 1–6, 2018, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 13.7 million. Of this amount, 50.9% was used for investments in Slovenia and 49.1% was used for investments in international markets.

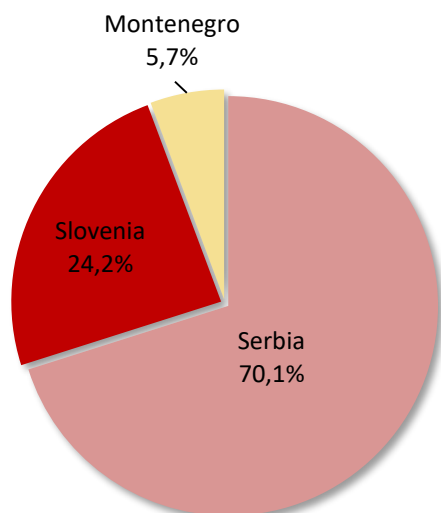
	Capital expenditure in 1–6, 2018 (in EUR 000)	Structure (in %)
Slovenia	6,980	50.9%
Serbia	3,749	27.3%
Croatia	1,301	9.5%
Montenegro	1,251	9.1%
Bosnia and Herzegovina	432	3.2%
Total	13,713	100.0%

Investment into refurbishment and update existing units accounted for 62.4% of total investments; expansion of new retail units represented 16.1%; IT investments accounted for 13.1%; investments into distribution centres accounted for 3.2%; and the remaining 5.2% was invested in non-trade activities.

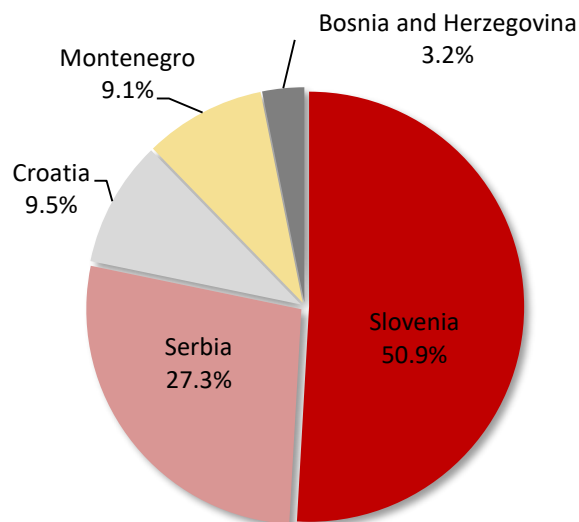
In the period 1–6, 2018, Mercator Group newly acquired 4,651 square meters of new gross store area. All new gross area was acquired by operating lease.

In the period 1–6, 2018, Mercator Group divested property, plant, and equipment worth EUR 4.2 million, of which EUR 3.6 million pertains to the divestment of property (real estate) and EUR 0.6 million pertains to plant and equipment.

Share of newly launched facilities by markets:



Share of investments by market:



Summary of total gross retail area as at June 30, 2018:

	Gross area in square meters		
	Used for own operations	Leased out	TOTAL
Owned retail area	531,316	393,770	925,086
Leased retail area	415,398	153,193	568,591
Total retail area	946,714	546,963	1,493,677
Owned warehouse capacity	138,538	18,118	156,656
Leased warehouse capacity	66,385	40,009	106,394
Total warehouse capacity	204,923	58,127	263,050
Owned commercial facilities	18,176	2,831	21,007
Leased commercial facilities	7,991	346	8,337
Total commercial facilities	26,167	3,177	29,344
GROSS AREA UNDER MANAGEMENT	1,177,804	608,267	1,786,071
- of which owned	688,030	414,719	1,102,749
- of which leased	489,774	193,548	683,322

Retail unit openings by respective markets in the period 1–6, 2018**SLOVENIA****Area of new facilities:** 1,125 m²Number of new units: 5Openings: Market Begunje at Cerknica; Market Unec; Market Godovič; Market Iga vas; Market Šobec**Refurbishments/rearrangements:**Number of units: 48**SERBIA****Area of new facilities:** 3,263 m²Number of new units: 2Openings: Market Strumička, Belgrade; Supermarket Roda, Vršac**Refurbishments/rearrangements:**Number of units: 1**MONTENEGRO****Area of new facilities:** 263 m²Number of new units: 2Openings: Market Štoj, Market Sutomore 3**Refurbishments/rearrangements:**Number of units: 13**BOSNIA AND HERZEGOVINA****Refurbishments/rearrangements:**Number of units: 10

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 1–6, 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.

Following is a presentation of major risks and opportunities within respective fields, complete with realized activities in the period 1–6, 2018.

Relevance of respective risks for the Mercator Group is indicated with one of the following symbols:



Low risk






Moderate risk



High risk

STRATEGIC FIELD

Risk description	Activities accomplished in the period 1–6, 2018
CORPORATE RISK: Correct definition and implementation of strategy	
 <p>Correct definition and effective execution of strategy are the foundation for successful operations and performance of the entire Mercator Group.</p>	<p>In 2018, Mercator Group is pursuing its newly devised long-term strategy completed at the end of 2017, and the operational plan for efficient operations (Value Creation Plan). In the period 1–6, 2018, we started implementing the operational plan for efficient operations (Value Creation Plan) in foreign markets of Mercator Group operations as well.</p>
CORPORATE RISK: Risk pertaining to the operations of the Agrokor Group	
 <p>In early 2017, uncertainty regarding future operations and performance of the company Agrokor d.d. and its subsidiaries, except for Mercator Group, became evident, resulting from multiple downgrades of credit rating of the company Agrokor d.d., changes in the management, and start of financial restructuring procedures.</p>	<p>At Mercator Group, we are continuously monitoring the outstanding receivables by companies in the Agrokor Group and the situation regarding the majority shareholder. In compliance with the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (ZIČUDSP), extraordinary Management Board member Gregor Planteu is developing Reports on all Transactions Effected with the Majority Shareholder Agrokor d.d.</p>
CORPORATE RISK: Compliance of corporate risk with the legislation	
 <p>In the last few years, the corporate governance structure of the company Poslovni sistem Mercator d.d. was centralized and not entirely aligned with the legislation in respective countries of Mercator Group operations, Corporate Governance Code, and sound business practices.</p>	<p>The controlling company provides regular corporate governance at subsidiaries:</p> <ul style="list-style-type: none"> ▶ by taking part in shareholders assemblies and with membership in Supervisory Boards of subsidiaries; ▶ with standardization and unification of rules and procedures in respective fields or areas; ▶ through a system for issuing permits, specifying the responsibilities for executing particular transactions; ▶ through a system of regular working meetings and video- or teleconferences of the Management Board of the company Poslovni sistem Mercator d.d., along with authorized employees, with the management teams of subsidiaries, in order to review the accomplishment of results and performance in the core activity and to optimize the purchasing channels within the entire Mercator Group.

COMPETITIVENESS AND CUSTOMER SATISFACTION RISKS: Risk of a decline in market share and poor price competitiveness


Today's customer is defined by rapidly changing demographic conditions, fast-paced lifestyle, and technological development.

We are focusing on the needs and desires of the customers, and we place the customer at the centre of our decisions.

Following are the key activities for mitigating the risks:

- ▶ market share and changes in net retail area of the company Poslovni sistem Mercator d.d. and its competitors are monitored on a monthly basis;
- ▶ opening of new stores and refurbishments of existing ones consistently with the 2018 plan; further search for new potential locations;
- ▶ new pricing strategy which, based on the share of revenue and price elasticity, specifies a suitable policy for managing regular and special campaign prices for every category;
- ▶ continuous compiling of lists of competitors and their prices, for use in the pricing model in order to adjust and monitor our competitiveness.

FINANCIAL FIELD
Risk description
Activities accomplished in the period 1–6, 2018
FINANCIAL RISK: Credit risk


Credit risk is the risk that the company will sustain financial loss if a party to an agreement defers a payment and later does not settle its obligations in full or not at all.

Key credit risks can originate in the wholesale operations, and sale of goods to Pika card holders. Risks related to the Pika card have been transferred to a third-party financial institution.

In the first half of 2018, we minimized the risk with the following measures:

- ▶ regular monitoring of exposure to individual external customers, and monitoring of credit limits;
- ▶ preparing weekly reports on trade receivables and holding monthly meetings of the receivables task force;
- ▶ operating a system for blocking sales to customers found to be critical from the aspect of overdue receivables, bankruptcies, deletions of striking, liquidations, and lawsuits;
- ▶ taking out new insurance instruments (bank guarantees, mortgages, enforcement drafts);
- ▶ coordinated decisions on limits for customers, aimed at maximizing sales while minimizing credit risk.

FINANCIAL RISK: Liquidity risk


Liquidity risk is the risk that Mercator Group will, in the course of its business, see problems with settling its current liabilities.

At Mercator Group, we are monitoring on a daily basis the actual cash flow, and we coordinate the cash flows in a centralized manner at various levels of decision-making to make sure individual companies always have available a suitable amount of cash for repayment of their respective liabilities.

In the first half of 2018, we minimized the risk with the following measures:

- ▶ optimization of working capital management, especially better management of trade goods inventories and faster collection of overdue outstanding receivables;
- ▶ control and procedures for investment approvals. Investments that improve the free cash flow sooner and reach an adequate rate of return were preferred.

FINANCIAL RISK: Risk of sustainable financial structure

Sustainable financial structure and confidence of creditors and other stakeholders is a prerequisite for further successful Mercator Group operations and performance.

As at June 30, 2018, Mercator Group's net financial debt amounted to EUR 771.1 million, which is 6.9% less than as at the end of 2017. Mercator Group has to observe the covenants specified in agreements with creditor banks.

In 2018, we continued to communicate with the key stakeholders and informed them about the performance and operation of the company Poslovni sistem Mercator d.d., and continued with the implementation of the real estate monetization project.

OPERATIONAL FIELD**Risk description****Activities accomplished in the period 1–6, 2018****WHOLESALE RISK: Risk of loss of franchise partners and external customers**

Wholesale is one of the more important Mercator Group operating activities.

Risk of loss of franchise partners and external customers is assessed as a key risk due to potentially critical customer receivables and entry of new franchisors.

In the period 1–6, 2018, the following activities were carried out:

- ▶ revised sales and payment terms were developed by customer segments;
- ▶ new customers were won in the segment of franchise stores, retailers, public tenders, and HoReCa;
- ▶ 6 franchise stores were refurbished.

SUPPORT FIELD**Risk description****Activities accomplished in the period 1–6, 2018****IT RISK: Failure of IT systems and protection of personal data**

IT system failure can cause loss of information, preclude efficient operations, and result in penalties imposed by the relevant authorities, as well as affect the company's reputation.

The European Union's new General Data Protection Regulation (GDPR) regulating the management of personal data at the organization will increase the IT risk due to more stringent security requirements, as the legislation requires stricter control over transfer of personal data between respective systems, and management thereof.

In the period 1–6, 2018, our activities in IT were focused on the following:

- ▶ regular monitoring of the needs and diligent assessment of priorities regarding the changes to the IT systems;
- ▶ regular cooperation between IT and the business operations in development and implementation of new developments in infrastructure and software;
- ▶ testing the operation at the IT and the user side before migration to a production environment in case of all refurbishments, replacements or upgrades;
- ▶ adapting the mechanisms for fast and efficient integration of third-party experts into the elimination of non-compliance in projects that increase the IT risks.

Due to the European Union's new General Data Protection Regulation (GDPR), activities were focused on the upgrade of tools and procedures for safe transfer of data outside Mercator, storage of traces of personal data processing, pseudonymization of personal data and elimination of personal data from applications where it is not necessary. We are also upgrading the support for ensuring individuals' rights to access and transfer their personal data.

HUMAN RESOURCE RISK: Lack of human resources

We are aware that our employees contribute the most to customer satisfaction and, in turn, to accomplishment of Mercator's business goals.

Lack of human resources in operations, such as retail, logistics etc., and retention of competent human resources at the company, account for the biggest risk. If suitable human resources are not available, work processes cannot take place correctly, which in turn could lead to lower sales and damage to reputation.

The following activities are in progress:

- ▶ development of own human resources with in-house training and education and employee development programs;
- ▶ revision of values and culture;
- ▶ strengthening leadership competencies of our leaders;
- ▶ implementing succession programs in retail;
- ▶ continuing our projects in non-cash rewards to employees and fostering connections between employees.

FIELD OF COMPLIANCE**Risk description****Activities accomplished in the period 1–6, 2018****ENVIRONMENTAL RISK: Use of electric energy**

We are aware we are operating in a region with a highly diverse and rich natural environment. All our efforts and actions in improvement of processes at our company are targeted at preservation of natural environment in which we operate.

Environmental risk of electric energy consumption is related to inefficient use of electric energy due to suboptimal design of business processes and technologies employed.

In the period 1–6, 2018, our activities in power consumption were focused on the following:

- ▶ we continued to inform the employees on a quarterly basis about the efficient use of energy;
- ▶ we upgraded the existing energy accounting system with a more detailed targeted monitoring of energy consumption.

FINANCIAL MANAGEMENT

Stable Financial Operations

As at June 30, 2018, Mercator Group's net financial debt amounted to EUR 771,122 thousand, which is 6.9% less than as at the end of 2017, and 9.5% less than as at June 30, 2017.

in EUR thousand	June 30, 2017	Dec. 31, 2017	June 30, 2018	Change June 30, 2018/ June 30, 2017	Change June 30, 2018/ Dec. 31, 2017
Non-current borrowings and other financial liabilities	802,033	765,309	689,294	-14.1%	-9.9%
Current borrowings and other financial liabilities	89,170	116,391	126,328	41.7%	8.5%
Financial liabilities	891,204	881,700	815,622	-8.5%	-7.5%
Cash and cash equivalents	9,237	24,112	13,837	49.8%	-42.6%
Available-for-sale financial assets	463	391	386	-16.5%	-1.2%
Non-current and current loans and deposits	29,570	28,980	30,276	2.4%	4.5%
Financial assets	39,270	53,483	44,500	13.3%	-16.8%
Net financial debt*	851,933	828,217	771,122	-9.5%	-6.9%
Net financial debt / normalized EBITDA	16.3	9.1	8.0	-51.0%	-12.8%

*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 June 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 1–6, 2018, the 6-month EURIBOR averaged at -0.272%. At the end of the period, it was at -0.270%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at -0.247%, this rate fell by 0.025 percentage point.

Security of bank loans

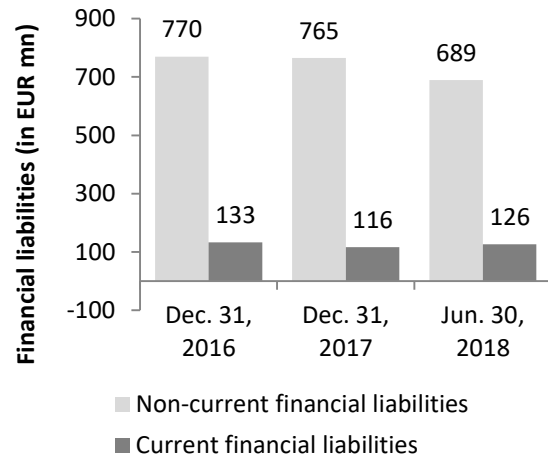
Restructuring of Mercator Group's financial liabilities included securing such liabilities with mortgages on Mercator's own real property, with financial investments into subsidiaries, receivables, inventories, and funds/deposits in bank accounts.

Debt to equity and financial liability ratio

As at June 30, 2018, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.59. 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 June 30, 2018, amounted to 84.5% (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 June 30, 2018**

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

in EUR thousand	June 30, 2018
Cash and cash equivalents	13,837
Standby revolving credit lines	29,213
Total	43,050

MERCATOR SHARE AND INVESTOR RELATIONS

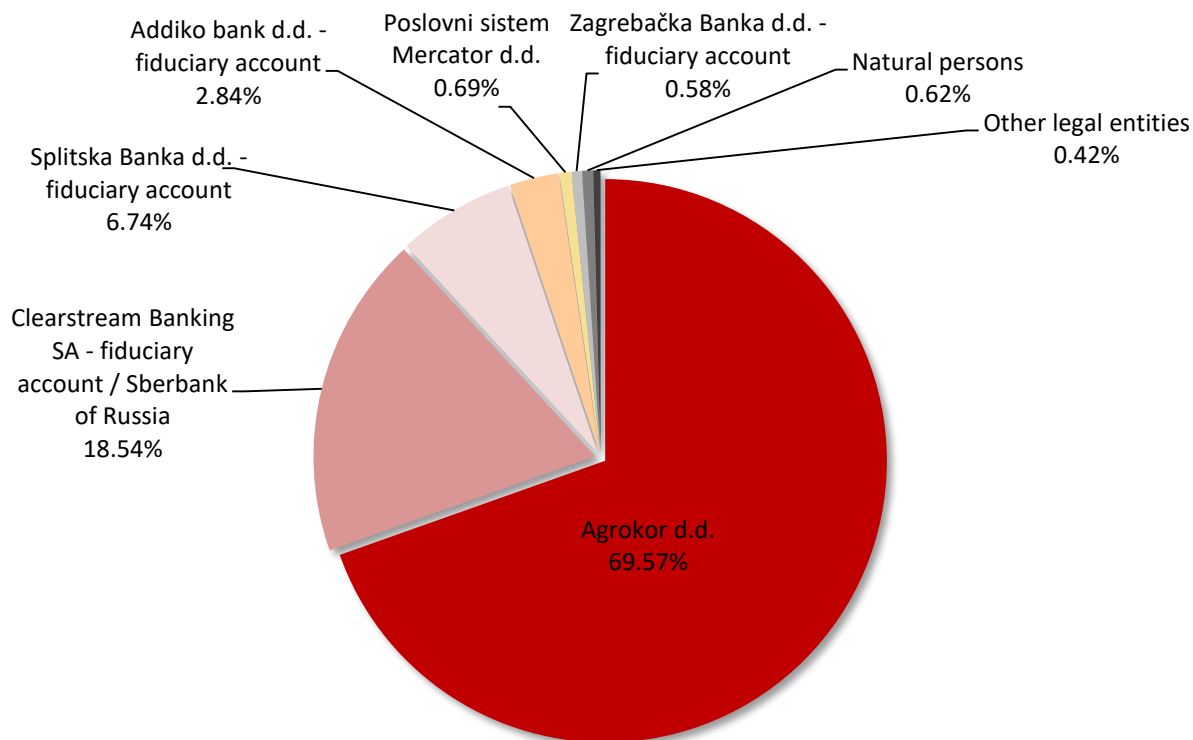
Share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator d.d., as at June 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	1,619

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



Major Shareholders

As at June 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%

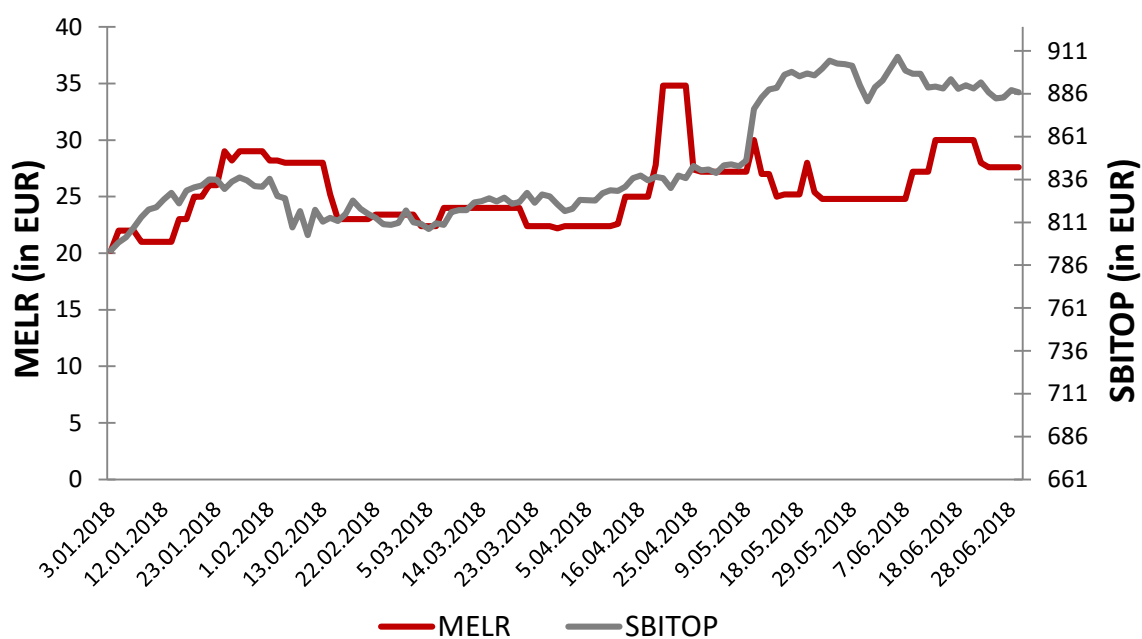
Shares held by Management and Supervisory Board Members as at June 30, 2018

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 June 30, 2018.

Foreign shareholders

As at June 30, 2018, the share in the company Poslovni sistem Mercator d.d., held by foreign investors amounted to **98.68%** and is unchanged in comparable to 2017.

Movement of closing price per MELR share in the period 1–6, 2018, compared to the movement of the SBITOP index



Key information for the shareholders

	restated June 30, 2017*	June 30, 2018	Change June 30, 2018/ restated June 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)	249,728,663	168,110,027	-32.7%
Market value of share (in EUR)	41.00	27.60	-32.7%
Book value per share (in EUR)	92.61	71.60	-22.7%
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)	56.54	25.52	-54.9%
Earnings per share (in EUR)	2.85	3.07	7.7%

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

No dividend payment for 2018 is planned.

Treasury shares

As at June 30, 2018, the company Poslovni sistem Mercator d.d., held 42,192 treasury shares. In the period 1–6, 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 1–6, 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 1–6, 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>	
	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017
ASSETS				
Non-current assets				
Property, plant and equipment	1,136,888	1,159,237	723,962	736,152
Investment property	245,734	244,316	4,552	4,838
Intangible assets	20,470	20,632	12,493	12,573
Deferred tax assets	39,680	42,920	36,962	40,184
Loans/deposits given	27,194	24,491	103,913	99,641
Available-for-sale financial assets	386	391	259	259
Capital investments in Group companies	0	0	190,798	190,798
	1,470,353	1,491,988	1,072,938	1,084,445
Current assets				
Assets held for sale	117,431	117,146	95,469	95,203
Inventories	204,909	210,233	105,382	104,950
Trade and other receivables	182,412	228,168	79,527	71,239
Current tax assets	257	244	0	0
Loans/deposits given	3,082	4,833	27,280	27,180
Cash and cash equivalents	13,837	24,112	9,074	11,635
	521,927	584,736	316,732	310,208
Total assets	1,992,280	2,076,723	1,389,670	1,394,652
EQUITY				
Nominal capital	254,175	254,175	254,175	254,175
Capital surplus	6,381	207,523	6,381	207,523
Own shares	(3,235)	(3,235)	(3,235)	(3,235)
Revenue reserves	42,830	42,830	16,624	16,624
Fair value reserve	201,402	200,181	146,378	149,214
Retained net profit or loss	65,481	45,102	3,523	2,584
Net profit/loss for the period	1,480	(184,284)	9,271	(203,726)
Currency translation reserve	(83,622)	(84,029)		
Equity attributable to the controlling company owners	484,892	478,261		
Non-controlling interests	141	140		
Equity	485,032	478,401	433,117	423,159
LIABILITIES				
Non-current liabilities				
Trade and other payables	7,070	7,174	1,012	1,012
Loans received and other financial liabilities	689,294	765,309	492,815	539,291
Deferred tax liabilities	50,950	51,534	40,038	40,684
Provisions	28,590	29,683	24,775	25,377
	775,905	853,701	558,640	606,365
Current liabilities				
Trade and other payables	604,727	626,963	316,150	303,621
Current tax liabilities	288	1,268	0	0
Loans received and other financial liabilities	126,328	116,391	81,763	61,507
	731,343	744,622	397,913	365,128
Total liabilities	1,507,247	1,598,322	956,553	971,493
Equity and liabilities	1,992,280	2,076,723	1,389,670	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.	
	1–6, 2018	1–6, 2017 restated*	1–6, 2018	1–6, 2017 restated*
Sales revenue	1,057,038	1,048,951	574,303	581,721
Cost of goods sold and selling costs	(1,014,805)	(1,014,462)	(540,611)	(549,396)
Administrative expenses	(35,615)	(37,425)	(16,354)	(18,167)
Other operating revenue	10,308	10,955	3,443	4,841
Results from operating activities	16,927	8,020	20,782	18,999
Finance revenue	4,966	8,051	7,013	3,007
Finance expenses	(16,839)	(17,230)	(15,261)	(10,201)
Net finance expense	(11,873)	(9,179)	(8,248)	(7,194)
Profit or loss before tax	5,054	(1,160)	12,534	11,805
Tax	(3,565)	(3,484)	(3,263)	(3,197)
Net profit/loss for the period	1,489	(4,643)	9,271	8,608
Net profit/loss for the period attributable to:				
Owners of the controlling company	1,640	(4,635)		
Non-controlling interests	(151)	(8)		

*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 1–6, 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>	
	1–6, 2018	1–6, 2017 restated	1–6, 2018	1–6, 2017 restated
Net profit/loss for the period	1,489	(4,643)	9,271	8,608
Other comprehensive income:				
Items subsequently not reclassified to profit or loss	675	-	687	266
Other changes	(13)	-	-	-
Deferred tax for items subsequently not reclassified to profit or loss	687	-	687	266
Items that may be reclassified subsequently to profit or loss	413	1,482	-	-
Foreign currency translation differences	414	1,423	-	-
Net gains/losses on available-for-sale financial assets recognized in revaluation surplus	(1)	-	-	-
<i>Transfer of gains/losses from revaluation surplus to profit or loss</i>	(1)	-	-	-
Deferred tax for items that may be reclassified subsequently to profit or loss	-	59	-	-
Other comprehensive income for the period	1,087	1,482	687	266
Total comprehensive income for the period	2,576	-3,162	9,958	8,874
Total comprehensive income for the period attributable to:				
Owners of the controlling company	2,575	(3,163)		
Non-controlling interests	1	2		

Consolidated Statement of Changes in Equity of the Mercator Group

Skupina Mercator

in EUR thousand	Nominal capital	Capital surplus	Own 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	106	557,376
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	(4,635)	-	(4,635)	(8)	(4,643)
Other comprehensive income	-	-	-	-	(394)	453	-	1,421	1,480	2	1,482
Total comprehensive income for the period	-	-	-	-	(394)	453	(4,635)	1,421	(3,155)	(6)	(3,162)
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 June 30, 2017 restated	254,175	207,523	(3,235)	41,686	104,147	44,753	(4,635)	(90,299)	554,114	100	554,214

in EUR thousand	Nominal capital	Capital surplus	Own 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	-	-	-	-	-	-	1,480	-	1,480	9	1,489
Other comprehensive income	-	-	-	-	(2,834)	3,523	-	406	1,095	(8)	1,087
Total comprehensive income for the period	-	-	-	-	(2,834)	3,523	1,480	406	2,575	1	2,576
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)	-	-	4,055	(2,584)	203,726	-	4,055	-	4,055
Total transactions with owners	-	(201,141)	-	-	4,055	16,857	184,285	-	4,055	-	4,055
Balance as at June 30, 2018	254,175	6,381	(3,235)	42,830	201,402	65,481	1,480	(83,622)	484,892	141	485,032

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	Own 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	-	-	-	-	-	-	8,608	8,608
Other comprehensive income	-	-	-	-	(393)	659	-	266
Total comprehensive income for the period	-	-	-	-	(393)	659	8,608	8,874
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 June 30, 2017 restated	254,175	207,523	(3,235)	16,624	75,803	659	8,608	560,157

in EUR thousand	Nominal capital	Capital surplus	Own 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	-	-	-	-	-	-	9,271	9,271
Other comprehensive income	-	-	-	-	(2,835)	3,523	-	687
Total comprehensive income for the period	-	-	-	-	(2,835)	3,523	9,271	9,958
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 June 30, 2018	254,175	6,381	(3,235)	16,624	146,379	3,523	9,271	433,118

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>	
	1–6, 2018	1–6, 2017 restated	1–6, 2018	1–6, 2017 restated
Cash flows from operating activities				
Gross cash flows from operating activities	45,608	41,839	35,534	32,509
Change in inventories	5,324	17,330	(432)	6,993
Change in trade and other receivables	1,443	(4,113)	(8,287)	(4,354)
Change in trade and other payables, and provisions	(14,165)	(31,094)	12,428	(19,036)
	38,209	23,962	39,242	16,112
Net foreign exchange differences from financing activities	-	-	-	-
Interest expenses	(15,564)	(16,506)	(10,067)	(9,464)
Cash from operating activities	22,645	7,456	29,175	6,648
Cash flows from investing activities				
Acquisition of property, plant and equipment, investment property and intangible assets	(13,713)	(25,953)	(6,481)	(9,617)
Proceeds from sale of property, plant and equipment, investment property and intangible assets	48,526	7,777	3,528	7,355
Net other financial revenue (expenses)	(1,154)	-	(661)	-
Interest income	572	592	2,469	2,788
Net loans and deposits made/received	(952)	9,925	(4,372)	(11,222)
Cash from investing activities	33,279	(7,659)	(5,515)	(10,696)
Cash flows from financing activities				
Net proceeds (repayment) in borrowings	(66,078)	(16,940)	(26,221)	(5,004)
Cash from financing activities	(66,078)	(16,940)	(26,221)	(5,004)
Net increase (decrease) in cash and cash equivalents	(10,155)	(17,143)	(2,561)	(9,052)
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	(120)	62		
Cash and cash equivalents at end of the period	13,837	9,237	9,074	4,292

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

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

MERCATOR GROUP

POSLOVNI SISTEM MERCATOR, D.D.

Revenue

In the period 1–6, 2018, Mercator Group generated EUR 1,057 million of net revenue, which is 0.8% 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 6.6% relative to the comparable period of the year before. Re-establishment of retail operations in the market of Bosnia and Herzegovina in 2017 also had a positive effect on Mercator Group revenue.

In the period 1–6, 2018, the company Poslovni sistem Mercator, d.d., generated EUR 574,303 thousand of revenue, which is 1.3% less than in the period 1–6, 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

Mercator Group costs of sales, which include the cost of goods sold, production costs, selling costs, and other expenses, amounted to EUR 1,014,805 thousand in the period 1–6, 2018, which is on a par with the same period of last year.

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 540,611 thousand in the period 1–6, 2018, which is a 1.6% decrease relative to the comparable period of last year.

Mercator Group's administrative expenses in the period 1–6, 2018, amounted to EUR 35,615 thousand, which is 4.8% less than in the comparable period last year.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–6, 2018, amounted to EUR 16,354 thousand, which is 10.0% less than in the comparable period last year.

Results from operating activities

In the period 1–6 2018, Mercator Group's results from operating activities reached EUR 16,927 thousand, which is a considerable improvement over the comparable result for the same period last year, by EUR 8,907 thousand.

In the period 1–6 2018, results from operating activities of the company Poslovni sistem Mercator d.d. reached EUR 20,782 thousand, which is 9.4% more than in the same period of last year.

Net finance expenses

Mercator Group net finance expenses in the period 1–6, 2018, amounted to EUR 11,873 thousand; in the comparable period of the preceding year it was at EUR 9,179 thousand.

Net finance expenses of the company Poslovni sistem Mercator d.d. in the period 1–6, 2018, amounted to EUR 8,248 thousand; in the comparable period last year, they amounted to EUR 7,194 thousand.

MERCATOR GROUP**POSLOVNI SISTEM MERCATOR, D.D.****Profit before income tax**

In the period 1–6, 2018, Mercator Group's results profit before income tax amounted to EUR 5,054 thousand, which is EUR 6,213 thousand more than the comparable figure for the same period of last year.

Profit before income tax for the company Poslovni sistem Mercator d.d. for the period 1–6, 2018, amounted to EUR 12,534 thousand, which is EUR 729 thousand more than the comparable result for the equivalent period of last year.

Profit for the financial period

Mercator Group's net income (profit) for the period 1–6, 2018, amounts to EUR 1,489 thousand, which is EUR 6,132 thousand more than the comparable result for the same period of last year.

Net profit of the company Poslovni sistem Mercator d.d. in the period 1–6, 2018, amounted to EUR 9,271 thousand, which is EUR 663 thousand more than the comparable result for the equivalent period of the year before.

EBITDA and EBITDAR

Mercator Group EBITDA in the period 1–6, 2018, amounted to EUR 50,452 thousand which is 13.2% more than comparable result for the equivalent period of last year.

EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–6, 2018, amounted to EUR 36,884 thousand, which is 4.7% more than the comparable result for the same period of last year.

Mercator Group EBITDAR in the period 1–6, 2018, amounted to EUR 84,585 thousand, which is 5.2% more than the comparable result for the equivalent period of last year.

EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–6, 2018, amounted to EUR 41,688 thousand which is 4.5% more than the comparable result for the equivalent period of last year.

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 June 30, 2018, amounted to EUR 1,992,280 thousand, which is EUR 84,443 thousand less than at the end of 2017.

Assets of the company **Poslovni sistem Mercator d.d.** as at June 30, 2018, amounted to EUR 1,389,670 thousand, which is EUR 4,982 thousand less than at the end of 2017.

As at June 30, 2018, the value of Mercator Group's non-current assets amounted to EUR 1,470,353 thousand, which is EUR 21,635 thousand less than as at December 31, 2017. Fixed assets represent the largest share of non-current assets at 95.4% (EUR 1,403,092 thousand), which is EUR 21,093 thousand less than at the end of 2017.

As at June 30, 2018, the value of the company's non-current assets amounted to EUR 1,072,938 thousand, which is EUR 11,506 thousand less than as at December 31, 2017. Fixed assets represent the largest share of non-current assets at 69.1% (EUR 741,007 thousand), which is EUR 12,556 thousand less than at the end of 2017.

As at June 30, 2018, the value of Mercator Group's current assets amounted to EUR 521,927 thousand, which is EUR 62,808 thousand less than as at the end of 2017. The largest share thereof includes inventories (39.3%) and trade and other receivables (34.9%).

As at June 30, 2018, the value of company's current assets amounted to EUR 316,732 thousand, which is 2.1% more than as at the end of 2017. The largest share of current assets includes inventories (33.3%) and assets available for sale (30.1%).

Equity and liabilities

As at June 30, 2018, Mercator Group share capital amounted to EUR 485,032 thousand, which is EUR 6,631 thousand more than as at the end of 2017.

Equity of the company Poslovni sistem Mercator d.d. as at June 30, 2018 amounts to EUR 433,117 thousand, which is an increase of EUR 9,958 thousand relative to the end of 2017, pertaining mostly to net profit.

As at June 30, 2018, Mercator Group's total financial liabilities amounted to EUR 815,622 thousand, which is EUR 66,078 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 771,122 thousand as at June 30, 2018 (December 31, 2017: EUR 828,217 thousand).

As at June 30, 2018, total financial liabilities of the company amount to EUR 574,577 thousand, which means that the company has deleveraged by EUR 26,221 thousand since December 31, 2017.

As at June 30, 2018, Mercator Group's provisions amounted to EUR 28,590 thousand. Compared to the end of 2017, provisions have decreased by EUR 1,093 thousand.

As at June 30, 2018, the company's provisions amounted to EUR 24,775 thousand. Compared to the end of 2017, provisions have decreased by 2.4%.

Mercator Group's trade and other payables as at June 30, 2018, amounted to EUR 611,797 thousand, which is EUR 22,339 thousand less than at the end of 2017, mostly due to decrease in current trade payables.

The company's trade and other payables as at June 30, 2018, amounted to EUR 317,163 thousand, which is 4.1% more than at the end of 2017.

As at June 30, 2018, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 85.8%, which is 3.5 percentage points less than as at the end of 2017.

MANAGEMENT RESPONSIBILITY STATEMENT

The Management Board of the company Poslovni sistem Mercator d.d., hereby confirms that the summary of the financial report of the company Poslovni sistem Mercator d.d., and the Mercator Group for the period ended on June 30, 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, August 3, 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