

**BUSINESS REPORT OF THE MERCATOR GROUP AND
THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.,
FOR THE PERIOD 1–3, 2017**



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EXECUTIVE SUMMARY

In the period 1–3, 2017, Mercator Group generated net revenue of EUR 564.6 million, and net operating profit of EUR 5.9 million. Sales revenue dropped by 6.7% relative to the corresponding period of the year before; however, the revenue between the two periods is not entirely comparable due to divestment of non-core operations of Modiana and Intersport in the second half of 2016. Mercator Group wrapped up the first three months of 2017 with a net profit of EUR 1.1 million.

Improved business performance of Mercator Group in the first three months

In the period 1–3, 2017, Mercator Group generated revenue of EUR 564.6 million, which is 6.7% less than in the same period of last year. The drop of revenue in respective markets was primarily a result of divestment of non-core operations of Modiana and Intersport in 2016. The drop of revenue compared to the same period of last year in comparable adjusted terms is 0.7%. In Slovenia, revenue dropped by 5.9%; in Serbia, it decreased by 5.1%. Revenue dropped considerably in the markets in which Mercator only retains its real estate management operations after the sales processes in 2016 – in Bosnia and Herzegovina by 48.1% and in Croatia by 55.4%. Revenue increased only in the market of Montenegro, by 7.5%. Mercator Group successfully ended the period 1–3, 2017, with a net profit of EUR 1.1 million, which is 64.1% more than in 2016.

Changes in the Management Board composition at the parent company Poslovni sistem Mercator, d.d.

In April, Tomislav Čizmić was appointed new Management Board president; also in April, Draga Cukjati was appointed new Management Board member in charge of finance and IT.

In April, Slovenian National Assembly adopted the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (so-called Lex Mercator). The new Management Board member will only be in charge of transactions related to the majority owner and will not have any power or authority with regard to management of regular transactions. Based on the adopted Act, the government proposed Gregor Planteu for the position of the Management Board member, and the District Court of Ljubljana, consistently with its powers, appointed him extraordinary Management Board member as of May 18, 2017. Thus, the Management Board of Poslovni sistem Mercator operates with the following composition: Tomislav Čizmić, President of the Management Board; and Management Board members Draga Cukjati, Igor Mamuza, and Gregor Planteu.

Changes in the composition of the Supervisory Board at the parent company Poslovni sistem Mercator, d.d.

As of April 25, 2017, two Supervisory Board members at the company Poslovni sistem Mercator, d.d., – Ante Todorčić as the Supervisory Board chairman and Ivan Crnjac as the Supervisory Board member – resigned from their respective positions.

Operating risks related to the Agrokor Group

In 2016, impairments were recognized for receivables of the companies Poslovni sistem Mercator, d.d., Mercator - H, d.o.o., and Mercator - BH, d.o.o., payable by Agrokor Group companies that are not a part of the Mercator Group. At its extraordinary session held on April 14, 2017, the Supervisory Board instructed the Management Board to immediately examine all possibilities of settling or offsetting as soon as possible all mutual receivables and liabilities between the Mercator Group companies and Agrokor Group companies that are not a part of the Mercator Group. Based on relevant agreements, the first settlements of mutual accounts receivable and payable have already been completed, and the signals in this respect are also positive for the future.

Investment activities comparable to last year

In the period 1-3, 2017, Mercator Group investments amounted to EUR 13.4 million, which is 4.2% more than in the equivalent period of 2016. In the period 1–3, 2017, Mercator's greatest acquisition is the newly constructed Trade Centre Bled in Slovenia.

INTRODUCTION

PROFILE AND ORGANIZATION

Mercator Group Profile

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. As at March 31, 2017, the company was present with ten companies in Slovenia and with six subsidiaries in other markets of the Southeastern Europe. Poslovni sistem Mercator, d.d., headquartered in the Republic of Slovenia, is the parent company of the Mercator Group.

Poslovni sistem Mercator, d.d.	
Telephone	+386 1 560 10 00
E-address	info@mercator.si
Website	www.mercatorgroup.si
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
Legal Entity Identifier (LEI)	549300X47J0FW574JN34
Company share capital as at March 31, 2017	EUR 254,175,051.39
Number of shares issued and paid-up as at March 31, 2017	6,090,943
Share listing	Ljubljanska borza, d.d., official market, prime market, symbol MELR

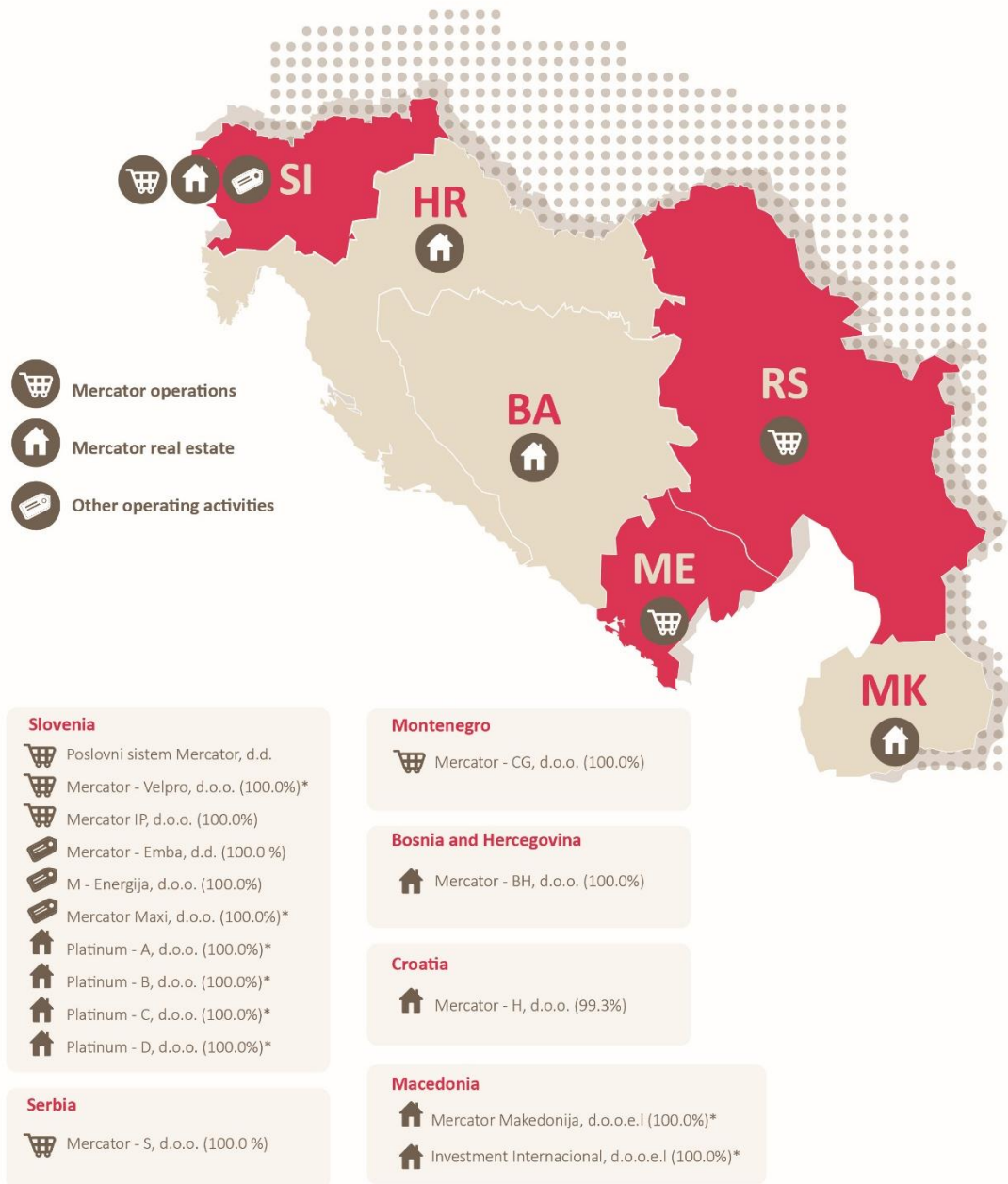
Corporate governance

In the period 1–3, 2017, the Supervisory Board of Poslovni sistem Mercator, d.d., held two correspondence sessions.

At the **12th correspondence session** held on January 13, 2017, the Supervisory Board reduced the number of Management Board members at the company Poslovni sistem Mercator, d.d., by one member, following the resignation of Management Board member Drago Kavšek. The Supervisory Board adopted the clean and consolidated copy of the Management Board Act of the company Poslovni sistem Mercator, d.d., which specifies the number of Management Board members and their respective fields of responsibility, powers and authorizations, and the conditions for appointment of the Management Board president and members.

At the **13th correspondence session** held on March 30, 2016, the Supervisory Board was presented the Annual Report on the work of the Internal Audit of Mercator Group in 2016.

Mercator Group composition as at March 31, 2017



*The company does not conduct business operations.

Branch Offices

As at March 31, 2017, Mercator Group companies did not have any branch offices.

Other Organizations

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

The company Mercator - S, d.o.o., is the founder of the Mercator Solidarity Foundation in Serbia, and Mercator - CG, d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro. The purpose of both is to provide solidarity aid to the employees in social or economic distress.

MERCATOR GROUP BUSINESS STRATEGY

Vision

Mercator will be the biggest, the most successful, and the most efficient retailer in the markets of Slovenia, Serbia, and Montenegro.

Mission

- Happy customers recognize Mercator as the best retailer.
- Motivated employees are the key competitive advantage.
- We enjoy trust from all stakeholders.

Strategy

We are fulfilling five key promises, or propositions, to our customers. Each proposition has a clear purpose and goals:

1. Value for money:

Day in, day out, Mercator fulfils the needs and expectations of its customers, and offers the best value for their money with innovative offer.

2. Local:

Mercator works closely with its environment and continues its local initiatives which are reflected in the most extensive network of stores that are closest to the customers.

3. The best offer:

In addition to the offer of renowned brands, Mercator's private label products offer customers solid quality and competitive pricing. Mercator introduces innovative products and adjusts the offer in each of its stores to customer needs.

4. The ultimate freshness:

Mercator offers its customers the broadest choice of innovative products that are relevant to them, with stable partnership with local and regional suppliers.

5. The best service:

With a friendly and amiable approach, Mercator employees are focused on the customers. With intensified refurbishment of its stores, Mercator offers its customers improved shopping experience in a pleasant ambiance.

MERCATOR GROUP PERFORMANCE

HIGHLIGHTS IN THE PERIOD 1–3, 2017

	1-3 2016 adjusted ¹	1-3 2017	Index 1-3 2017/ 1-3 2016 adjusted	1-3 2016 continued	Index 1-3 2017/ 1-3 2016 continued	
INCOME STATEMENT	Revenue (in EUR 000)	604,873	564,574	93.3	568,281	99.3
	Results from operating activities (in EUR 000)	5,405	5,852	108.3	3,688	158.7
	Profit (loss) before income tax (in EUR 000)	963	2,008	208.7	-734	-
	Profit (loss) for the year (in EUR 000)	668	1,096	164.1	-861	-
	Gross cash flow from operating activities (EBITDA) (in EUR 000)	24,720	24,932	100.9	22,593	110.4
	Gross cash flow from operating activities before rental expenses (EBITDAR) (in EUR 000)	43,851	43,377	98.9	40,672	106.7
BALANCE SHEET	Total assets (in EUR 000)	2,213,630	2,076,080	93.8		
	Equity (in EUR 000)	633,257	558,233	88.2		
ABILITY TO GENERATE CASH FLOW	Return on sales	0.1%	0.2%	175.8	-0.2%	-
	Return on equity ²	0.4%	0.7%	173.5	-0.6%	-
	Gross cash flow from operating activities (EBITDA) / revenue	4.1%	4.4%	108.1	4.0%	111.1
	Gross cash flow from operating activities before rental expenses (EBITDAR) / revenue	7.2%	7.7%	106.0	7.2%	107.4
INVESTMENT ACTIVITIES	Capital expenditure (in EUR 000)	12,864	13,406	104.2		
EMPLOYEES	Number of employees as at the end of the period	21,405	20,122	94.0		
	Number of employees based on hours worked	19,956	18,722	93.8		

¹ As the monetization project at the company Poslovni sistem Mercator, d.d., was stopped, assets available for disposal were re-classified at the end of 2016 back to non-current assets, and we resumed their depreciation and amortization. Therefore, business results for the period 1–3, 2016, are, for comparability, adjusted for the extra depreciation pertaining to the assets reclassified back to non-current assets as at the end of 2016

² Indicator is adjusted to the annual level

³ Modiana and Intersport operations are eliminated and also includes effects of note 1

KEY EVENTS

Retail network development

In the period 1-3, 2017:

- we invested EUR 13,406 into property, plant, and equipment (CAPEX);
- we divested EUR 2,506 worth of property, plant and equipment;
- we added 6 new units spanning a combined total of 5,236 m² of new gross retail area, by construction of the Trade centre Bled and operating lease.

Changes in parent company governance

As of January 1, 2017, **Dean Čerin** was appointed Assistant to Management Board president at the company Poslovni sistem Mercator, d.d., in charge of finance, accounting and controlling.

Changes in management after the period are detailed below, under the section Major events following the end of period at hand.

Changes in the parent company ownership structure

On March 10, 2017, a share sale and purchase agreement was signed between Agrokor Investment B.V. and Agrokor, d.d., pursuant to which the company Agrokor Investment B.V. sold to Agrokor, d.d., 615,384 MELR shares. Thus, the shareholding held by the company Agrokor, d.d., increased from 59.47% to 69.57%, while the shareholding held by the company Agrokor Investments B.V. decreased from 28.64% to 18.53%. The share of their voting rights remains unchanged.

Awards and other achievements

Mercator brand received the **Trusted Brand 2017 award** in two categories: shopping centre and environment protection. The survey was conducted by the market and media research institute Mediana.



The bakery section of the Chamber of Agricultural and Alimentary Companies with the Slovenian Chamber of Commerce and

Industry presented **the highest award to five Mercator baking products** and **fifteen products of the Grosuplje Bakery brand** available only at Mercator. The golden awards are proof that Mercator offers superior products in its bakery and dessert department, too.



As a part of the Ljubljana Quality (LQ) project, taking place every two years in Ljubljana and the Central Slovenian Region, Ljubljana Tourism listed the **Maxim restaurant** as one of the six best-rated restaurants.



The company Mercator IP, d.o.o., received **five golden medals for products of the pastry shop Kranjski kolaček** in the 17th bakery section contest that rates the quality of bread and pastry under the auspices of the Slovenian Chamber of Commerce and Industry.

Mercator's humanitarian activities

Working with the Slovenian Red Cross organization, we collected aid in March and February for those in need. We collected over 11 tons and 40 hectolitres of food, and nearly 900 personal care products.

Working with the Lions Club Ljubljana Viva and Slovenian athletes, we prepared a charity auction for a signed jersey by our ski jumping champion Peter Prevc and other "eagles". The auction took place as a part of this year's campaign **I Run to Help**. The proceeds will be donated to blind and visually impaired children.

Major events following the end of period at hand

As of April 5, 2017, the term of office of Management Board president Anton Balažič was terminated, without any fault-based grounds or liability on the part of the Management Board president. At the same time, **Tomislav Čizmič** was appointed new President of the Management Board for a term of office of five years, as of April 6, 2017. The Supervisory Board appointed **Draga Cukjati** as the new Management Board member in charge of finance and IT. She commenced her term of office on April 18, 2017.

In April, Slovenian National Assembly adopted the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (so-called Lex Mercator). The new Management Board member will only be in charge of transactions related to the majority owner and will not have any power or authority with regard to management of regular transactions. Based on the adopted Act, the government proposed Gregor Planteu for the position of the Management Board member, and the District Court of Ljubljana, consistently with its powers, appointed him extraordinary Management Board member as of May 18, 2017. Thus, the Management Board of Poslovni sistem Mercator operates with the following composition: Tomislav Čizmič, President of the Management Board; and Management Board members Draga Cukjati, Igor Mamuza, and Gregor Planteu.

On April 11, 2017, **Krešimir Ležaić** was appointed Assistant to the Management Board president in charge of IT and telecommunication.

As of April 25, 2017, two Supervisory Board members at the company Poslovni sistem Mercator, d.d., – **Ante Todorčić** as the Supervisory Board chairman and **Ivan Crnjac** as the Supervisory Board member – resigned from their respective positions.

In 2016, impairments were recognized for receivables of the companies Poslovni sistem Mercator, d.d., Mercator - H, d.o.o., and Mercator - BH, d.o.o., payable by Agrokor Group companies that are not part of the Mercator Group. At its extraordinary session held on April 14, 2017, the Supervisory Board instructed the Management Board to immediately examine all possibilities of settling or offsetting as soon as possible all mutual receivables and liabilities between the Mercator Group companies and Agrokor Group companies that are not a part of the Mercator Group. Based on relevant agreements, the first settlements of mutual accounts receivable and payable have already been completed, and the signals in this respect are also positive for the future.

BUSINESS REPORT

SALES AND MARKETING

Sales

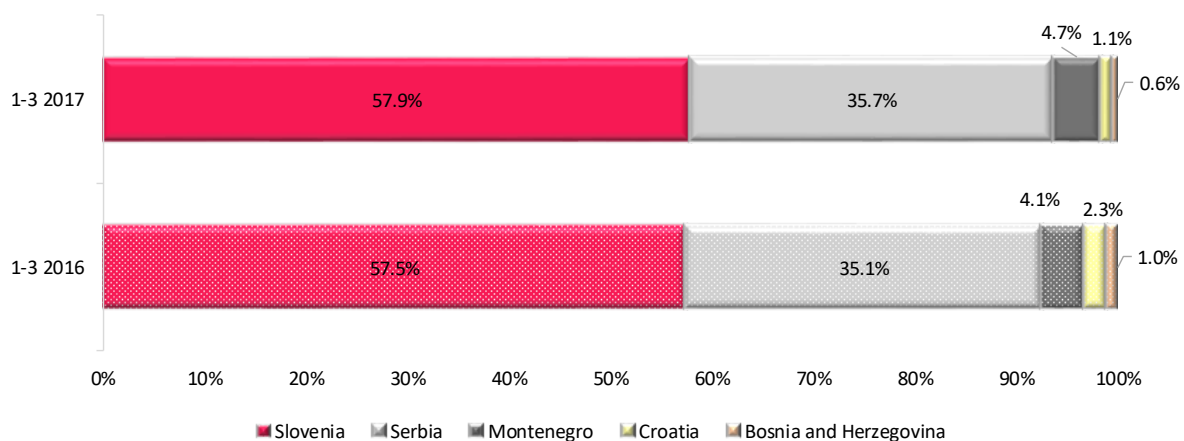
International institutions expect the current rate of economic growth in the euro zone to be maintained. Growth is expected to continue to rely especially on higher private spending with further improvement of conditions in the labour market. Investment recovery is expected to continue.

In Slovenia, economic growth was gradually increasing throughout last year. Exports increased even slightly more than in 2015 and thus remained the key motor of economic growth. Private spending increased substantially, and forecasts for 2017 are optimistic. Optimistic development of macroeconomic indicators is also expected in foreign markets of Mercator Group operations; however, high unemployment rate remains a problem in these markets, particularly in Bosnia and Herzegovina.

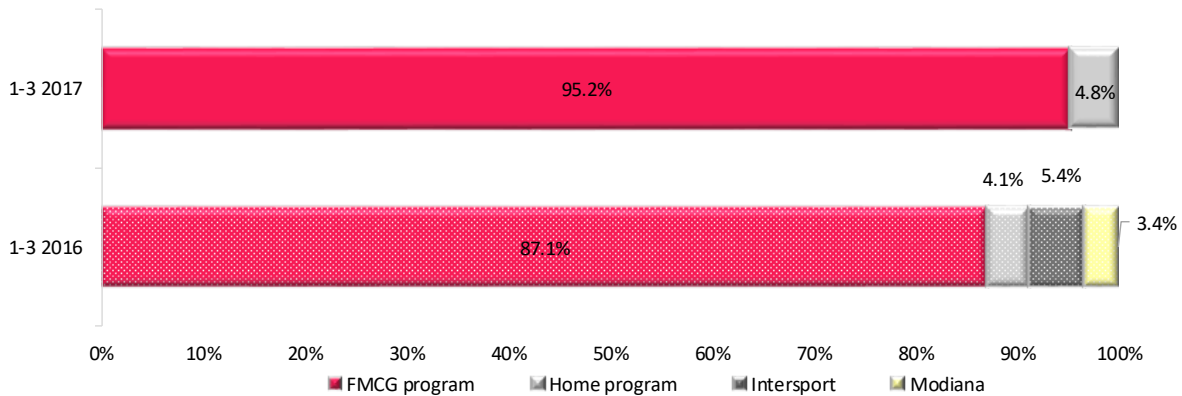
In the period 1–3, 2017, Mercator Group generated revenue of EUR 564.6 million, which is 6.7% less than in the corresponding period of the year before, or 0.7% less than in the corresponding period of the previous year in comparable business.

The drop of revenue in respective markets in the corresponding period of the year before was primarily a result of divestment of non-core operations of Modiana and Intersport in 2016. In Slovenia, revenue dropped by 5.9%; in Serbia, it decreased by 5.1%. Revenue dropped considerably in the markets in which Mercator only retains its real estate management operations after the sales processes in 2016 – in Bosnia and Herzegovina by 48.1% and in Croatia by 55.4%. Revenue increased only in the market of Montenegro, by 7.5%. Mercator Group successfully ended the period 1–3, 2017, with a net profit of EUR 1.1 million, which is 64.1% more than in 2016.

Mercator Group revenue by geographical segments:



Mercator Group revenue from trade operations by programs:



Mercator Group's core activity of fast-moving consumer goods retail generated 95.2% percent of total revenue in the period 1–3, 2017, which is more than in the equivalent period of last year, as a result of pursuit of strategy of divesting non-core operations. The share of sales revenue from specialized trade program of home products amounted to 4.8%. Compared to the same period of last year, revenue increased at the Mercator Group level in the home products program, and decreased in the fast-moving consumer goods program.

Store formats, customer segments, and category management

Store Formats

Consumer shopping behaviour has changed considerably in recent years as a result of different trends from the environment. This tends to increase the complexity of operations. The power has shifted to the customers. Today's customer is defined by rapidly changing demographic conditions, lifestyle, and technological development. The consumers have become even more demanding, more informed, and 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. Pressure on the retailers is mounting to move faster and more to the digital world and the online environment as consumers are willing to spend less and less of their time on shopping. The future lies in further expansion of the number of sales channels and increasingly better integration across them.

Like most of the world's leading retailers, Mercator is seeking to adapt to these changes as much as possible by **diversifying its store formats**. They are intended to accommodate a variety of shopping needs, from major planned shopping sessions to minor daily, top-up, or occasional shopping for fast-moving consumer goods.

The year 2017 will also see **intensive refurbishment of retail network** in order to achieve maximum flexibility of our stores for the customers. We will continue to focus on the consumers as we wish to offer them the best of goods and services. We are looking to offer our customers a shopping environment with modern design, in as many locations as possible, with extended and richer offer of fast-moving consumer goods. Thus refurbished, Mercator stores afford customers an even more pleasant shopping environment, while category structures and new services offered are adapted to the most recent trends.



In the period 1–3, 2017, a total of **22 units were refurbished**, of which 8 were hypermarkets and 14 were markets. One new real estate development was also opened; in early March, a **new modern supermarket** was opened in **Bled**, spanning 1,020 m² of sales area. The emphasis is on the offer of fresh programs:

- Large fresh and dry fruit and vegetables department, including a juicer for self-service preparation of fresh orange juice, and offer of fresh flowers;
- bakery offering a wide range of pastry and delicious pizzas;
- Hot bar with a varied offer of ready-made dishes, and meat section with a broad offer of fresh meat;
- delicatessen combining bulk and pre-packed products;
- refrigerated goods section with a varied offer of dairy, meat, and other products, and a broad selection of frozen food;
- wine section and tourist corner offering souvenirs and distinctive products of Slovenia, intended for tourists and other visitors to Bled.



In the first quarter, intensive **refurbishment of hypermarkets** took place. Eight hypermarkets were partially refurbished, spanning a combined total of 27,048 m². The refurbishments are focused on strategic adjustment of the format to new conditions in the market. Thus, the relations and ratios between respective product categories were adjusted; the assortment was optimized with more stress on fresh program. Thus, if possible, the fruit and vegetables department is placed at the entrance; most hypermarkets have new bread and pastry departments; more room is intended for product emphasis or special campaigns; and non-market (non-FMCG) departments have been refined.



In 2017, we continue with refurbishments of smaller **neighbourhood stores** as Mercator continues the tradition of coming closer to its customer in their local environment. Fourteen **neighbourhood stores** were refurbished, spanning a combined total of 7,923 m². At neighbourhood stores, we are looking to offer our customers a modern shopping environment with a select range of products and produce with continued focus on the home-made, local, and fresh. This applies in particular to the fresh program categories such as fruit and vegetables, meat, and bread, as well as other fast-moving consumer goods.

Composition of sales units as at March 31, 2017

COUNTRY	SLOVENIA	SERBIA			MONTENEGRO	MERCATOR GROUP		
	Mercator Number of units	Mercator Number of units	Roda Number of units	Idea Number of units	Idea Number of units	Number of units	Gross area	Net sales area
Hypermarkets	22	2	30	4	2	60	268,368	182,533
Supermarkets	110	-	3	90	14	217	229,811	150,883
Neighbour stores	335	-	-	208	95	638	248,368	148,443
Comfort stores	1	-	-	1	-	2	6,296	3,776
Mini stores	1	-	-	-	-	1	159	83
Cash & Carry / VELPRO	13	-	-	11	3	27	80,615	36,540
Total FMCG program	482	2	33	314	114	945	833,617	522,258
Restaurants	8	-	-	-	-	8	2,070	1,379
Technical consumer goods	44	-	-	-	-	44	61,400	37,730
Total specialised programs	52	-	-	-	-	52	63,470	39,109
Total retail units under management	534	2	33	314	114	997	897,087	561,367
Franchise stores	214	-	-	-	-	214	47,465	31,919
TOTAL	748	2	33	314	114	1,211	944,552	593,286

Customer segments

The needs and desires of our customers are highly diverse. We learn about them by analyzing their shopping behaviour, either through market research or shopping data analysis. Upon this basis, we can adjust the offer and the retail area accordingly, and plan our marketing activities. All major activities are approached with a three-dimensional mindset: offer, store (place), and customer. In 2017, we are continuing our activities of adjusting the offer to respective customer segments. Some activities involve specific groups of products; others are focused on retaining customers or steering their behaviour.

Category management and procurement

In 2017, we shall continue to actively support and promote Slovenian and local offer at Mercator stores. As to date, the focus will be on fresh meat raised in Slovenia, local fruit and vegetables, and local dairy products. In addition, we shall further promote the offer of local growers and producers. We shall continue to educate our sales staff in fresh meat departments where we will guarantee meat quality, excellent service, and a convenient offer. In the bread and pastry department, we shall continue our efforts to improve the quality of service by offering a varied range of fresh products, with friendly expert staff. The offer of fruit and vegetables will be based on promotion of local produce, as well as on the quality of fruit and vegetables, and on introduction of proven market trends (e.g. expansion of offer in the bulk organic produce departments).

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

- establish quality multi-level offer of branded and private label products of various lines;
- provide competitive prices for renowned brands and private labels, and attractive offer in sales promotion activities;
- efficiently manage 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).

Marketing

Our marketing activities are focused on market priorities and the dynamics of changes in the trade industry. In the period 1-3, 2017, we continued to exchange and roll out the best practices across markets. Marketing activities for the fast-moving consumer goods program are targeted at the markets of Slovenia, Serbia, and Montenegro, which is consistent with the corporate vision.

Slovenija

We pursue the objective of creating value for the customer by the key areas:

We provide well-priced shopping

Consistently with our strategy, we are pursuing the goal of offering our customers the most for their money. Therefore, we offer our customers many products at special prices every day. We provide further benefits to our loyal customers who can save even more with the Pika card. Thursdays are still reserved for retirees who can shop with an extra 10% discount on all products. Our loyal customers can also claim a 25% discount on the selected product, and occasionally a 10% discount on the entire shopping cart.



Our main communication tool is the catalogue which we use to inform our customers about new special offers and quality products at favourable prices on a weekly level. Occasionally, we also issue additional catalogues in which we present the offer of non-food seasonal categories. In addition to regular campaigns, we dedicated a special catalogue to the carnival in February. Moreover, we offered our customers a broad special offer of cosmetics, from head to toe, for the entire family. In early March, we prepared attractive offer for gardening and landscaping, and select products for sports and leisure. As at the end of March, we launched attractive offer for Easter holidays, and we fitted our stores with summer/spring creative products.

With Pika, our customers save more

Advantages of the Pika customer loyalty system are now known to virtually every household in Slovenia. The customers can win and use their loyalty points for the entire offer. They are also offered **immediate Pika discounts for select products**. In addition, the card allows them to **defer the payment or to pay in up to 24 instalments at a zero interest rate**. Pika card affords the customers a number of benefits when shopping in Mercator's sales network and at partner companies. In addition to the Pika discounts on select products from the flyers, and double and triple Pika card bonus points which are available to all Pika card holders, additional discounts were offered in the period 1–3, 2017, offered to all retirees who show their retiree card at the check-out counter.



For the segment of customers keen on shopping online, we also allow the **functionality of online payment** for alimentary products and technical consumer goods by Mercator Pika card. In addition we offer exclusive discounts and surprises for our customers. For the buyers who allowed us to look into their shopping behaviour, we also prepare customized offer. Golden Pika card holders also received the spring **letter** with golden benefits as these are the customers that we value in particular. We will continue to upgrade and develop our unique Pika loyalty system in the future.

In January, we successfully carried out the "vignette" activity in which customers who purchased the annual highway toll vignette received a coupon for 55 Pika points. Moreover, they were offered to pay in five instalments.

We Love Local

In 2017, the project **We Love Local** is based on monthly themed stories. As we sought to bring the project closer to the young generation, we invited promising and renowned chefs called Tejani who are looking to adjust traditional Slovenian cuisine to the modern lifestyle in a campaign with the slogan **Traditional, somewhat differently**.



By buying the We Love Local products in February and March, customers donated to the fund supporting our ski jumpers. The project was successfully completed in late March 2017.

In May, we are preparing a major campaign and a new wave of cooperation with the cooperatives and local farms within the project **RID caravan across Slovenia**.

We provide a pleasant shopping experience

At Mercator, we again held the campaign **Jump to Mercator, Support our Ski Jumpers**.

Upon its conclusion, we presented in a festive ceremony the funds collected for support to ski jumping sport to our national team and junior athletes working at their respective clubs. The campaign also involved consumers who purchased the We Love Local products. For each We Love Local product purchased, Mercator donated 30 cents into a special fund. Customers expressed their support to local ski jumping clubs by casting over 369,974 votes. Mercator presented EUR 89 thousand to our national ski jumping team, while six ski jumping teams that received the most votes from the customers received a total of EUR 21 thousand, and a Ford van.



At the end of 2016, we launched an attractive **Vivo** customer loyalty program, offering our customers superior glasses Vivo by the manufacturer Villeroy & Boch at a discount of no less than 93%. The program lasted 18 weeks and it was completed in mid-March. A total of 339,570 sets of glasses were sold as a part of the activity. The activity was positively accepted among consumers, especially on account of the excellent price-to-quality ratio. In the future, we intend to carry out a customer loyalty program with appealing products for the kitchen.



In the first quarter, we prepared special marketing activities, along with refurbishments of retail units. We gave away apples in front of our stores, and prepared various promotional activities and tastings.

New shopping technologies

M Sken (self-scan shopping service) is a new technological feature that changes the way we shop. The customers use a phone-sized scanner which they get at the entrance to the store to scan the product bar codes. Products are then paid for at the rapid check-out counter without having to place them on the conveyor belt, as they have already been scanned during shopping. M sken is available to customers in four stores across Slovenia (hypermarket Rudnik, Mercator Šiška, hypermarket Šmartinska, hypermarket Celje). Since July 2016, Mercator Šiška is also offering the use of mobile application **M Sken Mobile** as an upgrade to the M Sken functionality.

Offer of private label products

Mercator private label lines offer a variety of products for all occasions, at all price segments.

In the first quarter, we held several activities related to our private labels. We presented an annual supply of **Lumpi diapers** to all children born on January 1, 2017, which their mothers were very grateful for. This also resulted in Facebook communication in which mothers shared their enthusiasm with us and others.



Our care for healthy diet of children was also manifest in organization of **Bio Zone** workshops with **Alenka Košir** at Mercator Šiška. Thus, we continued to communicate our Bio Zone product line. In February we received **golden medals from the Slovenian Chamber of Commerce and Industry for select pastries and biscuits of our Mercator line**. In March, we prepared an extensive **campaign for Mercator's dairy products** as we launched new product design and emphasized their Slovenian origin.

Serbia

Marketing activities in Serbia in the period 1–3, 2017, took place separately, by respective brands or banners.

IDEA

For the second consecutive year, a workshop took place in January and February at four Belgrade municipalities as a part of the **Choose healthy, choose fresh** campaign. The workshop was intended for children and it focused on the importance of a healthy lifestyle and diet.



In the early months of this year, one of our first stores opened in Serbia, the **Idea Centre Immo** was refurbished.

Idea has also upgraded its cooperation with the Belgrade Marathon by signing a new three-year agreement on exclusive partnership. Idea is also the sponsor of the **WEBIZ conference** which took place for the fifth year in a row this year. The conference has a major contribution to education of youth, exchange of knowledge, and usefulness of new technologies.



RODA

Through the campaign "**Where happiness is 1,000 times bigger**", we organized a prize contest in January and presented the last 400 out of a total of 1,000 TV sets to lucky prize winners.

As a part of the **Super card** customer loyalty program, we prepared a special campaign for parents, which included collecting stickers for a 50-percent discount on select baby equipment by the Chicco brand. Moreover, we continued our activities of cooperating with the **Serbian Basketball Association** and together pursued the goal of development and promotion of basketball in the entire Serbia.



Montenegro

In the first quarter of 2017, we paid particular attention to the new line and campaign of local products called **The Flavours of My Town**, starting in mid-March. This is a new campaign involving sale of local Montenegrin products at retail stores, in cooperation with 11 local producers. It is the goal of the campaign to position Idea as a retailer worth the consumer's confidence, and a retailer offering quality traditional products. Within the campaign, customers can choose from a range of healthy products prepared based on traditional production recipes. Thus, the products include local prosciutto, baklava, olive oil etc.



In early March, we held the **fruit and vegetables** campaign through 5 themes: citruses, exotic fruits, detox, vitamins, and salad. During the campaign, a giveaway was held under the slogan **Buy Oranges and Travel to Spain** which involved giving away 2 trips to Spain, 3 iPhones 7, and 100 fruit coupons.

In addition to the regular price activities, we issued in the first quarter of 2017 a regular catalogue and 2 extra catalogues presenting private label products, and beauty and care.



EMPLOYEES

In 2017, we continue the processes of restructuring and reorganization which started in 2014. The goal remains to establish more efficient work processes. Nevertheless, we are aware that the employees are at the heart of our operations. They contribute greatly to customer satisfaction and to success of the pursuit of Mercator's business goals.

As of January 1, 2017, new organizational structure came into effect at the company **Mercator IP, d.o.o.**, at both macro and micro level. It allows faster and more efficient changes in organizational and work processes, and improved transparency of entire company operations. As of February 1, 2017, a change occurred at the macro and micro level of organizational structure at the company **Mercator - S, d.o.o.**, consistently with the work processes and HR changes.

As of March 15, 2017, a new Collective Labour Agreement for Poslovni sistem Mercator came into effect at the company **Poslovni sistem Mercator, d.d.**, which introduces alignment with the Employment Relationships Act (ZDR-1) and the industry collective labour agreement.

Number of employees

	Number of employees as at March 31, 2017	Number of employees as at December 31, 2016	Index number of employees March 31, 2017/ December 31, 2016	Number of employees based on hours worked in the period 1-3 2017
Slovenia	10,014	10,019	100.0	9,100
Serbia	8,606	8,830	97.5	8,219
Montenegro	1,442	1,436	100.4	1,338
Croatia	40	49	81.6	45
Bosnia in Herzegovina	20	20	100.0	19
TOTAL	20,122	20,354	98.9	18,722

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

In the period at hand, Mercator Group devoted 29,747 hours to training and education that involved 6,454 employees.

At the company **Poslovni sistem Mercator, d.d.**, we provide the **training mandatory by law** throughout the year, including occupational health and safety, fire safety, first aid, forklift truck operator course, responsible person training, driver training, and other contents. A total of 124 events were held in the first quarter of 2017, attended by a total of 1,449 employees.

We continue to implement **development activities for heads of retail units**. In February and March, we carried out the first and second module (out of a total of four) of the advanced competency development course at which leaders examined the following topics: positive personal disposition, personal organization and stress management, creativity, taking initiative, lobbying, group negotiations, and personal branding.

The workshop **We are Excellent Salespeople**, lasting 6 academic hours, was developed as an upgrade to the two-day program of Sales Skill Development and the one-day program Creating an Excellent Shopping Experience. In the first quarter of this year, the training has already been attended by 620 employees. As a part of the opening activities for the Bled Supermarket, the workshop **Refurbishment, Opportunity for Sales Skills Advancement** was attended by additional 24 employees.



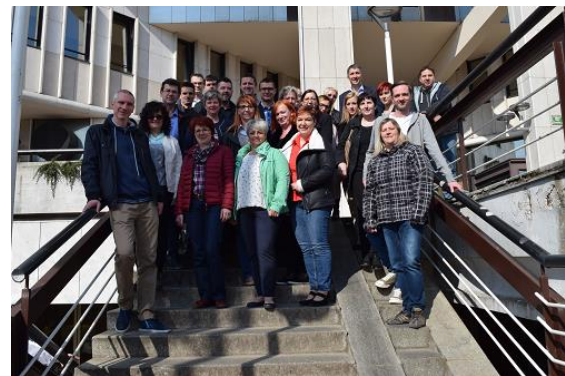


In January 2017, the **3rd Retail Academy** was completed with the diploma ceremony. In the academy, 40 of our employees were trained for the job of a store manager. Since April 2016, they had been developing their key competencies required for a good shop manager as the key link in retail operations. Many of them have already been given the opportunity and took over the management of their units.

At the end of January, we started the training of the fourth generation of store manager candidates. Their training will last from January to November 2017. Our **4th Retail Academy** includes 36 of our employees.

The project of **Succession in Retail** was expanded as we wanted to identify the employees with the potential and the ambition to assume more demanding positions in retail some time the near future, with emphasis on the position of retail unit manager. The selection procedure took place from January to March, which included psychological testing, career interview, and a test centre. We thus compiled a list of employees to be included in the educational program starting in May.

This year, the first **School for Shop Managers and their Deputies in Wholesale** is in progress. Twenty-seven participants will attend five modules of 40 academic hours at Mercator premises, to acquire knowledge and skills from a number of fields. The program started on March 31, and it will last until May 13, 2017. It was devised in cooperation with the management of Wholesale and internal experts. As a result, it includes the key fields of Cash & Carry unit operations – learning about the wholesale strategy and mandatory training, hiring and working hours management, internal control, assortments, special campaigns, and sales orientation. In addition to 4 modules, one day will be intended for advancement of computer skills, in the following areas: GOLD, software support, and Back Office.



In the Career Challenge project we started in last autumn training and education for the employees we identified as talented. We prepared the Leadership Academy for our leaders, and Business Academy was prepared for all other experts. The programs, taking place in modules since January, were developed in



cooperation with the Faculty of Economics. In February, at the 4th module, participants of the **Business academy** were thinking about **Users in a digital age**.

In mid-March this year, M Hotel in Ljubljana hosted an HR event on the subject of **internal coaching**. Attended by top management, independent experts, business partners, and representatives of other reputable companies, this was a gathering of Mercator's coaches – 19 devoted employees from a variety of fields, who have the expert knowledge and offer support to employees in their personal and professional growth. In the first four years, internal coaches had 160 customers and completed 797 coaching hours.



Consistently with the initiatives that are a part of Mercator's **strategic policies**, 42 employees have been trained for **bread and pastry** in the first quarter of the year. Sales assistants from the **delicatessen** departments also took part in training on preparation of cold cut platters (45 participants), and one-day training on both the profession and selling skills (237 participants). Moreover, we held **theoretical and practical training for 6 future**

butchers from the Biotechnical School in Nova Gorica, for the Primorje region. After the training, the best candidates are usually hired at our retail units.



Within **competence centres** for fresh program departments and check-count counters or cashiers, we completed the revision of department-wide manuals for the departments Bread and pastry, delicatessen, hot bar, meat department, fish department, and fruit and vegetables. Currently, the manual is being revised for cashiers or check-out counter operators, and a new manual is being developed for the florist department.

In February, we also introduced the **induction mentorship program** which replaces the trainer network. It is intended for new employees, as well as students starting long-term work placement at Mercator. The goal of induction is for the shop manager to ensure a safe start to



work for the new employee, and to provide basic information about the unit and the work to be done. The shop manager first presents to the new employee the contents of the retail manual, the basics in occupational health and safety, fire safety, and HACCP. Then, the new employee is taken over by a mentor who, consistently with the checklist, conducts at least three-day on-the-job training. The checklist is the basis for the training provided by the mentor. It includes the processes that the mentor has to present to the new employee. The new employee in training can be recognized by a tag with a sign "I am learning". After the completion of mentorship, the mentor, the shop manager, and the new employee sign a filled-out checklist and

return it to the relevant HR manager. Based on the returned checklist, a mentor's fee is paid out to the mentor. Our new employees are also visited by the sales instructors who also carry out an induction seminar, dedicating a part of the induction to development of selling skills.

The five-day program of the revised **shop manager school** was attended by 76 shop managers in the first quarter of 2017. The goal of the school is to develop shop manager competencies, and it takes place in the form of two-day modules at Hotel Ribno pri Bledu, and one one-day computer module at the company premises.



In February, leaders with their fellow employees in positions in the 25th pay scale category and above, working in administration, held the **third development dialogue**. This time, the discussion was devoted to **competencies and opportunities for development**, and it was attended by 140 employees. A brief two-hour training session is held before every leader dialogue.



In March, we again announced our traditional contest **Best store**. Market program stores will again be visited by competence centre instructors who will assess respective departments and cashiers or check-out counters. They will pay attention to cleanliness and neatness, and check the products for correct labelling expiry date, and positioning. As in previous years, the stores will again be visited by sales instructors who will be focused on friendliness, neatness, and professional attitude of the employees. Also contributing to overall assessment are the actual revenue and vote from the customers.

At the **final event of the Health Promoter School**, 55 employees received the "Internal Health Promoter" certificate. Promoters can be recognized by red T-shirts with the slogan "**Stay fit, that is our hit**" written on the front, and "**I am a health promoter**" written on the back.



Each Monday, the promoters receive a Health Tips newsletter which is the basis for their activities in the current week, aimed at raising the awareness among co-workers about the importance of care for their health.

Working with the large store format management, we identified **81 candidates for the new generation of health promoters at hypermarkets and supermarkets**, who will begin their training in May.

At the 17th 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 five golden medals for products of the pastry shop Kranjski kolaček.

In March, we offered all employees performing the tasks of managing a single organizational unit, plant, or department, the possibility to take part in internal coaching. At the end of the first quarter, the company Mercator IP, d.o.o., had 404 employees, of which 209 or 51.7% were employees with some recognized category of disability.

In March, we held a test at the company **Mercator - S, d.o.o.**, for the employees who met the conditions for participation in the **Trading Academy**. This is a program of assessment and implementation of required knowledge in trading. In the first module, the employees upgraded their knowledge of the applications Hubie and Excel and their skills in development of analyses and reports. The academy is scheduled to continue in May.

The goal of the **Shop Manager Academy** is to train future shop managers. The project is intended for all employees in retail working as sales assistant / cashier and head of department or section, who were identified as talent for promotion to the position of shop manager deputy shop manager. The program consists of two weeks of specialized training, three days of soft skill training, and six weeks of practical work in retail units under the supervision of a shop manager – mentor. A new generation of ten participants started the program in early March, and the program is still in progress.

In Novi Sad, a new generation of 12 participants of training for sales assistants/butchers started their courses in February. The goal of the program is to retrain the interested employees, in a structured and systematic manner, for the position of sales assistant/butcher. The program is conducted in cooperation with the School of Chemistry and Food Technology, and it consists of education and training testing, and assessment. The mentors are our best butchers who share their knowledge with their colleagues.



»Case study competition« is an interactive two-day competition organized by the Alumni Club IEDC Bled, in which teams from different companies show their talent and creativity in a limited period of time, through teamwork in analysis and resolution of a realistic business situation. This year's CSC took place on March 22 and 23, 2017, in Belgrade. The six-member team of young managers performed very well in the search for the best business solution, competing against other participating companies such as Coca Cola Hellenic Serbia, Delhaize, GGE, Hemofarm, and Triglav Osiguranje.

Procedures of the trainer network program in retail are standardized, with all relevant documentation. Currently, they are in the approval process. Development of the FMS application has also been completed. Entire communication within the network will take place via this application. Pilot project is planned to start in April.

Also in progress is the training campaign, or workshop, **English Goes to Store**, the purpose of which is to teach the retail employees the basics of English language to be able to communicate with customers from abroad. This time, training involves 65 employees from retail units in the Centre of Belgrade.

A draft model **Retail Management Program (RMP)** has been made in order to implement the required skills in the business field of retail and logistics. Target participants include shop managers, heads of retail areas, and regional directors. The program will consist of several modules and a target group of participants will be defined for each module.

We continue the concept of **new employee induction process** which includes the concept of play to present the company processes to newly hired employees, thus cutting short the time new employees need to learn and adapt. This year, 7 new employees underwent the "gamification" process. Based on the received feedback from participants, concept corrections are in progress.

In March, this year's first team-building session was held. It lasted four days and it involved the employees in the business field of trading and category management.

In the project of hiring persons with disabilities, the documentation gathering procedure is currently in progress for applications for assessment of work capacity for 21 applicants, while committee assessment is pending for four more persons.

At the company **Mercator - CG, d.o.o.** we took part in employment fairs this year: **Career Days** and **Summer Jobs**. We presented our company and available jobs for seasonal work at Idea stores. This was also the start of hiring for the coming season, and formation of database of interested candidates.



In February, the Employee Talent Development Department held training for regional leaders and shop managers at all Idea business units, titled **Human Resources in Retail**. In order to improve the leadership skills, participants in training discussed the contents related to work satisfaction, management, leadership and communication etc.



Employee training was also carried out as a part of the **Flavours of My Town** project which may be one of the most important campaigns to date. It involves a new line of Montenegrin products. As it is our ambition for all employees to be the ambassadors of the project and to work together in the spirit of the project, we visited all leaders of our stores and presented the project and the products to them.

At the end of March, the company **Mercator – Emba, d.d.**, joined 25 other alimentary companies in the public tender KOC Food for co-financing of training and education in the next two years. The project will include setting up an industry-wide competence centre or model, and co-financing for training and education that will contribute to improvement of competencies specified for respective job profiles.

In Slovenia, **Mercator Humanitarian Foundation** provided aid in the first quarter to 33 employees of Poslovni sistem Mercator, d.d., or Mercator IP, d.o.o., who were in need of help. We have paid out humanitarian aid in the total amount of EUR 20,071. In Serbia, we provided humanitarian aid to 17 employees, in the total amount of EUR 5,940; in Montenegro, 13 employees received total aid of EUR 2,900; and in Croatia, one employee received aid of EUR 1,004.

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

In the period 1–3, 2017, 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. The exception in this case is the Trade Centre Bled, for which construction started in September last year, and it was opened in March 2017. In the first quarter of 2017, we opened 6 new FMCG stores.

We also searched for and evaluated new potential locations to extend Mercator's retail network.

In the period 1–3, 2017, Mercator's greatest acquisition is the newly constructed Trade Centre Bled with a supermarket and additional premises to be leased out to third parties. There was no other own real estate development. Remaining investment funds were mostly used for renovation, acquisition of additional equipment, and investment maintenance of the existing retail network, and for investment into new leased stores.

Activities also took part in sale of non-operating assets, search for investors for sale-and-lease-back deals involving Mercator stores, and looking for investors who would build or provide retail area on behalf of Mercator and then offer it to Mercator for lease.

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



Investment and Divestment

In the period 1–3, 2017, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 13.4 million. Of this amount, 28.8% was used for investments in Slovenia and 71.2% was used for investments in international markets.

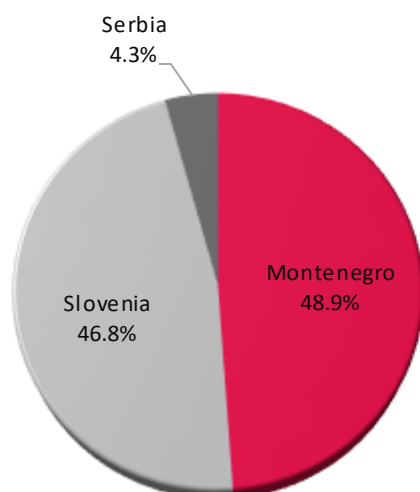
	Capital expenditure in 1-3, 2017 (in EUR 000)	Structure (in %)
Serbia	6,826	50.9%
Slovenia	3,868	28.8%
Montenegro	1,366	10.2%
Croatia	1,270	9.5%
Bosnia and Herzegovina	76	0.6%
TOTAL	13,406	100.0%

Investment into expansion of retail area represented 24.9% of total investment; refurbishments of existing units accounted for 58.2%; IT investments accounted for 11.1%; and the remaining 5.8% was invested in logistics and non-trade activities.

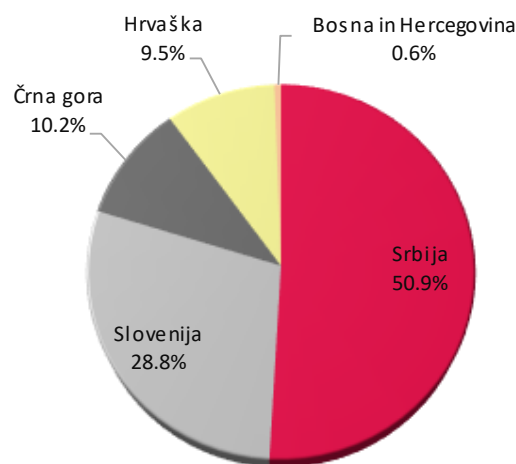
In the period 1–3, 2017, Mercator Group newly acquired 5,236 square meters of gross store area, of which 976 square meters was intended to be leased out to third party service providers. All new gross area, except for Trade Centre Bled, was acquired by operating lease.

In the period 1–3, 2017, Mercator Group divested property, plant, and equipment worth EUR 2.5 million, of which EUR 2.0 million pertains to the divestment of property (real estate) and EUR 0.5 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 March 31, 2017

	Gross area in square meters			TOTAL
	Used for own operations	Leased out - Konzum	Leased out - third parties	
Owned retail area	516,739	108,562	315,690	940,991
Leased retail area	380,347	74,905	143,910	599,162
Total retail area	897,086	183,467	459,600	1,540,153
Owned warehouse capacity	130,878	661	15,772	147,311
Leased warehouse capacity	55,667	25,982	6,658	88,307
Total warehouse capacity	186,545	26,643	22,430	235,618
Owned commercial facilities	19,046	0	1,931	20,977
Leased commercial facilities	7,788	0	0	7,788
Total commercial facilities	26,834	0	1,931	28,765
GROSS AREA UNDER MANAGEMENT	1,110,465	210,110	483,961	1,804,536
- of which owned	666,663	109,223	333,393	1,109,279
- of which leased	443,802	100,887	150,568	695,257

Summary of retail unit launches by markets in the period 1–3, 2017

SLOVENIA

Area of new facilities: 2,451 m²

Number of new units: 1

Openings: Trade Centre Bled

Refurbishments:

Number of refurbished units: 10

SERBIA

Area of new facilities: 226 m²

Number of new units: 1

Openings: Market Juriša Gagarina, Belgrade

Refurbishments:

Number of refurbished units: 6

MONTENEGRO

Area of new facilities: 2.559 m²

Number of new units: 4

Openings: Supermarket Idea Gold, Podgorica; Market Idea Trešnica, Podgorica; Market Idea Rafailovići, Budva; Market Idea Spuž, Podgorica



FINANCIAL MANAGEMENT

Stable Financial Operations

As at March 31, 2017, Mercator Group net financial debt amounted to EUR 819,831 thousand, which is 1.8% more than as at the end of 2016, and 5.5% less than as at March 31, 2016. In the last year, Mercator Group continued its stable financing activities and maintained a long-term sustainable maturity profile of its financial liabilities.

in EUR 000	March 31, 2016	December 31, 2016	March 31, 2017	Index March 31, 2017/ December 31, 2016	Index March 31, 2017/ March 31, 2016
Non-current financial liabilities	781,978	738,354	743,474	100,7	95,1
Current financial liabilities	137,924	133,241	119,014	89,3	86,3
Financial liabilities	919,902	871,595	862,488	99,0	93,8
Cash and cash equivalents	19,604	26,318	10,588	40,2	54,0
Available-for-sale financial assets	466	462	462	100,0	99,1
Loans and deposits	32,009	39,495	31,607	80,0	98,7
Financial assets	52,079	66,275	42,657	64,4	81,9
NET FINANCIAL DEBT	867,823	805,320	819,831	101,8	94,5

Financing costs

In the period 1-3, 2017, the 6-month EURIBOR averaged at -0.239%. At the end of the period, it was at -0.241%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at -0.104%, this rate fell by 0.135 percentage point.

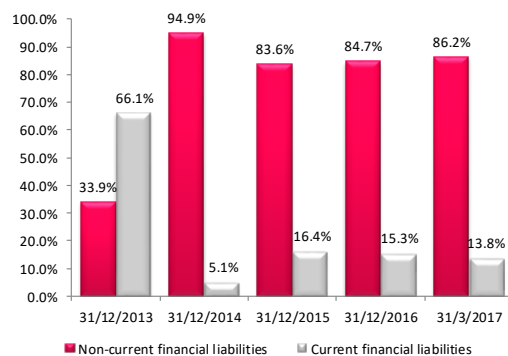
Security of bank loans

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 March 31, 2017, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.5. The ratio is a quotient between equity and net financial debt.

As at March 31, 2017, the share of Mercator Group's non-current financial assets was at 86.2%, which is consistent with a sustainable maturity profile of financial liabilities.



Available liquidity lines as at March 31, 2017

As at March 31, 2017, Mercator Group had access to the following liquidity lines:

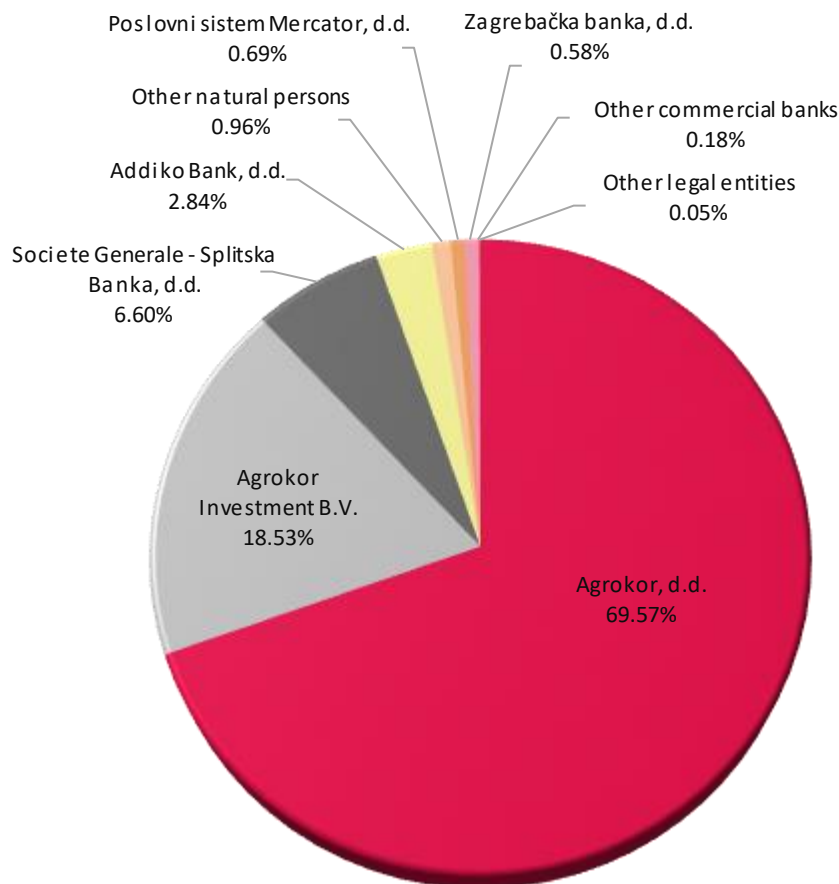
in EUR 000	March 31, 2017
Cash and cash equivalents	10,588
Bank deposits	31,607
Standby revolving credit lines	76,181
Total	118,376

MERCATOR SHARE AND INVESTOR RELATIONS

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at March 31, 2017

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljana 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	1,690

Ownership structure of the company Poslovni sistem Mercator, d.d., as at March 31, 2017



Major Shareholders

As at March 31, 2017 the following ten largest shareholders held a combined share of **98.62%** of the company.

	Country	Number of shares	Share
1 Agrokor, d. d.	Croatia	4,237,376	69.57%
2 Agrokor Investments B.V.	Netherlands	1,128,803	18.53%
3 Societe Generale - Splitska Banka, d. d.	Croatia	402,107	6.60%
4 Addiko bank, d.d. – fiduciary account	Croatia	173,164	2.84%
5 Zagrebačka Banka, d.d. - fiduciary account	Croatia	35,393	0.58%
6 Galić Josip	Croatia	21,525	0.35%
7 Erste Group Bank AG - clearing account	Austria	5,163	0.08%
8 Clearstream Banking SA - fiduciary account	Luxembourg	1,547	0.03%
9 Banque Pictet and CIE SA - fiduciary account	Switzerland	1,107	0.02%
10 Raiffeisen Bank International AG	Austria	1,010	0.02%
TOTAL		6,007,195	98.62%

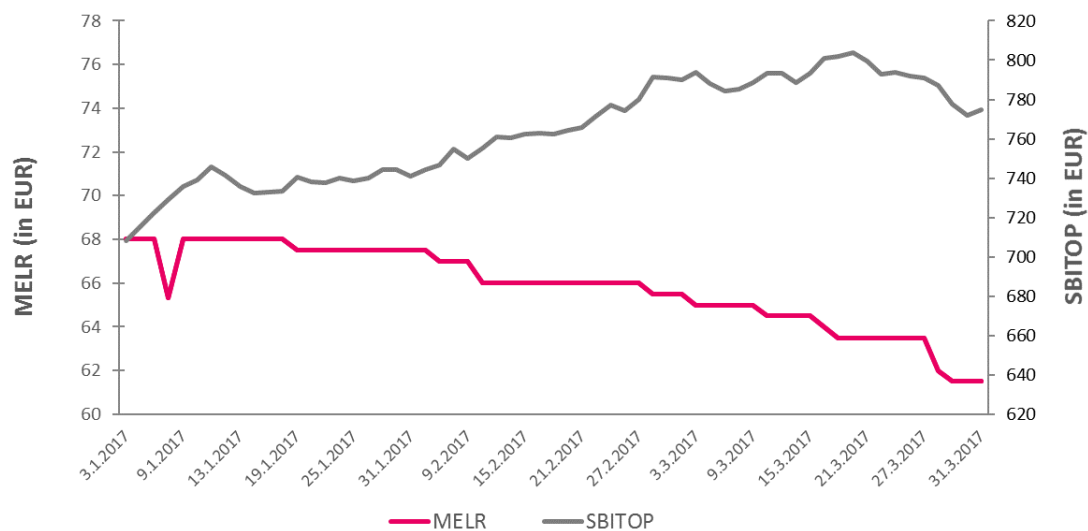
Shares held by Management and Supervisory Board Members as at March 31, 2017

Management Board and Supervisory Board Members did not own shares of the company Poslovni sistem Mercator, d.d., as at March 31, 2017.

Foreign shareholders

As at March 31, 2017, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **98.70%**, which is 0.10 percentage point more than the year before.

Movement of closing price per MELR share in the period 1–3, 2017, compared to the movement of the SBITOP index



Key information for the shareholders¹

	March 31, 2016 adjusted ¹	March 31, 2017	Index Mar. 31, 2017/ Mar. 31, 2016 adjusted
Number of shares registered in Court Register	6,090,943	6,090,943	100,0
Number of treasury shares	42,192	42,192	100,0
Market capitalization (in EUR)	499,457,326	374,592,995	75,0
Market value of share (in EUR)	82,00	61,50	75,0
Book value per share (in EUR)	104,63	91,61	87,6
Minimum close rate in the period (in EUR)	82,00	61,50	75,0
Maximum close rate in the period (in EUR)	85,00	68,00	80,0
Average close rate in the period (in EUR)	83,15	65,83	79,2
Earnings per share (in EUR) ²	1,37	2,03	148,7

¹ As the monetization project at the company Poslovni sistem Mercator, d.d., was stopped, assets available for disposal were re-classified at the end of 2016 back to non-current assets, and we resumed their depreciation and amortization. Therefore, business results for the period 1–3, 2016, are, for comparability, adjusted for the extra depreciation pertaining to the assets reclassified back to non-current assets as at the end of 2016.

² The indicator is adjusted to the annual level.

Dividend policy

The company Poslovni sistem Mercator, d.d., does not plan dividend payment for 2017.

Treasury shares

As at March 31, 2017, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1–3, 2017, 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.

¹ Market capitalization is calculated by multiplying the number of shares entered into the court register as at March 31, with market price per share as at March 31.

Share book value is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at March 31, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Earnings 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.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d. d., for the period 1–3, 2017, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Poslovni sistem Mercator, d.d. (hereinafter referred to as Mercator, d.d.), is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Condensed consolidated financial statements for the period 1–3, 2017, include the company Mercator, d.d., and its subsidiaries, 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.

(hereinafter jointly referred to as the "Mercator Group"). Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

Condensed consolidated statement of financial position

EUR thousand	March 31, 2017	December 31, 2016	Index Mar. 31, 2017/ Dec. 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	1,567,043	1,569,905	99.8
Investment property	9,993	9,899	100.9
Intangible assets	21,446	21,963	97.6
Deferred tax assets	22,726	23,529	96.6
Loans and deposits	29,323	31,385	93.4
Available-for-sale financial assets	462	462	100.0
	1,650,993	1,657,143	99.6
Current assets			
Inventories	208,276	224,328	92.8
Trade and other receivables	202,270	205,707	98.3
Current tax assets	1,668	1,230	135.6
Loans and deposits	2,284	8,110	28.2
Cash and cash equivalents	10,588	26,318	40.2
	425,086	465,693	91.3
Total assets	2,076,079	2,122,836	97.8
EQUITY			
Share capital	254,175	254,175	100.0
Share premium	207,523	286,772	72.4
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	41,685	41,686	100.0
Fair value reserve	104,408	104,541	99.9
Retained earnings	44,183	37,515	117.8
Profit (loss) for the period	1,090	(72,463)	-
Currency translation reserve	(91,711)	(91,720)	100.0
Total equity attributable to equity owners of the company	558,118	557,270	100.2
Non-controlling interests	115	106	108.0
Total equity	558,233	557,376	100.2
LIABILITIES			
Non-current liabilities			
Trade and other payables	47,681	45,183	105.5
Borrowings and other financial liabilities	743,474	738,354	100.7
Deferred tax liabilities	31,344	31,356	100.0
Provisions	26,539	26,818	99.0
	849,038	841,711	100.9
Current liabilities			
Trade and other payables	549,199	590,021	93.1
Current tax liabilities	595	488	121.9
Borrowings and other financial liabilities	119,014	133,241	89.3
	668,808	723,750	92.4
Total liabilities	1,517,846	1,565,460	97.0
Total equity and liabilities	2,076,079	2,122,836	97.8

Condensed consolidated income statement

EUR thousand	1-3 2017	1-3 2016 adjusted*	1-3 2016 continued**	Index Mar. 31, 2017/ Mar. 31, 2016	Index Mar. 31, 2017/ Mar. 31, 2016 continued
Revenue	564,574	604,873	568,281	93.3	99.3
Cost of goods sold and selling costs	(544,715)	(583,707)	(549,524)	93.3	99.1
Administrative expenses	(17,454)	(19,120)	(18,165)	91.3	96.1
Other income	3,448	3,359	3,095	102.6	111.4
Results from operating activities	5,852	5,405	3,688	108.3	158.7
Finance income	9,308	6,144	6,101	151.5	152.6
Finance expenses	(13,151)	(10,586)	(10,522)	124.2	125.0
Net finance expenses	(3,844)	(4,443)	(4,422)	86.5	86.9
Profit (loss) before tax	2,008	963	(734)	208.7	-
Tax expense	(912)	(294)	(128)	309.8	715.0
Profit (loss) for the period	1,096	668	(861)	164.1	-
Profit (loss) for the period attributable to:					
Owners of the parent company	1,090	666	-	163.6	-
Non-controlling interests	6	2	-	323.0	-

* As the monetization project at the company Poslovni sistem Mercator, d.d., was stopped, assets available for disposal were re-classified at the end of 2016 back to non-current assets, and we resumed their depreciation and amortization. Therefore, business results for the period 1–3, 2016, are, for comparability with 2017, adjusted for the extra depreciation pertaining to the assets reclassified back to non-current assets as at the end of 2016.

** Revenue from sales of continued operations include revenue from internal rents, that Mercator Group received from Intersport during the period when it was legal entity, in 2016 amounted to EUR 901 thousand.

Condensed consolidated statement of comprehensive income

EUR thousand	1-3 2017	1-3 2016 adjusted	Index 1-3 2017 /1-3 2016
Profit (loss) for the period	1,096	668	164.0
Other comprehensive income	-	-	-
Items that will not be reclassified subsequently to profit or loss	-	-	-
Items that may be reclassified subsequently to profit or loss	(239)	(1,844)	12.9
Other comprehensive income for the period	(239)	(1,844)	12.9
Total comprehensive income for the period	857	(1,176)	-
Total comprehensive income for the period attributable to:			
Owners of the parent company	850	(1,181)	
Non-controlling interests	8	5	

Condensed consolidated statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as at January 1, 2016	254,175	286,772	(3,235)	41,686	108,865	15,365	20,245	(89,668)	634,205	228	634,433
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the period	-	-	-	-	-	-	666	-	666	2	668
Other comprehensive income	-	-	-	-	-	-	-	(1,847)	(1,847)	3	(1,844)
Total comprehensive income for the period	-	-	-	-	-	-	666	(1,847)	(1,181)	5	(1,176)
Transactions with owners directly recognized in equity	-	-	-	-	-	-	-	-	-	-	-
Transfer of profit for previous year to retained earnings	-	-	-	-	-	20,245	(20,245)	-	-	-	-
Balance as at March 31, 2017 (adjusted)	254,175	286,772	(3,235)	41,686	108,865	35,610	666	(91,515)	633,024	233	633,257

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings (loss)	Profit (loss) for the year	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as at January 1, 2016	254,175	286,772	(3,235)	41,685	104,541	37,514	(72,463)	(91,720)	557,269	107	557,376
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the period	-	-	-	-	-	-	1,090	-	1,090	6	1,096
Other comprehensive income	-	-	-	-	(133)	(117)	-	9	(241)	2	(239)
Total comprehensive income for the period	-	-	-	-	(133)	(117)	1,090	9	849	8	857
Transactions with owners directly recognized in equity	-	-	-	-	-	-	-	-	-	-	-
Transfer of profit for previous year to retained earnings	-	-	-	-	-	6,786	72,463	-	79,249	-	79,249
Distribution of profit for the year pursuant to the Management Board decision	-	(79,249)	-	-	-	-	-	-	(79,249)	-	(79,249)
Balance as at March 31, 2017 (adjusted)	254,175	207,523	(3,235)	41,685	104,408	44,183	1,090	(91,711)	558,118	115	558,233

Condensed consolidated cash flow statement

EUR thousand	1-3 2017	1-3 2016	Index 1-3 2017/ 1-3 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross cash flows from operating activities	23,510	24,062	97.7
Change in inventories	16,052	(648)	-
Change in trade and other receivables	2,999	(2,560)	-
Change in trade and other payables	(38,815)	(21,314)	182.1
	3,746	(460)	-
Interest paid	(7,470)	(7,234)	103.3
Income tax paid	(110)	(266)	41.2
Net cash from (used in) operating activities	(3,834)	(7,960)	48.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and investment property	(12,510)	(11,808)	105.9
Acquisition of intangible assets	(895)	(1,056)	84.8
Loans and bank deposits made	-	-	-
Proceeds from sale of property, plant and equipment and investment property	2,504	1,775	141.1
Proceeds from sale of intangible assets	-	14	-
Prejemki za dana posojila in depozite	7,888	6,660	118.4
Proceeds from sale of available-for-sale financial assets	-	149	-
Interest received	210	360	58.3
	-	-	-
Net cash used in investing activities	(2,803)	(3,906)	71.8
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds (repayment) in borrowings	(9,107)	12,470	-
Net cash from (used in) financing activities	(9,107)	12,470	-
Net (decrease) increase in cash and cash equivalents	(15,744)	604	-
Cash and cash equivalents at the beginning of the year	26,318	18,998	138.5
Effect of exchange rate fluctuations on cash and cash equivalents held	14	2	700.0
	-	-	-
Cash and cash equivalents as at the end of the period	10,588	19,604	54.0

Notes to Mercator Group condensed consolidated financial statements

Notes to condensed consolidated income statement

Revenue

In the period 1–3, 2017, Mercator Group generated EUR 564,574 thousand of revenue, which is 6.7% decrease compared with the period 1–3, 2016. Revenue decreased by 5.9% in the market of Slovenia and by 5.1% in the market of Serbia, which is primarily the result of divestment of Modiana and Intersport operations in the second half of 2016. Revenue also dropped in the markets of Croatia (by 55.4%) and Bosnia and Herzegovina (by 48.1%), where Mercator only retains its real estate management operations following the sales processes in 2016. In the market of Montenegro, revenue increased by 7.5%.

Cost of goods sold and selling costs

Mercator Group cost of goods sold and selling costs which include the cost of goods sold, production costs, selling and other expenses, amounted to EUR 544,715 thousand in the period 1–3, 2017, which is a 6.7% decrease compared with the same period of the previous year.

Administrative expenses

Mercator Group's administrative expenses in the period 1–3, 2017, amounted to EUR 17,454 thousand, which is 8.7% decrease compared with the equivalent period of the previous year.

Total expenses by nature amounted to EUR 146,918 thousand in the period 1–3, 2017, which is 4.4% decrease compared with the equivalent period of the previous year.

Result from operating activities

In the period 1-3, 2017, Mercator Group's result from operating activities reached EUR 5,852 thousand, which is 8.3% increase compared with the equivalent period of the previous year.

Net finance expenses

Net finance expenses are lower by EUR 599 thousand compared with the equivalent period of the previous year, which is mostly a result of positive currency translation differences .

Profit before income tax

In the period 1–3, 2017, Mercator Group's profit before income tax amounted to EUR 2,008 thousand.

Profit for the financial period

Mercator Group net profit for the period 1–3, 2017, amounts to EUR 1,096 thousand, which is 64.1% more compared with the equivalent period of the previous year.

EBITDA

Mercator Group EBITDA in the period 1–3, 2017, amounted to EUR 24,932 thousand which is 0.9% more than in the same period of the previous year.

EBITDAR

EBITDAR for the period 1–3, 2017, amounted to EUR 43,377 thousand which is 1.1% less than in the same period of the previous year.

Notes to condensed consolidated statement of financial position

Assets

Mercator Group assets as at March 31, 2017, amounted to EUR 2,076,079 thousand, which is EUR 46,757 thousand less than at the end of 2016, mostly due to further working capital optimization.

As at March 31, 2017, the value of Mercator Group's non-current assets amounted to EUR 1,650,993 thousand, which is EUR 6,150 thousand less than as at December 31, 2016. Fixed assets represent the largest share of non-current assets at 96.8% (EUR 1,598,428 thousand), which is EUR 3,285 thousand less than as at the end of 2016.

As at March 31, 2017, the value of Mercator Group's current assets amounted to EUR 425,086 thousand, which is EUR 40,607 thousand less than as at the end of 2016. Trade and other receivables represent the largest portion of total current assets (47.6%), followed by inventories (49.0%).

Equity and liabilities

As at March 31, 2017, Mercator Group total equity amounted to EUR 558,233 thousand, which is EUR 857 thousand more than as at the end of 2016. The change pertains to net profit in the amount of EUR 1,096 thousand, and other comprehensive income amounting to EUR -239 thousand.

As at March 31, 2017, total financial liabilities amounted to EUR 862,488 thousand, which is EUR 9,107 thousand less than as at the end of 2016. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group financial liabilities and financial assets, amounted to EUR 819,831 thousand as at March 31, 2017 (December 31, 2016: EUR 805,320 thousand). The share of long-term financial liabilities as at March 31, 2017, was at 86.2% (84.7% as at December 31, 2016).

As at March 31, 2017, provisions amounted to EUR 26,539 thousand. Compared to the end of 2016, provisions have decreased by EUR 279 thousand.

Trade and other payables as at March 31, 2017, amounted to EUR 596,880 thousand, which is EUR 38,324 thousand less than at the end of 2016.

As at March 31, 2017, coverage of non-current assets with non-current liabilities at the Mercator Group was at 85.2%, which is by 0.8 percentage point more than as at the end of 2016.

CONDENSED FINANCIAL STATEMENTS OF 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. The company Poslovni sistem Mercator, d.d., is the controlling company of a Group of associated companies headquartered in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro, and Macedonia.

The company has a double role: it is predominantly engaged in retail and wholesale of fast-moving consumer goods; however, it also performs various group-related corporate tasks for the companies included in the Mercator Group. Hence, employing the financial statements of the company Poslovni sistem Mercator, d.d., for economic analysis of Mercator Group's operation is inappropriate. For such analysis, it is more sensible to apply above all the consolidated financial statements that present an account of the performance of the Mercator Group as a uniform business entity.

Condensed statement of financial position

EUR thousand	March 31, 2017	December 31, 2016	Index Mar. 31, 2017/ Dec. 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	861,924	867,726	99.3
Investment property	3,218	3,237	99.4
Intangible assets	12,893	13,455	95.8
Deferred tax assets	20,380	21,218	96.1
Trade and other receivables	25,664	25,664	100.0
Loans and deposits	129,565	125,202	103.5
Equity investments in Group companies	270,758	270,758	100.0
Available-for-sale financial assets	296	296	100.0
	1,324,697	1,327,554	99.8
Current assets			
Assets for disposal	-	-	-
Inventories	112,587	121,783	92.4
Trade and other receivables	77,955	78,786	98.9
Current tax assets	382	300	127.3
Loans and deposits	999	999	100.0
Cash and cash equivalents	7,061	13,344	52.9
	198,984	215,212	92.5
Total assets	1,523,681	1,542,766	98.8
EQUITY			
Share capital	254,175	254,175	100.0
Share premium	207,523	286,772	72.4
Treasury shares	(3,235)	(3,235)	100.0
Revenue reserves	16,624	16,624	100.0
Fair value reserve	76,063	76,196	99.8
Retained earnings	172	(1,802)	-
Profit (loss) for the period	2,791	(77,447)	-
Total equity	554,113	551,283	100.5
LIABILITIES			
Non-current liabilities			
Trade and other payables	29,096	27,198	107.0
Borrowings and other financial liabilities	511,437	508,047	100.7
Deferred tax liabilities	25,180	25,229	99.8
Provisions	22,888	23,041	99.3
	588,601	583,514	100.9
Current liabilities			
Trade and other payables	287,604	315,082	91.3
Current tax liabilities	-	-	-
Borrowings and other financial liabilities	93,363	92,886	100.5
	380,967	407,968	93.4
Total liabilities	969,568	991,483	97.8
Total equity and liabilities	1,523,681	1,542,766	98.8

Condensed income statement

EUR thousand	1-3 2017	1-3 2016 adjusted*	1-3 2016 continued	Index Mar. 31, 2017/ Mar. 31, 2016 adjusted	Index Mar. 31, 2017/ Mar. 31, 2016 continued
Revenue	317,775	328,355	319,671	96.8	99.4
Cost of goods sold and selling costs	(305,059)	(315,789)	(307,642)	96.6	99.2
Administrative expenses	(8,239)	(8,927)	(8,593)	92.3	95.9
Other income	2,148	1,443	1,416	148.8	151.7
Result from operating activities	6,625	5,083	4,852	130.3	136.6
Finance income	1,324	1,655	1,655	80.0	80.0
Finance expenses	(4,330)	(4,836)	(4,836)	89.5	89.5
Net finance expenses	(3,006)	(3,182)	(3,182)	94.5	94.5
Profit (loss) before tax	3,619	1,902	1,670	190.3	216.7
Tax expense	(828)	(25)	(25)	3,375	3,375
Profit (loss) for the period	2,791	1,877	1,645	148.7	169.6

* As the monetization project at the company Poslovni sistem Mercator, d.d., was stopped, assets available for disposal were re-classified at the end of 2016 back to non-current assets, and we resumed their depreciation and amortization. Therefore, business results for the period 1–3, 2016, are, for comparability, adjusted for the extra depreciation pertaining to the assets reclassified back to non-current assets as at the end of 2016.

Condensed statement of comprehensive income

EUR thousand	1-3 2017	1-3 2016 adjusted	Index 1-3 2017/ 1-3 2016 adjusted
Profit (loss) for the period	2,791	1,877	148.7
Other comprehensive income	-	-	-
Items that will not be reclassified subsequently to profit or loss	39	-	-
Deferred taxes	39	-	-
Items that may be reclassified subsequently to profit or loss	-	-	-
Other comprehensive income for the period	39	-	-
Total comprehensive income for the period	2,830	1,877	150.8

Condensed statement of changes in equity

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Net profit (loss) for the year	Total equity
Balance as at January 1, 2016	254,175	286,772	(3,235)	16,624	79,869	619	(3,800)	631,024
Total comprehensive income for the year	-	-	-	-	-	-	-	-
Profit (loss) for the period	-	-	-	-	-	-	1,877	1,877
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	1,877	1,877
Transactions with owners directly recognized in equity	-	-	-	-	-	-	-	-
Transfer of profit for previous year to retained earnings	-	-	-	-	-	(3,800)	3,800	-
Balance as at March 31, 2017 (adjusted)	254,175	286,772	(3,235)	16,624	79,869	(3,181)	1,877	632,901

EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Net profit (loss) for the year	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 year	-	-	-	-	-	-	-	-
Profit (loss) for the period	-	-	-	-	-	-	2,791	2,791
Other comprehensive income	-	-	-	-	(133)	172	-	39
Total comprehensive income for the year	-	-	-	-	(133)	172	2,791	2,830
Transactions with owners directly recognized in equity	-	-	-	-	-	-	-	-
Transfer of profit for previous year to retained earnings	-	-	-	-	-	1,802	77,447	79,249
Distribution of profit for the year pursuant to the Management Board decision	-	(79,249)	-	-	-	-	-	(79,249)
Balance as at March 31, 2017	254,175	207,523	(3,235)	16,624	76,063	172	2,791	554,113

Condensed cash flow statement

EUR thousand	1-3 2017	1-3 2016	Index 1-3 2017/ 1-3 2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross cash flows from operating activities	14,310	9,424	151.8
Change in inventories	9,196	(5,927)	-
Change in trade and other receivables	749	(3,749)	-
Change in trade and other payables	(25,733)	(2,704)	951.7
	(1,478)	(2,956)	50.0
Net foreign exchange gains from financing activities	2	4	50.0
Interest paid	(3,961)	(4,836)	81.9
Income tax paid	-	-	-
Net cash from (used in) operating activities	(5,437)	(7,788)	69.8
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and investment property	(3,226)	(2,169)	148.7
Acquisition of intangible assets	(495)	(757)	65.4
Loans and bank deposits made	(4,363)	(1,393)	313.2
Proceeds from sale of property, plant and equipment and investment property	2,139	1,488	143.8
Proceeds from sale of available-for-sale financial assets	-	149	-
Interest received	1,232	1,028	119.8
	-	-	-
Net cash used in investing activities	(4,713)	(1,654)	284.9
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds (repayment) in borrowings	3,867	9,857	39.2
Net cash from (used in) financing activities	3,867	9,857	39.2
Net (decrease) increase in cash and cash equivalents	(6,283)	415	-
Cash and cash equivalents at the beginning of the year	13,344	10,046	132.8
Cash and cash equivalents as at the end of the period	7,061	10,461	67.5

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

Notes to condensed income statement

Revenue

In the period 1–3, 2017, the company Poslovni sistem Mercator, d.d., generated EUR 317,775 thousand of revenue, which is 3.2% less relative to the period 1–3, 2016. Majority of company revenue is generated by sales of goods, material, and products in retail and wholesale of trade goods or merchandise.

Cost of goods sold and selling costs

Costs of sales of the company Poslovni sistem Mercator, d.d., which include the cost of goods sold, selling costs, and other expenses, amounted to EUR 305,059 thousand in the period 1-3, 2017, which is a 3.4% decrease on the same period of last year.

Administrative expenses

The company's administrative expenses in the period 1-3, 2017, amounted to EUR 8,239 thousand, which is 7.7% less than in the equivalent period last year. Expenses decreased primarily due to divestment of Modiana and Intersport operations in the second half of 2016.

Total expenses by nature amounted to EUR 79,968 thousand in the period 1–3, 2017, which is 3.5 percent less than in the equivalent period of last year.

Results from operating activities

In the period 1–3 2017, results from operating activities of the company Poslovni sistem Mercator, d.d., reached EUR 6,625 thousand, which is 30.3% more than in the same period of last year.

Net finance expenses

Net finance expenses are lower by EUR 176 thousand relative to the last year's comparable period.

Profit before income tax

The company's profit before income tax for the period 1–3, 2017, amounted to EUR 3,619 thousand, which is EUR 1,718 more than in the same period of 2016.

Profit for the financial period

The company's net profit for the period 1-3, 2017, amounted to EUR 2,791 thousand.

EBITDA

EBITDA of the company Poslovni sistem Mercator, d.d., in the period 1–3, 2017, amounted to EUR 15,716 thousand which is 10.0% more than in the comparable period of last year.

EBITDAR

EBITDAR of the company Poslovni sistem Mercator, d.d., in the period 1–3, 2017, amounted to EUR 18,102 thousand which is 6.6% more than in the comparable period of last year.

Notes to condensed statement of financial position

Assets

Assets of the company Poslovni sistem Mercator, d.d., as at March 31, 2017, amounted to EUR 1,523,681 thousand, which is EUR 19,085 thousand more than at the end of 2016.

As at March 31, 2017, the value of the company's non-current assets amounted to EUR 1,324,697 thousand, which is EUR 2,857 thousand less than as at December 31, 2016. The decrease in non-current assets is largely a result of lower value of property, plant, and equipment. Property, plant, and equipment represent the largest share of non-current assets at 66.3% (EUR 878,035 thousand), which is EUR 6,383 thousand less than at the end of 2016.

As at March 31, 2017, the value of company current assets amounted to EUR 198,984 thousand, which is EUR 16,228 thousand less than at the end of 2016. The decrease pertains largely to inventories, and cash and cash equivalents. Inventories account for the largest share of current assets with 56.6%, while trade and other receivables account for 39.2%.

Equity and liabilities

As at March 31, 2017, total equity of the company Poslovni sistem Mercator, d.d., amounted to EUR 554,113 thousand, which is EUR 2,830 thousand, or 0.5%, more than as at the end of 2016. The increase is primarily a result of net profit in the period 1–3, 2017.

As at March 31, 2017, total financial liabilities amounted to EUR 604,800 thousand, which is EUR 3,867 thousand more than as at the end of 2016. The increase is predominantly a result of higher non-current financial liabilities.

As at March 31, 2017, provisions amounted to EUR 22,888 thousand. Compared to the end of 2016, provisions decreased by EUR 153 thousand.

Trade and other payables as at March 31, 2017, amounted to EUR 316,700 thousand, which is EUR 25,580 thousand less than at the end of 2016, especially on account of current trade and other payables.

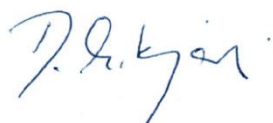
MANAGEMENT RESPONSIBILITY STATEMENT

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 March 31, 2017, to their best knowledge, is compiled in compliance with the International Financial Reporting Standards and that it presents a true and fair account of assets and liabilities, financial position, and the net income of the company Poslovni sistem Mercator, d.d., and other companies included in the consolidated statements. The Management Board also declares that the transactions between associated entities within the Mercator Group were conducted based on the signed sale and purchase agreements, according to arm's length principle.

Ljubljana, May 17, 2017



Tomislav Čizmić
President of the Management Board



Draga Cukjati
Member of the Management Board



Igor Mamuza
Member of the Management Board