

**BUSINESS REPORT OF THE MERCATOR GROUP AND
THE COMPANY POSLOVNI SISTEM MERCATOR D.D.,
FOR THE PERIOD 1–3, 2018**



Ljubljana, May 2018

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	2
PROFILE AND ORGANIZATION	2
BUSINESS STRATEGY	4
PERFORMANCE INDICATORS OF MERCATOR GROUP IN THE PERIOD 1-3, 2018	6
KEY EVENTS	7
BUSINESS REPORT	8
EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1-3, 2018	8
SALES AND MARKETING	10
STORE FORMATS, CUSTOMER SEGMENTS, AND CATEGORY MANAGEMENT	16
EMPLOYEES	19
REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT	24
RISK MANAGEMENT	27
FINANCIAL MANAGEMENT	28
MERCATOR SHARE AND INVESTOR RELATIONS	30
FINANCIAL REPORT	33
ACCOUNTING POLICIES	33
CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND THE COMPANY POSLOVNI SISTEM MERCATOR	33
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR D. D.	40
MANAGEMENT RESPONSIBILITY STATEMENT	44

EXECUTIVE SUMMARY

Mercator Group generated EBITDA of EUR 25.8 million in the first quarter of 2018, topping the comparable last year's figure by 36.5%. Results from operating activities also improved considerably, amounting to EUR 9.1 million for the first quarter of 2018, which is EUR 9.3 million better than in the comparable period of the preceding year. Moreover, Mercator Group revenue for the first quarter of 2018 increased by 1.3% relative to the comparable period of the year before.

Mercator Group improves its performance efficiency

In 2018, Mercator Group improved its business performance and efficiency, which is reflected in higher profit and EBITDA. Mercator Group's profit in the period 1–3, 2018, increased the figure from the comparable period of the year before by EUR 6.8 million and reached EUR 1.9 million; in the comparable period of the year before, Mercator Group's bottom line was a loss of EUR -4.9 million.

Mercator Group EBITDA in the period 1–3, 2018, amounted to EUR 25.8 million; in the comparable period of the preceding year it was at EUR 18.9 million. Improved performance is also evident in higher EBITDA margin which rose by 34.8%.

EBITDA was also higher for the company Poslovni sistem Mercator d.d., amounting to EUR 18.2 million, or 16.1% more than in the equivalent period of the year before. In the first quarter of 2018, Mercator Group generated EUR 4.8 million of net profit, which is EUR 2.0 million more than in the comparable period of the year before.

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 1–3, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 8.8% relative to the comparable period of the previous year. Slovenia, where revenue growth of 3.4% was recorded in retail, and Serbia, where revenue from retail operations grew by 1.9% relative to the comparable period of the year before, remain the most important markets of Mercator Group operations. Mercator Group thus remains focused on its core activity, and further improvement of profitability remains its key goal. Care for the consumers will remain at the focus of the Group's activities as we look to offer them the best products and services they want and need on a daily basis, in addition to modernly designed shopping environment, the greatest possible number of store locations, and expanded and enriched offer of fast-moving consumer goods.

Deleveraging and care for long-term sustainability of financial structure

Mercator Group's net financial debt as at March 31, 2018, amounts to EUR 783.7 million, which is EUR 70.2 million less than as at March 31, 2017. In 2018, Mercator continues to settle all of its liabilities to financial and business partners in compliance with the agreed terms and deadlines.

Events related to the developments at the Agrokor Group

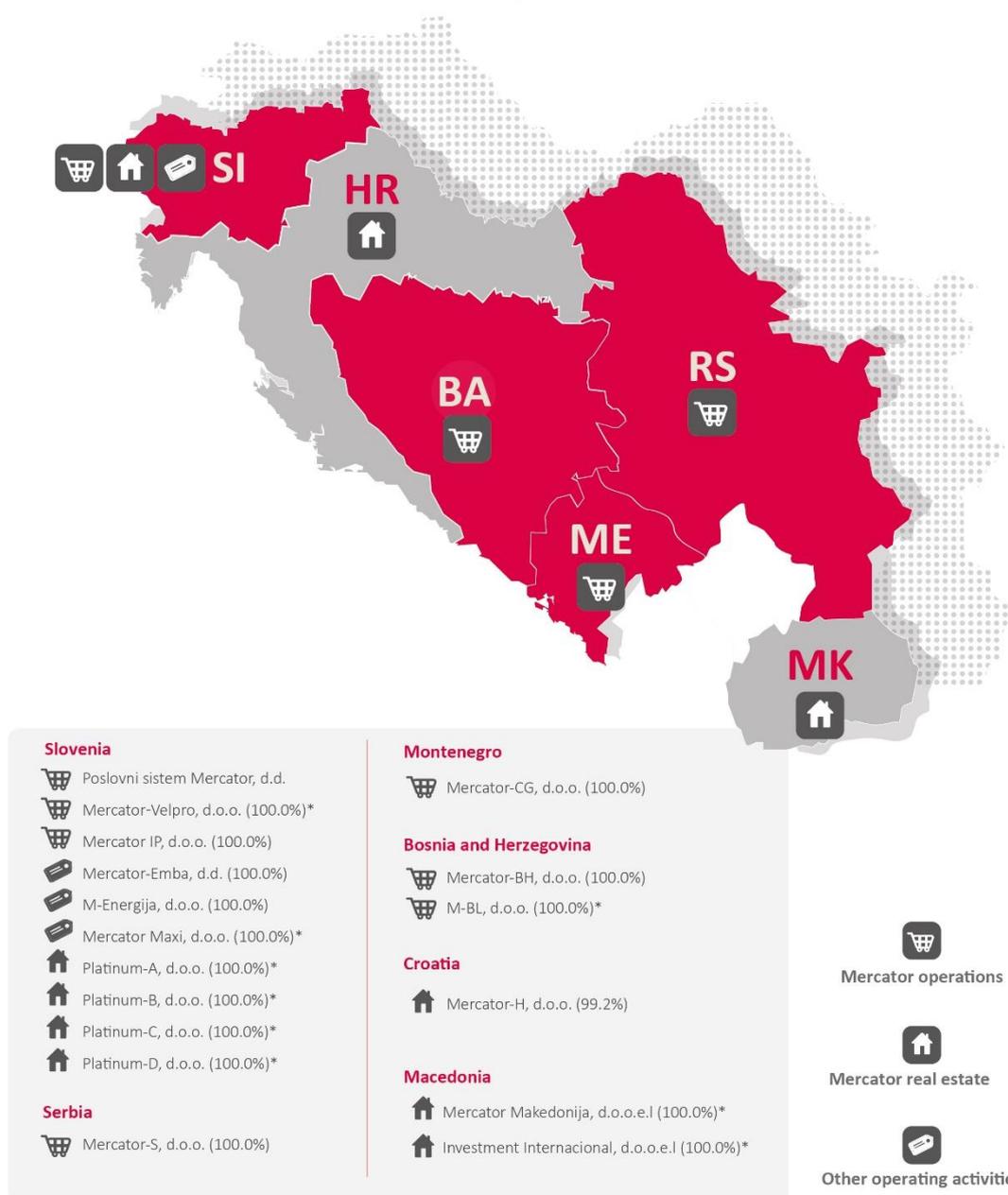
With regard to the so-called Lex Agrokor, Mercator Group companies reported until and including June 9, 2017, a total of EUR 43,788,150 of receivables by the Agrokor Group companies. In January 2018, the court in Zagreb recognized and confirmed all reported receivables.

INTRODUCTION

PROFILE AND ORGANIZATION

Mercator Group Profile as at March 31, 2018

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



* The company does not conduct business operations.

Branch Offices

As at March 31, 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 March 31, 2018	EUR 254,175,051.39
Number of shares issued and paid-up as at March 31, 2018	6,090,943
Share listing	Ljubljanska borza d.d., official market, prime market, symbol MELR

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Website www.mercatorgroup.si



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 1–3, 2018, the Supervisory Board of the company Poslovni sistem Mercator d.d. held three correspondence sessions:

- ▶ At the **21st correspondence session held 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. Base for additional audit of the company Mercator–S d.o.o., are the PwC's internal rules to inclusion one of the most important companies within the Mercator Group into the framework for revision of the Agrokor Group.
- ▶ 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.

BUSINESS STRATEGY

VISION

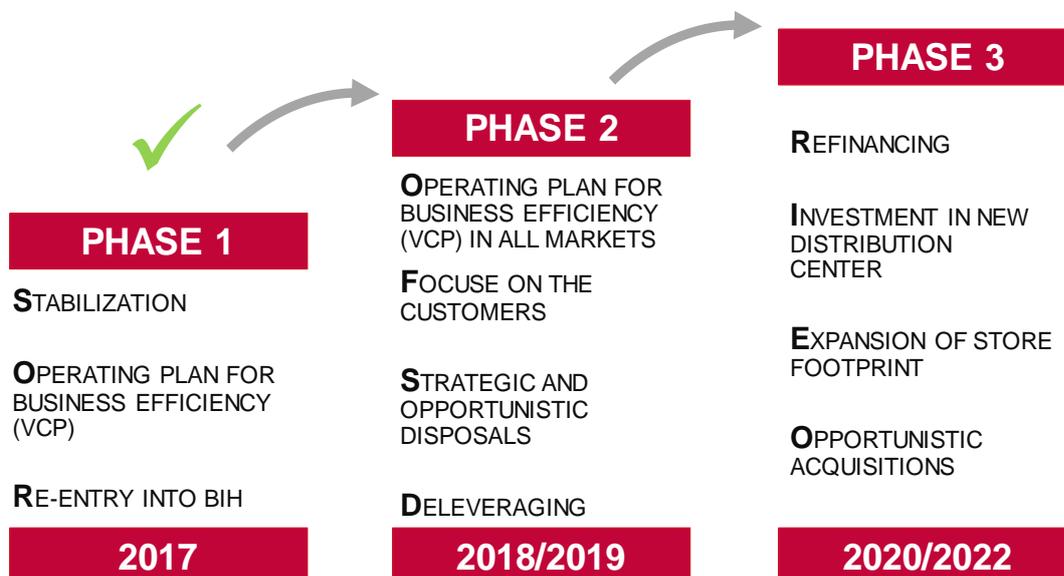
Mercator will be the best local retailer in every market of its operations.

MISSION

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

STRATEGY

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



Operating plan for business efficiency

In 2017, we successfully implemented our operating plan for business efficiency (Value Creation Plan) in Slovenia, which includes activities for accomplishment of our operating business plan. Moreover, operating plans were adopted for efficient business operations in international markets with implementation in 2018.

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



PERFORMANCE INDICATORS OF MERCATOR GROUP IN THE PERIOD 1–3, 2018

Mercator Group business				
		1–3, 2017 restated*	1–3, 2018	Change 1–3, 2018/ 1–3, 2017 restated
INCOME STATEMENT	Revenue (in EUR 000)	509,324	515,756	1.3%
	Revenue from retail (in EUR 000)	356,345	387,836	8.8%
	Results from operating activities (in EUR 000)	-169	9,135	-
	Profit (loss) before income tax (in EUR 000)	-4,013	3,095	-
	Profit (loss) for the period (in EUR 000)	-4,925	1,866	-
	Gross cash flow from operating activities (EBITDA) (in EUR 000)	18,911	25,811	36.5%
	Gross cash flow from operating activities before rental expenses (EBITDAR) (in EUR 000)	37,356	42,870	14.8%
BALANCE SHEET	Total assets (in EUR 000)	2,076,080	1,998,603	-3.7%
	Equity (in EUR 000)	552,218	485,260	-12.1%
	Net financial debt (in EUR 000)	853,871	783,703	-8.2%
PRODUCTIVITY AND ABILITY TO GENERATE CASH FLOW	Return on sales	-1.0%	0.4%	-
	Return on equity**	-3.5%	1.4%	-
	Gross cash flow from operating activities (EBITDA) / revenue	3.7%	5.0%	34.8%
	Gross cash flow from operating activities before rental expenses (EBITDAR) / revenue	7.3%	8.3%	13.3%
INVESTMENT ACTIVITIES	Capital expenditure (in EUR 000)	13,406	7,202	-46.3%
EMPLOYEES	Number of employees as at March 31	20,122	20,640	2.6%
	Number of employees based on hours worked	18,722	19,015	1.6%

* In 2017, 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).

** Indicator is adjusted to the annual level.

KEY EVENTS

Retail network development

In the period 1–3, 2018:

- ▶ we invested EUR 7,202 thousand into property, plant, and equipment (CAPEX);
- ▶ we divested EUR 1,438 thousand worth of property, plant and equipment;
- ▶ we added 5 new units or 2,014 m² of new gross retail area in all markets of our operations through operating lease;
- ▶ we took over from Konzum Sarajevo and refurbished two more former Mercator stores which again operate as a part of Mercator's subsidiary 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.

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.

Awards and other achievements



Mercator brand received the **Trusted Brand 2018 award** in Slovenia in two categories: shopping centre and environment protection.

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 only specialized mystery shopping agency in Slovenia, which is also a member of the global Mystery Shopping Providers Association (MSPA).



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" (Kranj Cupcake) in Naklo. The golden awards are proof that Mercator offers superior products in its dessert and bakery department, too.

Mercator's humanitarian activities

As a part of the **"Do not Ignore, Support!"** campaign in cooperation with the company Mars, dog and cat food is being collected at Mercator stores until May 16, to be donated to select Slovenian animal shelters. Thus, Mercator 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.



donated to women's and men's national ski jumping team.

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**



BUSINESS REPORT

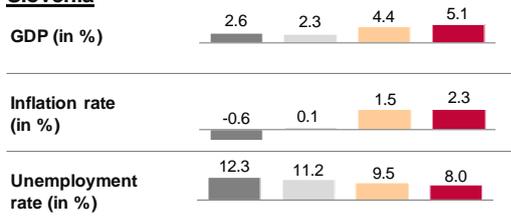
EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN THE PERIOD 1–3, 2018

Economic conditions in the period 1–3, 2018¹

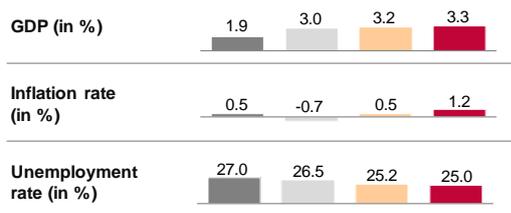
In 2017, growth of the global economy and trade picked up pace and reached the expectations. Along with the improvement of indicators of economic climate, short-term outlook for growth in the euro zone also improved. Thus, international institutions expect gross domestic product (GDP) in the euro zone to grow at a similar rate this year as last year (2.3%). In the years ahead, constraints in terms of labour supply and maturing of the business cycle in some countries are expected to result in gradual steadying of growth. Economic growth is also expected to continue in most of our export markets in the Western Balkans (including Croatia); assuming higher oil prices, economic recovery is also expected to continue in Russia.

Key macroeconomic indicators in the markets of Mercator's operations

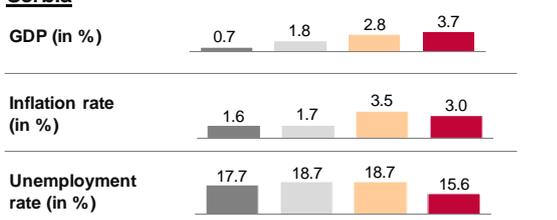
Slovenia



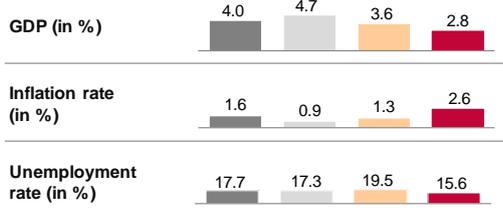
Bosnia and Herzegovina



Serbia



Montenegro



Slovenia

High economic growth will be sustained in 2018 (5.1%), resting on broad foundations. Both foreign and domestic demand will contribute in an even more balanced way to further rapid economic upturn. Consistently with high growth of foreign demand, high growth of exports will continue. Favourable structure of Slovenian exports and improved competitive position of the tradable sector from recent years will additionally contribute to this trend. Domestic consumption will increase by a slightly higher rate than last year.

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).

Growth of employment, which was even steeper last year, will be similarly high this year. In the years ahead, it is expected to steady as the growth of economic activity slows down and demographic pressure increases. After several years of modest increase, nominal growth of average gross salary was somewhat higher in both private and public sector last year. Growth in the private sector is mostly related to intense activity and solid business performance, as well as high growth of employment. Inflation rate will remain relatively low this year, while it is expected to increase moderately in the next two years.

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



Serbia

The economy recorded a high GDP growth rate in 2017, and further improvement is forecast for 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 will increase somewhat 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 will increase while unemployment rate will decrease. The country's rating is B+ with a negative outlook.

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

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.

According to data by the market research company Nielsen, consumer confidence in **Slovenia** in the last quarter of 2017 is considerably higher than in the last quarter of 2016, yet still below the European average. Thirty-seven percent of respondents believe the country is in a recession. Approximately 60% of respondents believe that the country will not recover from the recession in the next 12 months. Their primary concerns include personal health, security of employment, and work-life balance.

Consumer confidence in **Serbia** is slowly but constantly improving; however, it remains below the European average. A high share of respondents (77%) believe the country is in a recession. Approximately 65% 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.

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.

SALES AND MARKETING

Sales

Economic recovery continues in 2018 in all markets of our operations. 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.

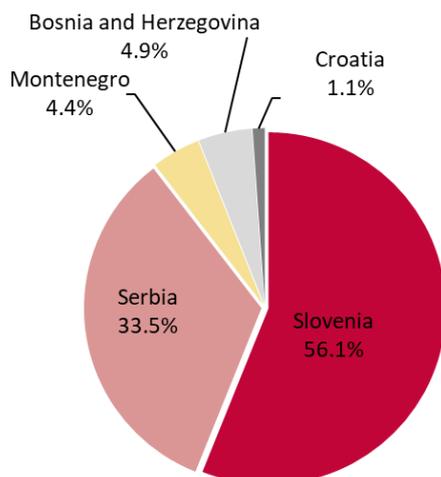
In the period 1–3, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 8.8% relative to the comparable period of the previous year.

In the period 1–3 2018, Mercator Group generated EUR 515.8 million of revenue, which is 1.3% percent more than in the corresponding 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.

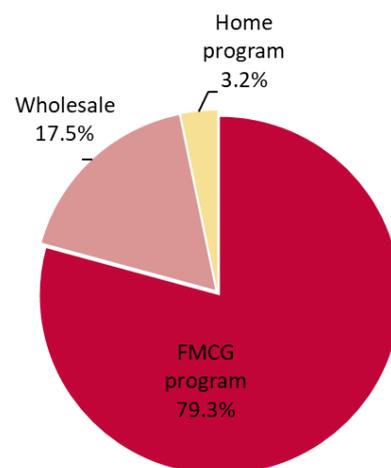
The new strategy, new store concept, store refurbishments, and improved competitiveness of service have been yielding positive results in Mercator Group's core activity. In the period 1–3, 2018, Mercator Group thus saw its revenue in the core activity of retail grow by 8.8% relative to the comparable period of the previous year. Slovenia, where revenue growth of 3.4% was recorded in retail, and Serbia, where revenue from retail operations grew by 1.9% relative to the comparable period of the year before, remain the most important markets of Mercator Group operations.

Mercator Group successfully ended the period 1–3, 2018, with a net profit of EUR 1.9 million, which is EUR 6.8 million more than in the comparable period of the previous year.

Mercator Group revenue by geographical segments in the period 1–3, 2018:



Mercator Group revenue by programs in the period 1–3, 2018:



The structure of revenue by respective programs has not changed significantly. Retail continues to account for the highest share of revenue with 79.3%. In the period 1–3, 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 3.2% in the period 1–3, 2018.

Marketing

1. VALUE FOR MONEY

We provide well-priced shopping

We are constantly adapting to customer needs and demand, but we also create new opportunities and services that make everyday easier for our customers. Convenience, rationality, and quality are important factors affecting the consumers' choices. 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. More special campaigns are dedicated to Mercator Pika card holders as we wish to offer more to our most loyal customers.



We do our best to be competitive every day with many products, which is also evident in the **"Discount"** project. This tag points to the products with the best price-to-quality ratio, and to products with prices that are set as competitive retail prices as at the day of price survey. Such prices are set based on an analysis of prices for similar or same products in Slovenian retail.



We also introduced the **"Recommended"** project. This tag points to the products with the best price-to-quality ratio, and to products with prices that are set as competitive retail prices as at the day of price survey. Thus, we are looking to offer our consumer particularly well-priced shopping for their favourite products.



We wish to make sure that our basket of products represents the best value to our customer, both in terms of 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

Advantages of the Pika Card customer loyalty system are now known to virtually every household in Slovenia. They especially appreciate the fact that they are awarded the points, which can later be redeemed, for the entire offer, and that the card also allows deferring the payment and payment 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.



For customers keen on shopping online, we will continue to allow the functionality of online payment for alimentary products and technical consumer goods using the Mercator Pika card, and we shall continue to upgrade it.

In the period 1–3, 2018, the Pika card was recognized as the best customer loyalty.

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 shall continue to prepare many exclusive surprises.



We regularly prepare **custom tailored offer** for customers who allowed us to track their shopping behaviour. Thus, we are looking to meet their wishes and needs as well as we can. In the future, we will continue to develop activities dealing with the wishes and needs of our customers.

This spring, we launched the **second magazine of everything good**, Pika, with 45 Easter recipes. The magazine was even more affordable for the Pika card holder, and the shoppers were

presented with a notebook.

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.



"Super mini club" in Serbia

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

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 aged up to 70 to pay in four instalments.

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 Off" campaign. It included analyzing the shopping behaviour of retirees, and offering them, as a novelty, the "retiree basket" in which we presented products especially for them.



We also carried out the sweepstakes "It pays off 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 award at the end of the sweepstakes, which was 200,000 points.



2. FRESH CATEGORIES

Activities in the fruit and vegetables department

In the first quarter of 2018, in Slovenia 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. During the campaign, which ended at the end of February, every customer who purchased fruit and vegetables at Mercator was presented with a coupon bearing a code that allowed voting for a club. Thus, we received 680,000 votes for ski jumping clubs. Donations to our national team and ski jumping clubs with the most customer votes won were presented after the end of the ski jumping season on March 28, 2018, at Maxi Club in Ljubljana.



Bread

Within the fresh categories, particular attention was paid to the **bread category**. In Slovenia, the Chamber of Agricultural and Food Producing Companies within the Slovenian Chamber of Commerce and Industry presents each year the awards for excellent quality of bread, baked and fine pastry, biscuits, pasta, and fresh pastry. Mercator's assortment includes as many as 40 gold-award-winning breads, of which 22 were received by bread from the Grosuplje bakery, which is exclusively available only at Mercator.

3. LOCAL



We Love Local

In Slovenia, the "**We Love Local**" project will include highlights around five traditional celebrations: carnival, Easter, May 1, St Martin's Day, and Christmas. Each holiday was assigned an ambassador from among domestic suppliers. Ambassadors shared by all are Jani Jugovic (Tejani, Cool Fotr) and comedian Gašper Bergant. They make expert tours at selected suppliers to discover interesting details about the products, hold a culinary challenge, and present the happening in a video.

Carnival and Easter

At the end of January, we launched the **carnival-themed offer** lasting until February 13. The campaign included frying Berliners (doughnuts), made from artisan GreGurMan flour, in cold-pressed rapeseed oil, at the Cimerman farm, while Tejani Kitch'n offered a recipe for how to make Berliners in a glass.

This was followed by the start of the **Easter season** in early March. Our ambassadors visited Kodila where they learned how to make real home-made Easter ham in bread dough and made traditional crackling bread. We also held sweepstakes for a KitchenAid appliance. Three different videos were aired on TV, by which we presented the breadth of our assortment of home-made Easter delicacies.





"The Flavours of My Town" in Serbia

In the Roda flyer, the campaign "The Flavours of My Town" included a presentation of special products and campaign. At Roda, customers could buy sausages from Vojvodina, goat cheese from Srem, and a variety of products from the Kopaonik region.

4. THE BEST SHOPPING EXPERIENCE



Digital

We have developed a new version of "Moj M" (My M) application, operational from May 2018, and the new M Pay service is also available in the application. M Pay is a mobile wallet, which means that payment with Pika Card will now also be possible using a mobile phone. The update is advertised with the slogan "Smart Pika on a Smart Phone".

Consistently with the European Union's new General Data Protection Regulation, we are intensively preparing for all processes as we adjust the functionalities to the new rules.

Critical locations: additional activities for select stores

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

Openings and refurbishments

In Slovenia, we prepared special marketing activities for all openings and updates to our stores in the period 1–3, 2018. Upon comprehensive update to the Kamnik hypermarket, we issued an A3-format flyer with special opening offer.

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. With modern design, select assortment, and quality service,



IDEA is meeting the expectations of the customers on occasional or major shopping sessions.



New online store in Montenegro

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

5. ASSORTMENT

Dormeo Dreamcatcher

In 2017, we prepared an attractive customer loyalty program Dormeo Dreamcatcher in Slovenia, which also extended into the first quarter of 2018. We offered our customers the purchase of superior products for sleeping, with up to 60-percent discount upon redemption of Pika points, and up to 50-percent discount upon redemption of coupons with collected stickers.



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 will last until May 20.

My Brands

In 2018, we continue the "My Brands" project that will last until the end of the year and extend into the next year. This project involves special marking of products of select and renowned brands that are especially exposed in Mercator stores and communication. In early March 2018, new suppliers were included in the project with their products: Delamaris, Perutnina Ptuj Natur line, Z'dežele, Barcaffé, Zelene doline, and Zlato polje. The project was also supported with the activity "Collect the Stamps for a Gorenje Refrigerator".



The entire project is conceived as a 360° campaign, meaning it involves the entire advertising mix: catalogues, TV ads, social media ads, online ads, magazines, outdoor advertising etc. In the catalogues, the project is manifest through different stories and activities.

Private label, BIO and Minute

In January, we were active with our private label as a part of sponsorship for our Olympic team. We highlighted our organic product label **Bio Zone**, and exposed the entire offer of gluten-free, lactose-free, vegetarian, and vegan products, under a shared motto of active lifestyle. In January, we conducted product promotion campaigns at events held by the Slovenian Olympic Committee; in February, we held a comprehensive campaign that included participation by our athletes and participants of the Olympic games.



At the same time, we were intensively preparing in the first three months of the year the foundations for further development. We focused on the expansion of the organic, gluten-free, and lactose-free offer at our stores, and worked on better exposure of these products.

We were preparing the refreshment of the offer of **Minute To-Go** products, which will be the basis for the autumn campaign upon the start of the new school year. We are also preparing for the June campaign with dairy products under our private label, where the stress will again be on the quality of our products, this time in relation to active lifestyle.

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

We offer our customers a rich selection of healthy food, lactose-free, sugar-free, and gluten-free products under our own label Bio Zone. As a part of the "BIO once, BIO forever" campaign, customers are offered over 1,000 products for a healthy and active lifestyle, which makes Mercator the leader in terms of raising the awareness about healthy food among our customers. 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 further expansion of the number of sales channels and increasingly better integration across them.



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 1–3, 2018, **16 units** were opened or refurbished in Slovenia. In Serbia, **2 units** were opened or refurbished, and **8 units** were opened or refurbished in Montenegro. Online store called IDEA Online was launched in Montenegro.

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

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





In 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 quarter, we also refurbished **4 new units acquired from KGZ Krpan of Cerknica**. 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.

Composition of sales units as at March 31, 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								
Hypermarkets	22	2	32	1	2	6	65	291,403	193,980
Supermarkets	111	-	3	95	15	23	247	269,980	177,938
Markets	335	3	-	188	93	50	669	254,930	152,673
Cash & Carry / VELPRO	13	-	-	6	3	-	22	63,750	35,613
Restaurants	8	-	-	-	-	-	8	2,070	1,379
Total FMCG program	489	5	35	290	113	79	1,011	882,134	561,584
Technical consumer goods	44	-	-	-	-	-	44	62,866	38,404
Total specialised programs	44	-	-	-	-	-	44	62,866	38,404
Total units under management	533	5	35	290	113	79	1,055	945,000	599,988
Franchise stores	186	-	-	-	-	-	186	39,688	26,015
TOTAL	719	5	35	290	113	79	1,241	984,688	626,003

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 incentive they require to remain loyal to us.

Category management and procurement

Slovenia



In 2018, we continued to **actively support domestic suppliers** and promote Slovenian and local offer at Mercator stores. As to date, the focus will be on local fresh meat, local fruit and vegetables, and local dairy products. In addition, we shall further promote the offer from local growers and producers (origin, tradition, transparency). We shall continue 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 shall continue 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 will be based on promotion of seasonal produce, as well as on the quality of fruit and vegetables, and on introduction of proven market trends.



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;
- ▶ quality management of seasonal activities and allowing a diverse offer in the non-food segment;
- ▶ provide competitive prices for products of renowned brands and private labels, and attractive offer in sales promotion activities (value for money, Pika);
- ▶ efficiently manage the store area at a level of particular products or product or categories, and the store as a whole; and
- ▶ provide 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;
- ▶ introduction of a new campaign "Discount for You", based on a broad offer of products and competitive pricing;
- ▶ improved margin with pursuit of strategy of higher discounts from suppliers through special campaign activities;
- ▶ focus on our private label; and
- ▶ clearance sale of products from the non-food segment that result in dead inventory, replacement of assortment, and introduction of new offer in several product categories.



Serbia

Category management activities, focused on the consumer, included continuation of 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; and
- ▶ providing competitive regular pricing and appealing product promotions that invite consumers and improve the price perception of the chain.

In order to improve the returns on our promotional activities, we have defined the target gross margin across all promotional tools. Looking to provide support to domestic suppliers, we also started the negotiations with suppliers for cooperation in the campaign **My Brands**.

**Montenegro**

In the first quarter 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, 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's business goals. Therefore, our activities in human resource management activities are focused on the following:

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

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

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

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

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

As of January 1, 2018, macro organizational structure at the company Mercator–S d.o.o., was changed.

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.

Number of employees

	Number of employees as at Mar. 31, 2018	Number of employees as at December 31, 2017	Index number of employees Mar. 31, 2018 / Dec 31, 2017	Number of employees based on hours worked in the period 1–3, 2018
Slovenia	9,727	9,762	99.6	8,811
Serbia	8,220	8,301	99.0	7,663
Montenegro	1,403	1,420	98.8	1,306
Croatia	37	38	97.4	37
Bosnia and Herzegovina	1,253	1,280	97.9	1,198
TOTAL	20,640	20,801	99.2	19,015

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

In the period at hand, Mercator Group devoted nearly 44,491 hours to training and education that involved 7,866 employees.

In the first quarter in Slovenia, the **Mercator Humanitarian Foundation** provided aid to 40 employees of the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o., who were in need of help. We paid out humanitarian aid in the total amount of EUR 26,300. In Serbia, we provided aid in the amount of EUR 9,923 to 35 employees.

At Mercator–BH d.o.o., the Employee Solidarity Fund was established in the first quarter. Voluntary contributions by employees who signed up for the membership were used to pay out solidarity aid to six employees in this period.



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 purpose of the workshops is to improve the sales orientation and drive of our employees. In the first quarter of 2018, 492 employees took part in all forms of selling skills training, of which 377 were from market program retail and 115 were from wholesale. We carried out a total of 47 training events.



In January, 140 participants of the **Deputy Store Manager School** resumed their modules, and 121 deputy store managers started the first module. All will presumably complete the training until the summer. The purpose of the school is to boost key competences of the employees working as deputy shop managers. The program involves 5 days of training in which participants will learn about the topics related to motivation, positive attitude, processes, material operations projects, new developments in retail, business performance (or economics), trade legislation and HACCP, environment protection, and computer knowledge related to GOLD.

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. Two groups are trained in Ljubljana, and one group is trained in Ptuj.



In March, the **Stock Assistant School** started. Two groups include 32 employees who will complete the 5-day program in mid-April. In addition to the workshops, participants will allocate 4 days to training in the fresh produce departments. To complete the program, the participants will have to draw up a seminar paper, with support of their personal mentors. The participants address the topics coordinated between the human resource management sector and retail management. All who successfully complete the program receive certificates of internal training for a shop assistant.

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 final event, held in two parts, keynote speakers included Tomislav Čizmić, Vera Aljančič Falež, and Marko Cedilnik. Participants received certificates of participation, and they socialized during the informal part of the event that included catering service.



Four award contests were held in March: **Best shop assistant**, **best store**, **best boss**, and the **Mercator Award**. Nomination collection will be followed by assessment by a strict jury. The best candidates will receive their awards at the joint ceremony in autumn.



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.

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.



In the public call for applications Learning Workshops, conducted by the Employment Agency of the Republic of Slovenia, intended for social enterprises, we were selected to conduct the training programs for unemployed candidates from vulnerable target groups.

At the end of the first quarter, the company Mercator IP d.o.o. had 429 employees, of which 222, or 51.8%, were employees with a recognized category of disability.



Mercator-S d. o. o.

The project **Shop Manager Academy** 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 or 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. In March, the fourth generation that includes 9 candidates started their training.

The goal of the program "**Academy for Meat Department Seller**" is to re-train in a structured and systematic way the interested employees working in various departments for the job of a butcher which they can then independently perform. This two-month program is held in cooperation with the Technical School for Chemistry and Food Industry and it includes education and training, examination, and grading. The mentors are our best butchers who share their knowledge with their colleagues. From January to March, we successfully trained six employees for work in the meat department.

In cooperation with the Serbian Chamber of Commerce and vocational high schools, we are implementing the concept of **dual education**. Currently, 85 students from eight different high schools are in practical training at Mercator.

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 resources, marketing, legal issues, or finance. Twenty candidates are involved, 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.

The project of hiring persons with disabilities is a socially responsible project focusing on including the persons with disabilities into the community. The project included creating a new job sales assistant, with working environment adjusted to the special needs of individuals with disabilities. We also continue to develop cooperation with companies who only hire persons with disabilities.



Mercator-CG d.o.o.

In January, we launched the activities that will remain relevant until the end of the year: "Tell us Confidentially" is an activity that invites the employees to convey their comments, criticism, recommendations, and suggestions; "Recommend a Colleague – Strengthen our Team" rewards the employees who recommend their candidates for a vacant job in retail, subject to condition that employment relationship is concluded with the candidate and that the candidate remains employed at the company for at least four months.

The process for inducting newly hired employees in retail was created. It includes structured monitoring of employees in the first three months of employment. Within the new system of induction which is to be launched in mid-April, we carried out in March leader training for work on the newly established system that allows preparing our new employees for independent work in the shortest possible time. Moreover, the retail coaching network process has been updated. Its goal is to provide quick and effective training and promotion of the same working standards and values throughout the entire retail network.





In the spirit of the corporate value campaign, February was dedicated to innovativeness. Employees were given the opportunity to take part in the "Be Innovative, Create an Idea for IDEA" contest and contribute their creative and innovative solutions, and this win valuable awards. The innovation team selected 5 best ideas among the 30 entries, based on the previously defined criteria: applicability to our system, and

financial and technical feasibility. Awards for the most creative ideas were presented at the event "Day of Idea and corporate values". At this occasion, we also celebrated, in a good atmosphere, the second birthday of the Idea label.



Mercator–BH d.o.o.

At the company **Mercator–BH d.o.o.**, activities for preparing new organization and job systematization were launched. The current salary system is to be revised, with introduction of a variable part for retail at the level of organizational units, and individual incentive to all employees based on monthly assessment.

Numerous training and education courses were held for employees in retail, intended for development of selling skills, implementation of HACCP standards, and training and education on occupational safety.

In a number of HR analyses and comparisons to other employers, we are ranked among the most modern and best employers in the country; we are also among the candidates for the "Most Desirable Employer Award 2017".

REAL ESTATE MANAGEMENT AND RETAIL NETWORK DEVELOPMENT

In the period 1–3, 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 **5 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. In the first quarter of 2018, we also announced an international tender for divestment of non-operating real estate and select shopping centres.

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



Investment and Divestment

In the period 1–3, 2018, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 7.2 million. Of this amount, 33.8% was used for investments in Slovenia and 66.2% was used for investments in international markets.

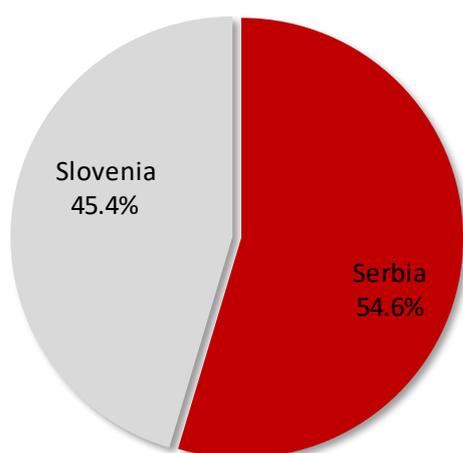
	Capital expenditure in 1–3, 2018 (in EUR 000)	Structure (in %)
Serbia	2,707	37.6%
Slovenia	2,436	33.8%
Croatia	973	13.5%
Montenegro	771	10.7%
Bosnia and Herzegovina	315	4.4%
Total	7,202	100.0%

Investment into refurbishment and update existing units accounted for 59.0% of total investments; expansion of new retail units represented 24.4%; IT investments accounted for 8.2%; investments into distribution centres accounted for 3.5%; and the remaining 4.9% was invested in non-trade activities.

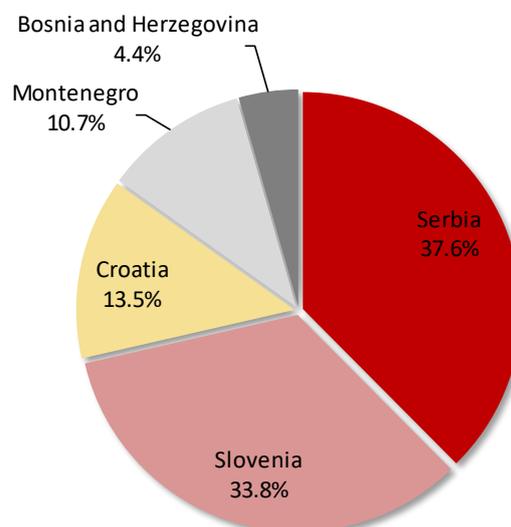
In the period 1–3, 2018, Mercator Group newly acquired 2,014 square meters of gross store area. All new gross area was acquired by operating lease.

In the period 1–3, 2018, Mercator Group divested property, plant, and equipment worth EUR 1.4 million, of which EUR 0.9 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, 2018:

	Gross area in square meters		
	Used for own operations	Leased out	TOTAL
Owned retail area	531,652	396,474	928,126
Leased retail area	413,348	152,811	566,159
Total retail area	945,000	549,285	1,494,285
Owned warehouse capacity	138,538	16,989	155,527
Leased warehouse capacity	66,385	40,009	106,394
Total warehouse capacity	204,923	56,998	261,921
Owned commercial facilities	18,269	2,900	21,169
Leased commercial facilities	7,991	346	8,337
Total commercial facilities	26,260	3,246	29,506
GROSS AREA UNDER MANAGEMENT	1,176,183	609,529	1,785,712
- of which owned	688,459	416,363	1,104,822
- of which leased	487,724	193,166	680,890

Retail unit openings by respective markets in the period 1–3, 2018**SLOVENIA****Area of new facilities:** 915 m²Number of new units: 4Openings: Market Begunje pri Cerknici; Market Unec; Market Godovič; Market Iga vas**Refurbishments/rearrangements:**Number of units: 12**SERBIA****Area of new facilities:** 1,099 m²Number of new units: 1Openings: Market Strumička, Beograd**Refurbishments/rearrangements:**Number of units: 1**MONTENEGRO****Refurbishments/rearrangements:**Number of units: 8

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. 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 1–3, 2018, the risks and opportunities of the company Poslovni sistem Mercator d.d. and the Mercator Group. We kept the Mercator Group Risk Register up to date, and we introduced 155 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.

FINANCIAL MANAGEMENT

Stable Financial Operations

As at March 31, 2018, Mercator Group's net financial debt amounted to EUR 783,703 thousand, which is 5.4% less than as at the end of 2017, and 8.2% less than as at March 31, 2017.

in EUR thousand	Mar. 31, 2017	Dec. 31, 2017	Mar. 31, 2018	Change Mar. 31, 2018/ Mar. 31, 2017	Change Mar. 31, 2018/ Dec. 31, 2017
Non-current borrowings and other financial liabilities	777,515	765,309	727,554	-6.4%	-4.9%
Current borrowings and other financial liabilities	119,014	116,391	102,381	-14.0%	-12.0%
Financial liabilities	896,529	881,700	829,935	-7.4%	-5.9%
Cash and cash equivalents	10,588	24,112	14,986	41.5%	-37.8%
Available-for-sale financial assets	462	391	386	-16.5%	-1.3%
Loans and deposits	31,607	28,980	30,860	-2.4%	6.5%
Financial assets	42,657	53,483	46,232	8.4%	-13.6%
Net financial debt*	853,871	828,217	783,703	-8.2%	-5.4%

*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 March 31, 2017.

Financing costs

In the period 1–3, 2018, the 6-month EURIBOR averaged at -0.273%. At the end of the period, it was at -0.271%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at -0.239%, this rate fell by 0.034 percentage point.

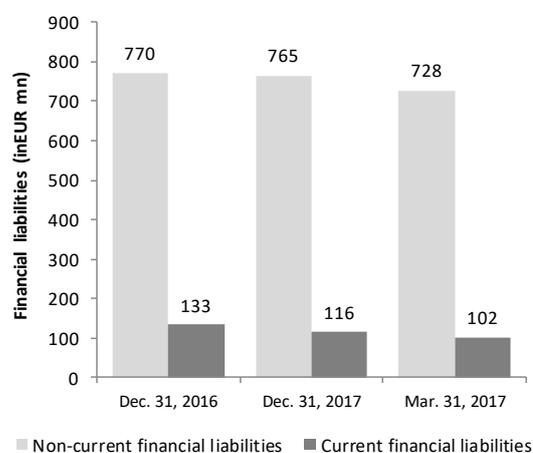
Security of bank loans

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, 2018, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.62. 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 March 31, 2018, amounted to 87.7% (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 March 31, 2018

As at March 31, 2018, Mercator Group had access to the following liquidity lines:

in EUR thousand	March 31, 2018
Cash and cash equivalents	14,986
Standby revolving credit lines	22,019
Total	37,005

MERCATOR SHARE AND INVESTOR RELATIONS

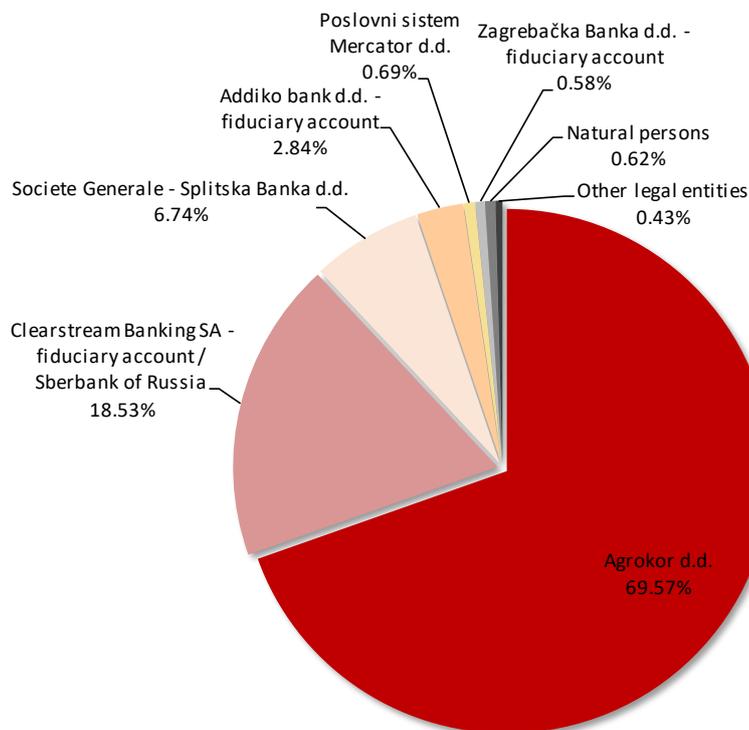
Share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator d.d., as at March 31, 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	1,637

Ownership structure of the company Poslovni sistem Mercator d.d., as at March 31, 2018:



Major Shareholders

As at March 31, 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	1,128,945	18.53%
3	Societe Generale - Splitska Banka d.d.	Croatia	410,339	6.74%
4	Addiko bank d.d. - fiduciary account	Croatia	173,164	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	Horvat Jože	Slovenia	608	0.01%
10	Verbič Tomaž	Slovenia	600	0.01%
	Total		6,009,657	98.66%

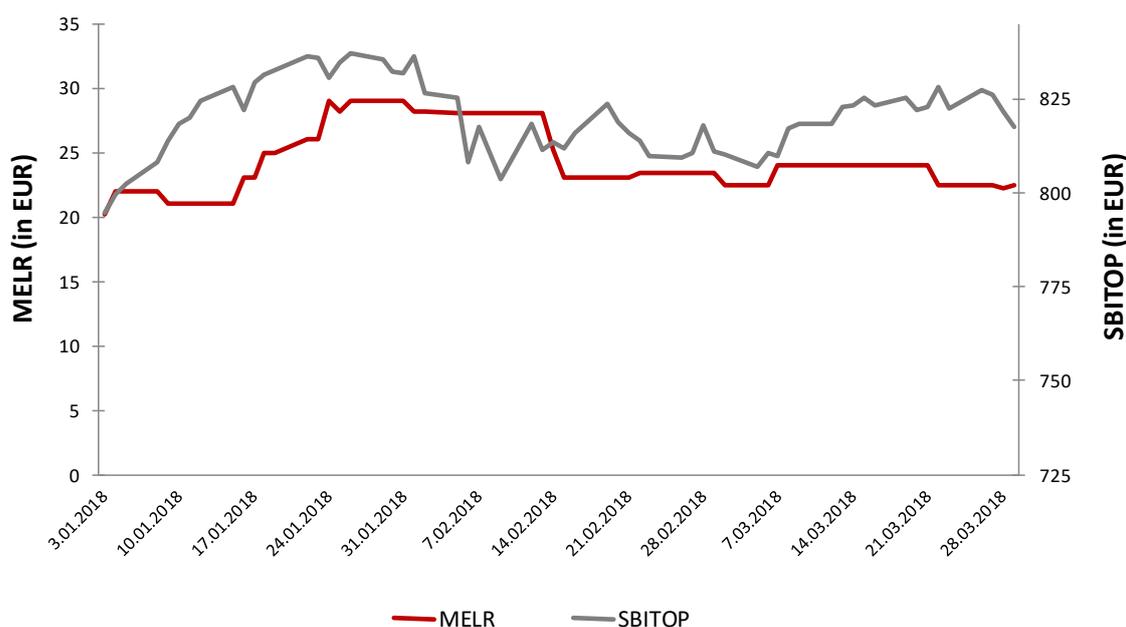
Shares held by Management and Supervisory Board Members as at March 31, 2018

Management Board and Supervisory Board Members did not own shares of the company Poslovni sistem Mercator d.d., as at March 31, 2018.

Foreign shareholders

As at March 31, 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 1–3 2018, compared to the movement of the SBITOP index



Key information for the shareholders

	March 31, 2017	March 31, 2018	Change March 31, 2018/ March 31, 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)	374,592,995	136,437,123	-63.6%
Market value of share (in EUR)	61.50	22.40	-63.6%
Book value per share (in EUR)	91.61	70.74	-22.8%
Minimum close rate in the period (in EUR)	61.50	20.20	-67.2%
Maximum close rate in the period (in EUR)	68.00	29.00	-57.4%
Average close rate in the period (in EUR)	65.83	24.31	-63.1%
Earnings per share (in EUR)	2.03	3.14	54.87%

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

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

Dividend policy

In 2017, the company Poslovni sistem Mercator d. d., generated a net loss, therefore no dividend payment for 2018 is planned.

Treasury shares

As at March 31, 2018, the company Poslovni sistem Mercator d.d., held 42,192 treasury shares. In the period 1–3, 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 1–3, 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 1–3, 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	Mercator Group		Poslovni sistem Mercator d.d.	
	March 31, 2018	Dec. 31, 2017	March 31, 2018	Dec. 31, 2017
ASSETS				
Non-current assets				
Property, plant and equipment	1,150,302	1,159,237	729,762	736,152
Investment property	244,601	244,316	4,838	4,838
Intangible assets	20,321	20,632	12,297	12,573
Deferred tax assets	41,768	42,920	39,028	40,184
Loans/deposits given	27,457	24,491	101,932	99,641
Available-for-sale financial assets	386	391	259	259
Capital investments in Group companies	-	-	190,798	190,798
	1,484,835	1,491,988	1,078,914	1,084,445
Current assets				
Assets held for sale	117,282	117,146	95,203	95,203
Inventories	205,702	210,233	106,050	104,950
Trade and other receivables	172,182	228,168	72,762	71,239
Current tax assets	214	244	0	0
Loans/deposits given	3,403	4,833	27,180	27,180
Cash and cash equivalents	14,986	24,112	7,471	11,635
	513,769	584,736	308,666	310,208
Total assets	1,998,603	2,076,723	1,387,580	1,394,652
EQUITY				
Share capital	254,175	254,175	254,175	254,175
Share premium	6,381	207,523	6,381	207,523
Treasury shares	-3,235	-3,235	-3,235	-3,235
Revenue reserves	42,830	42,830	16,624	16,624
Fair value reserve	204,152	200,181	149,214	149,214
Retained net profit or loss	61,959	45,102	0	2,584
Net profit/loss for the period	1,859	-184,284	4,754	-203,726
Currency translation reserve	-83,000	-84,029		
Equity attributable to the controlling company owners	485,120	478,261		
Non-controlling interests	140	140		
Equity	485,260	478,401	427,913	423,159
LIABILITIES				
Non-current liabilities				
Trade and other payables	7,212	7,174	1,012	1,012
Loans received and other financial liabilities	727,554	765,309	527,860	539,291
Deferred tax liabilities	51,553	51,534	40,684	40,684
Provisions	29,370	29,683	25,179	25,377
	815,690	853,701	594,736	606,365
Current liabilities				
Trade and other payables	594,307	626,963	301,577	303,621
Current tax liabilities	965	1,268	0	0
Loans received and other financial liabilities	102,381	116,391	63,354	61,507
	697,653	744,622	364,931	365,128
Total liabilities	1,513,343	1,598,322	959,667	971,493
Total equity and liabilities	1,998,603	2,076,723	1,387,580	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.	
	1–3, 2018	1–3, 2017 restated *	1–3, 2018	1–3, 2017 restated *
Sales revenue	515,756	509,324	280,436	283,880
Cost of goods sold and selling costs	(495,936)	(495,487)	(263,534)	(271,164)
Administrative expenses	(17,304)	(17,454)	(7,993)	(8,239)
Impairment of property, plant and equipment and intangible assets	-	-	-	-
Other operating revenue	6,620	3,448	1,276	2,148
Results from operating activities	9,135	(169)	10,185	6,625
Finance revenue	2,650	3,993	5,706	1,324
Finance expenses	(8,690)	(7,837)	(9,981)	(4,330)
Net finance expense	(6,041)	(3,844)	(4,275)	(3,006)
Profit or loss before tax	3,095	(4,013)	5,910	3,619
Tax	(1,229)	(912)	(1,156)	(828)
Net profit/loss for the period	1,866	(4,925)	4,754	2,791
Net profit/loss for the period attributable to:				
Owners of the controlling company	2,017	(4,931)		
Non-controlling interests	(151)	6		

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

- ▶ Mercator Group and the company Poslovni sistem Mercator d.d. record or report consignment for the period 1–3, 2018, according to net method, and they adjusted the report according to the gross method for the preceding period.
- ▶ At the end of 2017, Mercator Group and the company Poslovni sistem Mercator d.d. changed their accounting policies for discounts and allowances. Before, these were included in sales revenue; after the change of the accounting policy, they are now subtracted from the cost of goods sold. The change is also presented for the period 1–3, 2017.

The reason for the change is a truer and more accurate presentation of performance indicators in the retail industry, and it is consistent with the best practices in the market of the European Union. Thus, it affords users of financial statements more comparable information.

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>	
	1-3, 2018	1-3, 2017 restated	1-3, 2018	1-3, 2017 restated
Net profit/loss for the period	1,866	(4,925)	4,754	2,791
Other comprehensive income:				
Items subsequently not reclassified to profit or loss	(7)	-	-	39
Other changes	(7)	-	-	-
Deferred tax for items subsequently not reclassified to profit or loss	-	-	-	39
Items that may be reclassified subsequently to profit or loss	1,029	(228)	-	-
Foreign currency translation differences	1,029	22	-	-
Deferred tax for items that may be reclassified subsequently to profit or loss	-	(250)	-	-
Other comprehensive income for the period	1,022	(228)	-	39
Total comprehensive income for the period	2,888	(5,152)	4,754	2,830
Total comprehensive income for the period attributable to:				
Owners of the controlling company	2,888	(5,160)		
Non-controlling interests	0	8		

Consolidated Statement of Changes in Equity of the Mercator Group

Mercator Group

in EUR thousand

	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/ loss for the period	Currency translation reserve	Total equity attributable to owners of the parent company	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							(4,931)		(4,931)	6	(4,925)
Other comprehensive income	-	-	-	-	(133)	(117)	-	21	(229)	2	(228)
Total comprehensive income for the period	-	-	-	-	(133)	(117)	(4,931)	21	(5,160)	8	(5,152)
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit for the previous year to retained earnings	-	-	-	-	-	6,787	72,463	-	79,250	-	79,250
Distribution of profit pursuant to the Management Board decision		(79,249)	-	-	-	-	-	-	(79,249)	-	(79,249)
Total transactions with owners	-	(79,249)	-	-	-	6,787	72,463	-	1	-	1
Balance as at March 31, 2017 restated	254,175	207,523	(3,235)	41,686	104,408	44,183	(4,930)	(91,699)	552,111	114	552,225

in EUR thousand

	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/ loss for the period	Currency translation reserve	Total equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as at January 1, 2018	254,175	207,523	(3,235)	42,830	200,181	45,101	(184,284)	(84,029)	478,261	140	478,400
Total comprehensive income for the period											
Profit (loss) for the period	-	-	-	-	-	-	1,859	-	1,859	6	1,866
Other comprehensive income	-	-	-	-	-	-	-	1,028	1,028	(6)	1,022
Total comprehensive income for the period	-	-	-	-	-	-	1,859	1,028	2,888	-	2,888
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit for the previous year to retained earnings	-	-	-	-	-	19,442	(19,442)	-	-	-	-
Distribution of profit pursuant to the Management Board decision	-	(201,141)	-	-	3,971	(2,584)	203,726	-	3,972	-	3,972
Total transactions with owners	-	(201,141)	-	-	3,971	16,857	184,285	-	3,972	-	3,972
Balance as at March 31, 2018	254,175	6,381	(3,235)	42,830	204,152	61,959	1,860	(83,000)	485,120	140	485,260

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

Poslovni sistem Mercator d. d.

in EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/ loss for the period	Total equity
Balance as at January 1, 2017	254,175	286,772	(3,235)	16,624	76,196	(1,802)	(77,447)	551,283
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	2,791	2,791
Other comprehensive income	-	-	-	-	(133)	172	-	39
Total comprehensive income for the period	-	-	-	-	(133)	172	2,791	2,830
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
Distribution of profit pursuant to the Management Board decision	-	(79,249)	-	-	-	-	-	(79,249)
Total transactions with owners	-	(79,249)	-	-	-	1,802	77,447	-
Balance as at March 31, 2017 restated	254,175	207,523	(3,235)	16,624	76,063	172	2,791	554,113

in EUR thousand	Share capital	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit/ loss for the period	Total equity
Balance as at January 1, 2018	254,175	207,523	(3,235)	16,624	149,214	2,584	(203,726)	423,159
Total comprehensive income for the period								
Profit (loss) for the period	-	-	-	-	-	-	4,754	4,754
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	4,754	4,754
Transactions with owners directly recognized in equity								
Contributions by and distributions to owners								
Distribution of profit 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 March 31, 2018	254,175	6,381	(3,235)	16,624	149,214	-	4,754	427,913

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>	
	1–3, 2018	1–3, 2017 restated	1–3, 2018	1–3, 2017 restated
Cash flows from operating activities				
Gross cash flows from operating activities	21,820	17,490	18,255	14,310
Change in inventories	4,531	16,052	(1,100)	9,196
Change in trade and other receivables	14,590	9,019	(1,523)	749
Change in trade and other payables, and provisions	(29,229)	(38,924)	(2,263)	(25,731)
	11,712	3,636	13,369	(1,476)
Net foreign exchange gains from financing activities	2,457	-	8	-
Interest expenses	(8,042)	(7,470)	(5,170)	(3,961)
Cash from (used in) operating activities	6,127	(3,834)	8,208	(5,437)
Cash flows from investing activities				
Acquisition of property, plant and equipment, investment property and intangible assets	(7,202)	(13,405)	(2,209)	(3,721)
Acquisition of available-for-sale financial assets	-	-	-	(4,363)
Proceeds from sale of property, plant and equipment, investment property and intangible assets	45,739	10,392	825	2,139
Net other financial revenue (expenses)	(603)	-	(354)	-
Interest income	148	210	1,241	1,232
Loans and deposits made/ received	(1,536)	-	(2,291)	-
Cash from (used in) investing activities	36,546	(2,803)	(2,788)	(4,713)
Cash flows from financing activities				
Proceeds (repayment) in borrowings	(51,765)	(9,107)	(9,584)	3,867
Cash from (used in) financing activities	(51,765)	(9,107)	(9,584)	3,867
Net increase (decrease) in cash and cash equivalents	(9,092)	(15,744)	(4,165)	(6,283)
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	(34)	14		
Cash and cash equivalents at end of the period	14,986	10,588	7,471	7,061

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.

Sales revenue

In the period 1–3, 2018, Mercator Group generated EUR 515.8 million of net revenue, which is 1.3% more than in the corresponding 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.

In the period 1–3, 2018, the company Poslovni sistem Mercator d.d., generated EUR 280,436 thousand of revenue, which is 1.2% less than in the period 1–3, 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.

Cost of goods sold and selling costs

Mercator Group costs of sales, which include the cost of goods sold, production costs, selling costs, and other expenses, amounted to EUR 495,936 thousand in the period 1–3, 2018, which is on a par with the comparable period of last year.

Cost of goods sold and selling costs of the company Poslovni sistem Mercator d.d., which include the cost of goods sold, selling costs, and other expenses, amounted to EUR 263,534 thousand in the period 1–3, 2018, which is a 2.8% decrease on the comparable period of last year.

Administrative expenses

Mercator Group's administrative expenses in the period 1–3, 2018, amounted to EUR 17,304 thousand, which is 0.9% less than in the comparable period last year.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–3, 2018, amounted to EUR 7,993 thousand, which is 3.0% less than in the comparable period last year.

Total expenses by natural categories amounted to EUR 148,226 thousand in the period 1–3, 2018, for the Group, which is roughly the same as in the comparable period of last year.

Total costs by natural categories in the period 1–3, 2018, rose by 1.9% for the company Poslovni sistem Mercator d.d., to EUR 81,476 thousand.

Results from operating activities

In the period 1–3, 2018, Mercator Group's results from operating activities reached EUR 9,135 thousand, which is EUR 9,304 thousand more than in the comparable period of last year.

In the period 1–3 2018, results from operating activities of the company Poslovni sistem Mercator d.d. reached EUR 10,185 thousand, which is 53.7% more than in the comparable period of last year.

MERCATOR GROUP**POSLOVNI SISTEM MERCATOR D.D.****Net finance expenses**

Mercator Group net finance expenses in the period 1–3, 2018, amounted to EUR 6,041 thousand; in the comparable period of the preceding year it was at EUR 3,844 thousand.

Net finance expenses of the company Poslovni sistem Mercator d.d. in the period 1–3, 2018, amounted to EUR 4,275 thousand; in the comparable period last year, they amounted to EUR 3,006 thousand.

Profit before income tax

In the period 1–3, 2018, Mercator Group's results profit before income tax amounted to EUR 3,095 thousand, which is EUR 7,107 thousand more than in the comparable period of last year.

Profit before income tax for the company Poslovni sistem Mercator d.d. for the period 1–3, 2018, amounted to EUR 5,910 thousand, which is EUR 2,291 thousand more than in the comparable period of 2017.

Profit for the period

Mercator Group net profit (loss) for the period 1–3, 2018, amounts to EUR 1,866 thousand, which is EUR 6,790 thousand more than in the comparable period of last year.

Net profit of the company Poslovni sistem Mercator d.d. in the period 1–3, 2018, amounted to EUR 4,754 thousand, which is EUR 1,963 thousand more than in the comparable period last year.

EBITDA and EBITDAR

Mercator Group EBITDA in the period 1–3, 2018, amounted to EUR 25,811 thousand, which is 36.5% more than in the comparable period of last year.

EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–3, 2018, amounted to EUR 18,247 thousand, which is 16.1% more than in the comparable period of last year.

Mercator Group EBITDAR in the period 1–3, 2018, amounted to EUR 42,870 thousand, which is 14.8% more than in the comparable period of last year.

EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–3, 2018, amounted to EUR 20,625 thousand which is 13.9% more than in the comparable 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 March 31, 2018, amounted to EUR 1,998,603 thousand, which is EUR 78,120 thousand less than at the end of 2017.

Assets of the company Poslovni sistem Mercator d.d. as at March 31, 2018, amounted to EUR 1,387,580 thousand, which is EUR 7,072 thousand less than at the end of 2017.

As at March 31, 2018, the value of Mercator Group's non-current assets amounted to EUR 1,484,835 thousand, which is EUR 7,153 thousand less than as at December 31, 2017. Property, plant, and equipment represent the largest share of non-current assets at 95.3% (EUR 1,415,224 thousand), which is EUR 8,961 thousand less than at the end of 2017.

As at March 31, 2018, the value of the company's non-current assets amounted to EUR 1,078,914 thousand, which is EUR 5,531 thousand less than as at December 31, 2017. Property, plant, and equipment represent the largest share of non-current assets at 69.2% (EUR 746,898 thousand), which is EUR 6,665 thousand less than at the end of 2017.

As at March 31, 2018, the value of Mercator Group's current assets amounted to EUR 513,769 thousand, which is EUR 70,967 thousand less than as at the end of 2017. The largest share thereof includes inventories (40.0%) and trade and other receivables (33.5%).

As at March 31, 2018, the value of company current assets amounted to EUR 308,666 thousand, which is EUR 1,542 thousand less than at the end of 2017. The largest share of current assets includes inventories (34.4%) and assets available for sale (30.8%).

Equity and liabilities

As at March 31, 2018, Mercator Group share capital amounted to EUR 485,260 thousand, which is EUR 6,859 thousand more than as at the end of 2017.

Equity of the company Poslovni sistem Mercator d.d. as at March 31, 2018 amounts to EUR 427,913 thousand, which is an increase of EUR 4,754 thousand relative to the end of 2017, pertaining to net profit.

As at March 31, 2018, Mercator Group's total financial liabilities amounted to EUR 829,935 thousand, which is EUR 51,765 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 783,703 thousand as at March 31, 2018 (December 31, 2017: EUR 828,217 thousand). The share of long-term financial liabilities as at March 31, 2018, was at 87.7% (86.8% as at December 31, 2017).

As at March 31, 2018, total financial liabilities of the company amount to EUR 591,215 thousand, which means that the company has deleveraged by EUR 9,584 thousand compared to December 31, 2017.

As at March 31, 2018, Mercator Group's provisions amounted to EUR 29,370 thousand. Compared to the end of 2017, provisions have decreased by EUR 313 thousand.

As at March 31, 2018, the company's provisions amounted to EUR 25,179 thousand. Compared to the end of 2017, provisions have decreased by EUR 199 thousand.

Mercator Group's trade and other payables as at March 31, 2018, amounted to EUR 601,518 thousand, which is EUR 32,618 thousand less than at the end of 2017, due to decrease in current trade payables.

The company's trade and other payables as at March 31, 2018, amounted to EUR 302,589 thousand, which is EUR 2,044 thousand less than at the end of 2017.

As at March 31, 2018, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 87.6%, which is 1.7 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 March 31, 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, May 14, 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