



**BUSINESS REPORT OF THE MERCATOR GROUP
AND THE COMPANY POSLOVNI SISTEM
MERCATOR D.D. FOR THE PERIOD 1–6, 2019**



Mercator
moj najboljši sosed

TABLE OF CONTENTS

• EXECUTIVE SUMMARY	1
INTRODUCTION.....	2
• PROFILE AND ORGANIZATION	2
• BUSINESS STRATEGY	4
• PERFORMANCE HIGHLIGHTS	6
• REVIEW OF KEY EVENTS	7
BUSINESS REPORT.....	9
• EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON OPERATIONS.....	9
• SALES.....	10
• SALES FORMATS.....	10
• CATEGORY MANAGEMENT	11
• MARKETING	12
• SALES NETWORK.....	16
• RISK MANAGEMENT	17
• EMPLOYEES	19
• FINANCIAL MANAGEMENT.....	22
• MERCATOR SHARE AND INVESTOR RELATIONS	24
FINANCIAL REPORT	27
• ACCOUNTING POLICIES	27
• CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND THE COMPANY POSLOVNI SISTEM MERCATOR D.D.....	27
• NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP AND FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR D.D.....	34
• MANAGEMENT RESPONSIBILITY STATEMENT	38

EXECUTIVE SUMMARY

Mercator Group's sales revenue grew by 0.4% in the first half of 2019 and amounted to EUR 1,060,809 thousand. The company Poslovni sistem Mercator d.d., as the Mercator Group's most important company, saw its revenue increase by 4.1%, and in the period 1–6, 2019, amounted to EUR 598,023 thousand, while its retail revenue grew by 3.0%, and amounted to EUR 442,489 thousand.

In the first half of 2019, Mercator Group EBITDA¹ increased by 72.7%, and in the period 1–6, 2019, amounted to EUR 83,039 thousand, while results from operating activities (EBIT)¹ grew by 76.7%, and totaled EUR 29,909 thousand in the period 1–6, 2019. Mercator Group wrapped up the period with 58.4% net profit growth, which in the period 1–6, 2019 amounted to EUR 2,358 thousand. The company Poslovni sistem Mercator d.d. saw its net profit increase by 19.5% or EUR 1,806 thousand, relative to the equivalent period of the year before.

In the first six months of 2019, Mercator Group was highly successful in its further pursuit of the goals laid down in its business strategy, as well as in its financial and business restructuring. At the same time, it accomplished its key goals regarding deleveraging, and considerably improved the maturity profile of its financial liabilities. Compared to the equivalent period of the year before, net financial debt as at June 30, 2019², was decreased by 19.0%. Compared to the same period last year, the net financial debt was cut by over EUR 152,419 thousand. The ratio between net financial debt and normalized EBITDA as at June 30, 2019, was 5.9², which means that it is nearly 28.3% lower than in the same period of last year.

Completion of the transaction for real estate monetization in Slovenia

On October 12, 2018, the company Poslovni sistem Mercator d.d. and Company Supernova signed an agreement on the sale of ten shopping centres in Slovenia. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator will take on long-term lease the parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities. Mercator Group will, consistently with its plan, continue to divest its non-operating assets and the project of monetizing its shopping centres in the markets of Slovenia, Croatia, Serbia, and Bosnia and Herzegovina.

Refinancing of Mercator Group's debt

In late May, Mercator Group companies and VTB Bank (Europe) SE signed the contract documentation for refinancing of the Mercator Group's super-senior facility. Refinanced super-senior facility, amounting to EUR 80 million, at considerably better terms, is an important part of the pursuit of Mercator's long-term strategy. Consistently with the contract, the transaction was conducted at the end of June 2019. Successful completion of super senior facility refinancing is proof that the confidence of banks into Mercator's stability and development opportunities are increasing significantly.

Events related to the developments at the Agrokor Group

As of April 1, 2019, the company Fortenova grupa d.d. commenced its operations, which was founded based on the implementation of the agreement between the Agrokor creditors, and with the intent of transferring to this new company the healthy core operations from the Agrokor Group system. This will also include Mercator that will be among the last companies to be transferred to the new company. Prerequisites for the company Poslovni sistem Mercator d.d. to be transferred to the newly founded Fortenova Group d.d. include approval by Mercator's creditor banks, approval by the relevant competition protection office, and successfully completed takeover bid for the shares of the company Poslovni sistem Mercator d.d.

¹ As of January 1, 2019, a new international accounting standard IFRS 16 entered into force.

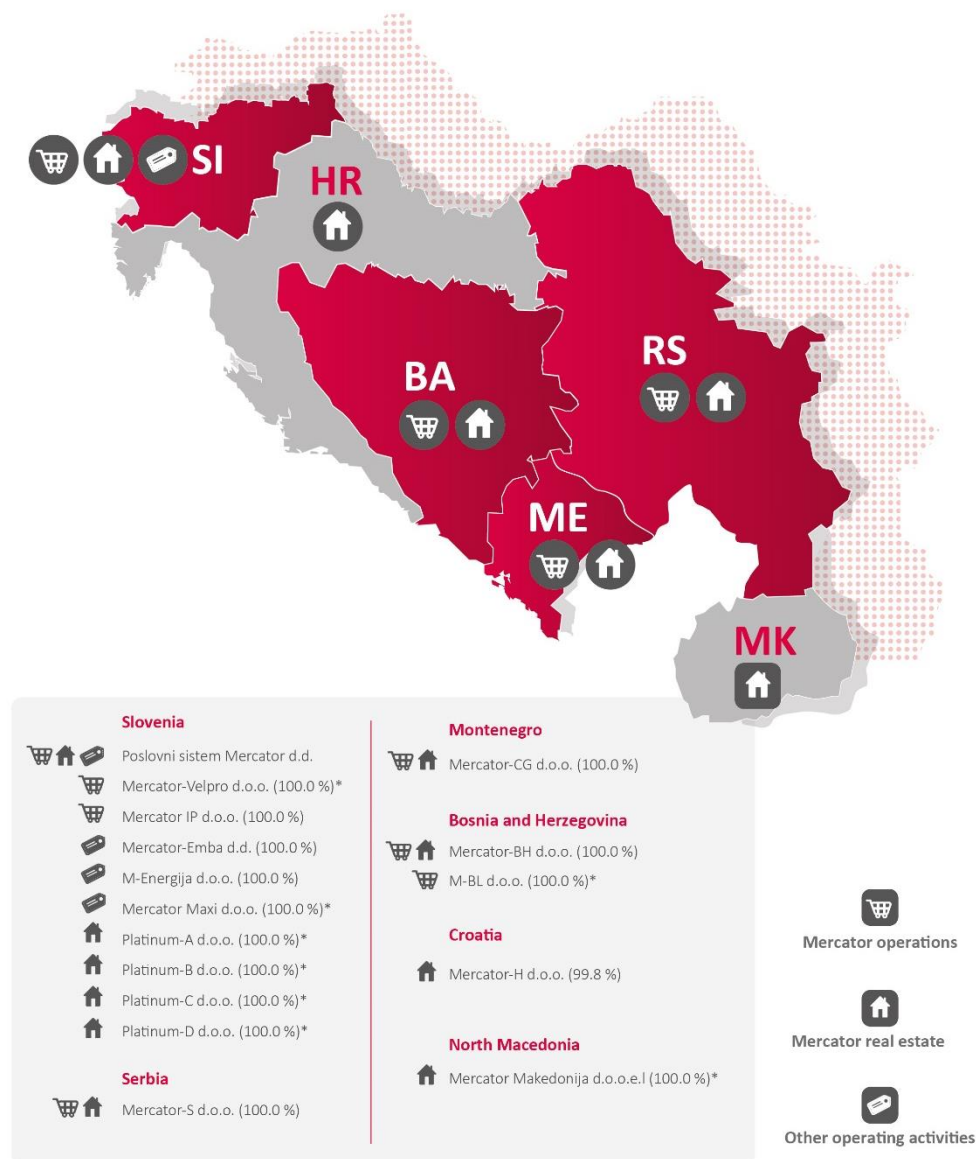
² Without IFRS 16 impact.

INTRODUCTION

PROFILE AND ORGANIZATION

Mercator Group Profile as at June 30, 2019

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



* The company does not conduct business operations.

Branch Offices

As at June 30, 2019, Mercator Group companies did not have any branch offices.

Other Organizations

The company Poslovni sistem Mercator d.d., is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees. The company Mercator–S d.o.o., is the founder of the Mercator Solidarity Foundation in Serbia, the company Mercator–CG d.o.o., is the founder of the Mercator Solidarity Foundation in Montenegro, and the company Mercator–BH d.o.o., is the founder of the Mercator Solidarity Foundation in Bosnia and Herzegovina. The purpose of all companies is to provide solidarity aid to the employees in social or economic distress.

Presentation of the company Poslovni sistem Mercator d.d.



Company name	Poslovni sistem Mercator d.d.
Company head office	Dunajska cesta 107, 1113 Ljubljana, Slovenia
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT tax code	45884595
LEI (Legal Entity Identifier)	549300X47J0FW574JN34
Company share capital as at June 30, 2019	EUR 254,175,051.39
Number of shares issued and paid-up as at June 30, 2019	6,090,943
Share listing	Ljubljanska borza d.d., official market, prime market, symbol MELR

Contact



Telephone + 386 1 560 10 00



Facebook www.facebook.com/mercator



E-mail info@mercator.si



Twitter www.twitter.com/mercator_sl



Website www.mercatorgroup.si



LinkedIn www.linkedin.com/company/335027



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



Youtube www.youtube.com/user/mercatorslo

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

In the period 1–6, 2019, the Supervisory Board of Poslovni sistem Mercator d.d. held three regular and two correspondence sessions.

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

At the **2nd correspondence session held on May 17, 2019**, the Supervisory Board of the company Poslovni sistem Mercator d.d. approved the signing of the documents with financial partners regarding the super senior facility restructuring.

At the **3rd correspondence session held on May 30, 2019**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the operations and performance of the Mercator Group and the company Poslovni sistem Mercator d.d. in the period 1–3, 2019.

At the **6th regular session held on April 25, 2019**, the Supervisory Board of the company Poslovni sistem Mercator d.d. adopted the Annual Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2018; approved the wording of the Supervisory Board's report on the 2018 Annual Report; received a presentation of the Independent Auditor's Report on the restricted statement of relations with affiliated companies pursuant to Article 545 of the Companies Act (ZGD-1) and Mercator Group Internal Audit Report for the year 2018; and approved the proposed resolutions and the agenda for the 26th regular Shareholders Assembly of the company Poslovni sistem Mercator d.d.

At the **1st regular session held on June 6, 2019**, the Supervisory Board of the company Poslovni sistem Mercator d.d. appointed the following 5 members to the Strategy and Finance Committee: Sergei Volk, Miodrag Borojević, Paul Michael Foley, Matej Lahovnik, and Ivica Mudrinić. Due to the resignation of Vladimir Bošnjak as a Supervisory Board member, and consequently as the Audit Committee chairman, the Supervisory Board appointed Miodrag Borojević as Audit Committee chairman. At the same session, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the performance of the Mercator Group and the company Poslovni sistem Mercator d.d. in the period 1–4 2019, and the Report on all Transactions Effected with the Majority Shareholder the Company Agrokor d.d. and the Companies Affiliated to it, in the Period from February 1, 2019, to April 30, 2019.

BUSINESS STRATEGY

VISION

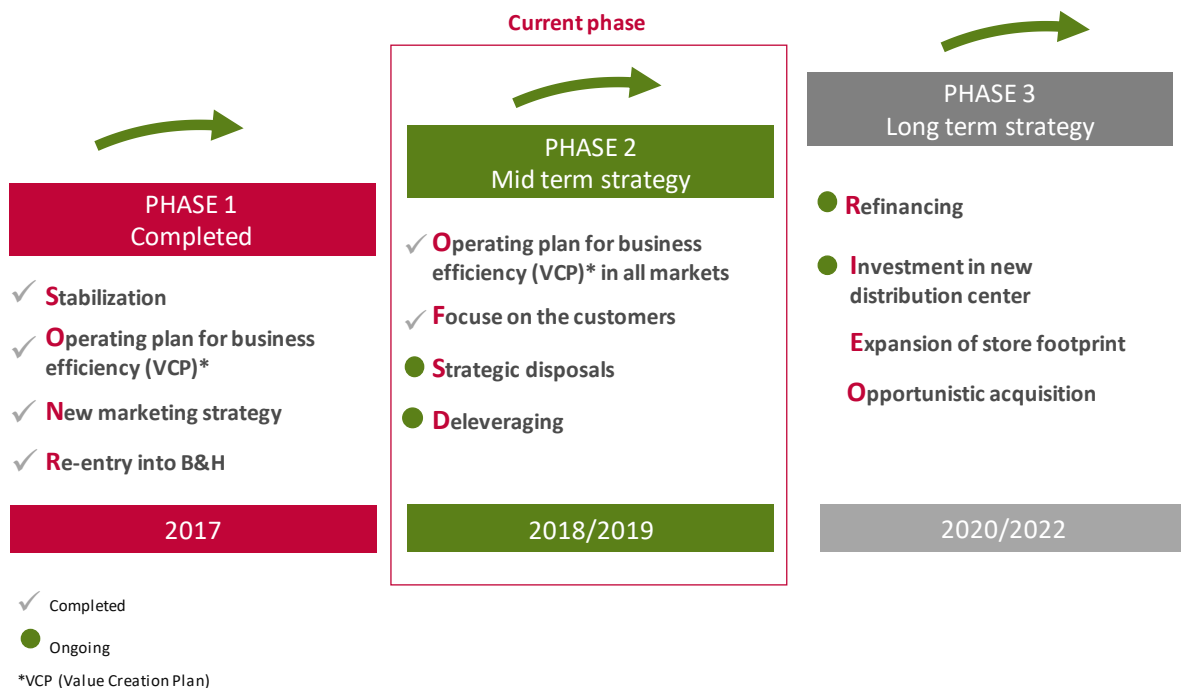
Mercator will be the best local retailer in every market of its operations.

MISSION

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

STRATEGY

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



Operating plan for business efficiency

The Value Creation Plan (VCP) is being executed in all markets of Mercator Group operations. In the first quarter of 2019, Value Creation Plan was devised and put into action for the current year. It includes 113 initiatives in all markets. There are 52 planned initiatives in Slovenia, 24 in Serbia, 20 in Bosnia and Herzegovina, 11 in Montenegro, and 6 in Croatia. Implementation of initiatives is monitored on a daily basis and we respond with corrective measures in case of any deviations. In the first half of the year, particular stress was put on the initiatives laid down for the market of Serbia.

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



PERFORMANCE HIGHLIGHTS

Group business	1–6, 2019	1–6, 2018	Change 1–6, 2019/ 1–6, 2018
INCOME STATEMENT (in EUR 000)			
Sales revenue	1,060,809	1,057,038	0,4%
Results from operating activities (EBIT) ¹	29,909	16,927	76.7%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) ¹	83,039	48,078	72.7%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) without the effect of IFRS 16	49,912	48,078	3.8%
Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR normalized)	84,006	82,210	2.2%
CASH FLOWS (x-times/ in %)			
Net financial debt / EBITDA normalized (without the effect of IFRS 16) ²	5.9x	8.3x	-28.3%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) / sales revenue ¹	7.8%	4.5%	3.3 p. p.
Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR normalized) / sales revenue	7.9%	7.8%	0.1 p. p.
STATEMENT OF FINANCIAL POSITION (in EUR 000)			
Total assets as at June 30	2,051,705	1,992,280	3.0%
Equity as at June 30	426,126	485,032	-12.1%
Net financial debt as at June 30 (without the effect of IFRS 16)	649,365	801,784	-19.0%
Net financial debt as at June 30 (with the effect of IFRS 16)	965,737	n.a.	-
OTHER INDICATORS			
Capital expenditure (in EUR 000)	9,713	13,713	-29.2%
Number of employees as at June 30	20,200	20,569	-1.8%

¹Data in the period 1–6, 2019 include implementation of the new IFRS 16 standard, while the data for the period 1–6, 2018 are shown without the impact of this standards, which entered into force on January 1, 2019. Mercator Group and the company Poslovni sistem Mercator d.d. decided to use the modified retrospective approach to application of the IFRS 16 (retroactive use with cumulative effect). Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach.

²Due to comparability of the indicator between the two periods, the calculation for the period of this year does not include new lease liabilities pertaining to the implementation of the IFRS 16 standard, which as at June 30, 2019 amounts to EUR 316.4 million. Normalized earnings before interest, tax, depreciation and amortization (EBITDA), used to calculate this indicator, is calculated based on EBITDA from the last 12 months of operations.

REVIEW OF KEY EVENTS

Retail network development and divestment activities:

In the period 1–6, 2019:

- we invested EUR 9,713 into property, plant, and equipment (CAPEX);
- we completed the divestment of ten shopping centres in Slovenia, as well as some other minor divestments, for total divestment proceeds of EUR 124,408 thousand, which pertains to divestment of property, plant and equipment;
- we added 10 new units, or 6,293m², of new gross retail area through operating lease in all markets of our operations.

Changes in parent company governance

As of June 5, 2019, Irena Weber and Vladimir Bošnjak resigned as Supervisory Board members. At the session held in May, members of the Works Council of the company Poslovni Sistem Mercator d.d. appointed **Veljko Tatić** as the new employee representative in the company Supervisory Board for a four-year term commencing on May 21, 2019, as the term of the previous Supervisory Board member Matjaž Grošelj was to expire on May 20, 2019. At the 26th regular Shareholders Assembly of the company Poslovni sistem Mercator d.d., held on June 5, 2019, **Miodrag Borojević** and **Paul Michael Foley** were appointed as Supervisory Board members for a four-year term starting on June 5, 2019. Thus, the nine-member Management Board of the company Poslovni sistem Mercator d.d. operates with the following composition: Sergei Volk, Miodrag Borojević, Paul Michael Foley, Fabris Peruško, Matej Lahovnik, Ivica Mudrinić, Vesna Stojanović, Jože Lavrenčič, and Veljko Tatić.

Real estate monetization

On October 12, 2018, the company Poslovni sistem Mercator d.d. and companies Supernova **signed an agreement on the sale of ten shopping centres in Slovenia**. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator will take on long-term lease the parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities. Mercator Group will continue to divest its non-operating assets and the project of monetizing its shopping centres in the markets of Slovenia, Croatia, Serbia, and Bosnia and Herzegovina, consistently with its plan.

Refinancing of Mercator Group's debt

In late May, Mercator Group companies and VTB Bank (Europe) SE signed the contract documentation for refinancing of the Mercator Group's super-senior facility. The new (refinanced) super-senior facility, amounting to EUR 80 million, at considerably better terms, is an important part of the pursuit of Mercator's long-term strategy. Consistently with the contract, the transaction was conducted at the end of June 2019. Successful completion of super senior facility refinancing is proof that the confidence of banks into Mercator's stability and development opportunities are increasing significantly. In the second half of 2019, Mercator Group started the process of refinancing its debt in Serbia in an amount of up to EUR 100 million.

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

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

Events related to the developments at the Agrokor Group

In March 2019, the seventh report by the extraordinary Management Board member, whose appointment was proposed by the government of the Republic of Slovenia, for the period from November 1, 2018, to January 31, 2019, was released. The report indicates that all transactions signed between the company Mercator d.d. and the company Agrokor d.d. and the companies affiliated with it, complied with the principles of diligence, good management and credibility, and that the company did not sustain any loss or damage with regard to such transactions.

As of April 1, 2019, the company **Fortenova grupa d.d.** commenced its operations. The company was founded

based on the implementation of the agreement between the Agrokor creditors, and with the intent of transferring to this new company the healthy core operations from the Agrokor Group system. This will also include Mercator that will be among the last companies to be transferred to the new company. Prerequisites for the company Poslovni sistem Mercator d.d. to be transferred to the newly founded Fortenova Group d.d. include approval by Mercator's creditor banks, approval by the relevant competition protection office, and successfully completed takeover bid for the shares of the company Poslovni sistem Mercator d.d.

Mercator's conference The Opportunities of the Future

In February, the second Mercator Group strategic conference **Opportunities of the future** took place in Ljubljana. The main purpose of the two-day conference was to present Mercator's position in the previous year and to present a development strategy. The first day of the conference was intended for the employees to whom the Management Board presented the key aspects of operations and plans for Mercator's successful future development; the second day was intended for suppliers and other major business partners. The supplier part of the conference included representatives of the key national and regional suppliers. Their active participation was a nod to the structural, business and financial changes that Mercator underwent in the last two years. The strategic conference Opportunities of the Future is becoming a central event of the year for Slovenia and the broader region. Its purpose is of course in-depth cooperation with Mercator as Slovenia's and the region's largest retailer, and creation of new business opportunities through cooperation between suppliers.

BUSINESS REPORT

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON OPERATIONS

In 2019, further moderate growth of gross domestic product in the amount of 3.7% is expected for **Slovenia**, with a stronger impact of domestic consumption. Private spending growth will accelerate somewhat as favourable conditions in the labour market persist; unemployment rate will continue to decrease. Higher growth of wages and social transfers, as well as sustained relatively high employment rate, will push the private spending growth upwards. Expected inflation rate for 2019 remains moderate at 2.2%³. In Slovenia, Mercator is present in 71% of all municipalities, ranking first in the market.

According to research conducted by the Statistical Office of the Republic of Slovenia, consumer confidence indicator improved at a monthly basis in June 2019 relative to the preceding month (by 2 percentage points). Consumer expectations improved in particular due to higher expectations regarding savings, and positive expectations regarding financial position of households, economic conditions in the country, and unemployment. However, consumers are more pessimistic at the annual level (decrease by 6 percentage points).⁴

For the market of **Serbia**, economic growth in 2019 is expected at 3.5%. Inflation rate reached 2.4% in February 2019. Average net wage increased by 4.1%. Unemployment rate remains the same (at 12%)⁵. Consumption is expected to increase as a result of higher income which in turn is a result of higher wages, pensions in the public sector, and increase in employment. Consumer confidence in Serbia has improved. Employment possibilities, financial security and willingness to spend had a positive impact in this respect. In the market of Serbia, retail units of Mercator–S d.o.o. are present in 52% of all municipalities, which ranks Mercator among the top retailers in the market.

In 2019, the economy of **Montenegro** (i.e. its GDP) is expected to grow by 2.8%. Expected inflation rate is 0.9%; expected unemployment rate at the annual level is 17%.⁶ Consumption is expected to increase due to the expected increase in minimum wage. In the market of Montenegro, company of Mercator–CG d.o.o. are present in 78% of all municipalities, which makes Mercator the market leader in this respect.

In the market of **Bosnia and Herzegovina**, GDP growth is expected at 2.9% in 2019. Unemployment rate remains high at 25.1%. Expected inflation rate for 2019 remains at 1.2%⁷. Retail network coverage by the company Mercator–BH d.o.o. in across the municipalities of Bosnia and Herzegovina is 20%. In the market of Bosnia and Herzegovina, retail units of Mercator–BH d.o.o. are present in 20% of all municipalities, which ranks Mercator among the top retailers in the market.

³ UMAR (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), Spring Forecast of Economic Trends, 2019

⁴ SURS (Statistical Office of the Republic of Slovenia), Consumer Survey, Slovenia, June 2019

⁵ Izvozno okno (Export Window), Statistical Indicators for the period 2020–2016, Review of Economic Trends, Serbia

⁶ Izvozno okno (Export Window), Statistical Indicators for the period 2020–2016, Review of Economic Trends, Montenegro

⁷ Izvozno okno (Export Window), Statistical Indicators for the period 2020–2016, Review of Economic Trends, Bosnia and Herzegovina

SALES

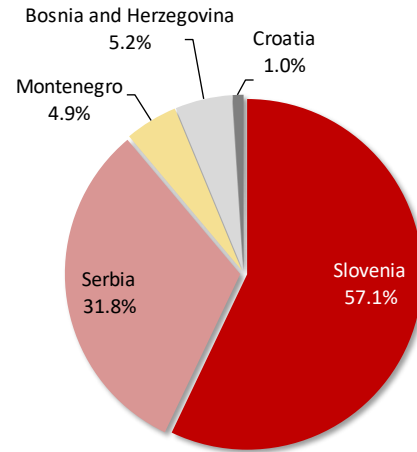
Slovenia and Serbia remain the most important markets of Mercator Group operations, as the Mercator Group serves over 270 thousand customers daily in each of them.

In the period 1–6, 2019, Mercator Group sales revenue amounted to EUR 1,060,809 thousand. Relative to the equivalent period of the preceding year, total sales revenue increased by 0.4%, while it remained comparably at a par with the last year's figure in retail. The positive trend of revenue increase is particularly pronounced in the second quarter and it is the result of successful implementation of the Value Creation Plan initiatives focusing on differentiation, and on highlighting and reliance on our key competitive advantages.

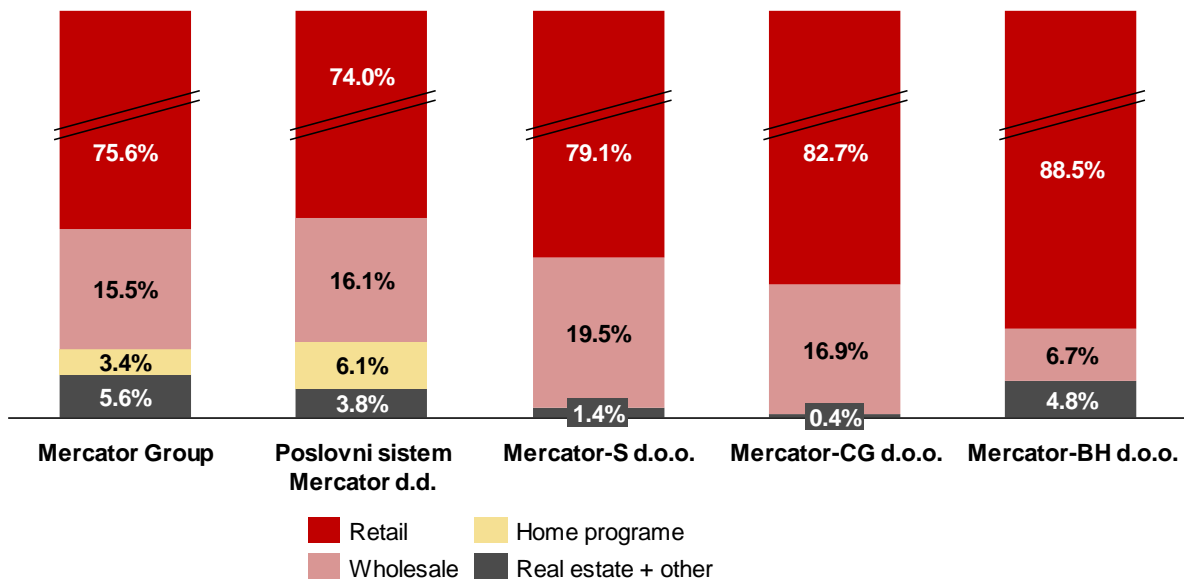
In the market of Slovenia, the company **Poslovni sistem Mercator d.d.** saw its revenue increase by 4.1% relative to the same period last year, while its retail revenue increased by 3.0%.

In the market of Serbia, Mercator Group generated 31.8% of total sales revenue in the period 1–6, 2019. Across the last 12 months, sales revenue amounted to EUR 699 million.

Mercator Group sales revenue by markets in the period 1–6, 2019:



Mercator Group sales revenue by programs and markets in the period 1–6, 2019:



SALES FORMATS

In 2019, particular stress is placed on cooperation of all markets where we are present with a variety of store formats. Shopping behaviour of our customers varies somewhat across our respective markets. Nevertheless, we can observe some similarities that we can rely on to improve our performance. Customers in all markets are willing to spend less and less of their time for shopping, they expect ever faster shift of retail into the digital world and the online environment, and they are increasingly demanding, informed and aware.

In 2019, we continue to invest intensively into refurbishment of the existing retail network; in addition, we are planning to construct some new facilities. In the period 1–6, 2019, **10 units were newly opened** in the markets

of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina, while **23** units saw refurbishments or layout updates. The refurbished Mercator stores afford customers a more pleasant shopping environment, while category structures and new services are adapted to the most recent trends.

"Minute" convenience stores

After the redesign of the Levstikov trg Market, Market Dunajska 107 was opened as the next **Minute Unit** in Slovenia. The units present a **new store concept of the Minute convenience store**. The focus is on **Grab&Go** offer that combines convenience, innovation, lifestyle, and healthy offer.



New supermarket concept in Slovenia

Among large store formats, the **supermarket Mengeš** was newly built this year, and the **supermarket Kisovec** was comprehensively refurbished. In addition to a large fresh fruit and vegetables department that includes a juicer, a bakery with a pizza oven, deserts, and a self-service bread roll department, the offer also includes a hot bar, delicatessen counter and a meat department. The unit includes both conventional check-out counters and the Tik-Tak self-check-out counters. Convenience is rounded off with the coffee-to-go offer.

Foreign markets

Refurbishments also took place in other markets where we are present with the Mercator, Roda, and Idea store formats.

In **Serbia**, a **major refurbishment** was conducted at the **IDEA Supermarket Južni Bulevar (South Boulevard)** unit. A delicatessen island was added, the fruit and vegetables department now has new equipment, and an info desk was added at the entrance to the store.



In the market of **Montenegro**, we opened **5 new IDEA units** and updated the **IDEA Market Kaća Makedonsko**. In the market of **Bosnia and Herzegovina**, we ensured appropriate positioning of respective categories at partially refurbished units, added service lines, and ensured labelling according to Mercator standards.

CATEGORY MANAGEMENT

In the period 1–6, 2019, we continued to **actively support domestic/local suppliers and promote homemade and local offer** at our retail units. Education of our employees and process standardization contributed to the **quality of service** at the point of sale. Our comprehensive offer was based on quality and introduction of established market trends, taking into account all new legislative guidelines.

Key category management activities at the Mercator Group level remain focused on the pursuit of the following key goals:

- provide and upgrade services at the point of sale, with key stress on our **fresh departments**;
- develop the **My Brands** project and expand the project to regional brands;
- provide appealing offer in sales promotion activities and place particular stress on promotion of activities related to the **customer loyalty program**;
- upgrade the portfolio of quality **private label lines** and provide the best value for money;
- introduce new varied items from the non-food segment, and manage in a quality and economical way our seasonal products and commodity market products;

- monitor competition's pricing for products of renowned brands and private labels, and ensure competitiveness;
- efficiently manage the retail area down to the level of each product.

MARKETING

In the period 1–6, 2019, we have continued our activities to support our business strategy that allows long-term stability and profitable growth.

Following are the three key pillars of our business model:

1. Retail activity is a local business. Mercator will be the best local retailer in every market if its operations.

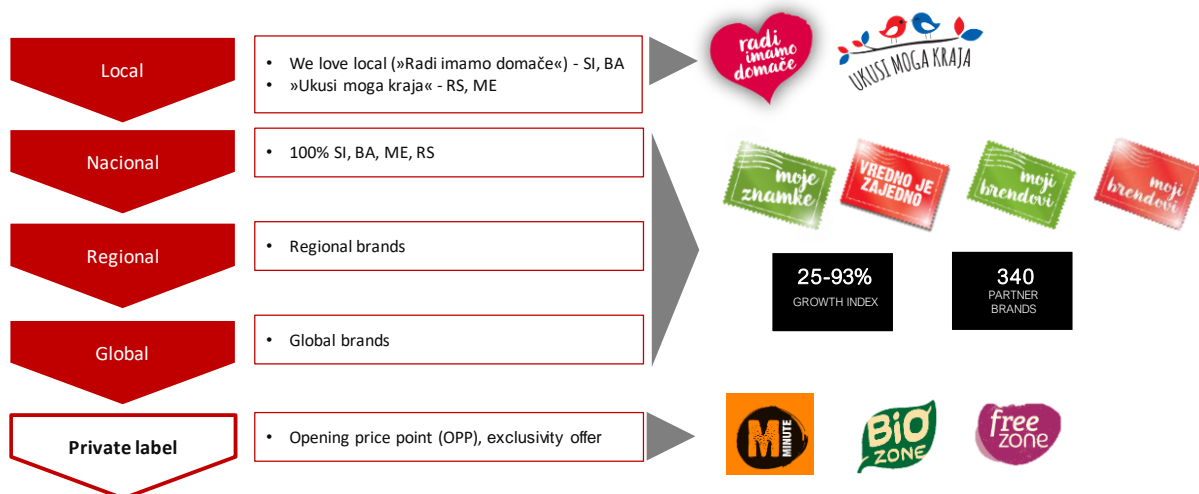
- Each year, we purchase over EUR 500 million worth of goods from Slovenian suppliers.
- Each year, we pay more than EUR 120 million in taxes, contributions, and other charges.
- We are the only retailer to actively take part in the Vegetable Chain (Association of Slovenian Vegetable Growers).
- In 2016, a strategic cooperation agreement was signed with the Cooperative Union of Slovenia.

In Slovenia alone,

- our assortment includes **26,000 Slovenian products**,
- **76% of private label products** sold in the fresh food categories (dairy products, delicatessen, bread etc.) are **Slovenian products**,
- we sell **100% Slovenian beef**,
- we purchase **ALL** available Slovenian pork in the market, Slovenian self-sufficiency rate for pork is **30%**; the share of Slovenian pork at Mercator is **over 50%**,
- **94%** of poultry offered is of **Slovenian origin**,
- we only source from elsewhere for special offer campaigns,
- **45 %** of all vegetable supply is of Slovenian origin; self-sufficiency with vegetables in Slovenia is **below 40%**.

2. Differentiation as a key comparative advantage:

a) *the broadest offer of local and regional brands,*



- b) *the best customer loyalty program,*
 c) *new store formats,*
 d) *innovation.*

3. Operational efficiency

IMAGE CAMPAIGNS AND PROJECTS IN THE PERIOD 1–6, 2019

We Love Local

Focus of the We Love Local project is on connecting and spreading the awareness that we are closer to each other than we may imagine. Therefore, we dedicated the month of June to a campaign that included a comprehensive communication campaign with the slogan **WE ARE CLOSER TO EACH OTHER THAN WE THINK**, a presentation catalogue, and over 300 product tasting or sampling events.



My Brands – commercial marketing platform supporting local and regional brands – continuation of the project launched in 2017



Slovenia: My brands – first wave – support to regional suppliers

In 2019, we continue our project My Brands. The first wave of the My Brands project had a regional flavour as we teamed up with suppliers Pik Vrbovec, Violeta, Jaffa, Clipsy and others. Customers were offered to take part in sweepstakes with a ten M Holidays vouchers worth EUR 1,000 as the main prizes.



My Brands and Slovenia's Little Chef – second wave – support to local and regional brands using the new TV show format

The TV show Slovenia's Little Chef that Mercator team co-created with the POP TV station, won the **2nd place in the international competition of TV shows organized by the media associations NATPE and CEETV**. The idea was to encourage children to learn practical skills for their lives, such as cooking and food preparation in general. The participating elementary school children showed great will, courage, dexterity, as well as a sense of mutual cooperation, winning sympathies of the viewers and over 120,000 votes by Mercator customers for allocating donations to different schools.



Magical Day

At the Magical Day at the Tivoli Park in Ljubljana, we prepared an activation event this year for families and children, themed around the Little Chef TV show. Children could take part in a number of workshops dedicated to cooking and healthy food, and participate in a real cook-off (cooking duel) as seen in the TV show.

Russian Fairy Tale – regional initiative to support Russian suppliers

The marketing project Russian Fairy Tale took place in Slovenia at hypermarkets Šiška, Rudnik, Šmartinska and in Maximarket, as well as in Banja Luka and Belgrade. The project with an overall 365-degree concept included offering novelties from the Russian offer at our stores, preparing complementary activities, and an advertisement campaign. At the same time, the project was kicked off in Bosnia and Herzegovina and in Serbia.



Private label with emphasis on quality and differentiation of offer in the market

Our activities related to our private label in 2019 were focused on three fields, consistently with the needs and the changing lifestyles of the consumers, which stress our **dedication to product quality**:

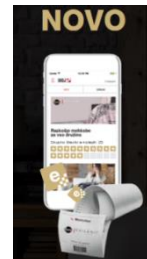
- We highlighted the updated and **quality Mercator products**: we launched two new lines of Mercator cheese and meat produce that received the top-quality label from the Faculty of Biotechnology.
- We developed and promoted the products from our **Minute convenience line**; we continued the **process of setting up our to-go offer**; we continued to develop new innovative products; we continued to introduce new Minute coffee to-go; we won the Innovation of the Year 2019 award for three products of the Minute line.

- At Easter, we offered a broad range of potica (festive bakery product) of our private label, and the new vegan potica.
- We developed and/or promoted products that offer a considerably **better choice for the customer, or "well-being" and "healthy living"** products, including campaigns highlighting the advantages of the **Bio Zone dairy products, new Gelatissimo ice cream, and functional drinks "O.K." with added vitamins and minerals.**
- **We also devoted our efforts to those who are gluten- and lactose-intolerant;** in this respect, we pooled the efforts of our private label with the efforts of other brands to offer our customers the broadest possible offer of products under the joint slogan "Gluten-Free, Lactose-Free, but Bringing a Lot of Joy".
- We also presented our award-winning deserts that are assessed each year at the Slovenian Chamber of Commerce and Industry.



New developments – digital stamps

The new feature of e-stamps (digital stamps, or stickers) on the Pika card and in the My M application started in 2018 with the Svilanit customer loyalty program. The advantages of the e-stamps are that they do not have to be actually attached to a paper form, the customer cannot lose or misplace them, and they can be redeemed at any time at the cash register. The number of e-stamps collected can be checked at any time at the cash register and in the customer's account.



Pika customer loyalty program

Number of card holders in the period 1–6, 2019



Early this year, we migrated to a new Pika processing platform in **Slovenia**, which allows more flexibility of functionalities and process optimization. Thus, the first half of the year was intended for stabilization of the Pika business processes, in addition to regular Pika activities. At the same time, we continue to digitalize the Pika processes by introducing a virtual account for use with the M Pay service within the Moj M ("My M") application.



Segmentation

In addition to regular activities intended for all Pika card holders, we also provide offer adjusted to selected segments of customers. Thus, we prevent a decline in sales, reward the best customers, and conduct pilot tests for the most effective activation mechanisms.

Campaign to celebrate Mercator's 70th anniversary in Slovenia

In early March, Mercator celebrated 70 years since the founding of the Mercator retail company in Slovenia. For this occasion, we devised a communication campaign that traces the "best neighbour's" presence in everyday life.



We Like doing Good Deeds

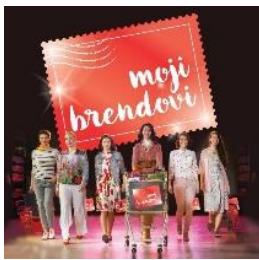
This year, Mercator's donation project We Like doing Good Deeds is in its fourth instalment. This year's slogan is "NEIGHBOURS, COME TOGETHER!". The project involved 70 retail units across Slovenia. We supported a total of 210 societies in this year.

Other markets

In the market of **Serbia**, the campaign Super Plus Card took place in April in cooperation with Sberbank. The goal of the campaign was to present a new card that allows the customers to pay interest-free in up to 12 instalments at all IDEA, Roda and Mercator stores.

Serbia: Project "Vredno je zajedno"

In this year, we continued our "Vredno je zajedno" project ("Better Together"). To date, we have prepared five waves that included over 60 suppliers. The biggest growth was recorded in non-alcoholic drinks. Sweepstakes were also organized at Idea and Mercator stores.



Montenegro: My Brands

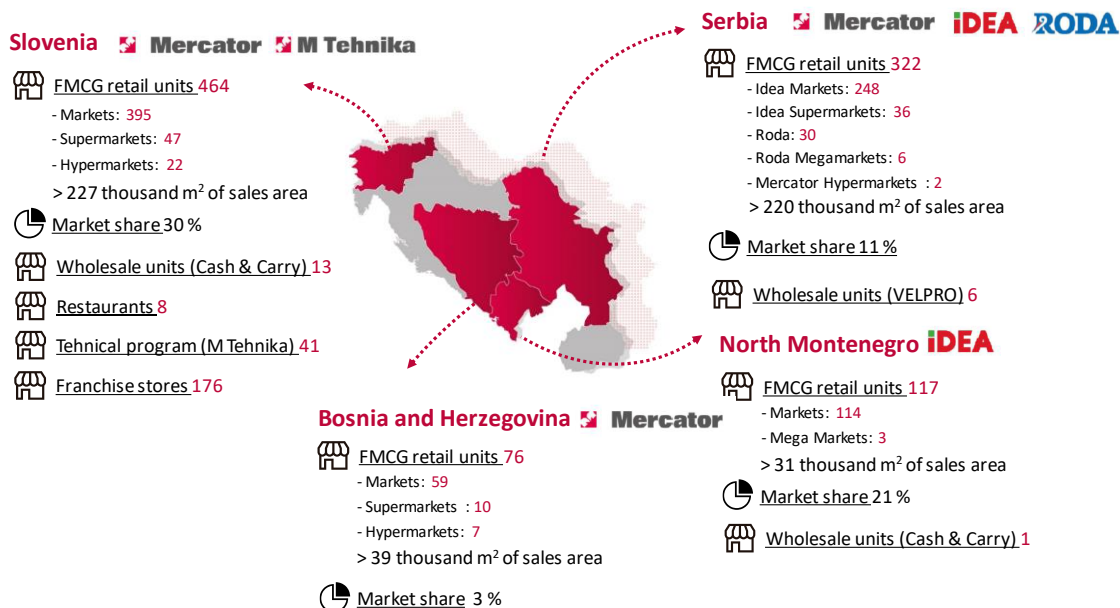
The project was launched in late November 2018, with over 150 brands and more than 600 products taking part in its first part.

Bosnia and Herzegovina: My Brands, our Values

In the third wave of the "My Brands, our Values" campaign, the already known brands were joined by the brands and products like Saponia softener XXL, Ždrepcéva krv wine, Čipi Čips by Franck, Sarajevsko beer, and others.

SALES NETWORK

Composition of units by store formats as at June 30, 2019, and market share⁸



GROUP MERCATOR

	Gross sales area (in m ²)	Net sales area (in m ²)
FMCG retail units 979	809,838	519,068
Wholesale units (Cash & Carry/VELPRO) 20	56,705	34,090
Restaurants 8	2,070	1,379
Tehnika consumers goods 41	61,720	36,571
Total units under management 1.048	930,333	591,108
Franchise stores 176	37,278	24,521
TOTAL 1.224	967,612	615,629

Investment and divestment

In the period 1–6, 2019, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 9.7 million. Of the total investment amount, 66.0% was used for investments in Slovenia and 34.0% was used for investments in international markets.

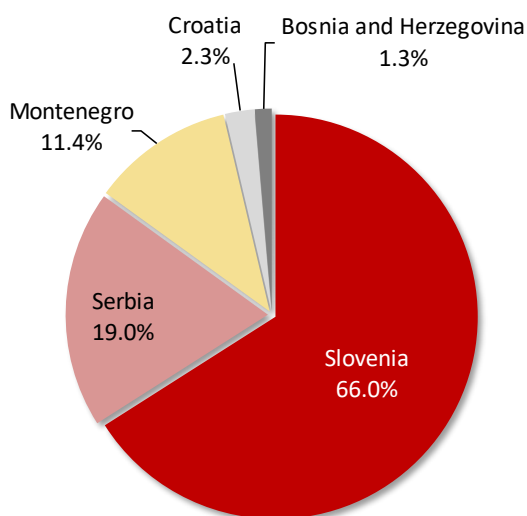
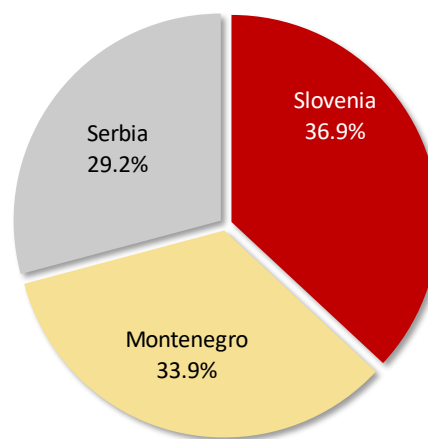
	Capital expenditure in the period 1–6, 2019 (in EUR 000)	Structure (in %)
Slovenia	6,415	66.0%
Serbia	1,845	19.0%
Montenegro	1,095	11.4%
Croatia	227	2.3%
Bosnia and Herzegovina	131	1.3%
TOTAL	9,713	100.0%

Investment into refurbishment and updates of existing units accounted for 52.0% of total investments; IT investments accounted for 19.4%; expansion of new retail units represented 12.8%; investments into distribution centres accounted for 6.0%; and the remaining 9.8% was invested in non-trade activities.

In the period 1–6, 2019, Mercator Group newly acquired 6,293 square meters of gross store area. All new gross area was acquired by operating lease.

⁸ Sources for the market shares: Valicon, market share measurement with a survey (market share for the second quarter of 2019 for the market of Slovenia); GfK (market share for Q4, 2018, for the market of Serbia); internal sources (market share for 2018 for the markets of Montenegro and Bosnia and Herzegovina).

In the period 1–6, 2019, Mercator Group divested property, plant, and equipment worth EUR 124.4 million, of which EUR 124.1 million pertains to the divestment of property (real estate) and EUR 0.3 million pertains to plant and equipment.

Share of investments by markets:**Share of newly launched facilities by markets:****Summary of total gross retail area as at June 30, 2019:**

	Gross area in square meters		
	Used for own operations	Leased out	TOTAL
Owned retail area	472,323	340,081	812,404
Leased retail area	458,010	158,334	616,344
Total retail area	930,333	498,415	1,428,748
Owned warehouse capacity	144,958	19,798	164,756
Leased warehouse capacity	55,964	10,508	66,472
Total warehouse capacity	200,922	30,306	231,228
Owned commercial facilities	18,486	3,467	21,953
Leased commercial facilities	7,318	646	7,964
Total commercial facilities	25,804	4,113	29,917
GROSS AREA UNDER MANAGEMENT	1,157,059	532,834	1,689,893
- of which owned	635,767	363,346	999,113
- of which leased	521,292	169,488	690,780

RISK MANAGEMENT

In the period 1–6, 2019, we were dedicated intensively to changing the methodology of identification and assessment of risks. Timely anticipation and identification of risks allows the leaders to adopt business decisions in a timely manner, and to select appropriate strategies and efficient tactics to attain the goals laid down.

The risk register includes 592 identified risks. We launched 418 measures and their implementation is monitored on a regular basis.

Following is a presentation of the risks that are key for the Mercator Group, and the activities carried out in the period 1–6, 2019, to mitigate them.

Key risk: Corporate governance risk

- **Risk pertaining to the operations of the Agrokor Group:** in the period 1–6, 2019, Mercator Group regularly kept track of public announcements and the balance of outstanding receivables payable by the companies of the Agrokor Group and the Fortenova grupa d.d. Pursuant to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (ZIČUDSP), the extraordinary Management Board Member Gregor Planteu was in charge of developing a Report on all transactions effected with the majority shareholder Agrokor d.d.
- **Correct definition and execution of strategy:** in the first half of 2019, Mercator Group pursued its newly devised three-stage long-term strategy, and the operational plan for efficient operations (Value Creation Plan). In all markets of Mercator's operations, the focus was on initiatives specified within the Value Creation Plan, whose key goal is to boost free cash flow.

Key risk: Risk of competitiveness and development of the offer of goods, services, and sales channels

- **Risk of a decline in market share resulting from new openings of our competitors:** in the period 1–6, 2019, market share and changes to the net retail area of Mercator and its competitors were monitored on a monthly basis.
- **Uncompetitive pricing:** in addition to regular monthly analyses of pricing perception and adjustments to regular and special campaign retail prices, we mitigated this risk by developing new private label lines under the Mercator brand.
- **Inadequate investment into sales channel development and misalignment between stores and customer expectations:** consistently with the planned adjustments of trends, we refurbished and opened new units in the period 1–6, 2019. We followed the strategies laid down for respective store formats, and we directed the activities towards arrangement of key departments like Grab&Go, organic ("Eko") food department.

Key risk: Financial risks

- **Liquidity:** in the first half of 2019, we monitored on a daily basis the actual cash flow, and coordinated the cash flows in a centralized manner at various levels of decision-making to make sure individual companies always had available an adequate amount of cash for repayment of their respective liabilities. We continued to optimize working capital management.
- **Sustainable financial structure:** as at June 30, 2019, Mercator Group's net financial debt was decreased considerably relative to the end of 2018, due to the successful completion of monetization in Slovenia.

Key risk: Operational risk in category management and procurement

- **Risks pertaining to seasonal effects:** in the period 1–6, 2019, we did not perceive any major seasonal effects, as these had mostly been neutralized by proper planning, ordering, and management of sales and clearance sale timing within our retail network.
- **Risks pertaining to increase of commodity prices:** in the first six months of 2019, we monitored the developments of commodity exchange prices for raw materials and products within the categories that are related to and subject to commodity exchange fluctuations. In the period 1–6, 2019, we saw inflation in the prices of raw materials that are traded on commodity exchanges; however, this did not notably affect our operations and performance.

Key risk: Operational risk in wholesale

Risk management activities in the period 1–6, 2019, were focused especially on agricultural equipment and franchise customers. We refurbished 16 franchise units.

Key risk: Operational risk in logistics

- **Providing the conditions of logistics infrastructure:** risk management in logistics was focused on providing appropriate conditions for safe operations and work within the existing logistics infrastructure (urgent maintenance and repairs). We regularly carried out all mandatory equipment, plant and building maintenance according to relevant legislation and regulations, and provided optimum logistics standards for delivery points.
- **Construction of a new logistics and distribution centre in Slovenia:** within the project of constructing the new distribution centre, we launched the process of selecting the technology, preparing the tender for technology suppliers, and selecting the architectural solution.

Key risk: Human resource risks

In the period 1–6, 2019, our key activities regarding human resource risks were focused on the following:

- preparing the project of revising the job systematization,
- further development of leadership and internal executive coaching,
- boosting the employer brand, also with presentation at career fairs and with cooperation with high schools and colleges,
- development of employees' competencies, training and education.

Key risk: IT risks

In the period 1–6, 2019, we conducted regular activities dedicated to security and safety of our information systems. We conducted regular quarterly and semi-annual maintenance works. Regular activities also included regular distributions of security updates and fixes on workstations and servers. Consistently with the global market, we upgraded and introduced even stricter user password policy for access to computers.

Key risk: Environmental risks**Risks of inefficient power consumption due to sub-optimal business processes and technologies employed**

In the period 1–6, 2019, our activities were focused on the following:

- continuing to inform the employees on a quarterly basis about the efficient use of energy;
- monthly monitoring of power consumption, with an upgrade to our existing energy accounting system;
- replacing outdoor lighting, updating the installation, and replacing the interior lighting with more energy-efficient light fixtures;
- replacing indoor lighting at select warehouses.

EMPLOYEES

Mercator Group's pledge

We are dedicated to attaining our business goals with competent, satisfied and motivated employees. In order to successfully accomplish these goals, the following starting points of our efforts are of key importance: focus on the customer, efficiency, agility, and expansion. As we are aware that the employees generate value added for Mercator, we pursue the following strategic human resource management guidelines:

- employee development,
- talent management,
- work performance and rewards,
- competencies.

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 or impeded at Mercator Group companies and that there is no child or forced labor at our companies.

A job at Mercator = a good job

- we are the largest employer in Slovenia, with over 9,000 employees;
- we offer security of employment with permanent employment contracts;
- we regularly pay out salaries and contributions; our annual leave allowance is higher than average in the retail industry;
- we have an incentive-based collective reward scheme in place, based on previously defined criteria;
- we organized 1,300 training and education courses each year – an average of 8 hours of training and education per employee;
- we identify the best salespeople and raise them to take over the key leadership activities.

Number of employees

by markets	Number of employees as at June 30, 2019	Number of employees as at December 31, 2018	Index number of employees June 30, 2019/ Dec. 31, 2018	Number of employees based on hours worked in the period 1–6, 2019
Slovenia	9,499	9,580	-0.8%	8,519
Serbia	7,969	8,096	-1.6%	7,542
Montenegro	1,508	1,424	5.9%	1,301
Croatia	36	37	-2.7%	36
Bosnia and Herzegovina	1,188	1,173	1.3%	1,122
TOTAL	20,200	20,310	-0.5%	18,520

Mercator Group's permanent and sustainable development activities

In the period at hand, Mercator Group devoted nearly 57,059 hours to **training and education** that involved 10,325 employees. In the second quarter in Slovenia, the **Mercator Humanitarian Foundation** provided aid to 83 employees of the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o. We paid out humanitarian aid in the total amount of EUR 49,408. In Serbia, the we provided aid in the amount of EUR 58,182 to 102 employees.

Human resource management activities at the company Poslovni sistem Mercator d.d.



Store managers are our key employees; there are over 460 at the parent company. Their continuous development is of utmost importance. Therefore, we re-launched our **Store Manager School** in May this year. The program includes 16 hours of training and education. The first day of school is dedicated to soft skills; the second day is focused on computer skills and knowledge of planograms and realograms. This year, the Store Manager School will include 12 groups with a total of 240 participants.

Cash register instructors took part in practical training in order to transfer their knowledge of work processes on the cash register and cash register operations. Retail appointed 30 employees who will offer support to employees in the role of trainers. In April, they attended a **practical workshop** in three groups, in order to freshen up the knowledge that they would transfer to their co-workers.

Group coaching means a new form of learning or transfer of knowledge that we also wish to present to other employees. At the meetings in June, hypermarket managers faced the challenges proposed by their management at group coaching sessions.



Human resource management activities at the company Mercator IP d.o.o.

Working with the Ljubljana Biotechnical Centre, we organized in March and April a **school of cooking skills**, lasting several days, for our employees from the delicatessen department.

We took part in the selection of **the most innovative food products of 2019**, organized by the Institute of Nutrition Science, and the **rating of pastry and bakery products** organized by the Chamber of Agricultural and Food Companies. Our products made at the Delicatessen plant in Naklo were also among award recipients.

For the **16th Symposium of Slovenian Milling, Bakery, and Pastry Industry**, we prepared a lecture titled Certified traditional novelty of the masters at Mercator IP d.o.o., for both omnivore and vegetarian/vegan consumers. We presented to the audience the history of the "potica" pastry, its varieties, occasions on which it is made, and the process of making it.

Human resource management activities at the company Mercator-S d.o.o.

The project **Last Day of School, First Day at Mercator** presents cooperation with secondary vocational schools whose best students sign their employment contracts on their graduation ceremony day. This year, 13 students signed their contracts.

At Mercator-S d.o.o., both **internal and external training and education courses** took place. Main internal training and education courses included Business for Non-Business and Situational Leadership, whose goal was to improve cooperation between sectors, make decision-making easier, and develop the ability to use a variety of management styles. External training and education courses included Retail Management Program, training in wholesale, and communication in trade and category management.

Human resource management activities at the company Mercator–BH d.o.o.

The company Mercator–BH d.o.o. won the **Most Popular Employer in Bosnia and Herzegovina** in 2019, which is recognition of the work done so far.



In order to improve internal communication and to ensure timely notification for all employees, we published internal electronic newsletter called "**Learn**" that deals with the currently relevant topics of a certain period. We have refreshed the website at www.mercator.ba. Now, it is also useful as an additional tool for hiring new candidates.

Human resource management activities at the company Mercator–CG d.o.o.

As a part of our Idea Retail Academy, we developed a **store manager development program**. The stress was on the importance of appropriate "onboarding" process and its effect on employee satisfaction, fluctuation, and productivity. We presented the importance of HACCP, quality control, methods of protection during work and work safety, and correct monitoring of turnover. We also informed the managers with the process and importance of the exit interview.

FINANCIAL MANAGEMENT

Stable Financial Operations

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

As at June 30, 2019, Mercator Group's net financial debt (not taking into account the new IFRS 16 Leases) amounted to EUR 649.4 million, which is 15.8% less than as the end of 2018, and 19.0% less than as at June 30, 2018. Decrease of non-current financial liabilities as at June 30, 2019, was also a result of the completion of transaction and payment of the acquisition price related to the monetization project in Slovenia in February 2019. In our estimate, adjusting for the IFRS 16 implementation, EBITDA normalized for the period 1–6, 2019, at the Mercator Group level would have amounted to EUR 49.9 million, which means that the comparable net financial debt to EBITDA ratio would have decreased from 7.2x as at the end of 2018 to 5.9x as at June 30, 2019. Adjusting for the new IFRS 16, financial debt of the company Poslovni sistem Mercator d.d. would have amounted to EUR 460.7 million, its net financial debt would be at EUR 445.4 million, and the net financial debt to EBITDA normalized ratio would be at 5.7x. Financial debt of the company Mercator–S d.o.o. as at June 30, 2019, would have been EUR 115.9 million, its net financial debt would have been at EUR 111.9 million, and its net financial debt to EBITDA normalized ratio would have been at 7.8x as at June 30, 2019.

in EUR 000	June 30, 2019	June 30, 2018	Dec. 31, 2018	Change June 30, 2019/ June 30, 2018	Change June 30, 2019/ Dec. 31, 2018
Non-current loans received and other financial liabilities	501,970	689,294	597,999	-27.2%	-16.1%
Current loans received and other financial liabilities	171,802	126,328	186,748	36.0%	-8.0%
Financial liabilities	673,773	815,622	784,746	-17.4%	-14.1%
Cash and cash equivalents	24,408	13,837	13,534	76.4%	80.3%
Net financial debt (without the effect of IFRS 16 Leases)	649,365	801,784	771,212	-19.0%	-15.8%
New liabilities related to the new standard IFRS 16 Leases					
Non-current lease liabilities	308,517	-	-	-	-
Current lease liabilities	7,855	-	-	-	-
Total liabilities related to the new IFRS 16 Leases	316,371	-	-	-	-
Net financial debt (with the effect of IFRS 16 Leases)	965,737	801,784	771,212	20.4%	25.2%

Financing costs

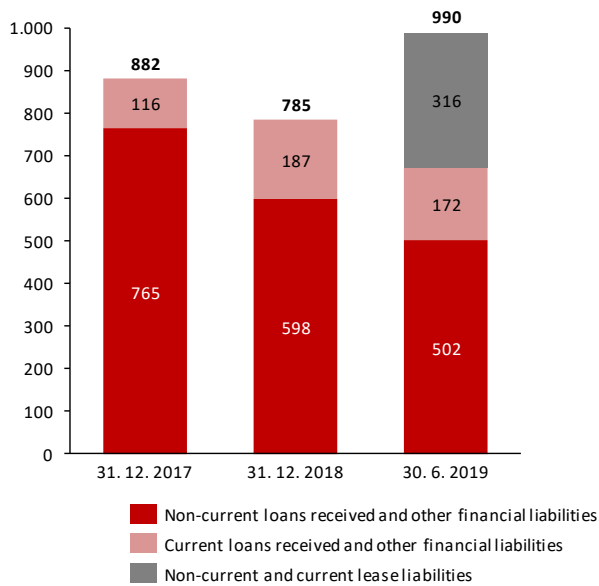
In the period 1–6, 2019, the 6-month EURIBOR averaged at -0.242%. At the end of the period, it was at -0.311%.

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 deposits in bank accounts.

Debt to equity and financial liability ratio

Financial liabilities (in EUR mn)



As at June 30, 2019, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:2.27. The ratio is a quotient between equity and net financial debt.

In recent years, Mercator Group considerably decreased its debt by carrying out the real estate monetization project in Slovenia and Serbia, and by regularly paying off its financial liabilities.

The share of long-term financial liabilities in total financial liabilities as at June 30, 2019, was at 81.9% (76.2% as at December 31, 2018); however, the increase in financial liabilities is the result of introduction of the new IFRS 16 that came into effect as of January 1, 2019. Within the effect of the IFRS 16, the indicator would have been at 74.5%.

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

Available liquidity lines as at June 30, 2019

As at June 30, 2019, Mercator Group had access to the following liquidity lines:

in EUR 000	June 30, 2019
Cash and cash equivalents	24,408
Standby revolving credit lines and current given deposits	29,642
Total	54,050

MERCATOR SHARE AND INVESTOR RELATIONS

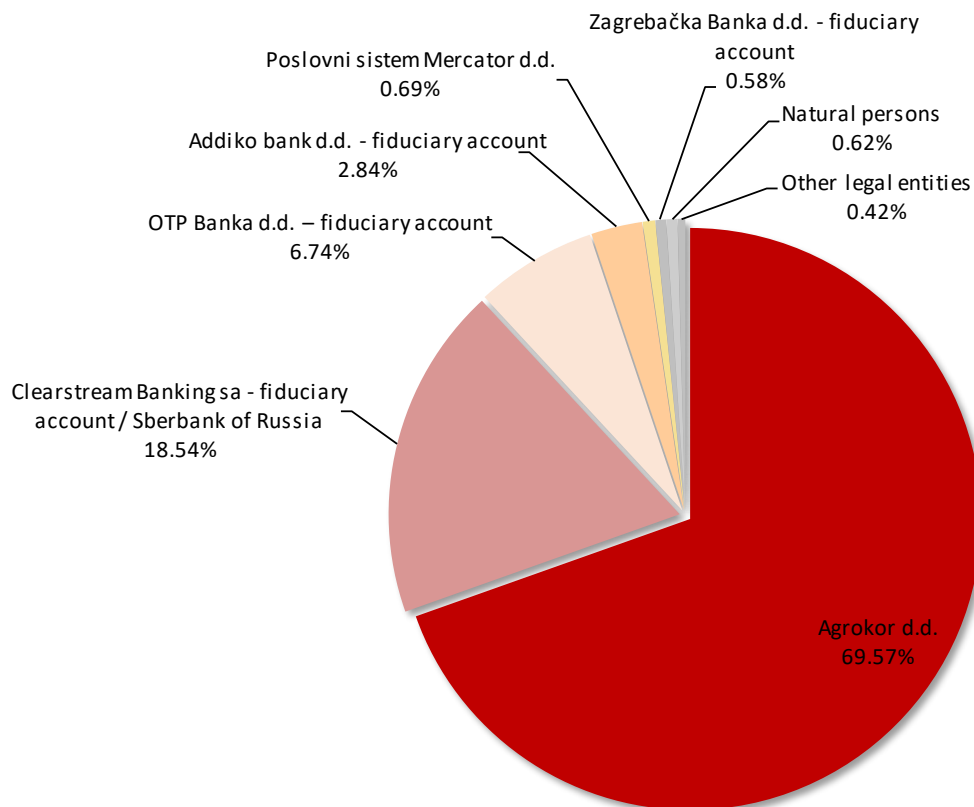
Share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator d.d. as at June 30, 2019:



Code/Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska Borza, d.d.
Nominal capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of own shares	42,192
Number of shareholders	1,598

Ownership structure of the company Poslovni sistem Mercator d.d. as at June 30, 2019:



Structure of company shareholders as at June 30, 2019

As at June 30, 2019, the four largest shareholders combined owned **97.69%** of the company.

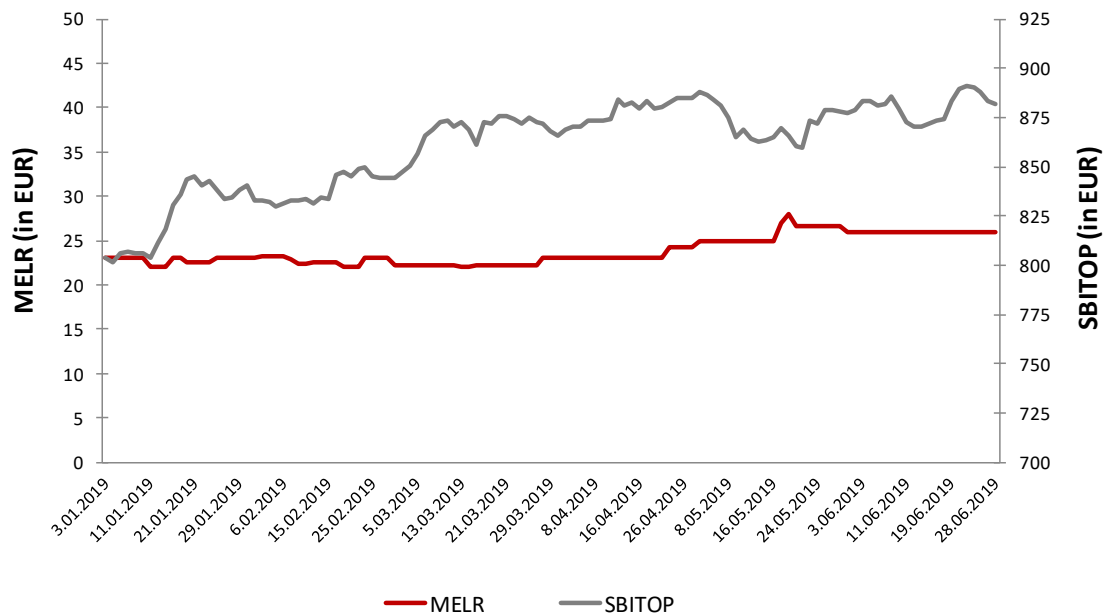
Shareholders	Country	Number of shares	Share
Agrokor d.d.	Croatia	4,237,376	69.57%
Clearstream Banking sa - fiduciary account / Sberbank of Russia	Luxembourg	1,129,058	18.54%
OTP Banka d.d. – fiduciary account	Croatia	410,339	6.74%
Addiko bank d.d. - fiduciary account	Croatia	172,755	2.84%
Other		141,415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

Shares held by Management and Supervisory Board Members as at June 30, 2019

Management Board and Supervisory Board Members of Poslovni sistem Mercator d.d. did not own shares of the company Poslovni sistem Mercator d.d. as at June 30, 2019.

Foreign shareholders

As at June 30, 2019, the share of international shareholders in the company Poslovni sistem Mercator d.d. was **98.67%**, and it decreased in comparison to December 31, 2018 by 0.01 percentage point.

Movement of closing price per MELR share in the period 1–6, 2019, compared to the movement of the SBITOP index

Key information for the shareholders

	June 30, 2019	June 30, 2018	Change June 30, 2019/ June 30, 2018
Number of shares registered in Court Register	6,090,943	6,090,943	0.0%
Number of own shares	42,192	42,192	0.0%
Market capitalization (in EUR)	158,365	168,110	-5.8%
Market value of share (in EUR)	26.0	27.6	-5.8%
Book value per share (in EUR)	70.1	71.6	-2.1%
Minimum close rate in the period (in EUR)	22.0	20.2	8.9%
Maximum close rate in the period (in EUR)	28.0	34.8	-19.5%
Average close rate in the period (in EUR)	23.8	25.5	-6.7%
Earnings per share (in EUR)	3.7	3.1	19.3%

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

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

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

Dividend policy

The company Poslovni sistem Mercator d.d., will not pay dividends in 2019.

Own shares

As at June 30, 2019, the company Poslovni sistem Mercator d.d. held 42,192 own shares. In the period 1–6, 2019, the company Poslovni sistem Mercator d. d, neither acquired nor disposed of own shares.

Investors

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

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

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–6, 2019, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

Transition to IFRS 16

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

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

Poslovni sistem Mercator d.d. is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Consolidated financial statements for the period 1–6, 2019, include the company Poslovni sistem Mercator d.d. and its subsidiaries (hereinafter jointly referred to as the "Mercator Group"), as follows:

- in Slovenia: Mercator–Emba d.d., Mercator IP d.o.o., M–Energija d.o.o.,
- abroad: Mercator–H d.o.o., Croatia; Mercator–S d.o.o., Serbia; Mercator–BH, d.o.o., Bosnia and Herzegovina; Mercator–CG d.o.o., Montenegro; Mercator Macedonia, d.o.o.e.l., North 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 000	Mercator Group		Poslovni sistem Mercator d.d.	
	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018
ASSETS				
Non-current assets				
Property, plant and equipment	973,709	1,074,997	644,397	654,982
Right of use assets	298,869	-	93,167	-
Investment property	243,359	242,890	4,427	4,498
Intangible assets	20,828	20,945	12,974	12,953
Deferred tax assets	35,287	38,528	32,090	35,339
Trade and other receivables	7,438	4,083	5,823	2,585
Loans/deposits given	3,370	18,976	17,033	2,103
Available-for-sale financial assets	393	393	261	261
Capital investments in Group companies	-	-	287,159	297,757
Total non-current assets	1,583,254	1,400,811	1,097,331	1,010,479
Current assets				
Assets held for sale	68,672	148,439	-	148,439
Inventories	204,713	210,319	107,473	103,752
Trade and other receivables	168,257	158,388	75,991	60,183
Current tax assets	256	258	-	-
Loans/deposits given	2,147	4,550	2,010	30
Cash and cash equivalents	24,408	13,534	15,293	6,298
Total current assets	468,452	535,487	200,767	318,702
Total assets	2,051,705	1,936,298	1,298,098	1,329,180
EQUITY				
Nominal capital	254,175	254,175	254,175	254,175
Capital surplus	6,381	6,381	6,381	6,381
Own shares	(3,235)	(3,235)	(3,235)	(3,235)
Revenue reserves	42,830	42,830	16,624	16,624
Fair value reserve	184,409	194,658	133,723	143,971
Retained net profit or loss	21,514	66,441	5,138	7,071
Net profit/loss for the period	2,371	1,597	11,077	(10,882)
Currency translation reserve	(82,466)	(83,471)		
Equity attributable to the controlling company owners	425,979	479,376		
Non-controlling interests	147	149		
Total equity	426,126	479,525	423,884	414,106
LIABILITIES				
Non-current liabilities				
Trade and other payables	914	926	170	170
Loans received and other financial liabilities	501,970	597,999	337,121	422,563
Lease liabilities	308,517	-	64,790	-
Deferred tax liabilities	47,690	50,198	36,806	39,338
Provisions	26,820	30,143	22,917	25,708
Total non-current liabilities	885,911	679,267	461,804	487,779
Current liabilities				
Trade and other payables	557,299	589,177	286,607	297,730
Current tax liabilities	2,713	1,582	1,817	-
Loans received and other financial liabilities	171,802	186,748	123,573	129,565
Lease liabilities	7,855	-	413	-
Total current liabilities	739,669	777,506	412,411	427,295
Total liabilities	1,625,580	1,456,773	874,215	915,075
Total equity and liabilities	2,051,705	1,936,298	1,298,098	1,329,180

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

in EUR 000	Mercator Group		Poslovni sistem Mercator d.d.	
	1–6, 2019	1–6, 2018	1–6, 2019	1–6, 2018
Sales revenue	1,060,809	1,057,038	598,023	574,303
Cost of goods sold and selling costs	(1,015,329)	(1,014,805)	(564,208)	(540,611)
Administrative expenses	(24,613)	(35,615)	(15,646)	(16,354)
Other operating revenue	9,043	10,308	6,402	3,443
Results from operating activities	29,909	16,927	24,572	20,782
Finance revenue	2,230	4,966	1,049	7,013
Finance expenses*	(26,075)	(16,839)	(11,252)	(15,261)
Net finance expenses	(23,845)	(11,873)	(10,202)	(8,248)
Profit or loss before tax	6,065	5,054	14,369	12,534
Tax	(3,707)	(3,565)	(3,292)	(3,263)
Net profit/loss for the period	2,358	1,489	11,077	9,271
Net profit/loss for the period attributable to:				
Owners of controlling company	2,360	1,640		
Non-controlling interests	(2)	(151)		

* In the period 1–6, 2019, Mercator Group's finance expenses increased by EUR 9,237 thousand relative to the comparable period of the year before, especially due to introduction of the new accounting standard IFRS 16 as of January 1, 2019, which stipulates additional interest expense from operating lease. The said interest expense related to operating lease amounted to EUR 10,594 thousand in the period 1–6, 2019.

Consolidated statement of other comprehensive income of the Mercator Group and statement of other comprehensive income of the company Poslovni sistem Mercator d.d.

in EUR 000	Mercator Group		Poslovni sistem Mercator d.d.	
	1–6, 2019	1–6, 2018	1–6, 2019	1–6, 2018
Net profit/loss for the period	2,358	1,489	11,077	9,271
Other comprehensive income				
Items subsequently not reclassified to profit or loss	(56,762)	675	(1,300)	687
Net profit / losses recognized in revaluation surplus in respect of property, plant and equipment	(57,697)	-	(2,057)	-
Other changes	177	(13)	-	-
Deferred tax for items subsequently not reclassified to profit or loss	757	687	757	687
Items that may be reclassified subsequently to profit or loss	1,005	413	-	-
Foreign currency translation differences	1,005	414	-	-
Other comprehensive income for the period	(55,757)	1,087	(1,300)	687
Total comprehensive income for the period	(53,399)	2,576	9,778	9,958
Total comprehensive income for the period attributable to:				
Owners of the controlling company	(53,398)	2,575		
Non-controlling interests	(2)	1		

Consolidated statement of changes in equity of the Mercator Group

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Currency translation reserve	Equity attributable to the controlling company owners	Non-controlling interests	Total equity
As at January 1, 2018	254,175	207,523	(3,235)	42,830	200,180	45,101	(184,284)	(84,029)	478,261	140	478,400
Total comprehensive income for the period											
Net profit/loss for the period	-	-	-	-	-	-	1,480	-	1,480	9	1,489
Other comprehensive income	-	-	-	-	(2,834)	3,523	-	406	1,095	(8)	1,087
Total comprehensive income for the period	-	-	-	-	(2,834)	3,523	1,480	406	2,575	1	2,576
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	19,442	(19,442)	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	(201,141)	-	-	4,055	(2,584)	203,726	-	4,056	-	4,056
Total transactions with owners	-	(201,141)	-	-	4,055	16,858	184,284	-	4,056	-	4,056
Balance as at June 30, 2018	254,175	6,381	(3,235)	42,830	201,402	65,481	1,480	(83,622)	484,892	141	485,032

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Currency translation reserve	Equity attributable to the controlling company owners	Non-controlling interests	Total equity
As at January 1, 2019	254,175	6,381	(3,235)	42,830	194,658	66,441	1,597	(83,471)	479,376	149	479,525
Total comprehensive income for the period											
Net profit/loss for the period	-	-	-	-	-	-	2,360	-	2,360	(2)	2,358
Other comprehensive income	-	-	-	-	(10,250)	(46,524)	11	1,005	(55,757)	0	(55,757)
Total comprehensive income for the period	-	-	-	-	(10,250)	(46,524)	2,371	1,005	(53,398)	(2)	(53,399)
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	1,597	(1,597)	-	-	-	-
Total transactions with owners	-	-	-	-	-	1,597	(1,597)	-	-	-	-
Balance as at June 30, 2019	254,175	6,381	(3,235)	42,830	184,409	21,514	2,371	(82,466)	425,979	147	426,126

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

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Total equity
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								
Net profit/loss for the period	-	-	-	-	-	-	9,271	9,271
Other comprehensive income	-	-	-	-	(2,835)	3,523	-	687
Total comprehensive income for the period	-	-	-	-	(2,835)	3,523	9,271	9,958
Transactions with owners directly recognized in equity								
Contributions by and distributions to owners								
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	(201,141)	-	-	-	(2,584)	203,726	-
Total transactions with owners	-	(201,141)	-	-	-	(2,584)	203,726	-
Balance as at June 30, 2018	254,175	6,381	(3,235)	16,624	146,379	3,523	9,271	433,118

in EUR 000	Nominal capital	Capital surplus	Own shares	Revenue reserves	Fair value reserve	Retained net profit or loss	Net profit or loss for the period	Total equity
As at January 1, 2019	254,175	6,381	(3,235)	16,624	143,971	7,071	(10,882)	414,106
Total comprehensive income for the period								
Net profit/loss for the period	-	-	-	-	-	-	11,077	11,077
Other comprehensive income	-	-	-	-	(10,249)	8,949	-	(1,300)
Total comprehensive income for the period	-	-	-	-	(10,249)	8,949	11,077	9,778
Transactions with owners directly recognized in equity								
Contributions by and distributions to owners								
Transfer of net profit for the previous year to retained net profit or loss	-	-	-	-	-	(10,882)	10,882	-
Total transactions with owners	-	-	-	-	-	(10,882)	10,882	-
Balance as at June 30, 2019	254,175	6,381	(3,235)	16,624	133,723	5,138	11,077	423,884

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

in EUR 000	Mercator Group		Poslovni sistem Mercator d.d.	
	1–6, 2019	1–6, 2018 adjusted ¹	1–6, 2019	1–6, 2018 adjusted ¹
Cash flows from operating activities				
Cash from operating activities before the change of working capital	78,298	44,437	39,392	32,901
Change in inventories	7,086	8,146	(2,755)	1,924
Change in trade and other receivables ²	(1,510)	496	(18,238)	(8,011)
Change in trade and other payables, and provisions	(24,247)	(20,613)	(2,635)	11,991
Tax paid	(259)	(729)	(757)	(687)
Cash from operating activities	59,368	31,738	15,007	38,117
Cash flows from investing activities				
Expenses for acquisition of property, plant and equipment, investment property and intangible assets	(9,713)	(13,713)	(5,487)	(6,481)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	124,408	48,725	122,462	3,512
Net receipts (expenses) for loans given and deposits	(1,240)	(621)	(21,597)	(2,786)
Cash from investing activities³	113,455	34,392	95,378	(5,755)
Cash flow from financing activities				
Net receipts/expenses for loans received	(107,649)	(61,623)	(89,079)	(25,539)
Interest expenses	(20,934)	(14,661)	(8,108)	(9,385)
Repayment of lease liabilities	(33,386)	-	(4,203)	-
Cash from financing activities⁴	(161,969)	(76,285)	(101,390)	(34,924)
Net increase (decrease) in cash and cash equivalents	10,853	(10,155)	8,995	(2,562)
Cash and cash equivalents at beginning of the year	13,534	24,112	6,298	11,635
Effect of exchange rate fluctuations on cash and cash equivalents	21	(120)	-	-
Cash and cash equivalents at the end of the period	24,408	13,837	15,293	9,074

¹ Adjustments pertain to ensuring methodological comparability of the cash flow statement with the year 2019.

² Increase in trade and other receivables of the company Poslovni sistem Mercator d.d. in 2019 mostly pertains to cooperation with wholesale customers.

³ For both the company Poslovni sistem Mercator d.d. and the Mercator Group, cash flow from investing activities in the first half of 2019 was affected especially by the monetization project in Slovenia and the related proceeds of approximately EUR 117 million.

⁴ In cash flows from financing activities included, pursuant to the IFRS 16, payments of liabilities related to lease (or rent) in 2019; moreover, total proceeds from the monetization project were used for repayment of financial liabilities towards banks, which results in expenses for the borrowings received, reported within cash flow from financing activities.

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

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

MERCATOR GROUP

Assets

Mercator Group assets as at June 30, 2019, amounted to EUR 2,051,705 thousand, which is EUR 115,408 thousand more than at the end of 2018.

As at June 30, 2019, the value of Mercator Group non-current assets amounted to EUR 1,583,254 thousand, which is EUR 182,443 thousand more than as at December 31, 2018. The cause for the increase is the item right to use of assets, which is related to the introduction of the new IFRS 16 effective as of January 1, 2019. Property, plant, and equipment accounts for the largest share of non-current assets with 97.1%, amounting to EUR 1,536,766 thousand.

As at June 30, 2019, the value of Mercator Group's current assets amounted to EUR 468,452 thousand, which is EUR 67,035 thousand less than as at the end of 2018. The cause of decrease is mainly the completion of the divestment transaction for ten shopping centres in Slovenia (monetization project) in February 2019. The largest share thereof includes inventories (43.7%) and trade and other receivables (35.9%).

Equity and liabilities

As at June 30, 2019, Mercator Group share capital amounted to EUR 426,126 thousand, which is EUR 53,400 thousand less than as at the end of 2018.

As at June 30, 2019, Mercator Group's total financial liabilities amounted to EUR 990,145 thousand, which is EUR 205,398 thousand more than as at the end of 2018. The cause for the increase is the liabilities pertaining to lease (or rent), which is related to the introduction of the new IFRS 16 effective as of January 1, 2019. Also affecting the total financial liabilities as at June 30, 2019, was the amount of EUR 116,6 million received as purchase consideration

POSLOVNI SISTEM MERCATOR D.D.

Assets of the company Poslovni sistem Mercator d.d. as at June 30, 2019, amounted to EUR 1,298,098 thousand, which is EUR 31,082 thousand less than at the end of 2018.

As at June 30, 2019, the value of the company's non-current assets amounted to EUR 1,097,331 thousand, which is EUR 86,853 thousand more than as at December 31, 2018. The cause for the increase is the item right to use of assets, which is related to the introduction of the new IFRS 16 effective as of January 1, 2019. Property, plant, and equipment accounts for the largest share of non-current assets with 68.8% (amounting to EUR 754,965 thousand).

As at June 30, 2019, the value of company current assets was EUR 200,767 thousand, which is EUR 117,935 thousand less than at the end of 2018. The cause of decrease is the completion of the divestment transaction for ten shopping centres (monetization project) in February 2019. The largest share thereof includes inventories (53.5%) and trade and other receivables (37.9%).

Equity of the company Poslovni sistem Mercator d.d. as at June 30, 2019, amounts to EUR 423,884 thousand, which is an increase of EUR 9,778 thousand relative to the end of 2018.

As at June 30, 2019, the company's total financial liabilities amount to EUR 525,897 thousand, which is a decrease of EUR 26,231 thousand relative to December 31, 2018. The deleveraging was funded with the proceeds of EUR 116,6 million received upon divestment of ten shopping centres, which were used for repayment of financial liabilities. Also affecting the financial liabilities as at June 30, 2019, were the newly recognized financial liabilities pertaining to

upon divestment of ten shopping centres, which was used for repayment of financial liabilities. The said new financial liabilities as at June 30, 2019, amounted to EUR 316,372 thousand. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group's financial liabilities and financial assets, amounted to EUR 965,737 thousand as at June 30, 2019 (December 31, 2018: EUR 771,212 thousand); however, the figure is not comparable to the end of last year due to new financial liabilities related to the implementation of the new IFRS 16.

As at June 30, 2019, Mercator Group's provisions amounted to EUR 26,820 thousand. Compared to the end of 2018, provisions have decreased by EUR 3,324 thousand.

Mercator Group's trade and other payables as at June 30, 2019, amounted to EUR 558,213 thousand, which is EUR 31,890 thousand less than at the end of 2018, mostly due to the effect of the new agriculture legislation in Slovenia.

As at June 30, 2019, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounts to 82.9%, which is 0.2 percentage points less than as at the end of 2018.

leases (or rents), which are related to the introduction of the new IFRS 16 effective as of January 1, 2019. The said new financial liabilities as at June 30, 2019, amounted to EUR 65,203 thousand. Net financial debt, calculated as the difference between financial liabilities and financial assets, amounted to EUR 510,605 thousand as at June 30, 2019 (December 31, 2018: EUR 545,830 thousand); however, the figure is not comparable to the end of last year due to new financial liabilities related to the implementation of the new IFRS 16.

As at June 30, 2019, the company's provisions amounted to EUR 22,917 thousand. Compared to the end of 2018, provisions have decreased by EUR 2,791 thousand.

The company's trade and other payables as at June 30, 2019, amounted to EUR 286,777 thousand, which is EUR 11,123 thousand less than at the end of 2018, mostly due to the effect of the new agriculture legislation in Slovenia.

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

MERCATOR GROUP

Sales revenue

In the period 1–6, 2019, Mercator Group's sales revenue amounted to EUR 1,060,809 thousand, which is 0.4% more than in the equivalent period of the year before, while retail revenue remained on a par with the figure from the last year's comparable period. **Slovenia** (57.1% of total revenue) **and Serbia** (31.8% of total revenue) remain **Mercator Group's most important markets**. In the Slovenian market, the retail company **Poslovni sistem Mercator d.d.** saw its revenue increase by 4.1% relative to the same period of the preceding year.

Costs

Mercator Group costs of sales which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,015,329 thousand in the period 1–6, 2019, which is a 0.1% increase on the comparable period of last year.

POSLOVNI SISTEM MERCATOR D.D.

In the period 1–6, 2019, the company Poslovni sistem Mercator d.d. generated revenue of EUR 598,023 thousand, which is 4.1% more than in the period 1–6, 2018. Revenue increased in particular due to successful implementation of the Value Creation Plan initiatives focusing on differentiation, and on highlighting and reliance on our key competitive advantages. Retail revenue increased by 3.0%.

Costs of sales of the company Poslovni sistem Mercator d.d., which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 564,208 thousand in the period 1–6, 2019, which is a 4.4% increase relative to the comparable period of last year.

Mercator Group's administrative expenses in the period 1–6, 2019, amounted to EUR 24,613 thousand, which is 30.9% less than in the comparable period last year.

Results from operating activities

In the period 1–6, 2019, Mercator Group generated operating profit (EBIT) of EUR 29,909 thousand, which is an increase of EUR 12,982 thousand over the same period last year.

Net finance expenses

In the period 1–6, 2019, Mercator Group's finance income amounted to EUR 2,230 thousand, which is EUR 2,736 thousand less than in the comparable period of the year before, especially due to effect of currency translation differences.

In the period 1–6, 2019, Mercator Group's finance expenses amounted to EUR 26,075 thousand, which is EUR 9,237 thousand more than in the comparable period of the year before, especially due to introduction of the new accounting standard IFRS 16 effective as of January 1, 2019, which stipulates additional interest expense from operating lease. This interest expense amounted to EUR 10,594 thousand in the period 1–6, 2019.

Profit or loss before tax

In the period 1–6, 2019, Mercator Group's result before income tax EUR 6,065 thousand, which is EUR 1,011 thousand more than in the comparable period of last year.

Net profit/loss for the period

Mercator Group's net profit/loss for the period 1–6, 2019, amounts to EUR 2,358 thousand, which is EUR 869 thousand more than the comparable result for the same period of last year.

EBITDA and EBITDAR

Mercator Group EBITDA in the period 1–6, 2019, amounts to EUR 84,429 thousand, which is EUR 33,977 thousand more than in the same period last year.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–6, 2019, amounted to EUR 15,646 thousand, which is 4.3% less than in the comparable period last year.

In the period 1–6, 2019, operating profit (EBIT) of the company Poslovni sistem Mercator d.d. amounted to EUR 24,572 thousand, which is an increase of EUR 3,790 thousand.

Finance income of the company Poslovni sistem Mercator d.d. amounted to EUR 1,049 thousand in the period 1–6, 2019, which is EUR 5,964 thousand less than in the comparable period of the preceding year, especially due to a reversal of impairment of a loan extended to the subsidiary M-Energija d.o.o. in the amount of EUR 4,413 thousand in 2018.

Finance expenses in the period 1–6, 2019, amounted to EUR 11,252 thousand, which is EUR 4,009 thousand less than in the comparable period of the preceding year, especially due to impairment of a financial investment in 2018 in the company M-Energija d.o.o. in the amount of EUR 4,413 thousand. Total financial expenses were also affected by the introduction of the new accounting standard IFRS 16, effective as of January 1, 2019, which stipulates additional interest expense from operating lease. This interest expense amounted to EUR 1,894 thousand in the period 1–6, 2019.

As a result, impairments related to the company M-Energija d.o.o. have a neutral effect on net finance expenses in the period 1–6, 2018.

Bottom line of the company Poslovni sistem Mercator d.d. in the period 1–6, 2019, was a profit before income tax of EUR 14,369 thousand, which is EUR 1,836 thousand more than the profit in the same period of the preceding year.

Net profit of the company Poslovni sistem Mercator d.d. for the period 1–6, 2019, amounts to EUR 11,077 thousand, which is EUR 1,806 thousand better relative to the comparable period of last year.

EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–6, 2019, amounts to EUR 43,969 thousand, which is 19.2% more than in the same period last year.

Mercator Group EBITDAR in the period 1–6, 2019, amounted to EUR 85,397 thousand, which is 1.0% more than in the equivalent period of last year, mostly due to the proceeds and gains from the divestment of MC Belgrade in Serbia in March 2018. This business event is of a non-recurring (one-off) nature and it is eliminated from the normalized figures.

Mercator Group's normalized EBITDAR in the period 1–6, 2019, amounted to EUR 84,006 thousand, which is 2.2% more than in the same period of last year.

EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–6, 2019, amounts to EUR 44,455 thousand, which is 6.6% more than in the same period of last year.

Normalized EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–6, 2019, amounted to EUR 43,082 thousand, which is on a par with the figure from the same period of the preceding year.

MANAGEMENT RESPONSIBILITY STATEMENT

The Management Board of the company Poslovni sistem Mercator d.d. hereby confirms that the interim financial report of the company Poslovni sistem Mercator d.d., and the Mercator Group for the period ended on June 30, 2019, to their best knowledge, is compiled in compliance with the International Financial Reporting Standards and that it presents a true and fair account of assets and liabilities, financial position, and the net income of the company Poslovni sistem Mercator d.d., and other companies included in the consolidated statements. The Management Board also declares that the transactions between associated entities within the Mercator Group were conducted based on the signed sale and purchase agreements, according to arm's length principle.

Ljubljana, September 12, 2019



Tomislav Čizmić
President of the Management Board



Draga Cukjati
Member of the Management Board



Igor Mamuza
Member of the Management Board



Gregor Planteu
Extraordinary Member of the Management Board