

**BUSINESS REPORT OF THE MERCATOR GROUP
AND THE COMPANY POSLOVNI SISTEM
MERCATOR D.D. FOR THE PERIOD 1–9, 2019**



Ljubljana, November 2019

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EXECUTIVE SUMMARY

Mercator Group performance in the first nine months of the year showed positive trends in terms of revenue, EBITDA and the bottom line. Thus, Mercator Group is proving that execution of its business strategy has been yielding positive results.

Mercator Group sales revenue in the first nine months of 2019 grew by 1.6% compared to the equivalent period of the preceding year and amounted to EUR 1,643,739 thousand. The company Poslovni sistem Mercator d.d., as Mercator Group's most important company, saw its revenue increased by 5.6% relative to the same period last year and in the period 1–9, 2019, amounted to EUR 929,024 thousand, while its retail revenue grew by 4.7% and reached EUR 691,388 thousand in the period 1–9, 2019.

In the first nine months of 2019, Mercator Group's normalized EBITDA¹ increased by 63.4% and in the period 1–9, 2019, reached EUR 130,534 thousand. Mercator Group wrapped up the period 1–9, 2019, with a net profit of EUR 6,205 thousand. While this is less than in the same period last year, the result is not comparable between the two periods due to the introduction of the new IFRS 16 Leases standard in 2019 and the gains from divestment of MC Belgrade and the property in Serbia in 2018. Adjusting for the effect of the said events, Mercator Group's net profit in the period 1–9, 2019, would have been higher than in the comparable period in the year earlier by EUR 9,560 thousand.

In the first nine months of 2019, the company Poslovni sistem Mercator d.d. saw its net profit increase by 7.6%, or by EUR 1,100 thousand, relative to the equivalent period of the year before.

In the first nine months of 2019, Mercator Group was thus highly successful in terms of its further pursuit of the goals laid down in its business strategy, as well as in terms of 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 September 30, 2019², was decreased by 18.1% or by EUR 139,415 thousand. The ratio between net financial debt and normalized EBITDA as at September 30, 2019, was 5.8 times², which means that it is 21.8% 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 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, consistent 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 2019, 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 highly important for 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 the company Poslovni sistem Mercator d.d., that will be among the last companies to be transferred to the new company. Prerequisites for the parent company Poslovni sistem Mercator d.d. to be transferred to the newly founded Fortenova grupa d.d. include approval by Mercator Group'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., which must be provided by the Fortenova grupa d.d. upon takeover.

¹ The new International Financial Reporting Standard 16 (IFRS 16 Leases) came into effect as of January 1, 2019.

² Excluding the effect of IFRS 16 Leases.

Events after the end of the period

Update of Maxi in Ljubljana

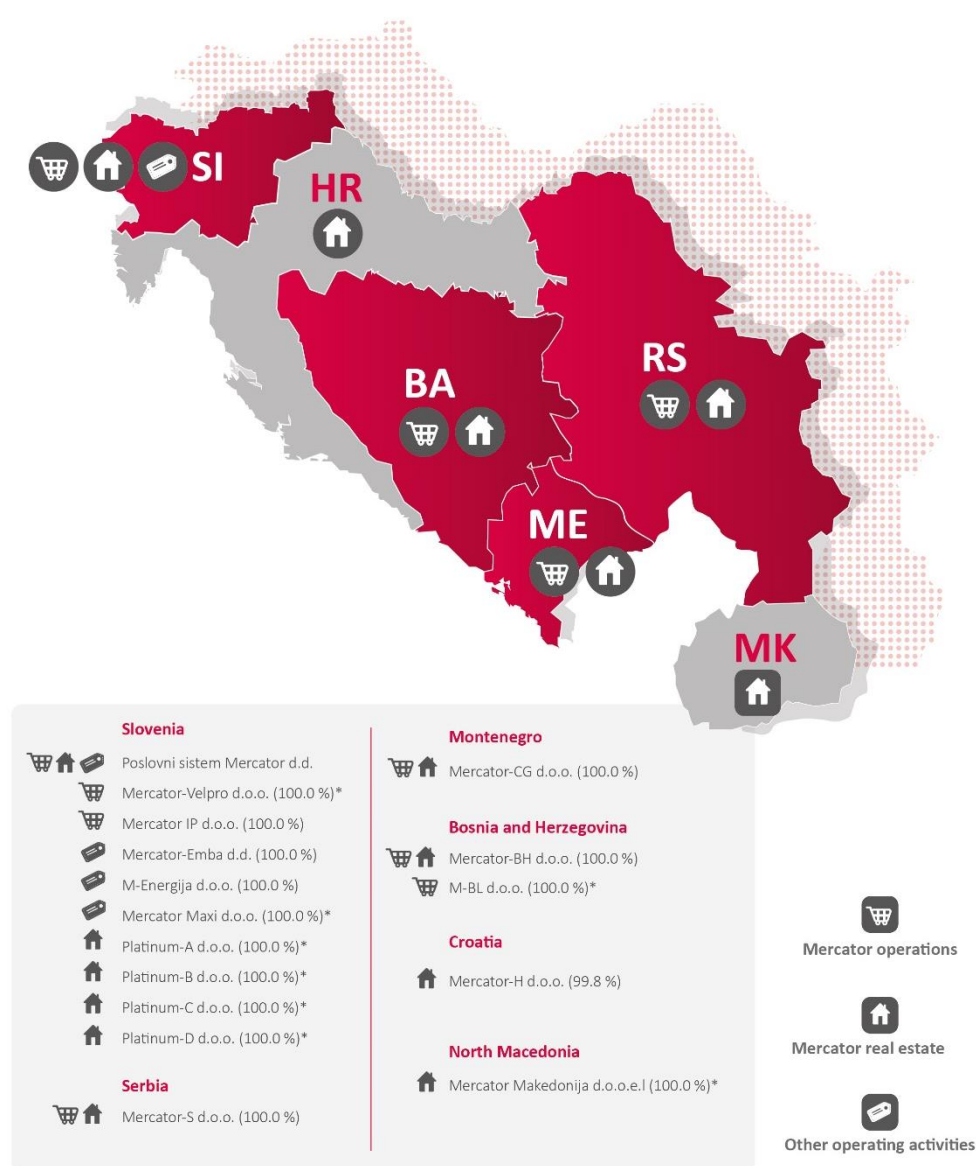
On October 24, 2019, the updated food store in the Maxi underpass was reopened as **Maxi Gourmet Market**. It will surely attract both regular and new customers and become one of the trendiest spots for shopping and socializing. Maxi Gourmet Market is conceptually divided into three parts: the hot bar offering ready meals, the self-service part for small day-to-day shopping, and the extended offer part that allows major shopping sessions for any household. Regardless of lifestyle and the current needs, the Maxi Gourmet Market combines comprehensive offer for a quick snack, a tasty meal, trying something new, or for a daily or weekly shopping trip. Maxi Gourmet Market now also includes an excellent choice of street food, local simple dishes, and gourmet products from across the world. New features include the sushi corner, gourmet pizzeria, and the fishmonger department. In addition to the market, the Maxi Gourmet offer is rounded off by the pastry shop, Romansa and Maxim restaurants, and the aperitif bar.

INTRODUCTION

PROFILE AND ORGANIZATION

Mercator Group Profile as at September 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 September 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 September 30, 2019	EUR 254,175,051.39
Number of shares issued and paid-up as at September 30, 2019	6,090,943
Share listing	Ljubljanska borza d.d., official market, prime market, symbol MELR

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



Youtube www.youtube.com/user/mercatorslo

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

In the period 1–9, 2019, the Supervisory Board of Poslovni sistem Mercator d.d. held five 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 **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 **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 **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.

At the **2nd regular session held on July 12, 2019**, the Supervisory Board of the company Poslovni sistem Mercator d.d., was presented the updates on the real estate monetization process and on negotiations with the banks regarding the change-of-control clause waiver, report by the Strategy and Finance Committee, report by the Audit Committee, an update on the project of Logistics and distribution centre, and information on the Mercator Group performance in the period 1–5, 2019.

At the **3rd regular session held on September 25, 2019**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was informed about the negotiations with the banks regarding the change-of-control clause waiver, activities regarding debt refinancing for the subsidiary Mercator-S d.o.o., real estate monetization progress, performance of the Mercator Group and the company Poslovni sistem Mercator d.d. in the period 1–6, 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 May 1, 2019, to July 31, 2019. At this session, the Supervisory Board of the company Poslovni sistem Mercator d.d. was also presented reports by all three Supervisory Board committees; the Audit Committee, the Strategy and Finance Committee, and the Human Resource Committee.

BUSINESS STRATEGY

VISION

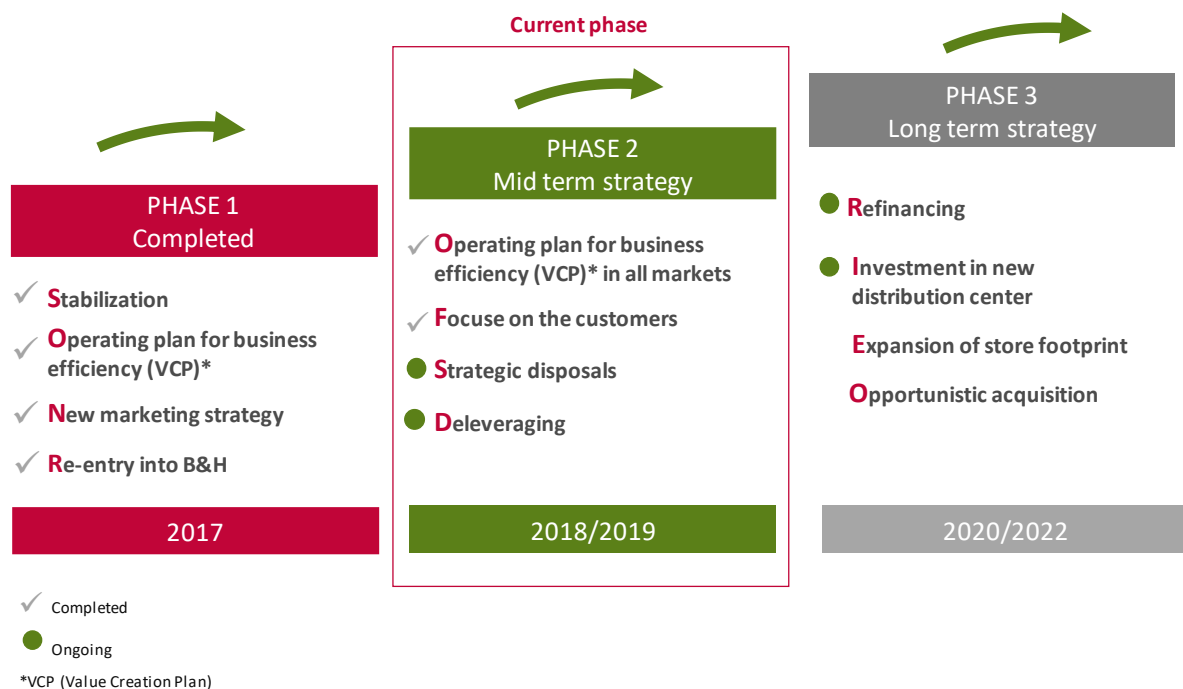
Mercator will be the best local retailer in every market of its operations.

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 119 initiatives in all markets. There are 58 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.

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



PERFORMANCE HIGHLIGHTS

Mercator Group business			
Group business	1–9, 2019	1–9, 2018	Change 1–9, 2019/ 1–9, 2018
INCOME STATEMENT (in EUR 000)			
Sales revenue	1,643,739	1,617,327	1.6%
Sales revenue from FMCG retail ¹	1,244,900	1,227,552	1.4%
Results from operating activities (EBIT) ²	47,938	35,770	34.0%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) ²	130,534	79,910	63.4%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) without the effect of IFRS 16 Leases	80,306	79,910	0.5%
Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR normalized)	131,977	130,910	0.8%
CASH FLOWS (x-times/ in %)			
Net financial debt / EBITDA normalized (without the effect of IFRS 16 Leases) ³	5.8 x	7.5 x	-21.8%
Normalized earnings before interest, tax, depreciation and amortization (EBITDA normalized) / sales revenue ²	7.9%	4.9%	3.0 p. p.
Normalized earnings before interest, tax, depreciation, amortization and rent costs (EBITDAR normalized) / sales revenue	8.0%	8.1%	-0.1 p. p.
STATEMENT OF FINANCIAL POSITION (in EUR 000)			
Total assets as at September 30	1,999,482	1,966,346	1.7%
Equity as at September 30	430,042	492,311	-12.6%
Net financial debt as at September 30 (without the effect of IFRS 16 Leases)	629,191	768,605	-18.1%
Net financial debt as at September 30 (with the effect of IFRS 16 Leases)	939,195	n/a	-
OTHER INDICATORS			
Capital expenditure (in EUR 000)	18,485	19,105	-3.2%
Number of employees as at September 30	19,823	20,322	-2.5%

¹ Retail revenue in the period 1–9, 2018, is adjusted for the effect of transfer of the operations of leased Velpro centres to Roda Mega retail facilities in Serbia.

² Data for the period 1–9, 2019, includes the implementation of the new IFRS 16 Leases, while the data for the period 1–9, 2018, is presented without the effect of this standard that has been in effect since January 1, 2019. This is compatible with the selected mode of implementation of IFRS 16 Leases, with the modified retrospective approach of IFRS 16 Leases (retroactive use with cumulative effect), which is also used by most companies with a large portfolio of leased commercial real estate. With a goal of presenting a comparable EBITDA result, the table above also shows the normalized EBITDA 1–9, 2019 without the impact of IFRS 16 Leases.

³ For comparability of the indicator between the two periods, the calculation for this year's period does not include new financial liabilities pertaining to the implementation of the IFRS 16 Leases standard, which amount to EUR 310.0 million as at September 30, 2019. Normalized gross cash flow from operating activities before interest, taxes, and depreciation and amortization (EBITDA), used to calculate this indicator, is calculated based on realized EBITDA from the last 12 months of operations.

REVIEW OF KEY EVENTS

Retail network development and divestment activities:

In the period 1–9, 2019:

- we invested EUR 18,485 thousand into property, plant, and equipment (CAPEX);
- we acquired 13 new retail units or a total of 8,851 m² of gross retail area with operating leases; we refurbishment or rearranged the layout of a total of 32 units, of which 25 were in Slovenia;
- we completed the divestment of ten shopping centres in Slovenia, as well as some other minor divestments, for total divestment proceeds of EUR 125,657 thousand, which pertains to divestment of property, plant and equipment.

Changes in parent company governance

As of June 5, 2019, Irena Weber and Vladimir Bošnjak resigned from the Supervisory Board. 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 Supervisory Board members for a four-year term starting on June 5, 2019. The nine-member Management Board of the company Poslovni sistem Mercator d.d., from June 5, 2019 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 2019, 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. Completion of super senior facility refinancing is proof that the confidence of banks into Mercator's stability and development opportunities are increasing significantly. We have successfully continued the debt refinancing process at the company Mercator-S d.o.o. in Serbia.

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. We are currently in the stage of reviewing and choosing suitable technology received from a third-party consultant. We have also prepared the selection process for the building designer who will compile all required documentation and prepare the procedures for obtaining the building permit. 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 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, followed by another such report in July 2019 for the period from February 1, 2019, to April 30, 2019, and another one in September 2019 for the period from May 1, 2019, to July 31, 2019. All three reports indicate 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 the company Poslovni sistem Mercator d.d., that will be among the last companies to be transferred to the new company. Prerequisites for the parent company Poslovni sistem Mercator d.d. to be transferred to the newly founded Fortenova grupa d.d. include approval by Mercator Group'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., which must be provided by the Fortenova grupa d.d. upon takeover.

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.

Events after the end of the period

Refurbishment of Maxi in Ljubljana

On October 24, 2019, the refurbished food store in the Maxi underpass was reopened as **Maxi Gourmet Market**. It will surely attract both regular and new customers and become one of the trendiest spots for shopping and socializing. Maxi Gourmet Market is conceptually divided into three parts: the hot bar offering ready meals, the self-service part for small day-to-day shopping, and the extended offer part that allows major shopping sessions for any household. Regardless of lifestyle and the current needs, the Maxi Gourmet Market combines comprehensive offer for a quick snack, a tasty meal, trying something new, or for a daily or weekly shopping trip. Maxi Gourmet Market now also includes an excellent choice of street food, local simple dishes, and gourmet products from across the world. New features include the sushi corner, gourmet pizzeria, and the fishmonger department. In addition to the market, the Maxi Gourmet offer is rounded off by the pastry shop, Romansa and Maxim restaurants, and the aperitif bar.

BUSINESS REPORT

SALES

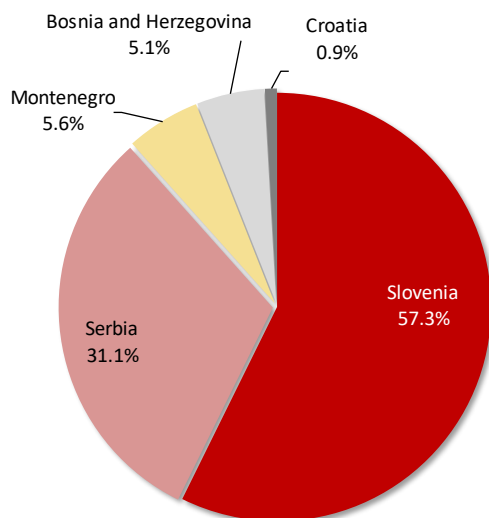
Mercator Group sales revenue in the period 1–9, 2019, was up 1.6% relative to the comparable period of the preceding year, as it reached EUR 1,643,739 thousand. Moreover, Mercator Group saw its retail revenue increase by 1.4%.

Slovenia remains Mercator Group's most important market. Here, the trade company **Poslovni sistem Mercator d.d.** recorded a 5.6% rise in its sales revenue and a 4.7% increase in its retail revenue. Revenue growth is a result of successful implementation of initiatives from the Value Creation Plan in the following areas:

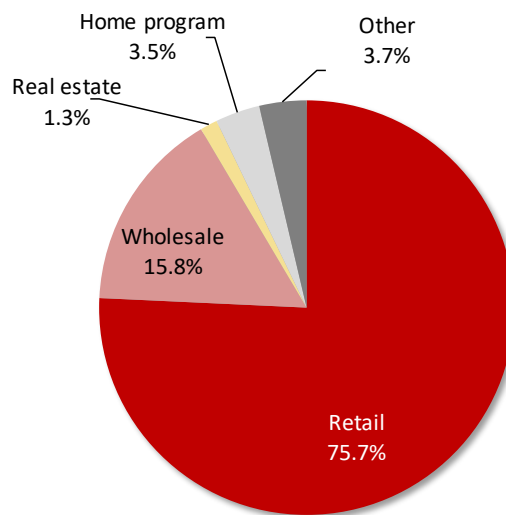
- revenue and profit margin,
- new store concept and store refurbishment, and
- optimization of assortment in the home product segment.

Mercator Group saw the largest revenue growth in the first nine months of 2019 in the market of **Bosnia and Herzegovina** (growth 6.9%), which is mostly the result of stabilization and establishment of partner relations with suppliers, as well as successful implementation of the best practices from other markets. Moreover, sales revenue increased by 0.3% in the period 1–9, 2019, in the market of **Montenegro**, while in Serbia, a positive trend in retail revenue was recorded in the third quarter of 2019 as it increased by 6.0 percentage points relative to the first quarter of 2019.

Mercator Group sales revenue structure by markets in the period 1–9, 2019:



Mercator Group sales revenue structure by programs in the period 1–9, 2019:



SALES NETWORK

Composition of units by store formats as at September 30, 2019

Slovenia


 FMCG retail units **463**

- Markets: **394**
- Supermarkets: **47**
- Hypermarkets: **22**

 Wholesale units (Cash & Carry) **13**

 Restaurants **7**


 Franchise stores **173**

 Technical program (M Tehnika) **41**

Serbia

 FMCG retail units **319**

- Idea Markets: **245**
- Idea Supermarkets: **38**
- Roda: **28**
- Roda Megamarkets: **6**
- Mercator Hypermarkets: **2**

 Wholesale units (VELPRO) **6**

Montenegro

 FMCG retail units **117**

- Markets: **114**
- Mega Markets: **3**

Bosnia and Herzegovina

 FMCG retail units **76**

- Markets: **59**
- Supermarkets: **10**
- Hypermarkets: **7**

MERCATOR GROUP

FMCG retail units **975**

Wholesale units (Cash & Carry/VELPRO) **19**

Restaurants **7**

Technical consumers goods **41**

Total units under management 1,042

Franchise stores **173**

TOTAL 1,215

Gross sales area (in m²)

805,172

56,231

1,690

61,720

924,813

36,275

961,088

Net sales area (in m²)

515,317

33,663

1,019

36,571

586,570

23,760

610,330

Investment and divestment

In the period 1–9, 2019, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 18,5 million. Of the total investment amount, 64.7% was used for investments in Slovenia and 35.3% was used for investments in international markets.

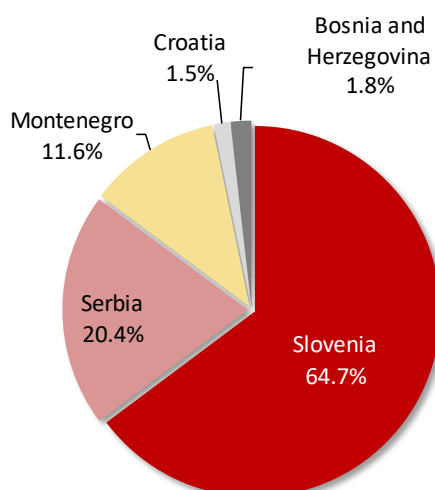
	Capital expenditure in the period 1–9, 2019 (in EUR 000)	Structure (in %)
Slovenia	11,963	64.7%
Serbia	3,766	20.4%
Montenegro	2,140	11.6%
Croatia	287	1.5%
Bosnia and Herzegovina	329	1.8%
TOTAL	18,485	100.0%

Investment into refurbishment and rearrangements of existing units accounted for 45.7% of total investments; investments into distribution centres accounted for 20.9%; IT investments accounted for 14.0%; expansion of new retail units represented 12.9%; and the remaining 6.5% was invested in non-trade activities.

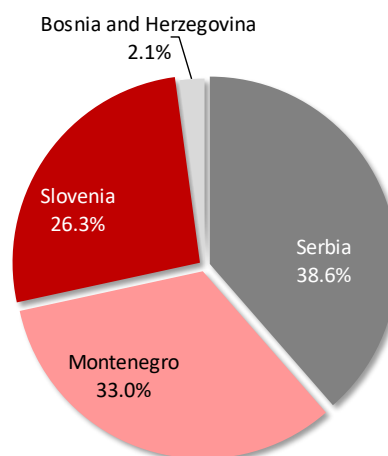
In the period 1–9, 2019, Mercator Group newly acquired 8,851 square meters of gross store area. All new gross area was acquired by operating lease.

In the period 1–9, 2019, Mercator Group divested property, plant, and equipment worth EUR 125.7 million, of which EUR 125.3 million pertains to the divestment of property and EUR 0.4 million pertains to plant and equipment.

Share of investments by markets:



Share of newly launched facilities by markets:



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 Leases (retroactive use with cumulative effect). Most foreign companies with a large portfolio of leased commercial real estate decided for a similar approach.

As at September 30, 2019, Mercator Group's net financial debt (not taking into account the new IFRS 16 Leases) amounted to EUR 629.2 million, which is 18.4% less than as at the end of 2018, and 18.1% less than as at September 30, 2018. Decrease of financial liabilities as at September 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 Leases implementation, EBITDA normalized for the period 1–9, 2019, at the Mercator Group level would have amounted to EUR 80.3 million, which means that the comparable net financial debt to EBITDA ratio would have decreased from 7.2 times as at the end of 2018 to 5.8 times as at September 30, 2019.

Net financial debt

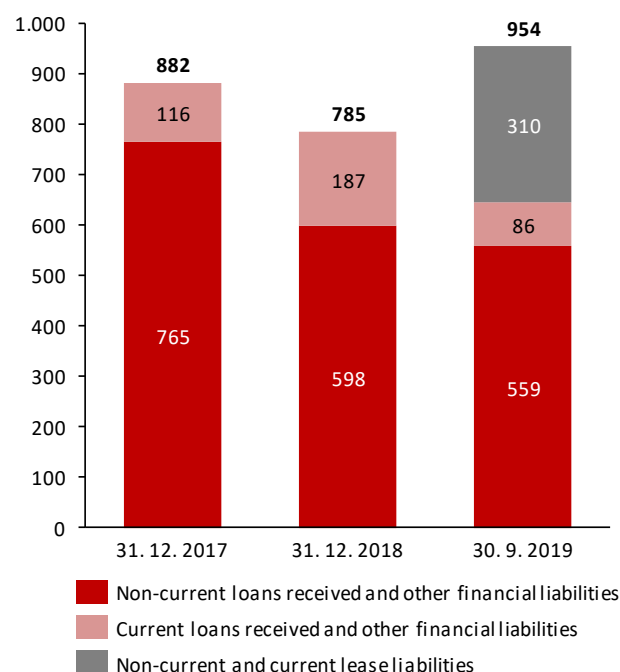
in EUR 000	Sep. 30, 2019	Sep. 30, 2018	Dec. 31, 2018	Change Sep. 30, 2019/ Sep. 30, 2018	Change Sep. 30, 2019/ Dec. 31, 2018
Non-current loans received and other financial liabilities	558,529	641,713	597,999	-13.0%	-6.6%
Current loans received and other financial liabilities	85,937	141,884	186,748	-39.4%	-54.0%
Financial liabilities	644,466	783,598	784,746	-17.8%	-17.9%
Cash and cash equivalents	15,275	14,992	13,534	1.9%	12.9%
Net financial debt (without the effect of IFRS 16 Leases)	629,191	768,605	771,212	-18.1%	-18.4%
New liabilities related to the new standard IFRS 16 Leases					
Non-current lease liabilities	301,970	n/a	n/a	-	-
Current lease liabilities	8,034	n/a	n/a	-	-
Total liabilities related to the new IFRS 16 Leases	310,005	n/a	n/a	-	-
Net financial debt (with the effect of IFRS 16 Leases)	939,195	768,605	771,212	22.2%	21.8%

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.

Asset coverage ratio

Financial liabilities (in EUR mn)



As of September 30, 2019, the Mercator Group achieved a financing structure with a ratio of 1: 2.18 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 September 30, 2019, was at 90.2% (76.2% as at December 31, 2018); however, the increase in financial liabilities is the result of introduction of the new IFRS 16 Leases that came into effect as of January 1, 2019. Within the effect of the IFRS 16 Leases, the indicator would have been at 86.7%.

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), finally matures in 2021.

Following the restructuring financial liabilities of the company Poslovni sistem Mercator d.d., all financial liabilities of the company are agreed at a variable interest rate linked to the Euribor interest rate.

Available liquidity lines as at September 30, 2019

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

in EUR 000	September 30, 2019
Cash and cash equivalents	15,275
Standby revolving credit lines and current given deposits	54,430
Total	69,705

MERCATOR SHARE AND INVESTOR RELATIONS

Share and ownership structure

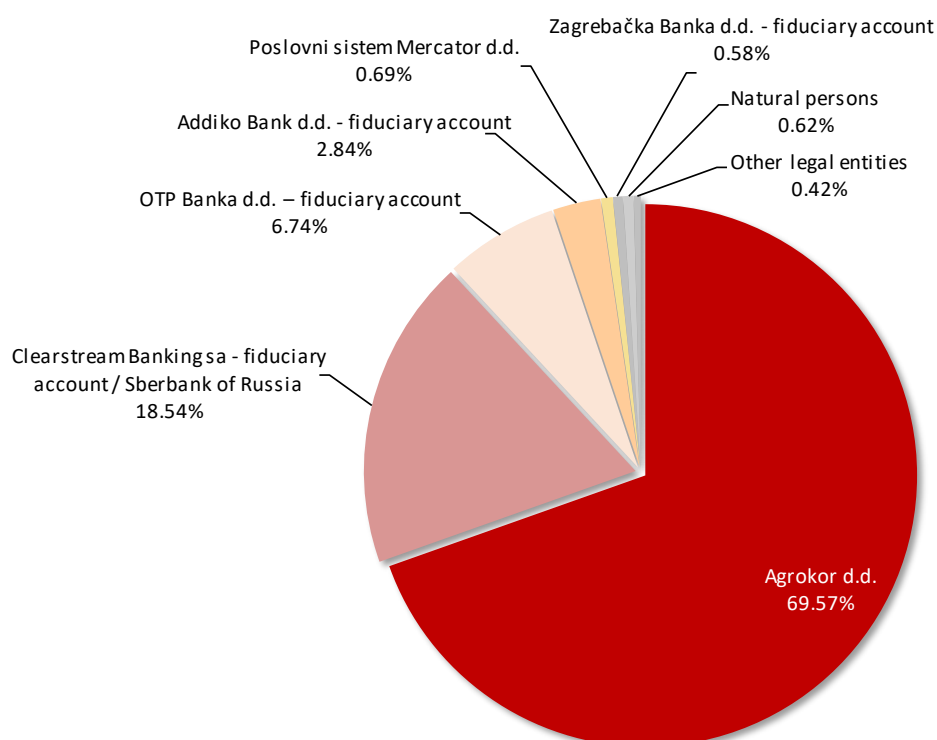
Basic information on the share of the company Poslovni sistem Mercator d.d. as at September 30, 2019:



Mercator

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	1,579

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



Structure of company shareholders as at September 30, 2019

As at September 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%

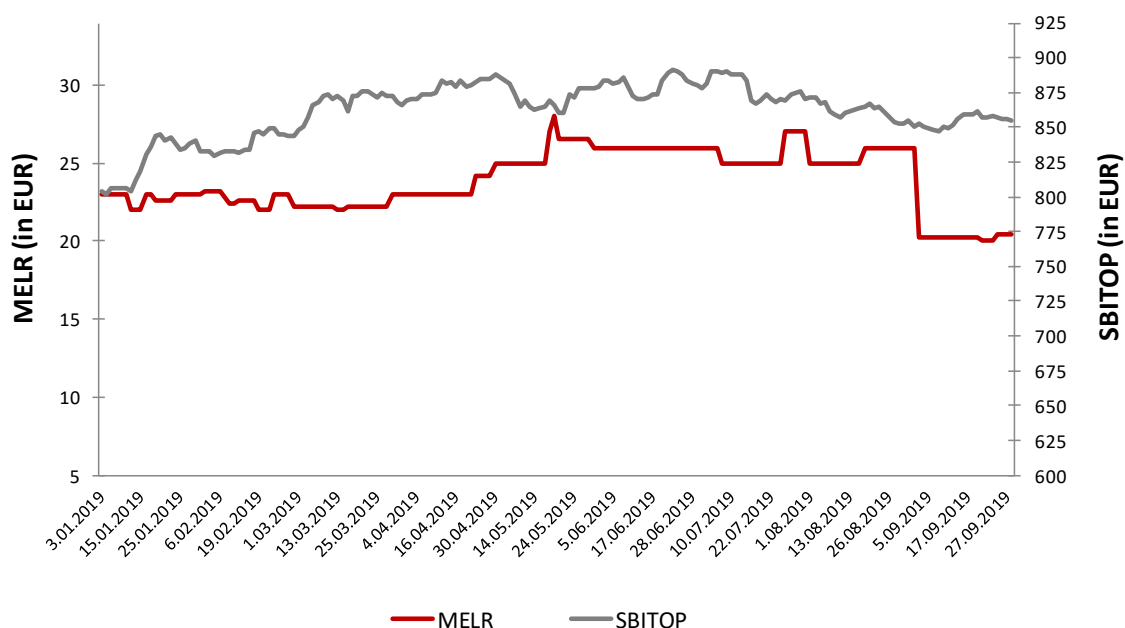
Shares held by Management and Supervisory Board Members as at September 30, 2019

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 September 30, 2019.

Foreign shareholders

As at September 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 1–9, 2019, compared to the movement of the SBITOP index



Key information for the shareholders

	September 30, 2019	September 30, 2018	Change September 30, 2019 / September 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)	124,255	135,219	-8.1 %
Market value of share (in EUR)	20.4	22.2	-8.1 %
Book value per share (in EUR)	70.9	72.5	-2.3 %
Minimum close rate in the period (in EUR)	20.0	20.2	-1.0 %
Maximum close rate in the period (in EUR)	28.0	34.8	-19.5 %
Average close rate in the period (in EUR)	23.8	27.5	-13.2 %
Earnings per share (in EUR)	3.4	3.2	7.4 %

Market capitalization is calculated by multiplying the number of shares entered into the court register as at September 30 with market price per share as at September 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 September 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 September 30, 2019, the company Poslovni sistem Mercator d.d. held 42,192 own shares. In the period 1–9, 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 1–9, 2019, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

Transition to IFRS 16 Leases

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), the amount of financial expenses and indebtedness. Mercator Group and the company Poslovni sistem Mercator d.d. decided for the modified retrospective approach to application of the IFRS 16 Leases (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.

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 1–9, 2019, include the parent 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.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Sep. 30, 2019	Dec. 31, 2018	Sep. 30, 2019	Dec. 31, 2018
ASSETS				
Non-current assets				
Property, plant and equipment	963,385	1,074,997	637,995	654,982
Right of use assets	290,602	-	90,943	-
Investment property	242,969	242,890	4,427	4,498
Intangible assets	20,496	20,945	12,722	12,953
Deferred tax assets	33,431	38,528	30,232	35,339
Trade and other receivables	7,473	4,083	5,811	2,585
Loans/deposits given	3,527	18,976	16,558	2,103
Available-for-sale financial assets	393	393	261	261
Capital investments in Group companies	-	-	287,159	297,757
Total non-current assets	1,562,274	1,400,811	1,086,107	1,010,479
Current assets				
Assets held for sale	68,646	148,439	-	148,439
Inventories	195,698	210,319	101,445	103,752
Trade and other receivables	154,527	158,388	68,312	60,183
Current tax assets	275	258	-	-
Loans/deposits given	2,788	4,550	5,030	30
Cash and cash equivalents	15,275	13,534	5,835	6,298
Total current assets	437,208	535,487	180,622	318,702
Total assets	1,999,482	1,936,298	1,266,729	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	45,093	42,830	16,624	16,624
Fair value reserve	179,150	194,658	128,390	143,971
Retained net profit/loss	24,727	66,441	10,779	7,071
Net profit/loss for the period	6,203	1,597	15,647	(10,882)
Currency translation reserve	(82,796)	(83,471)	-	-
Equity attributable to the controlling company owners	429,698	479,376	-	-
Non-controlling interests	344	149	-	-
Total equity	430,042	479,525	428,761	414,106
LIABILITIES				
Non-current liabilities				
Trade and other payables	913	926	170	170
Loans received and other financial liabilities	558,529	597,999	394,239	422,563
Lease liabilities	301,970	-	63,470	-
Deferred tax liabilities	46,270	50,198	35,399	39,338
Provisions	26,270	30,143	22,402	25,708
Total non-current liabilities	933,952	679,267	515,681	487,779
Current liabilities				
Trade and other payables	538,016	589,177	266,931	297,730
Loans received and other financial liabilities	85,937	186,748	51,818	129,565
Lease liabilities	8,034	-	628	-
Current tax liabilities	3,500	1,582	2,911	-
Total current liabilities	635,488	777,506	322,287	427,295
Total liabilities	1,569,440	1,456,773	837,968	915,075
Total equity and liabilities	1,999,482	1,936,298	1,266,729	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.	
	1–9, 2019	1–9, 2018	1–9, 2019	1–9, 2018
Sales revenue	1,643,739	1,617,327	929,024	880,009
Cost of goods sold and selling costs	(1,561,438)	(1,549,596)	(877,003)	(827,214)
Administrative expenses	(46,681)	(51,818)	(23,970)	(25,357)
Other operating revenue	12,319	19,857	8,229	4,854
Results from operating activities (EBIT)	47,938	35,770	36,279	32,291
Finance revenue	3,208	3,762	1,728	7,650
Finance expenses ¹	(39,188)	(25,260)	(17,216)	(20,508)
Net finance expenses	(35,981)	(21,498)	(15,488)	(12,857)
Profit/loss before tax	11,958	14,271	20,791	19,434
Tax	(5,752)	(5,368)	(5,144)	(4,887)
Net profit/loss for the period²	6,205	8,903	15,647	14,547
Net profit/loss for the period attributable to:				
Owners of controlling company	6,203	9,054		
Non-controlling interests	2	(151)		

¹ In the period 1–9, 2019, Mercator Group's finance expenses increased by EUR 13,928 thousand relative to the comparable period of the year before, especially due to introduction of the new accounting standard IFRS 16 Leases as of January 1, 2019, which stipulates additional interest expense from operating lease. The said interest expense related to operating lease amounted to EUR 15,834 thousand in the period 1–9, 2019.

² Mercator Group's net profit for the period 1–9, 2019, amounted to EUR 6,205 thousand. While this is EUR 2,698 thousand less than in the same period last year, the result is not comparable between the two periods due to the introduction of the new IFRS 16 Leases standard in 2019 and the gains from divestment of MC Belgrade and the property in Serbia in 2018. Adjusting for the effect of the said events, Mercator Group's net profit in the period 1–9, 2019, would have been higher than in the comparable period in the year earlier by EUR 9,560 thousand.

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.	
	1–9, 2019	1–9, 2018	1–9, 2019	1–9, 2018
Net profit/loss for the period	6,205	8,903	15,647	14,547
Other comprehensive income				
Items subsequently not reclassified to profit/loss	(56,557)	1,093	(992)	947
Net profit/losses recognized in revaluation surplus in respect of intangible assets	(57,684)	-	(2,057)	-
Change in the fair value of property, plant and equipment	(2,839)	-	(2,911)	-
Provisions for termination benefits	3	-	-	-
Other changes	-	142	-	-
Deferred tax for items subsequently not reclassified to profit/loss	3,963	951	3,976	947
Items that may be reclassified subsequently to profit/loss	868	449	-	-
Foreign currency translation differences	868	448	-	-
Change in fair value of available-for-sale financial assets	-	1	-	-
Other comprehensive income for the period	(55,688)	1,542	(992)	947
Total comprehensive income for the period	(49,483)	10,446	14,655	15,493
Total comprehensive income for the period attributable to:				
Owners of the controlling company	(49,678)	10,304		
Non-controlling interests	195	142		

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	200,181	45,102	(184,284)	(84,029)	478,261	140	478,401
Total comprehensive income for the period											
Net profit/loss for the period	-	-	-	-	-	-	8,902	-	8,902	2	8,903
Other comprehensive income	-	-	-	-	(3,637)	4,592	-	447	1,402	140	1,542
Total comprehensive income for the period	-	-	-	-	(3,637)	4,592	8,902	447	10,304	142	10,446
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/loss	-	-	-	-	-	19,442	(19,442)	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	(201,141)	-	-	3,464	(2,584)	203,726	-	3,465	-	3,465
Total transactions with owners	-	(201,141)	-	-	3,464	16,857	184,285	-	3,465	-	3,465
Balance as at September 30, 2018	254,175	6,381	(3,235)	42,830	200,008	66,551	8,902	(83,582)	492,030	282	492,311

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	-	-	-	-	-	-	6,203	-	6,203	2	6,205
Other comprehensive income	-	-	-	-	(15,508)	(41,048)	-	675	(55,882)	194	(55,688)
Total comprehensive income for the period	-	-	-	-	(15,508)	(41,048)	6,203	675	(49,678)	195	(49,483)
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/loss	-	-	-	-	-	1,597	(1,597)	-	-	-	-
Coverage of losses pursuant to the Management Board decision	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	2,263	-	(666)	(1,597)	-	-	-	-
Balance as at September 30, 2019	254,175	6,381	(3,235)	45,093	179,150	24,727	6,203	(82,796)	429,697	344	430,042

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	-	-	-	-	-	-	14,547	14,547
Other comprehensive income	-	-	-	-	(3,614)	4,561	-	947
Total comprehensive income for the period	-	-	-	-	(3,614)	4,561	14,547	15,493
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/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 September 30, 2018	254,175	6,381	(3,235)	16,624	145,599	4,561	14,547	438,652

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	-	-	-	-	-	-	15.647	15.647
Other comprehensive income	-	-	-	-	(15.581)	14.590	-	(992)
Total comprehensive income for the period	-	-	-	-	(15.581)	14.590	15.647	14.655
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/loss	-	-	-	-	-	(10.882)	10.882	-
Coverage of losses pursuant to the Management Board decision	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	(10.882)	10.882	-
Balance as at September 30, 2019	254.175	6.381	(3.235)	16.624	128.390	10.779	15.647	428.761

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.	
	1–9, 2019	1–9, 2018 adjusted ¹	1–9, 2019	1–9, 2018 adjusted ¹
Cash flows from operating activities				
Cash from operating activities before the change of working capital	122,291	70,258	59,961	53,180
Change in inventories	16,481	13,675	3,859	5,491
Change in trade and other receivables	9,014	4,864	(2,522)	1,473
Change in trade and other payables, and provisions	(50,172)	(22,247)	(28,571)	1,587
Tax paid	-	-	-	-
Cash from operating activities	97,614	66,550	32,727	61,729
Cash flows from investing activities				
Expenses for acquisition of property, plant and equipment, investment property, intangible assets and available for sale financial assets	(18,485)	(19,100)	(11,405)	(10,192)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	125,657	62,107	123,700	4,221
Interest income	766	790	804	3,053
Net receipts (expenses) for loans given and deposits	(759)	180	(19,761)	(7,511)
Cash from investing activities²	107,179	43,976	93,339	(10,430)
Cash flow from financing activities				
Net receipts/expenses for the loans received	(138,583)	(96,494)	(106,071)	(40,638)
Interest expenses	(20,526)	(23,151)	(13,070)	(14,939)
Repayment of lease liabilities	(43,942)	-	(7,388)	-
Cash from financing activities³	(203,052)	(119,646)	(126,529)	(55,577)
Net increase (decrease) in cash and cash equivalents	1,741	(9,120)	(463)	(4,277)
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	-	-	-	-
Cash and cash equivalents at the end of the period	15,275	14,992	5,835	7,358

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

² For both the company Poslovni sistem Mercator d.d. and the Mercator Group, cash flow from investing activities in the nine months of 2019 was affected especially by the monetization project in Slovenia and the related proceeds of approximately EUR 117 million.

³ In cash flows from financing activities included, pursuant to the IFRS 16 Leases, 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 September 30, 2019, amounted to EUR 1,999,482 thousand, which is EUR 63,184 thousand more than at the end of 2018.

As at September 30, 2019, the value of Mercator Group non-current assets amounted to EUR 1,562,274 thousand, which is EUR 161,463 thousand more than as at December 31, 2018. The cause for the increase is the item right of use assets, which is related to the introduction of the new IFRS 16 Leases effective as of January 1, 2019. Fixed assets accounts for the largest share of non-current assets with 97.1%, amounting to EUR 1,517,451 thousand. Within fixed assets, EUR 290,602 thousand refers to the right of use assets valued at fair value, which is a new item of IFRS 16 Leases and substantively represents the lease of fixed assets.

As at September 30, 2019, the value of Mercator Group's current assets amounted to EUR 437,208 thousand, which is EUR 98,279 thousand less than as at the end of 2018. The cause of decrease is predominantly the completion of the divestment transaction for ten shopping centres in Slovenia (monetization project) in February 2019. The largest share thereof includes inventories (44.8%) and trade and other receivables (35.3%).

Equity and liabilities

As at September 30, 2019, Mercator Group equity amounted to EUR 430,042 thousand, which is EUR 49,483 thousand less than as at the end of 2018, mostly due to the losses recognized in the revaluation surplus, pertaining to intangible assets.

As at September 30, 2019, Mercator Group's total financial liabilities amounted to EUR 954,471 thousand, which is EUR 169,725 thousand more than

POSLOVNI SISTEM MERCATOR D.D.

Assets of the company Poslovni sistem Mercator d.d. as at September 30, 2019, amounted to EUR 1,266,729 thousand, which is EUR 62,451 thousand less than at the end of 2018.

As at September 30, 2019, the value of the company's non-current assets amounted to EUR 1,086,107 thousand, which is EUR 75,628 thousand more than as at December 31, 2018. The cause for the increase is the item right of use assets, which is related to the introduction of the new IFRS 16 Leases effective as of January 1, 2019. Fixed assets accounts for the largest share of non-current assets with 68.7% (amounting to EUR 746,087 thousand). Within fixed assets, EUR 90,943 thousand refers to the right to use assets valued at fair value, which is a new item of IFRS 16 Leases and substantively represents the lease of fixed assets.

As at September 30, 2019, the value of company current assets was EUR 180,622 thousand, which is EUR 138,080 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 (56.2%) and trade and other receivables (37.8%).

Equity of the company Poslovni sistem Mercator d.d. as at September 30, 2019 amounts to EUR 428,761 thousand, which is an increase of EUR 14,655 thousand relative to the end of 2018, pertaining mostly to net profit for the current period.

As at September 30, 2019, the company's total financial liabilities amount to EUR 510,155 thousand, which is a decrease of EUR 41,973 relative to

as at the end of 2018. The cause for the increase is the liabilities pertaining to lease, which is related to the introduction of the new IFRS 16 Leases effective as of January 1, 2019. The said new financial liabilities as at September 30, 2019, amounted to EUR 310,005 thousand and represent the present value of future rents based on rental contracts of Mercator Group. Also affecting the total financial liabilities as at September 30, 2019, was the amount of EUR 116.6 million received as purchase consideration upon divestment of ten shopping centres, which was used for repayment of financial liabilities. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group's financial liabilities and financial assets, amounted to EUR 939,195 thousand as at September 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 Leases.

As at September 30, 2019, Mercator Group's provisions amounted to EUR 26,270 thousand. Compared to the end of 2018, provisions have decreased by EUR 3,874 thousand.

Mercator Group's trade and other payables as at September 30, 2019, amounted to EUR 538,929 thousand, which is EUR 51,174 thousand less than at the end of 2018, mostly due to the effect of the new agriculture legislation in Slovenia.

As at September 30, 2019, long-term coverage of non-current assets with non-current liabilities at the Mercator Group was at 87.3%, which is 4.6 percentage point more than as at the end of 2018.

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 September 30, 2019, were the newly recognized financial liabilities pertaining to leases, which are related to the introduction of the new IFRS 16 Leases effective as of January 1, 2019. The said new financial liabilities as at September 30, 2019, amounted to EUR 64,098 thousand and represent the present value of future rents based on rental contracts of the company Poslovni sistem Mercator d.d. Net financial debt, calculated as the difference between financial liabilities and financial assets, amounted to EUR 504,320 thousand as at September 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 Leases.

As at September 30, 2019, the company's provisions amounted to EUR 22,402 thousand. Compared to the end of 2018, provisions have decreased by EUR 3,306 thousand.

The company's trade and other payables as at September 30, 2019, amounted to EUR 267,101 thousand, which is EUR 30,799 thousand less than at the end of 2018, mostly due to the effect of the new agriculture legislation.

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

MERCATOR GROUP

Sales revenue

In the period 1–9, 2019, Mercator Group's sales revenue amounted to EUR 1,643,739 thousand, which is 1.6% more than in the equivalent period of the year before. Retail revenue also increased, by 1.4%. **Slovenia** (57.3% of total revenue) and **Serbia** (31.1% of total revenue) remain **Mercator Group's most important markets**. In the Slovenian market, the retail company **Poslovni sistem Mercator d.d.**

POSLOVNI SISTEM MERCATOR D.D.

In the period 1–9, 2019, the company Poslovni sistem Mercator d.d. generated revenue of EUR 929,024 thousand, which is 5.6% more than in the period 1–9, 2018. The increase in revenue is mostly a result of successful implementation of the Value Creation Plan initiatives pertaining to revenue and profit margin, new store concept and refurbishments, and optimization of assortment in the home product segment. Retail revenue increased by 4.7%.

saw its revenue increase by 5.6% relative to the same period of the preceding year.

Costs

Mercator Group cost of goods sold and selling costs which include the cost of goods sold, production costs, selling and marketing costs, and other expenses, amounted to EUR 1,561,438 thousand in the period 1–9, 2019, which is a 0.8% increase on the comparable period of last year.

Mercator Group's administrative expenses in the period 1–9, 2019, amounted to EUR 46,681 thousand, which is 9.9% less than in the comparable period last year.

Results from operating activities (EBIT)

In the period 1–9, 2019, Mercator Group's operating profit (EBIT) amounted to EUR 47,938 thousand, which is EUR 12,169 thousand more than the comparable figure for the same period of last year.

Net finance expenses

In the period 1–9, 2019, Mercator Group's finance income amounted to EUR 3,208 thousand, which is EUR 554 thousand less than in the comparable period of the year before, especially due to effect of currency translation differences.

In the period 1–9, 2019, Mercator Group's finance expenses amounted to EUR 39,188 thousand, which is EUR 13,928 thousand more than in the comparable period of the year before, especially due to introduction of the new accounting standard IFRS 16 Leases effective as of January 1, 2019, which stipulates additional interest expense from operating lease. This interest expense amounted to EUR 15,834 thousand in the period 1–9, 2019.

Profit before tax

In the period 1–9, 2019, Mercator Group's results profit before tax amounted to EUR 11,958 thousand, which is EUR 2,314 thousand less than in 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, production costs, selling and marketing costs, and other expenses, amounted to EUR 877,003 thousand in the period 1–9, 2019, which is a 6.0% increase relative to the comparable period of last year.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–9, 2019, amounted to EUR 23,970 thousand, which is 5.5% less than in the comparable period last year.

In the period 1–9 2019, operating profit (EBIT) of the company Poslovni sistem Mercator d.d. reached EUR 36,279 thousand, which is EUR 3,987 thousand more than in the comparable period of last year.

Finance income of the company Poslovni sistem Mercator d.d. amounted to EUR 1,728 thousand in the period 1–9, 2019, which is EUR 5,922 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 1–9, 2019, amounted to EUR 17,216 thousand, which is EUR 3,292 thousand less than in the comparable period of the preceding year, especially due to an 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 Leases, effective as of January 1, 2019, which stipulates additional interest expense from operating lease. This interest expense amounted to EUR 2,912 thousand in the period 1–9, 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 1–9, 2018.

Bottom line of the company Poslovni sistem Mercator d.d. in the period 1–9, 2019, was a profit before tax of EUR 20,791 thousand, which is EUR 1,357 thousand more than the profit in the same period of the preceding year.

Net profit for the period

Mercator Group's net profit for the period 1–9, 2019, amounted to EUR 6,205 thousand. While this is EUR 2,698 thousand less than in the same period last year, the result is not comparable between the two periods due to the introduction of the new IFRS 16 Leases standard in 2019 and the gains from divestment of MC Belgrade and the property in Serbia in 2018. Adjusting for the effect of the said events, Mercator Group's net profit in the period 1–9, 2019, would have been higher than in the comparable period in the year earlier by EUR 9,560 thousand.

EBITDA and EBITDAR

Mercator Group's EBITDA in the period 1–9, 2019, amounted to EUR 129,820 thousand (increase by EUR 42,982 thousand relative to the same period of the preceding year), while its normalized EBITDA amounted to EUR 130,534 thousand (increase by 63.4% over the same period of the year before).

Mercator Group EBITDAR in the period 1–9, 2019, amounted to EUR 131,263 thousand, which is 4.8% less than in the equivalent period of last year, mostly due to the proceeds and gains from the divestment of MC Belgrade and property in Serbia in March 2018. Both business events are of a non-recurring (one-off) nature and they are therefore eliminated from the normalized figures.

Mercator Group's normalized EBITDAR in the period 1–9, 2019, amounted to EUR 131,977 thousand, which is 0.8% more than in the same period of last year.

Net profit of the company Poslovni sistem Mercator d.d. for the period 1–9, 2019, amounted to EUR 15,647 thousand, which EUR 1,100 thousand more than in the comparable period of last year.

EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–9, 2019, amounted to EUR 65,557 thousand (increase by 15.8% relative to the same period of the preceding year), while its normalized EBITDA amounted to EUR 66,302 thousand (increase by 10.4% over the same period of the year before).

EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–9, 2019, amounted to EUR 66,261 thousand, which is 4.1% more than in the same period of last year. Normalized EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–9, 2019, amounted to EUR 67,006 thousand, which is 0.1% less than in the corresponding period of the preceding year, mostly due to lower proceeds from rents following the divestment of 10 shopping centres in Slovenia in February 2019.

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 September 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, November 11, 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