

**BUSINESS REPORT OF  
THE MERCATOR GROUP  
AND THE COMPANY  
POSLOVNI SISTEM  
MERCATOR D.D. FOR  
THE PERIOD 1-9, 2020**



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# Executive summary

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**Mercator Group revenue** in the first nine months of 2020 increased by 2.1% relative to the comparable period of the year before, and reached **EUR 1.6 billion**. In the period at hand, the Group's **revenue in its core activity of retail grew by 3.9%**, as **retail revenue increased by as much as EUR 1.3 billion**. Slovenia remains the Group's largest market. Here, the company **Poslovni sistem Mercator d.d.** recorded a **2.9%** rise in its sales revenue and a **5.2%** increase in its retail revenue.

Thus, Mercator Group's responsible and timely preparation for the coronavirus crisis, and especially systematic adjustment to all challenges brought about by the coronavirus crisis, not only in terms of provision of a broad offer in the core activity, but also with regard to lockdown of some activities, allowed it to successfully continue its development. In the period at hand, the Group pursued and met all key business and strategic goals.

Mercator Group's **normalized EBITDA** in the period 1–9, 2020, **amounted to EUR 126.3 million**, which is on a par with the equivalent period in 2019. Mercator Group's net income for the period 1–9, 2020, is negative at **EUR 69.1 million**, as a result of property revaluation conducted by Mercator Group on June 30, 2020. Consistently with the International Accounting Standards, revaluation of property on the one hand resulted in an increase of equity (fair value reserve) due to a property value increase of EUR 23.3 million, while on the other hand it had a negative effect of EUR 69.0 million on Mercator Group's operating profit. Net effect of revaluation was a property value decrease of EUR 45.7 million, which accounts for 4.6% of total value of land, buildings, and investment property. After the revaluation, as at June 30, 2020, total fair value of land, buildings, and investment property amounts to EUR 1 billion, while the negative effect of revaluation on the business performance, consistently with the relevant accounting standards, amounts to EUR 69.0 million. Regardless of property revaluation, Mercator Group remains one of the largest property owners in Slovenia and the region.

Mercator Group **increased its revenue**, especially in its core activity, **deleveraged** and continued all strategic projects, including the project of constructing a new logistics and distribution centre in Ljubljana. Thus, in the period 1–9, 2020, the Group further cut the net financial debt to normalized EBITDA ratio, observed as at September 30, 2020, **by 11.6%, or by 2.7%** excluding the effect of the accounting standard IFRS 16. As at September 30, 2020, the ratio between net financial debt and normalized EBITDA amounted to **5.3, which is considerably better than in the equivalent period of the preceding year (6.0)**, namely by 11.6% less.

As at September 30, 2020, Mercator Group had **20,381 employees**, or **2.8% more** than as at the same day of the year before. Thus, the Group remains the largest employer in the Republic of Slovenia and one of the largest in the region. Productivity per employee in the retail activity was **EUR 123,000**, which is **4% more** relative to the same period of 2019. Mercator Group's value added per employee in retail increased by **2.7%, and reached EUR 28,400**.

Regardless of the crisis, Mercator Group continued all activities that are key for its further successful development, both immediate and short-run. In this respect, continuation of the construction project for the new logistics and distribution centre in Ljubljana has the highest priority. The Group also continued to expand and update its business network. Moreover, a range of its activities during the crisis also proved it was a responsible part of the society it operates in. After the first wave of the healthcare crisis, Mercator actively prepared for a potential second wave.

1.

*Introduction*

# Profile and organization

## Mercator Group Profile as at September 30, 2020

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



**Branch Offices:** As at September 30, 2020, 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 (Fundacija solidarnosti Mercator) in Serbia; the company Mercator–CG d.o.o., is the founder of the Mercator Solidarity Foundation (Fundacija solidarnosti Mercator) in Montenegro, and the company Mercator–BH d.o.o., is the founder of the Mercator Solidarity Fund (Fundacija solidarnosti Mercator) in Bosnia and Herzegovina. The mission of all three international foundations is to provide solidarity aid to employees in respective companies, who are in social or financial distress.

## Presentation of the company Poslovni sistem Mercator d.d.



<b>Company name</b>	Poslovni sistem Mercator d.d.
<b>Company head office</b>	Dunajska cesta 107, 1113 Ljubljana, Slovenia
<b>Activity</b>	Retail in non-specialized food retail outlets (G 47.110)
<b>Registration number</b>	5300231
<b>VAT tax code</b>	SI45884595
<b>LEI (Legal Entity Identifier)</b>	549300X47J0FW574JN34
<b>Company share capital as at September 30, 2020</b>	EUR 254,175,051.39
<b>Number of shares issued and paid-up as at March 31, 2020</b>	6,090,943
<b>Share listing</b>	Ljubljanska borza d.d., official market, prime market, symbol MELR

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

In the period 1–9, 2020, the Supervisory Board of Poslovni sistem Mercator d.d. held five correspondence session and five regular session.

**At the 2nd correspondence session held on January 7, 2020**, based on the received offers and upon proposal by the Audit Committee, the Supervisory Board of the company Poslovni sistem Mercator d.d. selected a company to conduct a due diligence review of business integrity and risks at the Mercator Group.

**At the 5th regular session held on March 13, 2020**, the Supervisory Board of the company Mercator d.d. was presented the remuneration policy at the company Poslovni sistem Mercator d.d., a report by the Human Resource Committee, a report on the negotiations with commercial banks regarding the progress of refinancing, a report on transactions concluded with the majority shareholder, i.e. the company Agrokor d.d., and companies affiliated to it, for the period from November 1, 2019, to January 31, 2020, Annual Report on the work of Internal Audit in 2019, and results of Supervisory Board and Audit Committee self-assessment.

**At the 3rd correspondence session held on April 7, 2020**, the Supervisory Board of the company Poslovni sistem Mercator d.d. decided that due to the circumstances resulting from the coronavirus epidemic, the due diligence review of business integrity and risks at the Mercator Group would be postponed until further notice.

**At the 6th regular session held on April 23, 2020**, the Supervisory Board of the company Poslovni sistem Mercator d.d. adopted the Annual Report of the Mercator Group and the company Mercator d.d. for the year 2019, received a presentation of the Mercator Group business results in the year 2019, approved the wording of the Supervisory Board's Report on the Annual Report Audit for the year 2019, and received a presentation of the independent auditor's report on restricted statement of relations with affiliated companies pursuant to Article 545 of the Companies Act (ZGD-1). The Supervisory Board of the company Poslovni sistem Mercator d.d. was also presented the sales report for the 1st quarter of 2020, report on measures regarding the COVID-19 epidemic, information regarding refinancing, and the planned construction of the logistics and distribution centre. Moreover, the Supervisory Board of the company Poslovni sistem Mercator d.d. approved the proposed resolutions and the agenda for the 27th regular Shareholders Assembly of the company Poslovni sistem Mercator d.d., Internal Audit's Annual Plan for 2020, and the internal audit charter.

**At the 4th correspondence session held on April 29, 2020**, the Supervisory Board of the company Poslovni sistem Mercator d.d. authorized the Human Resource Committee to commence negotiations with the company Management Board (Tomislav Čizmić, Draga Cukjati, Igor Mamuza) on their new individual employment contracts that would be prepared by an independent legal expert.

**At the 5th correspondence session held on May 27, 2020**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the Business Report of the Mercator Group and the company Poslovni sistem Mercator d.d. in the period 1–3, 2020.

**At the 7th regular session held on June 16, 2020**, the Supervisory Board of Poslovni sistem Mercator d.d. was presented the sales performance in the period 1–3, 2020; refinancing activities, liquidity, and financial covenants; the logistics and distribution centre project; divestment procedure for petrol stations; and Report on all transactions concluded with the majority shareholder, i.e. the company Agrokor d.d., and companies affiliated to it, for the period from February 1, 2020, to April 30, 2020.

**At the 8th regular session held on July 3, 2020**, the Supervisory Board of Poslovni sistem Mercator d.d. tasked the company management to prepare comprehensive information regarding the refinancing process and various possibilities of financing the construction of the logistics and distribution centre.

**At the 9th regular session held on August 26, 2020**, the Supervisory Board of Poslovni sistem Mercator d.d. approved the capital increase at the company M–ENERGIJA d.o.o., as the Board was informed about the intended divestment of this company.

At the **6th correspondence session held on September 23, 2020**, the Supervisory Board of the company Poslovni sistem Mercator d.d. was presented the Business Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–6, 2020, 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, 2020, to July 31, 2020.



# Business strategy

## VISION

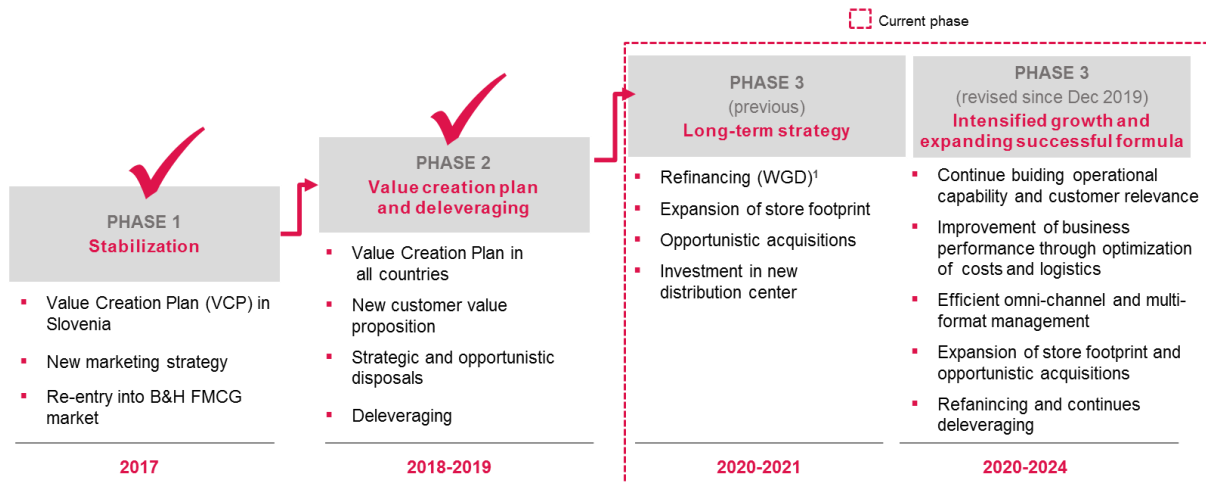
Mercator is the best local retailer offering cutting-edge store concepts in every market of its operations.

## MISSION

Mercator's future growth will be built on winning business models that include offer relevant and appealing to customers, long-term partnerships with local and regional suppliers, new store concepts, and enhanced operating excellence and cost efficiency across our businesses.

## STRATEGY

At the end of 2019, Mercator Group renovated a 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 2024.



<sup>1</sup> Refinancing of Super-Senior facility and Serbian deal (SD) have already been achieved in 2019.

## Value Creation Plan

In the third quarter of 2020, the Value Creation Plan was executed in all markets of Mercator Group's operations, and it included 126 initiatives, of which 59 were in Slovenia, 28 in Serbia, 18 in Bosnia and Herzegovina, 16 in Montenegro, and 5 in Croatia. Implementation of initiatives was strictly monitored and we responded with corrective measures in case of any deviations. In March, new initiatives were identified in all markets of Mercator's operations regarding the declared COVID-19 pandemic. The initiatives included more than 500 activities in all markets of Mercator Group operations. In June, we again tightened some measures and preventively prepared a response plan in case of a second wave of the COVID-19 epidemic. We are closely monitoring the situation regarding the COVID-19, and we continuously adjust our measures to the needs, as we monitor the epidemiologic situation in every market respectively.

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

### Profitable growth

Adapting our offer to the needs of customers and improvement of pricing perception with the goal of strengthening the market position, and use of intelligent tools for ensuring profitability.



1

### New store concept and refurbishments

Development of modern store concepts with emphasis on convenience and freshness, as a response to the new shopping trends, and implementation at the currently existing and new retail units.

2

3

### Cost optimization

Optimization and IT support to processes, as well as consistent systemic control by use of an advanced tool in all markets.

4

### Cash flow

Optimization of working capital management and divestment of non-core or non-operating assets.

5

### Brand differentiation

Strengthening the brand identity by focusing on partnerships with local and regional suppliers and implementing advanced shopping services at stores.

6

### Employees

Providing employees for in-demand categories, motivation/incentives, training and education, and strengthening of employee responsibility.

### Non-core operations

Initiatives related to the improvement of operations and performance of wholesale, technical consumer goods (home products and construction supplies – M Tehnika), and other non-core activities or businesses.

7

# Performance highlights

Mercator Group				
		1–9, 2020	1–9, 2019	Change 1–9, 2020/ 1–9, 2019
INCOME STATEMENT	(in EUR 000)			
	Sales revenue <sup>1,2</sup>	1,615,466	1,582,885	2.1%
	Sales revenue from retail <sup>Δ</sup>	1,293,829	1,244,891	3.9%
	Net profit for the period	-69,071	6,205	-
STATEMENT OF FINANCIAL POSITION	(in EUR 000)			
	Total assets as at September 30	1,867,043	1,999,482	-6.6%
	Total assets as at September 30	385,645	430,042	-10.3%
	Net financial debt as at September 30 <sup>Δ</sup>	894,678	936,534	-4.5%
	Net financial debt as at September 30 (w.o. effect of IFRS 16 Leases)	584,594	626,529	-6.7%
CASH FLOWS	(in EUR 000)			
	Net financial debt / equity as at September 30 <sup>Δ</sup>	2.3	2.2	6.5%
	Net financial debt / EBITDA normalized <sup>4, Δ</sup>	5.3x	6.0x	-11.6%
	(in %)			
	EBITDA normalized / sales revenue <sup>Δ</sup>	7.8%	8.2%	-0.4 p.p.
OTHER INDICATORS				
	Capital expenditure <sup>Δ</sup> (in EUR 000)	22,872	18,485	23.7%
	Number of employees as at September 30	20,381	19,823	2.8%
	Productivity per employee in retail <sup>Δ</sup> (in EUR 000)	123.0	118.3	4.0%
	Value added per employee in retail <sup>Δ</sup> (in EUR 000)	28.4	27.6	2.7%
	Market value per share as at September 30 (in EUR)	15.0	20.4	-26.5%
	Market capitalization as at September 30 (in EUR 000)	91,364	124,255	-26.5%

<sup>1</sup> In 2019, sales revenue is adjusted and present only the net margin earned on arrangements from Transit sales.

<sup>2</sup> The data for the year 2019 is adjusted for transfer of a part of the early payment discounts from the financial section to the business section of the Income statement.

<sup>3</sup> Normalized EBITDA, adjusted for the effect of IFRS 16 Leases, amounts to EUR 77,435 thousand for the period 1–9, 2020, and to EUR 79,253 thousand for the period 1–9, 2019. The reason for the decrease normalized EBITDA is the decline in tourism activity in Montenegro due to the COVID-19 epidemic

<sup>4</sup> Normalized EBITDA is adjusted to annual level. As at September 30, 2020 net financial debt/EBITDA normalized without IFRS 16 Leases amounted to 5.8x, and as at September 30, 2019 amounted to 5.9x.

<sup>Δ</sup> Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

# Review of key events

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## Retail network development and divestment activities:

In the period 1–9, 2020:

- we invested EUR 22,872 thousand into property, plant, and equipment (CAPEX);
- we divested EUR 5,570 thousand worth of property, plant and equipment;
- in all markets of our operations, we acquired a total of 16 new retail units, or 7,075 m<sup>2</sup> of new gross area, as well as a logistics and distribution centre (warehouse) in Novi Banovci in Serbia, spanning 4,153 m<sup>2</sup>.

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

We continued to develop the concept for technological equipment of our new distribution centre. This was the basis for preparing the documentation for the tender to which we invited the world's largest warehouse process automation providers. Fourteen equipment providers expressed their interest for taking part in the tender. Simultaneously with the selection of the provider of technological equipment for the distribution centre, we have also started to work with the selected building designers in order to define the architecture and functional concept of the new distribution centre, which will best fit the needs of our logistics processes. The Final solutions for both technology and the building will be the basis for the start of the procedure for obtaining the building permit. All processes of planning the new logistics and distribution centre are taking place based on the project management principles.

## Events related to the developments at the Agrokor Group

In August 2020, a report by the extraordinary Management Board member, whose appointment was proposed by the Government of the Republic of Slovenia, for the period from May 1, 2020, to July 31, 2020, was released. The report indicates that all transactions signed between the company Poslovni sistem 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.

In September 2020, the European Commission approved the transfer of Group Mercator from Agrokor to Fortenova Group. Permits have been obtained from all competent competition authorities, except Serbia, where we expect approval by the end of 2020. This has paved the way for the transfer of Mercator to be realized by the end of this year and for Fortenova Group's retail as of 2021 to start acting on the market as a common, regional group, whose operations are in the interest of all stakeholders – from employees through suppliers and shareholders to the entire economic environment, both in the national states and regionwide.

## Revaluation of real estate

Pursuant to the IFRS, Mercator Group regularly, at least every three to five years, reappraises the fair value of its tangible fixed assets (property, plant, and equipment) based on the revaluation model. The most recent appraisal was carried out late in 2017. On April 1, 2020, major changes occurred with regard to the country risk premium, which had a notable effect on capitalization rates used by the Mercator Group in its most recent appraisals conducted by an independent third-party certified appraiser. Therefore, Mercator Group analyzed at the end of June 2020, whether there are material indicators that could trigger the revaluation of fair value of Mercator's assets. In the appraisal as to whether there are indicators requiring reappraisal of fair value, the management reviewed independent sources of information, such as developments in the market (including the rate of return and changes in the real estate market) as required by the IFRS 13, and the increased uncertainty resulting from the COVID-19 epidemic.

As at June 30, 2020, real estate was reappraised. It was found that fair value of property, plant, and equipment (fixed assets) is considerably different that it was in 2017. Reappraisal was conducted consistently with the requirements of IAS 16. Reappraisal or revaluation of 833 properties across all markets of Mercator Group

operations is a challenging task, and Mercator Group is a rather atypical retailer in terms of property ownership, as retailers are normally not the owners of the real estate they use.

On 30 June 2020, real estate appraisal was conducted by a certified real estate appraiser, KF Finance d.o.o.

Calculation of property revaluation pointed to a net decrease in real estate value (impairment) of EUR 45.7 million, which is equivalent to 4.6% of total value of property (land), plant (buildings), and investment property. After the revaluation, the value is EUR 1 billion. Real estate revaluation resulted in an increase of equity (fair value reserve) due to increase in value of real estate in the amount of EUR 23.3 million, while net impairment of real estate value in the amount of EUR 69.0 million had a negative effect on Mercator Group's operating results.

### Events related to the declaration of epidemic

At the end of 2019, a new coronavirus was reported in China. It was named SARS-Cov-2 and it is the cause of the COVID-19 disease. In the first months of 2020, the virus spread around the entire world. As a result of the growing number of infections, the World Health Organization declared a pandemic on March 11, 2020. A day later, the Government of the Republic of Slovenia declared an epidemic. Numerous measures were adopted, which almost entirely stopped all public life. Offer and sale of goods and services in the accommodation, hospitality, sports and recreation, cultural, and other activities was temporarily prohibited. The temporary prohibition exempted offering and selling goods and services on-line, as well as pharmacies and grocery stores.

In early February, the Mercator Group Management Board responded to the crisis and appointed a **crisis task force** that analyzed and coordinated on a daily basis the following **six key points**: employee safety, customer safety, supply chain safety, revenue growth management, corporate social responsibility, and liquidity management. Several scenarios were analyzed, and a number of measures for planning and management of liquidity, supply flows, costs, and investments were implemented. Similar measures have also been introduced in other countries of Mercator Group operations.

In this situation, we care for the **health and safety of our employees and customers**. Therefore, we have implemented preventive measures that include providing, installing, and making available appropriate protective equipment (masks, gloves, disinfectants etc.), providing appropriate technical equipment, installing additional barriers at checkout counters to protect both the employees and the customers, equipping our stores with additional instructions for customers, as well as communicating regularly and continuously with our employees and customers and providing information to them. Despite the lack of human resources, we are conducting all activities in compliance with the relevant labour and employment legislation.

As the largest retailer in Slovenia and the region, we have a special responsibility for uninterrupted supply of goods to the population. We are maintaining and ensuring **safe supply chains** and we care for uninterrupted logistics even in circumstances of considerably higher daily and hourly sales. Before the start of the crisis, we ensured an adequate amount of inventory, especially of essential food products. Delivery periods from other countries of the European Union were extended. However, due to the measures adopted in a timely manner, supply remains uninterrupted. In the current circumstances, we are supporting the local suppliers with whom we are connected via the My Brands (Moje znamke) and We Love Local (Radi imamo domače) projects. The strategic purchasing platform and the long-term relations we have developed have proven a major competitive advantage, since we did not have to establish sourcing from the local suppliers anew in a crisis.

In terms of **revenue growth management**, we focused on offering competitive prices, offering the essential consumer goods, and offering volume discounts. We have increased the capacity of our online store and advertised placement of joint orders between families and neighbours in order to improve the availability of delivery slots.

We did not neglect our corporate social responsibility either in the situation at hand. Mercator donated 30 tonnes of food and hygiene products to the Slovenian Red Cross and the Caritas Slovenia organizations. Hospital staff at COVID points were donated Minute products, and we delivered lunches to Civil Protection Service workers in towns that were the most endangered due to the number of infections. Working with our partners in the My Brands project, we delivered complimentary packages to 3,000 Slovenian Red Cross and

Caritas Slovenia volunteers, and we donated water and sandwiches to truck drivers lined at the border crossings. Working with the Slovenian Ski Association, we were joined by ski jumpers and their coaches in supporting the delivery of products purchased via the online store, thus making sure more people stay at home. Upon introduction of extraordinary measures, we made an appeal for moderation and solidarity, and for avoidance of excessive reactions and stockpiling when shopping. In the campaign titled "A good neighbour is there for you", we emphasized the comprehensive social awareness of all of us, and respect for each other, as well as the fact that now is the time to take care of each other and for all that are close to us. Activities related to the epidemic situation also took place in all key markets of our operations – including Serbia, Montenegro, and Bosnia and Herzegovina.

With all activities that considerably exceeded those of its competition, Mercator Group proved even in the hardest of circumstances its commitment to corporate social responsibility and its awareness of the importance of quick and effective aid to the environment in which it operates. All activities conducted during the corona crisis also had a positive effect on the Group's reputation. At the end of June, all countries in which Mercator Group operates declared the end of the COVID-19 epidemic. Despite the expiry of the government relief measures related to the COVID-19 epidemic, Mercator continued to carry out the protective measures for its employees and its customers, consistently with the recommendations of the national institutes of public health.

### Government aid

Mercator Group companies made use of the measures intended to relieve the effects of the COVID-19 epidemic on the economy, adopted by governments in respective countries of its operations, and this alleviated the effect of the epidemic on its performance. On April 2, 2020, the Government of the Republic of Slovenia adopted the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy. The first set of measures was intended for private-sector employees whose gross base salary is lower than Slovenian gross minimum pay multiplied by three, who on average experienced more exposure to health risks during the epidemic as a result of their work, and whose workload increased as a result of the epidemic control. These employees were entitled to a EUR 200 bonus. All Slovenian legal persons that are a part of the Mercator Group paid out a bonus, pursuant to the law, for March (proportionally for the period from March 13 to March 31, 2020), April and May. The new bonus was financed from the funds pertaining to exemption from payment of pension insurance contributions.

The employers were also entitled to reimbursement of compensation in cases when the employers could not provide work for their employees and they were furloughed. This applied to employers who temporarily furloughed their employees from March 31, 2020, and who estimated that their revenue in 2020 would decrease by more than 10% relative to the same period of 2019. At the Mercator Group, two companies received such aid: Mercator-IP d.o.o. and Mercator-Emba d.d.

The new laws also specified that also employers who paid out salary compensation to their employees who in turn were unable to perform their work due to force majeure, were entitled to reimbursement in case their employees did not perform their work due to force majeure (care for children due to closed schools and kindergartens) and other objective reasons or due to inability to arrive to work due to restriction of public transport or closing down of borders with neighbouring countries and who received salary compensation as a result. Within the Mercator Group, all Slovenian legal persons received such aid.

### Events following the end of the financial period

In June, Slovenian government declared the end of the epidemic, which resulted in reopening of industrial plants that had been closed during the epidemic. The effect thereof was seen in recovery of wholesale (HoReCa) and DIY segments. Despite the discontinuation of COVID-19 control measures, Mercator continued all protective measures for the employees and customers consistently with the recommendations of the Slovenian National Institute of Public Health.

In June, the Serbian government also briefly announced the end of the epidemic, which resulted in reopening of industrial plants that had been closed during the epidemic. Unfortunately, Serbia was hit by a second wave of the epidemic, which resulted in resumption of protective measures in Serbia and measures introduced by other



countries who restricted entry for Serbian citizens. Such restriction strengthened the trend of increasing local consumption; in a normal summer tourist season, this would typically be spent in other countries.

Although Montenegro's epidemiological situation was rather favourable after the declaration of the end of the epidemic in June, their market is highly dependent on the summer tourist season. Retail consumption during high season (July and August) plummeted by up to 50% relative to the same period of the year before, as protective measures resulted in a decrease in the number of traditional tourists from Russia, Serbia, and neighbouring countries.

In a similar fashion to other neighbouring countries, Bosnian government declared the end of the epidemic in June. However, due to their epidemiologic statistic, some countries restricted entry for all coming Bosnia. This had a slight effect on consumption related to the citizens employed abroad who normally come to Bosnia during summers. Luckily, local consumption remained high, which was reflected in stable revenue relative to the year before.

### Updated hypermarket Kranj Primskovo

During the summer, we fully updated our second most successful hypermarket in terms of revenue. Upon opening on August 27, 2020, we prepared an attractive sweepstakes for our customers, supported by our partners. The main prize was a brand-new car **Citroën C3**. The opening campaign reached the entire population of the wider Kranj area. The hypermarket spans 4,340 m<sup>2</sup> of sales area. New features include a corner for manual prosciutto slicing, a sushi island, offer of special sports diet products Polleo, a department with tables that allows a brief pause during shopping, larger departments with ready-to-eat food, and a modern wine department. The customers can also use the M sken and M sken Mobile services that allow a fully independent shopping experience. Thus, the store is even better tailored to the preferences and needs of the customers who shop there on a daily basis.

### Virtual tour of M Tehnika Črnuče

By digitalizing the M Tehnika Črnuče store, we allowed a virtual walk around the store to make customers' decision to visit the store and shop there easier. We decided for the virtual approach due to the changed conditions that restrict a trip to the store or make it entirely impossible for the customer.

### Events following the end of the financial period

In October 2020, the District Court in Ljubljana removed five companies of the Mercator Group from the court register. On October 6, 2020, the companies Mercator Maxi, catering and services, d.o.o., Platinum A, real estate management, d.o.o., and Platinum B, real estate management, d.o.o. were deleted. The companies Platinum C, real estate management, d.o.o. and Platinum D, real estate management, d.o.o. were deleted on October 14, 2020. The companies did not conduct any business activities.

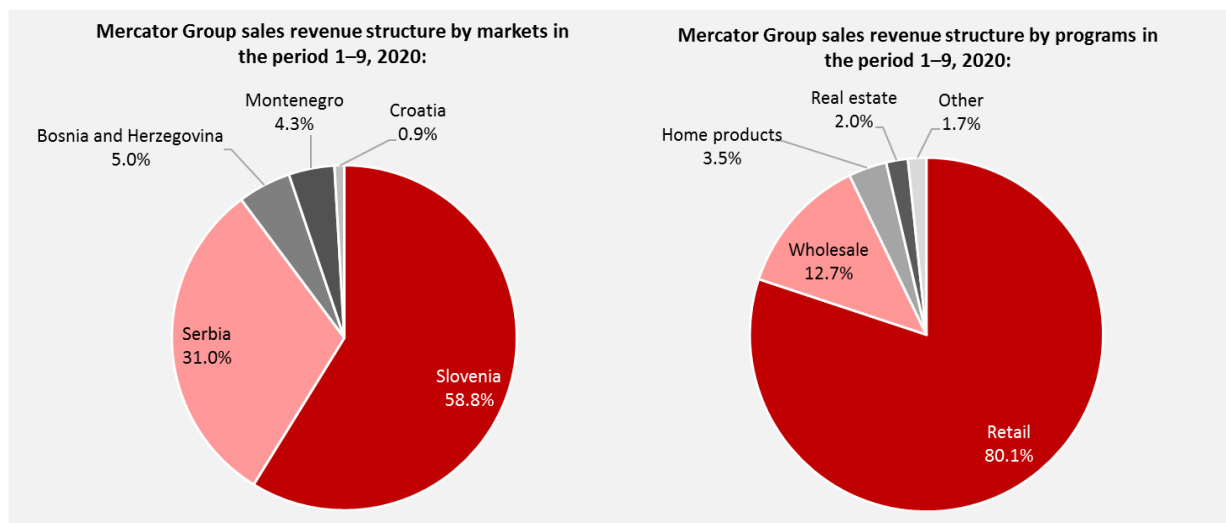
2.

*Business  
report*

# Sales

**Mercator Group sales revenue in the period 1–9, 2020, was up 2.1% relative to the comparable period of the preceding year, as it reached EUR 1,615,466 thousand.** Slovenia remains Mercator Group's most important market. Here, the trade company **Poslovni sistem Mercator d.d.** recorded a 2.9% growth in its sales revenue and a 5.2% growth in its retail revenue. Total sales revenue in the market of Slovenia grew by 2.6%. Mercator Group saw the largest revenue growth in the period 1–9, 2020, in the market of **Bosnia and Herzegovina (3.7%)** and **Serbia (3.7%)**. The drop in revenue was due to a marked decline in tourism activity recorded in the market of **Montenegro (14.0%)** and **Croatia (4.8%)**, where Mercator operates only in the real estate business, which was also strongly affected by the COVID-19 epidemic. In order to mitigate the negative effects of coronavirus, we introduced the following initiatives: negotiations with suppliers, further implementation of My Brands platform in all markets, improvements of category management process which also effect relative margin, better utilization of loyalty functionalities and data usage for targeted promotional activities and optimization of promotional activities during epidemic period.

**In the period 1–9, 2020, Mercator Group sales revenue in retail operations that are Mercator Group's core activity, increased by 3.9%.** In the period 1–9, 2020, retail revenue increased by 5.2% in the markets of **Slovenia**, by 5.1% in **Serbia**, and by 4.8% in **Bosnia and Herzegovina**. A drop of revenue was only seen in the market of **Montenegro (14.5%)**.



Positive sales revenue performance trends are a result of successful execution of the business strategy and all business goal attainment initiatives. In the first month of the 2020 fiscal year, Mercator Group identified a strong trend of solid performance and profitability. With strategic focus on all key aspects of differentiation, and especially the coordinated execution of all value-creation plan initiatives in all markets, Mercator Group succeeded in sustaining and upgrading the positive business trends throughout the third quarter of 2020. Insistence on regular and precise monitoring of all operating plans has proven a successful method for accomplishment of all strategic goals laid down by the Mercator Group.

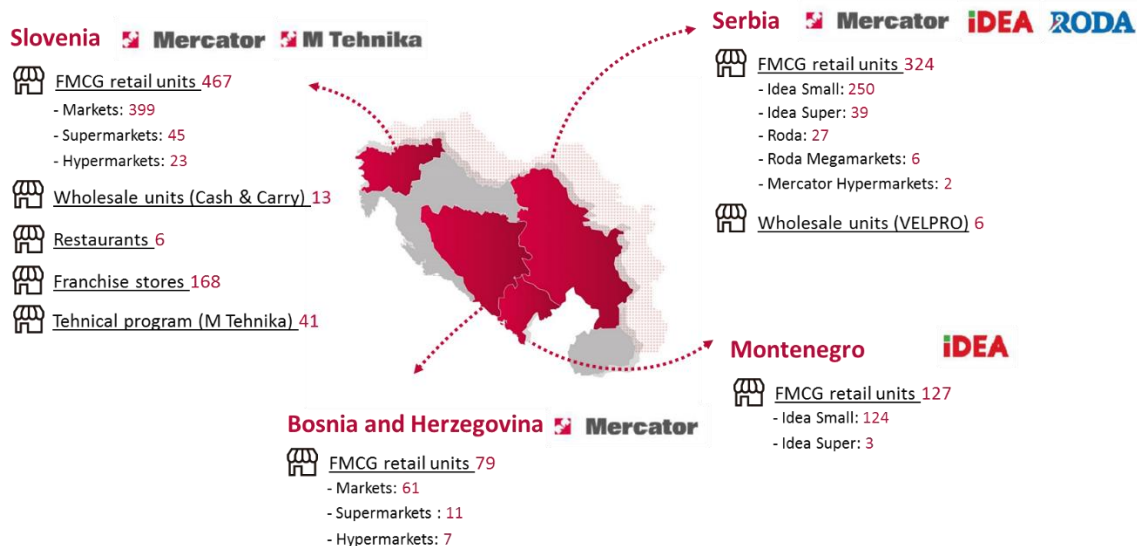
Mercator Group's business performance remained successful after the declaration of an epidemic in Slovenia, followed by similar declarations in all markets of our operations. Mercator Group prepared for the crisis in a timely and responsible manner. Early enough, i.e. before the declaration of the COVID-19 epidemic and before the awareness of potential risks brought about by an epidemic became acute, Mercator Group started organized preparation for all potential scenarios and accurately specified the potential risks. Preparation for the crisis was consistent with the Group's basic responsibilities: responsibility for the safety of employees and customers,

responsibility for ensuring uninterrupted supply to the population, and of course the responsibility for the Group's uninterrupted and successful operation.

Only timely and responsible preparation for the crisis allowed Mercator Group to sustain its positive performance trends started in the period before the coronavirus crisis. Although the declaration of epidemic and introduction of government measures to curtail it in respective markets had a negative impact on performance of almost all Mercator Group's operating activities, the Group succeeded in sustaining the positive performance trends that started early in this fiscal year. One factor contributing to Mercator's success in maintaining the positive performance trends is the fact that during the crisis, coordination, analysis, planning and decision-making sessions were held in all markets of Mercator's operations daily, and in the most critical moments even twice daily. Moreover, operation during the crisis has proven that Mercator Group employees are highly motivated, loyal, and responsible for accomplishment of the Group's goals.

# Sales network

## Composition of units by store formats as at September 30, 2020



MERCATOR GROUP	Gross sales area (in m <sup>2</sup> )	Net sales area (in m <sup>2</sup> )
FMCG retail units <b>997</b>	809,751	518,564
Wholesale units (Cash & Carry/VELPRO) <b>19</b>	56,231	33,663
Restaurants <b>6</b>	2,565	1,019
Technical program (M Tehnika) <b>41</b>	62,033	36,981
<b>Total units under management 1,063</b>	<b>930,580</b>	<b>590,227</b>
Franchise stores <b>168</b>	35,868	23,591
<b>TOTAL 1,231</b>	<b>966,448</b>	<b>613,818</b>

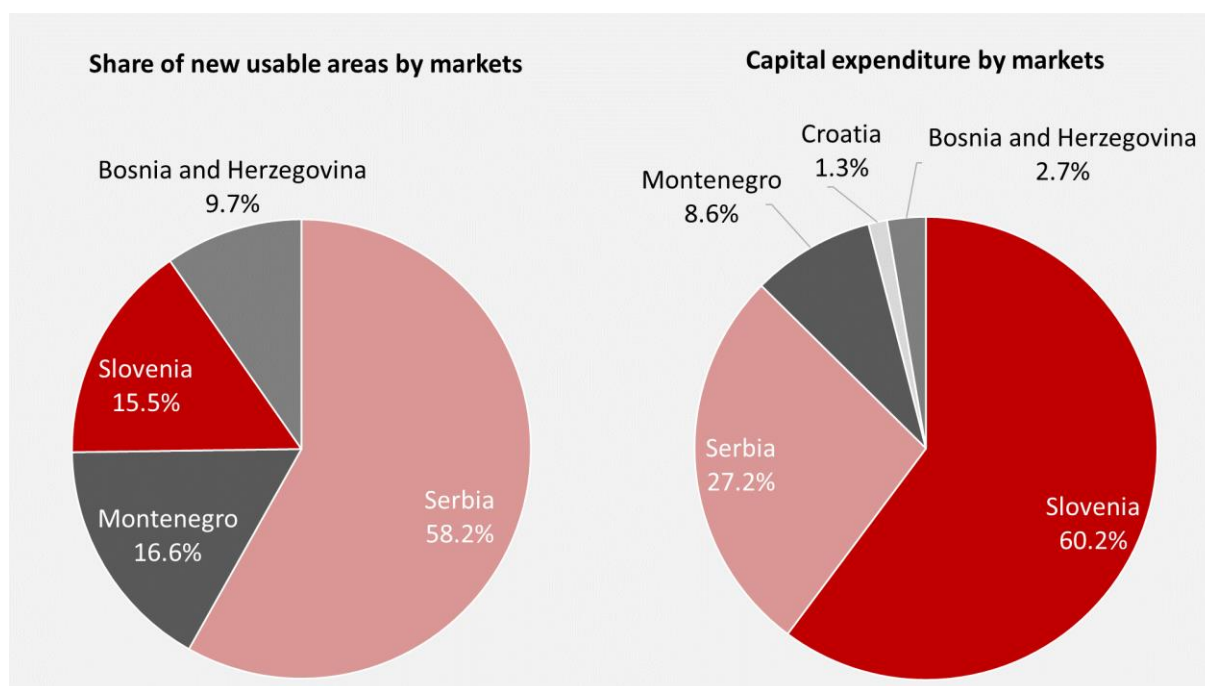
## Investment and divestment

In the 1-9 2020 period, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 22.9 million. Of the total investment amount, 60.3% was used for investments in Slovenia and 39.8% was used for investments in international markets.

	Capital expenditure in the period 1-9, 2020 (in EUR 000)	Structure (in %)
Slovenia	13,761	60.2%
Serbia	6,225	27.2%
Montenegro	1,965	8.6%
Bosnia and Herzegovina	628	2.7%
Croatia	294	1.3%
<b>Total</b>	<b>22,872</b>	<b>100.0%</b>

Investment into refurbishment and updates of existing units accounted for 53.2% of total investments; IT investments accounted for 15.9%; expansion of new retail units represented 16.8%; investments into distribution centres accounted for 8.1%; and the remaining 6.0% was invested in non-trade activities.

In the period 1-9, 2020, Mercator Group newly acquired 11,228 square meters of gross store area, namely 10,328 square meters through operating leases and 900 square meters through the filling of its own- available space.



In the period 1–9, 2020, Mercator Group divested property, plant, and equipment worth EUR 5.57 million, of which EUR 5.48 million pertains to the divestment of property (real estate) and EUR 0.09 million pertains to plant and equipment.

#### Summary of total gross retail area as at September 30, 2020

	Gross retail area (in m²)		
	Used for own operations	Leased out	TOTAL
Owned retail area	460,969	326,194	787,163
Leased retail area	469,610	152,980	622,590
<b>Total retail area</b>	<b>930,579</b>	<b>479,174</b>	<b>1,409,753</b>
Owned warehouse capacity	153,464	20,091	173,555
Leased warehouse capacity	60,346	10,508	70,854
<b>Total warehouse capacity</b>	<b>213,810</b>	<b>30,599</b>	<b>244,409</b>
Owned commercial facilities	17,825	3,652	21,477
Leased commercial facilities	8,051	806	8,857
<b>Total commercial facilities</b>	<b>25,876</b>	<b>4,458</b>	<b>30,334</b>
<b>GROSS AREA UNDER MANAGEMENT</b>	<b>1,170,265</b>	<b>514,231</b>	<b>1,684,496</b>
- of which owned	632,258	349,937	982,195
- of which leased	538,007	164,294	702,301



## Overview of newly opened and updated units by markets in the period 1–9, 2020



## Slovenia

**Area of new facilities:** 1,745 m<sup>2</sup>

Number of new units: 3

Openings: Center Tehnike Logatec; Market Šentvid pri Stični; Market Miklavž na Dravskem polju

**Refurbishments/layout updates:**

Number of units: 62



Renovated and enlarged hypermarket HM Kranj Primskovo.



New unit IDEA Zlatibor.



## Serbia

**Area of new facilities:** retail 2,376 m<sup>2</sup>, logistics and distribution center 4,153 m<sup>2</sup>

Number of new units: retail 5, logistics and distribution center 1

Openings: Market Patriarha Pavla, Novi Sad; Market Zrenjanin; Market Zlatibor 2; Market Organic, Beograd; Market Boljevac; LDC Novi Banovci

**Refurbishments/layout updates:**

Number of units: 80



## Montenegro

**Area of new facilities:** 1,862 m<sup>2</sup>

Number of new units: 6

Openings: Market Krivi most, Podgorica; Market Zabjelo 4, Podgorica; Market Stari aerodrom 3, Podgorica; Market Porto Novi, Herceg Novi; Market Tivat, Magistrala; Market Dom revolucije, Nikšić

**Refurbishments/layout updates:**

Number of units: 2



New unit of IDEA Dom Revolucije, Nikšić



Newly opened Supermarket Travnik.



## Bosnia and Herzegovina

**Area of new facilities:** 1,092 m<sup>2</sup>

Number of new units: 2

Openings: Market Brčko; Supermarket Travnik

# Financial management

## Stable financial operations

As at September 30, 2020, Mercator Group's net financial debt (not taking into account the IFRS 16 Leases) amounted to EUR 584,594 million, which is 0.4% less than as at the end of 2019, and 6.7% less than as at September 30, 2019. Decrease of total financial liabilities as at September 30, 2020, relative to the equivalent period of the preceding year, was also a result of the completion of transaction and payment of the acquisition price related to the monetization project in Serbia at the end of 2019. Relative to December 31, 2019, Mercator Group's total financial liabilities decreased by EUR 28,987 thousand, which is mostly a result of repayment of principal of financial liabilities in the amount of EUR 11,432 thousand on the one hand, and decrease of financial liabilities related to lease contracts in the amount of EUR 17,554 thousand on the other.

## Net financial debt

in EUR 000	September 30, 2020	December 31, 2019	September 30, 2019	Change Sep. 30, 2020/ Dec. 31, 2019	Change Sep. 30, 2020/ Sep. 30, 2019
Non-current borrowings	70,521	471,902	513,635	-85.1%	-86.3%
Current borrowings*	486,720	96,771	63,331	403.0%	668.5%
Financial leases**	48,722	64,057	67,478	-23.9%	-27.8%
<b>Total financial liabilities</b>	<b>605,963</b>	<b>632,730</b>	<b>644,444</b>	<b>-4.2%</b>	<b>-6.0%</b>
Cash and cash equivalents***	21,369	45,777	17,915	-53.3%	19.3%
<b>Net financial debt (without the effect of IFRS 16 Leases)</b>	<b>584,594</b>	<b>586,953</b>	<b>626,529</b>	<b>-0.4%</b>	<b>-6.7%</b>
<b>Present value of future rent IFRS 16 Leases</b>					
New non-current and current lease liabilities**	310,084	312,303	310,005	-0.7%	0.0%
Total lease liabilities related to the new standard IFRS 16 Leases	<b>310,084</b>	<b>312,303</b>	<b>310,005</b>	<b>-0.7%</b>	<b>0.0%</b>
<b>Net financial debt (with the effect of IFRS 16 Leases)</b>	<b>894,678</b>	<b>899,256</b>	<b>936,534</b>	<b>-0.5%</b>	<b>-4.5%</b>

\* The item also includes interest reclassified in the statement of financial position from "current trade payables and other payables" to "short-term borrowings".

\*\* The items "Financial leases" and "New non-current and current lease liabilities" are presented in the statement of financial position as "Lease liabilities".

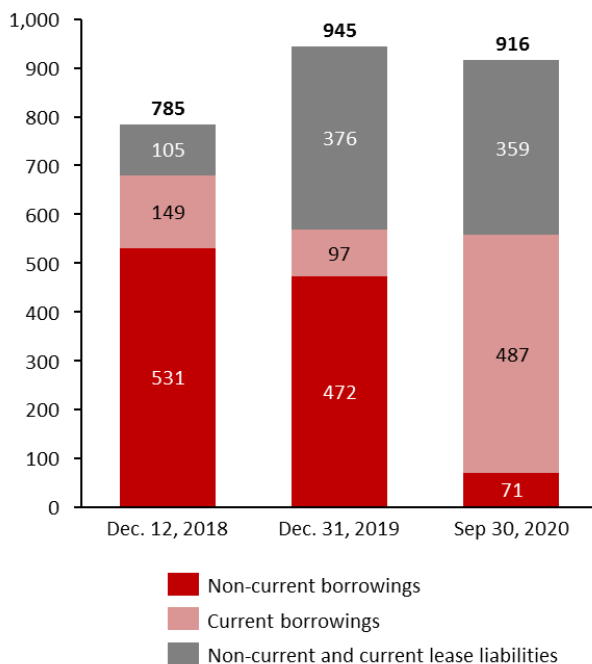
\*\*\* The item includes also current deposits of companies Mercator – S d.o.o., and Mercator Emba d.d.

## 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, intellectual property, and cash/deposits in bank accounts.

### Debt to equity and financial liability ratio

Financial liabilities (in EUR mn)



As at September 30, 2020, Mercator Group's ratio between equity and net financial debt<sup>Δ</sup> was at 1 : 2.32.

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. Moreover, during the last year Mercator Group successfully refinanced both the Group's super senior facility and the Serbian Deal on financial debt restructuring.

The share of non-current financial liabilities in total financial liabilities as at September 30, 2020, amounted to 39.4% (81.7% as at December 31, 2019). The ratio between non-current and current financial liabilities changed due to the fact that a significant part of Mercator's financial liabilities matures in March or June 2021. Coverage of non-current assets with non-current liabilities at the Mercator Group as at September 30, 2020, is at 60.6%. <sup>Δ</sup>

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

### Available liquidity as at September 30, 2020

As at September 30, 2020, Mercator Group had access to the following liquidity <sup>Δ</sup>:

in EUR 000	September 30, 2020
Cash and cash equivalents	21,369
Standby revolving credit lines	16,101
<b>Total</b>	<b>37,470</b>

<sup>Δ</sup> Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

# Mercator share and investor relations

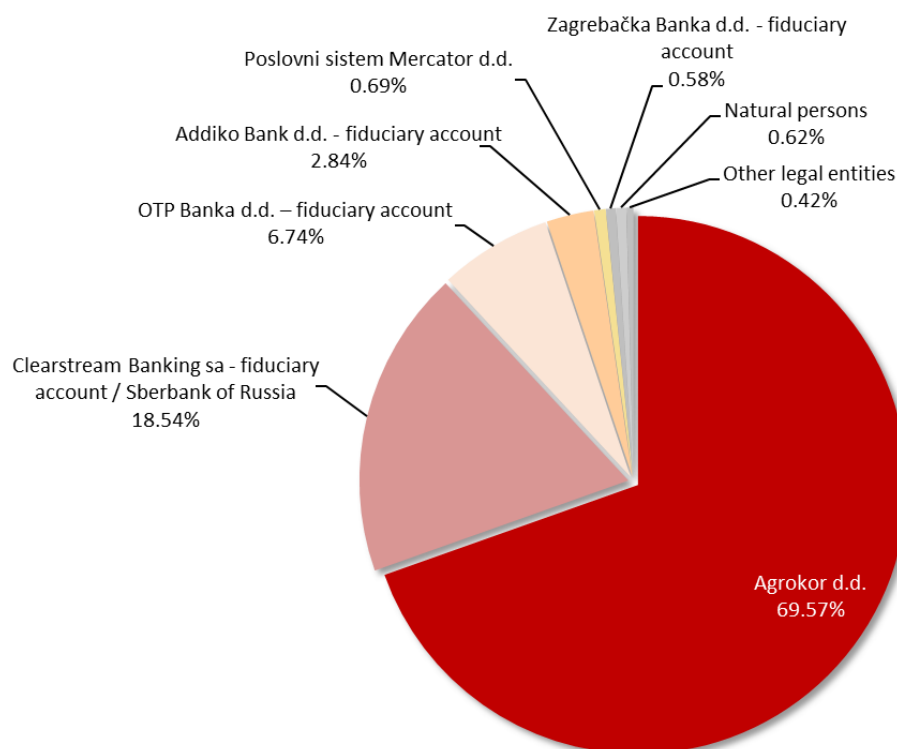
## Share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator d.d. as at September 30, 2020:



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	1,515

Ownership structure of the company Poslovni sistem Mercator d.d. as at September 30, 2020:



### Structure of the company shareholders as at September 30, 2020

As at September 30, 2020, the four largest shareholders combined owned **98.68%** 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 %
<b>Total</b>		<b>6,090,943</b>	<b>100.00 %</b>

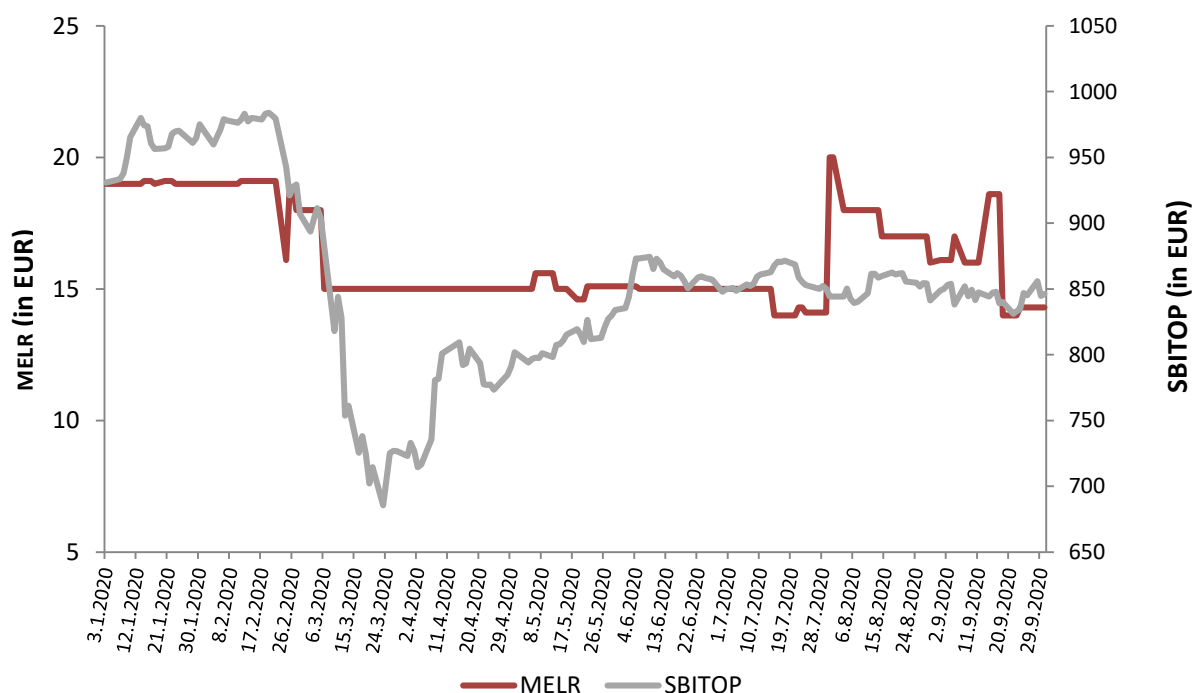
### Shares held by Management and Supervisory Board Members as at September 30, 2020

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, 2020.

### Foreign shareholders

As at September 30, 2020, the share of international shareholders in the company Poslovni sistem Mercator d.d. was **98.67%** and did not change compared to 2019.

### Movement of closing price per MELR share in the period 1–9, 2020, compared to the movement of the SBITOP index



**Key information for the shareholders**

	September 30, 2020	September 30, 2019	Change Sep. 30, 2020/ Sep. 30, 2019
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 000)	91,364	124,255	-26.5%
Market value of share (in EUR)	15.0	20.4	-26.5%
Book value per share (in EUR)	71.7	70.9	1.2%
Minimum close rate in the period (in EUR)	14.0	20.0	-30.0%
Maximum close rate in the period (in EUR)	20.0	28.0	-28.6%
Average close rate in the period (in EUR)	16.3	23.8	-31.6%
Earnings per share (in EUR)	1.8	2.6	-31.0%

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 defined as the alternative measure and is presented in more detail in the chapter Alternative performance measures (APM).

**Dividend policy**

The company Poslovni sistem Mercator d.d., will not pay dividends in 2020.

**Own shares**

As at September 30, 2020, the company Poslovni sistem Mercator d.d. held 42,192 own shares. In the period 1–9, 2020, 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](http://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.



# 3.

*Financial  
report*

# Accounting policies

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All financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–9, 2020, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

## Consolidated financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d.

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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, 2020, 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.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Sep. 30, 2020	Dec. 31, 2019*	Sep. 30, 2020	Dec. 31, 2019*
<b>ASSETS</b>				
Property, plant and equipment	876,020	915,896	566,875	558,429
Right of use assets	355,939	352,908	166,278	168,723
Investment property	232,234	273,006	4,168	4,081
Intangible assets	20,658	20,548	12,866	12,733
Deferred tax assets	2,086	1,702	-	-
Trade and other receivables	4,235	4,757	2,541	3,042
Loans/deposits given	8,156	13,600	-	30
Investments in financial assets	875	876	736	736
Investments in subsidiaries	-	-	265,475	263,520
<b>Total non-current assets</b>	<b>1,500,204</b>	<b>1,583,293</b>	<b>1,018,940</b>	<b>1,011,293</b>
Inventories	201,190	211,090	111,646	111,544
Trade and other receivables	140,869	162,795	61,946	63,543
Current tax assets	1,257	93	1,041	-
Loans/deposits given	2,154	2,521	37,772	28,438
Cash and cash equivalents	21,369	45,777	10,207	11,137
<b>Total current assets</b>	<b>366,839</b>	<b>422,276</b>	<b>222,611</b>	<b>214,663</b>
<b>Total assets</b>	<b>1,867,043</b>	<b>2,005,570</b>	<b>1,241,550</b>	<b>1,225,956</b>
<b>EQUITY</b>				
Share capital	254,175	254,175	254,175	254,175
Own shares	(3,235)	(3,235)	(3,235)	(3,235)
Reserves	145,806	135,243	159,162	142,693
Retained earnings	(11,419)	52,392	23,786	8,508
Equity attributable to the owners of the company	<b>385,326</b>	<b>438,574</b>	-	-
Non-controlling interests	318	401	-	-
<b>Total equity</b>	<b>385,645</b>	<b>438,974</b>	<b>433,888</b>	<b>402,141</b>
<b>LIABILITIES</b>				
Trade and other payables	-	-	-	-
Borrowings	70,521	471,902	-	361,993
Lease liabilities	290,062	300,260	75,066	83,496
Deferred tax liabilities	19,432	13,379	10,784	4,715
Provisions	22,244	25,804	18,086	21,152
<b>Non-current liabilities</b>	<b>402,259</b>	<b>811,345</b>	<b>103,935</b>	<b>471,356</b>
Trade and other payables	521,506	579,492	283,009	300,603
Borrowings	486,720	96,771	397,474	30,234
Lease liabilities	68,744	76,100	21,399	19,541
Current tax	2,169	2,887	1,844	2,082
<b>Current liabilities</b>	<b>1,079,140</b>	<b>755,251</b>	<b>703,727</b>	<b>352,459</b>
<b>Total liabilities</b>	<b>1,481,398</b>	<b>1,566,595</b>	<b>807,662</b>	<b>823,816</b>
<b>Equity and liabilities</b>	<b>1,867,043</b>	<b>2,005,570</b>	<b>1,241,550</b>	<b>1,225,956</b>

\*Adjustments and effects of changes on the financial statements for December 31, 2019, pertain exclusively to transfers between respective accounting items. The following changes were taken into account for December 31, 2019, with the aim of comparability to the period 1-9, 2020.

1. Data at the Mercator Group level and the level of the company Poslovni sistem Mercator d.d. is adjusted for the transfer of interest from the »current trade payables and other liabilities« in the »current borrowings«.
2. Data at the Mercator Group level is adjusted to show deferred tax liabilities and deferred tax assets, in such a way that deferred taxes are offset on the basis of an individual legal entity.

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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	1–9, 2020	1–9, 2019*	1–9, 2020	1–9, 2019*
Sales revenue	1,615,466	1,582,423	939,957	913,352
Costs of sales	(1,538,509)	(1,501,647)	(895,962)	(861,331)
Administrative expenses	(51,401)	(46,659)	(25,378)	(23,970)
Impairment of land, buildings, investment properties and RoU	(82,398)	-	(10,859)	-
Other operating income	29,194	12,734	22,518	8,958
<b>Results from operating activities</b>	<b>(27,648)</b>	<b>46,851</b>	<b>30,276</b>	<b>37,008</b>
Finance income	1,245	2,793	1,474	999
Finance costs	(39,346)	(37,686)	(17,887)	(17,216)
<b>Net finance costs</b>	<b>(38,101)</b>	<b>(34,893)</b>	<b>(16,413)</b>	<b>(16,217)</b>
<b>Profit or loss before tax</b>	<b>(65,749)</b>	<b>11,958</b>	<b>13,862</b>	<b>20,791</b>
Tax	(3,321)	(5,752)	(3,012)	(5,144)
<b>Net profit (loss) for the period</b>	<b>(69,071)</b>	<b>6,205</b>	<b>10,851</b>	<b>15,647</b>
Net profit (loss) for the period attributable to:				
Owners of the Company	(68,994)	6,237		
Non-controlling interests	(77)	(32)		

\* Adjustments and effects of changes on the financial statements in the period 1–9, 2019, pertain exclusively to transfers between respective accounting items or to reporting based on net method, and they do not affect the amount of net income for the period. The following changes were taken into account for the period 1–9, 2019, with the aim of comparability to the period 1–9, 2020:

1. Data at the Mercator Group level and the level of the company Poslovni sistem Mercator d.d. is adjusted and only includes net margin generated based on transit operations contracts.
2. Data at the Mercator Group level is adjusted for transfer of a part of the early payment discounts from the financial section to the business section of the Income statement.
3. Data at the Mercator Group level and the level of the company Poslovni sistem Mercator d.d. is for the transfer of profits from the sale of land in Northern Macedonia and received dividends from the financial to the business part of the income statement.
4. Data at the Mercator Group level is adjusted for the transfer of consolidation elimination of administrative expenses to cost of sales due to methodological comparability with year 2020.

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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	1–9, 2020	1–9, 2019	1–9, 2020	1–9, 2019
<b>Net profit/loss for the period</b>	(69,071)	6,205	10,851	15,647
<b>Other comprehensive income:</b>	-	-	-	-
<b>Items that subsequently cannot be reclassified to profit or loss</b>	<b>18,449</b>	<b>(1,521)</b>	<b>20,896</b>	<b>978</b>
Change in fair value of assets	22,073	-	24,760	-
Remeasurements of post-employment benefit obligations	-	3	-	-
Deferred tax	(3,624)	(1,525)	(3,863)	978
<b>Items that may be reclassified subsequently to profit or loss</b>	<b>(4,663)</b>	<b>(563)</b>	-	-
Foreign currency translation differences	(4,663)	(563)	-	-
<b>Total other comprehensive income/(loss) for the period</b>	<b>13,786</b>	<b>(2,085)</b>	<b>20,896</b>	<b>978</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>(55,284)</b>	<b>4,120</b>	<b>31,747</b>	<b>16,625</b>
Total comprehensive income for the period attributable to:				
Owners of the company	(55,202)	4,187		
Non-controlling interests	(82)	(67)		

## Consolidated statement of changes in equity of the Mercator Group

Mercator Group													
in EUR thousand	Share capital	Own shares	Reserves						Retained earnings		Equity attribute. to the control. company owners	Non-control. interests	Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period			
<b>As at January 1, 2019</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>6,381</b>	<b>19,386</b>	<b>11,037</b>	<b>202,393</b>	<b>(83,471)</b>	<b>14,046</b>	<b>1,597</b>	<b>425,544</b>	<b>378</b>	<b>425,922</b>
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	6,237	6,237	(32)	6,205
Other comprehensive income for the period	-	-	-	-	-	0	3,646	(134)	(5,562)	(0)	(2,050)	(35)	(2,085)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>3,646</b>	<b>(134)</b>	<b>(5,562)</b>	<b>6,237</b>	<b>4,187</b>	<b>(67)</b>	<b>4,120</b>
Disposal of land and buildings carried at fair value	-	-	-	-	-	-	(26,148)	-	26,148	-	-	-	-
<b>Transactions with owners directly recognized in equity</b>													
<b>Contributions by and distributions to owners</b>													
Transfer of net loss for the previous year to retained earnings	-	-	-	-	-	-	-	-	1,597	(1,597)	-	-	-
Coverage of losses pursuant to the Management Board decision	(0)	-	-	-	1,305	958	-	-	(2,263)	-	(0)	-	(0)
<b>Total transactions with owners</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,305</b>	<b>958</b>	<b>-</b>	<b>-</b>	<b>(665)</b>	<b>(1,597)</b>	<b>(0)</b>	<b>-</b>	<b>(0)</b>
<b>Balance as at September 30, 2019</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>6,381</b>	<b>20,691</b>	<b>11,996</b>	<b>179,890</b>	<b>(83,605)</b>	<b>33,967</b>	<b>6,237</b>	<b>429,731</b>	<b>311</b>	<b>430,042</b>



Mercator Group													
in EUR thousand	Share capital	Own shares	Reserves						Retained earnings		Equity attribute. to the control. company owners	Non-control. interests	Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period			
<b>As at January 1, 2020</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>2,571</b>	<b>20,691</b>	<b>11,990</b>	<b>180,566</b>	<b>(83,810)</b>	<b>47,746</b>	<b>4,645</b>	<b>438,574</b>	<b>401</b>	<b>438,974</b>
Net loss for the period	-	-	-	-	-	-	-	-	-	(68,994)	(68,994)	(77)	(69,071)
Other comprehensive income for the period	-	-	-	-	-	(22)	13,297	(2,711)	3,228	-	13,792	(6)	13,786
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(22)</b>	<b>13,297</b>	<b>(2,711)</b>	<b>3,228</b>	<b>(68,994)</b>	<b>(55,202)</b>	<b>(82)</b>	<b>(55,284)</b>
<b>Transactions with owners directly recognized in equity</b>													
<b>Contributions by and distributions to owners</b>													
Transfer of net profit for the previous year to retained earnings*	-	-	-	-	-	-	-	-	6,136	(6,136)	-	-	-
Coverage of losses pursuant to the Management Board decision	-	-	-	-	-	-	-	-	464	1,490	1,955	-	1,955
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,600</b>	<b>(4,645)</b>	<b>1,955</b>	<b>-</b>	<b>1,955</b>
<b>Balance as at September 30, 2020</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>2,571</b>	<b>20,691</b>	<b>11,968</b>	<b>193,864</b>	<b>(86,522)</b>	<b>57,574</b>	<b>(68,994)</b>	<b>385,326</b>	<b>318</b>	<b>385,645</b>

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

Poslovni sistem Mercator d.d.										
in EUR thousand	Share capital	Own shares	Reserves					Retained earnings		Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	
<b>As at January 1, 2019</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>6,381</b>	<b>13,389</b>	<b>-</b>	<b>144,277</b>	<b>4,795</b>	<b>(10,882)</b>	<b>412,136</b>
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	15,647	15,647
Other comprehensive income for the period	-	-	-	-	-	-	3,655	(2,677)	-	978
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,655</b>	<b>(2,677)</b>	<b>15,647</b>	<b>16,625</b>
Disposal of land and buildings carried at fair value	-	-	-	-	-	-	(19,542)	19,542	-	-
<b>Transactions with owners directly recognized in equity</b>										
<b>Contributions by and distributions to owners</b>										
Transfer of net loss for the previous year to retained earnings	-	-	-	-	-	-	-	(10,882)	10,882	-
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,882)</b>	<b>10,882</b>	<b>-</b>
<b>Balance as at September 30, 2019</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>6,381</b>	<b>13,389</b>	<b>-</b>	<b>128,390</b>	<b>10,779</b>	<b>15,647</b>	<b>428,761</b>

Poslovni sistem Mercator d.d.										
in EUR thousand	Share capital	Own shares	Reserves					Retained earnings		Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	
<b>As at January 1, 2020</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>2,571</b>	<b>13,389</b>	-	<b>123,498</b>	<b>22,315</b>	<b>(13,807)</b>	<b>402,141</b>
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	10,851	10,851
Other comprehensive income for the period	-	-	-	-	-	-	<b>16,470</b>	<b>4,427</b>	-	<b>20,896</b>
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	<b>16,470</b>	<b>4,427</b>	<b>10,851</b>	<b>31,747</b>
<b>Transactions with owners directly recognized in equity</b>										
<b>Contributions by and distributions to owners</b>										
Transfer of net loss for the previous year to retained earnings	-	-	-	-	-	-	-	(13,807)	13,807	-
<b>Total transactions with owners</b>	-	-	-	-	-	-	-	(13,807)	13,807	-
<b>Balance as at September 30, 2020</b>	<b>254,175</b>	<b>(3,235)</b>	<b>3,235</b>	<b>2,571</b>	<b>13,389</b>	-	<b>139,968</b>	<b>12,935</b>	<b>10,851</b>	<b>433,888</b>

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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	1–9, 2020	1–9, 2019*	1–9, 2020	1–9, 2019*
<b>Cash flows from operating activities</b>				
<b>Cash from operating activities before the change of working capital</b>	<b>117,531</b>	<b>120,753</b>	<b>56,318</b>	<b>59,927</b>
Change in inventories	10,888	4,128	2,123	3,859
Change in trade and other receivables	27,074	21,241	629	(23,204)
Change in trade and other payables, and provisions	(66,372)	(50,121)	(15,058)	(21,781)
Tax paid	-	-	-	-
<b>Cash from operating activities</b>	<b>89,121</b>	<b>96,002</b>	<b>44,012</b>	<b>18,801</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries and business operations	-	-	(1,955)	-
Acquisition of property, plant and equipment, investment property and intangible assets	(22,872)	(18,485)	(12,854)	(10,824)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	5,570	125,657	5,296	123,699
Interest received	859	766	1,243	804
Loans granted	(193)	415	(9,700)	(14,165)
Repayment of loans granted	45	-	1,490	6,980
<b>Cash from investing activities</b>	<b>(16,591)</b>	<b>108,352</b>	<b>(16,480)</b>	<b>106,494</b>
<b>Cash flow from financing activities</b>				
Repayment of borrowings	(101,639)	(335,716)	(35,382)	(257,932)
Proceeds from borrowings	88,964	239,120	34,926	186,786
Interest paid	(35,374)	(35,766)	(16,368)	(15,780)
Principal elements of lease payments	(48,800)	(69,170)	(11,640)	(38,831)
<b>Cash from financing activities</b>	<b>(96,850)</b>	<b>(201,532)</b>	<b>(28,463)</b>	<b>(125,757)</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>(24,320)</b>	<b>2,822</b>	<b>(931)</b>	<b>(463)</b>
Cash and cash equivalents at beginning of the year	45,777	15,074	11,137	6,298
Effect of exchange rate fluctuations on cash and cash equivalents	(89)	19	-	-
<b>Cash and cash equivalents at the end of the period</b>	<b>21,369</b>	<b>17,915</b>	<b>10,207</b>	<b>5,835</b>

\* Adjustments relative to the Business Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–9, 2019, are made to ensure methodological comparability of the cash flow statement with the year 2020.

# 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, 2020, amounted to EUR 1,867,043 thousand, which is EUR 138,527 thousand less than at the end of 2019.

As at September 30, 2020, the value of Mercator Group's non-current assets amounted to EUR 1,500,204 thousand, which is EUR 83,089 thousand less than as at December 31, 2019. Property, plant, and equipment (58.4%) and right of use assets (23.7%) account for the largest share of non-current assets.

As at September 30, 2020, the value of Mercator Group's current assets amounted to EUR 366,839 thousand, which is EUR 55,438 thousand less than as at the end of 2019. The largest share thereof includes inventories (54.8%) and trade and other receivables (38.4%).

#### Equity and liabilities

As at September 30, 2020, Mercator Group share capital amounted to EUR 385,645 thousand, which is EUR 53,330 thousand less than as at the end of 2019.

As at September 30, 2020, Mercator Group's total borrowings amounted to EUR 557,241 thousand, which is EUR 11,432 thousand less than as at the end of 2019. The reason for the increase is the drawing of additional available lines, which was a way for Mercator Group to maintain a high level of cash and

### POSLOVNI SISTEM MERCATOR D.D.

Assets of the company Poslovni sistem Mercator d.d. as at September 30, 2020, amounted to EUR 1,241,550 thousand, which is EUR 15,594 thousand more than at the end of 2019.

As at September 30, 2020, the value of the company's non-current assets amounted to EUR 1,018,940 thousand, which is EUR 7,646 thousand more than as at December 31, 2019. Property, plant, and equipment (55.6%) and investments into subsidiaries (26.1%) account for the largest share of non-current assets.

As at September 30, 2020, the value of company current assets was EUR 222,611 thousand, which is EUR 7,948 thousand more than at the end of 2019. The largest share thereof includes inventories (50.2%) and trade and other receivables (27.8%).

Equity of the company Poslovni sistem Mercator d.d. as at September 30, 2020, amounts to EUR 433,888 thousand, which is an increase of EUR 31,747 thousand relative to the end of 2019, pertaining mostly to net profit for the current period.

As at September 30, 2020, the company's total borrowings amount to EUR 397,474 thousand, which is an increase of EUR 5,246 relative to December 31, 2019. The reason for the increase is the drawing of additional available lines, which was a way for the company Poslovni sistem Mercator d.d. to maintain a

cash equivalents before the declaration of the epidemic, as a preventive measure in case of any unforeseen events in the financial markets. As at September 30, 2020, total lease liabilities amounted to EUR 358,806 thousand, which is EUR 17,554 thousand less than as the end of 2019. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group's financial liabilities and financial assets, amounted to EUR 894,678 thousand as at September 30, 2020 (December 31, 2019: EUR 899,256 thousand).

As at September 30, 2020, Mercator Group's provisions amounted to EUR 22,244 thousand. Compared to the end of 2019, provisions have decreased by EUR 3,560 thousand.

Mercator Group's trade and other payables as at September 30, 2020, amounted to EUR 521,506 thousand, which is EUR 57,986 thousand less than at the end of 2019.

As at September 30, 2020, long-term coverage of non-current assets with non-current liabilities at the Mercator Group was at 52.5%, which is 34.8 percentage point less than as at the end of 2019.

high level of cash and cash equivalents before the declaration of the epidemic, as a preventive measure in case of any unforeseen events in the financial markets. As at September 30, 2020, total lease liabilities amounted to EUR 96,465 thousand, which is EUR 6,572 thousand less than as the end of 2019. Net financial debt, calculated as the difference between financial liabilities and financial assets, amounted to EUR 483,732 thousand as at September 30, 2020 (December 31, 2019: EUR 484,127 thousand).

As at September 30, 2020, the company's provisions amounted to EUR 18,086 thousand. Compared to the end of 2019, provisions have decreased by EUR 3,066 thousand.

The company's trade and other payables as at September 30, 2020, amounted to EUR 283,009 thousand, which is EUR 17,594 thousand less than at the end of 2019.

## 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, 2020, Mercator Group's sales revenue amounted to EUR 1,615,466 thousand, which is 2.1% more than in the equivalent period of the year before. Retail revenue also increased, by 3.9%. Slovenia (58.8% of total revenue) remain Mercator Group's most important market. In the Slovenian market, the retail company Poslovni sistem Mercator d.d. saw its revenue increase by 2.9% relative to the same period of the preceding year. In the first month of the 2020 fiscal year, Mercator Group identified a strong trend of solid performance and profitability. With strategic focus on all key aspects of differentiation, and especially the coordinated execution of all 126 value-creation plan initiatives in all markets, Mercator Group succeeded in sustaining and upgrading the positive business trends throughout the third quarter of 2020. Mercator Group's business performance remained successful after the declaration of an epidemic in Slovenia, followed by similar declarations in all markets of our operations. Although the declaration

### POSLOVNI SISTEM MERCATOR D.D.

In the period 1–9, 2020, the company Poslovni sistem Mercator d.d. generated revenue of EUR 938,863 thousand, which is 2.9% more than in the period 1–9, 2019. Retail revenue increased by 5.2%. In the first month of the 2020 fiscal year, the company Poslovni sistem Mercator d.d. identified a strong trend of solid performance and profitability. With strategic focus on all key aspects of differentiation, and especially the coordinated execution of all value-creation plan initiatives, the company succeeded in sustaining and upgrading the positive business trends throughout the first quarter of 2020. The company's business performance remained successful after the declaration of an epidemic in Slovenia. Although the declaration of epidemic and introduction of measures to curtail it had a negative impact on performance of almost all operating activities of the company, it succeeded in sustaining the positive performance trends that started early in this fiscal year.

of epidemic and introduction of government measures in respective markets had a negative impact on performance of almost all Mercator Group's operating activities, especially in the market of Montenegro, where the decline in the tourist season was marked, the Group succeeded in sustaining the positive performance trends that started early in this fiscal year.

#### **Costs**

Mercator Group's selling costs in the period 1–9, 2020, amounted to EUR 1,538,509 thousand, which is 2.5% more than in the comparable period last year.

Mercator Group's administrative in the period 1–9, 2020, amounted to EUR 51,401 thousand, which is 10.2% more than in the comparable period last year.

#### **Results from operating activities (EBIT)**

In the period 1–9, 2020, Mercator Group generated EUR 27,648 thousand of negative operating profit (EBIT), which is EUR 74,499 thousand less than the figure for the same period of last year.

#### **Net finance expenses**

Mercator Group's finance income in the period 1–9, 2020, amounted to EUR 1,245 thousand, which is 1,548 thousand EUR less than in the comparable period of last year.

In the period 1–9, 2020, Mercator Group's finance costs amounted to EUR 39,346 thousand, which is EUR 1,660 thousand more than in the comparable period of the year before, especially due to effect of currency translation differences.

#### **Profit before tax**

In the period 1–9, 2020, Mercator Group's results profit before income tax is negative and amounted to EUR 65,749 thousand, which is EUR 77,707 thousand less than in the equivalent period of last year.

#### **Net profit for the period**

Mercator Group's net profit for the period 1–9, 2020, is negative and amounts to EUR 69,071 thousand, which is an decrease of EUR 75,276 thousand relative to the equivalent period of the preceding year.

#### **EBITDA and EBITDAR**

Mercator Group's EBITDA in the period 1–9, 2020, amounted to EUR 126,274 thousand (decrease by EUR 2,758 thousand relative to the same period of

Selling costs at the company Poslovni sistem Mercator d.d. in the period 1–9, 2020, amounted to EUR 895,962 thousand, which is 4.0% more than in the comparable period last year.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–9, 2020, amounted to EUR 25,378 thousand, which is 5.9% more than in the comparable period last year.

In the period 1–9, 2020, operating profit (EBIT) of the company Poslovni sistem Mercator d.d. reached EUR 30,276 thousand, which is an decrease of EUR 6,732 thousand.

Finance income of the company Poslovni sistem Mercator d.d. in the period 1–9, 2020, amounted to EUR 1,474 thousand, which is EUR 475 thousand more than in the comparable period of the preceding year.

Finance costs in the period 1–9, 2020, amounted to EUR 17,887 thousand which is 671 EUR thousand more than in the comparable period of last year.

Profit before income tax of the company Poslovni sistem Mercator d.d. in the period 1–9, 2020 amounted to EUR 13,862 thousand, which is EUR 6,928 thousand less than the profit in the same period of the preceding year.

Net profit of the company Poslovni sistem Mercator d.d. for the period 1–9, 2020, amounted to EUR 10,851 thousand, which is EUR 4,796 thousand less than in the equivalent period of the preceding year.

EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–9, 2020, amounted to



the preceding year). The reason for the decrease normalized EBITDA is the decline in tourism activity in Montenegro due to the COVID-19 epidemic.

Mercator Group EBITDAR in the period 1–9, 2020, amounted to EUR 127,509 thousand, which is 2.3% less than in the equivalent period of last year.

EUR 65,073 thousand (decrease by 1.9% relative to the same period of the preceding year).

EBITDAR of the company Poslovni sistem Mercator d.d. in the period 1–9, 2020, amounted to EUR 65,777 thousand, which is 1.8% less than in the same period of last year.

# Management Responsibility Statement

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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, 2020, 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 16, 2020

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

4.

*Other  
informations*

# Alternative Performance Measures (APM)

Following is a review of alternative performance measures (APM) that offer additional insight into the trends and performance of Mercator Group, and which are defined based on the ESMA Guidelines on Alternative Performance Measures (APM). Thus, an APM is an indicator not specified in the International Accounting Standards. It is likely that the indicator is not directly comparable to other competitors and enterprises in other industries, due to differences in the methodology applied. All specified alternative performance measures pertain to business performance in the preceding reporting period and they include benchmark periods against which they are compared.

APM	<ul style="list-style-type: none"> <li>The most equivalent/closest IFRS item</li> <li>Definition</li> <li>Purpose</li> </ul>	Calculation basis															
<b>Income statement</b>																	
Retail revenue	<ul style="list-style-type: none"> <li>Sales revenue</li> <li>Retail revenue includes total revenue from Mercator Group core activity in the markets of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina.</li> <li>The indicator is an important measure of Mercator Group performance, since retail revenue accounts for the predominant share of total revenue.</li> </ul>	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-9, 2020</th><th>1-9, 2019</th></tr> <tr> <td>Retail</td><td>1,293,829</td><td>1,244,891</td></tr> <tr> <td>Other activities/businesses</td><td>321,637</td><td>337,995</td></tr> <tr> <td><b>Sales revenue</b></td><td><b>1,615,466</b></td><td><b>1,582,885</b></td></tr> </table>	Mercator Group (EUR thousand)	1-9, 2020	1-9, 2019	Retail	1,293,829	1,244,891	Other activities/businesses	321,637	337,995	<b>Sales revenue</b>	<b>1,615,466</b>	<b>1,582,885</b>			
Mercator Group (EUR thousand)	1-9, 2020	1-9, 2019															
Retail	1,293,829	1,244,891															
Other activities/businesses	321,637	337,995															
<b>Sales revenue</b>	<b>1,615,466</b>	<b>1,582,885</b>															
Labour force cost	<ul style="list-style-type: none"> <li>No direct item</li> <li>The indicator is calculated as a sum of expenses pertaining to regular work based on collective and individual employment contracts, costs of student service agencies, hired workers, and costs related to other employment contracts.</li> <li>The indicator represents the total cost of labour.</li> </ul>	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-9, 2020</th><th>1-9, 2019</th></tr> <tr> <td>Labour costs from collective and individual employment contracts</td><td>202,869</td><td>185,161</td></tr> <tr> <td>Costs of student labour, hired workers, and other employment contracts</td><td>15,552</td><td>16,689</td></tr> <tr> <td><b>Labour force cost</b></td><td><b>218,422</b></td><td><b>201,849</b></td></tr> </table>	Mercator Group (EUR thousand)	1-9, 2020	1-9, 2019	Labour costs from collective and individual employment contracts	202,869	185,161	Costs of student labour, hired workers, and other employment contracts	15,552	16,689	<b>Labour force cost</b>	<b>218,422</b>	<b>201,849</b>			
Mercator Group (EUR thousand)	1-9, 2020	1-9, 2019															
Labour costs from collective and individual employment contracts	202,869	185,161															
Costs of student labour, hired workers, and other employment contracts	15,552	16,689															
<b>Labour force cost</b>	<b>218,422</b>	<b>201,849</b>															
EBIT	<ul style="list-style-type: none"> <li>Earnings before interest and taxes. Data for 2019 is adjusted and it only includes the net margin generated based on transit operations contracts. Moreover, the data observes the transfers of a part of the early payment discounts from the financial section to the business section of the Income statement.</li> <li>The indicator is a measure of operating profitability, which is the key for attainment of Mercator Group's long-term goals.</li> </ul>	The calculation is presented in the income statement in the Financial Report section of the Business Report.															
Normalized EBITDA	<ul style="list-style-type: none"> <li>Operating profit (EBIT)</li> <li>Earnings before interest, taxes, depreciation and amortization, excluding the effect of non-recurring business events. Non-recurring business events refer to the revaluation of real estate as at 30 June 2020 and other business events of the same nature. Data for 2019 is adjusted and it only includes the net margin generated based on transit operations contracts. Moreover, the data observes the transfers of a part of the early payment discounts from the financial section to the business section of the Income statement.</li> <li>The indicator is a measure operating performance, and it is an approximation of cash flow from operating activities.</li> </ul>	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-9, 2020</th><th>1-9, 2019</th></tr> <tr> <td>Operating profit (EBIT)</td><td>-27,648</td><td>46,851</td></tr> <tr> <td>Depreciation and amortization</td><td>82,649</td><td>81,881</td></tr> <tr> <td>Non-recurring business events</td><td>71,273</td><td>300</td></tr> <tr> <td><b>Normalized EBITDA</b></td><td><b>126,274</b></td><td><b>129,031</b></td></tr> </table>	Mercator Group (EUR thousand)	1-9, 2020	1-9, 2019	Operating profit (EBIT)	-27,648	46,851	Depreciation and amortization	82,649	81,881	Non-recurring business events	71,273	300	<b>Normalized EBITDA</b>	<b>126,274</b>	<b>129,031</b>
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APM	<ul style="list-style-type: none"> <li>The most equivalent/closest IFRS item</li> <li>Definition</li> <li>Purpose</li> </ul>	Calculation basis																					
Normalized EBITDA margin	<ul style="list-style-type: none"> <li>Sales revenue, Operating profit (EBIT)</li> <li>The indicator is calculated as the ratio between normalized EBITDA and total sales revenue.</li> <li>Improvement in this indicator is an important sign of operating performance, and it allows comparison with competitors and other industries, regardless of the scope of operations.</li> </ul>	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-9, 2020</th><th>1-9, 2019</th></tr> <tr> <td>Normalized EBITDA</td><td>126,274</td><td>129,031</td></tr> <tr> <td>Sales revenue</td><td>1,615,466</td><td>1,582,885</td></tr> <tr> <td><b>EBITDA margin (in %)</b></td><td><b>7.8</b></td><td><b>8.2</b></td></tr> </table>	Mercator Group (EUR thousand)	1-9, 2020	1-9, 2019	Normalized EBITDA	126,274	129,031	Sales revenue	1,615,466	1,582,885	<b>EBITDA margin (in %)</b>	<b>7.8</b>	<b>8.2</b>									
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Productivity per retail employee	<ul style="list-style-type: none"> <li>Sales revenue</li> <li>The indicator is calculated as the ratio between retail revenue and number of FTE (number of employees based on hours worked) in retail. The indicator is annualized (adjusted to annual level).</li> <li>Sales revenue</li> <li>The use of this indicator is common in the retail industry, and it measures performance in the company's core activity.</li> </ul>	<table> <tr> <th>Mercator Group</th><th>1-9, 2020</th><th>1-9, 2019</th></tr> <tr> <td>Retail revenue (EUR thousand) – annualized</td><td>1,725,106</td><td>1,659,854</td></tr> <tr> <td>Number of FTE (employees based on hours worked) in retail</td><td>14,028</td><td>14,036</td></tr> <tr> <td><b>Productivity per Employee in retail (EUR thousand)</b></td><td><b>123.0</b></td><td><b>118.3</b></td></tr> </table>	Mercator Group	1-9, 2020	1-9, 2019	Retail revenue (EUR thousand) – annualized	1,725,106	1,659,854	Number of FTE (employees based on hours worked) in retail	14,028	14,036	<b>Productivity per Employee in retail (EUR thousand)</b>	<b>123.0</b>	<b>118.3</b>									
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<b>Productivity per Employee in retail (EUR thousand)</b>	<b>123.0</b>	<b>118.3</b>																					
Value added per retail employee	<ul style="list-style-type: none"> <li>Operating profit (EBIT)</li> <li>The indicator is calculated as earnings before interest, taxes, depreciation and amortization, and rents, excluding labour costs, divided by FTE (number of employees based on hours worked). The indicator is annualized (adjusted to annual level).</li> <li>The indicator measures the contribution of each employee in the company's core business.</li> </ul>	<table> <tr> <th>Mercator Group</th><th>1-9, 2020</th><th>1-9, 2019</th></tr> <tr> <td>EBIT</td><td>147,761</td><td>159,473</td></tr> <tr> <td>Depreciation and amortization</td><td>70,158</td><td>65,641</td></tr> <tr> <td>Rents</td><td>179,543</td><td>161,850</td></tr> <tr> <td>Total cost of labour</td><td>907</td><td>1,007</td></tr> <tr> <td>Number of retail employees based on hours worked (FTE)</td><td>14,028</td><td>14,036</td></tr> <tr> <td><b>Value added per retail employee (EUR thousand)</b></td><td><b>28.4</b></td><td><b>27.6</b></td></tr> </table>	Mercator Group	1-9, 2020	1-9, 2019	EBIT	147,761	159,473	Depreciation and amortization	70,158	65,641	Rents	179,543	161,850	Total cost of labour	907	1,007	Number of retail employees based on hours worked (FTE)	14,028	14,036	<b>Value added per retail employee (EUR thousand)</b>	<b>28.4</b>	<b>27.6</b>
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<b>Statement of financial position</b>																							
Long-term coverage of non-current assets with non-current liabilities	<ul style="list-style-type: none"> <li>Non-current assets, non-current liabilities, equity</li> <li>The indicator is calculated as the ratio between the sum of equity and non-current liabilities, and non-current assets.</li> <li>It is a measure of coverage of long-term assets with long-term liabilities, and it indicates adequacy of financing.</li> </ul>	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>September 30, 2020</th><th>September 30, 2019</th></tr> <tr> <td>Equity</td><td>385,645</td><td>430,042</td></tr> <tr> <td>Non-current liabilities</td><td>402,259</td><td>933,952</td></tr> <tr> <td>Non-current assets</td><td>1,500,204</td><td>1,562,274</td></tr> <tr> <td><b>Long-term coverage of non-current assets with non-current liabilities</b></td><td><b>52.5%</b></td><td><b>87.3%</b></td></tr> </table>	Mercator Group (EUR thousand)	September 30, 2020	September 30, 2019	Equity	385,645	430,042	Non-current liabilities	402,259	933,952	Non-current assets	1,500,204	1,562,274	<b>Long-term coverage of non-current assets with non-current liabilities</b>	<b>52.5%</b>	<b>87.3%</b>						
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<b>Long-term coverage of non-current assets with non-current liabilities</b>	<b>52.5%</b>	<b>87.3%</b>																					
Net financial debt	<ul style="list-style-type: none"> <li>Received borrowings, lease liabilities, cash and cash equivalents</li> <li>The indicator is calculated as: Non-current and current received borrowings + non-current and current lease liabilities – cash and cash equivalents.</li> <li>The indicator measures indebtedness of Mercator Group.</li> </ul>	The calculation is presented in chapter Financial Management in the Business Report section of the Business Report.																					
Net financial debt/equity	<ul style="list-style-type: none"> <li>Received borrowings, lease liabilities, cash and cash equivalents, equity</li> <li>The indicator is calculated as the ratio between net financial debt and equity.</li> <li>The indicator measures Mercator Group's ability to finance its assets with equity (share capital).</li> </ul>	<table> <tr> <th>Mercator Group</th><th>September 30, 2020</th><th>September 30, 2019</th></tr> <tr> <td>Net financial debt (EUR thousand)</td><td>894,678</td><td>936,534</td></tr> <tr> <td>Equity (EUR thousand)</td><td>385,645</td><td>430,042</td></tr> <tr> <td><b>Net financial debt/equity</b></td><td><b>2.3</b></td><td><b>2.2</b></td></tr> </table>	Mercator Group	September 30, 2020	September 30, 2019	Net financial debt (EUR thousand)	894,678	936,534	Equity (EUR thousand)	385,645	430,042	<b>Net financial debt/equity</b>	<b>2.3</b>	<b>2.2</b>									
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<b>Net financial debt/equity</b>	<b>2.3</b>	<b>2.2</b>																					
Net financial debt / normalized EBITDA	<ul style="list-style-type: none"> <li>Received borrowings, lease liabilities, cash and cash equivalents, operating profit (EBIT)</li> <li>The indicator is calculated as the ratio between net financial debt and normalized EBITDA in the last twelve months (LTM) of business operations.</li> <li>The indicator measures the ability to repay the Mercator Group's financial debt from existing sources of liquidity and the generated cash flow from operating activities, and thus indicates the number of years required to repay the financial debt.</li> </ul>	The calculation is presented in chapter Financial Management in the Business Report section of the Business Report.																					
Available liquidity	<ul style="list-style-type: none"> <li>Cash and cash equivalents</li> <li>The indicator is calculated as the sum of cash and cash equivalents and undrawn approved revolving lines.</li> <li>The indicator presents the balance of all liquidity available to the company on a particular date.</li> </ul>	The calculation is presented in chapter Financial Management in the Business Report section of the Business Report.																					
<b>Other performance indicators</b>																							

APM	<div><div><div>The most equivalent/closest IFRS item</div><div>Definition</div><div>Purpose</div></div></div>	Calculation basis												
Capital expenditure	<div><div><div>No direct item</div><div>Capital expenditure presents investment into expansion of retail network, refurbishment of existing units, investment into information technology and distribution centres, and investments into non-trade operations.</div><div>The indicator allows the attainment of the business strategy laid down.</div></div></div>	Calculation, broken down by respective types of investment in markets, is presented in the chapter Sales Network in the Business Report section of the Business Report, and in the Cash Flow Statement in the Financial Report section of the Business Report.												
Earnings per share	<div><div><div>Net profit for the period</div><div>The indicator is calculated as the ratio between net income (profit or loss) and weighted average number of ordinary shares, excluding treasury shares, of the company Poslovni sistem Mercator d.d. in the period at hand.</div><div>The indicator is an estimate of performance and returns for shareholders.</div></div></div>	<table><tr><th>Poslovni sistem Mercator d. d.</th><th>1-9, 2020</th><th>1-9, 2019</th></tr><tr><td>Profit attributable to shareholders (EUR thousand)</td><td>10,851</td><td>15,647</td></tr><tr><td>Weighted average number of ordinary shares being exercised</td><td>6,048,751</td><td>6,048,751</td></tr><tr><td>Earnings per share (in EUR)</td><td>1.8</td><td>2.6</td></tr></table>	Poslovni sistem Mercator d. d.	1-9, 2020	1-9, 2019	Profit attributable to shareholders (EUR thousand)	10,851	15,647	Weighted average number of ordinary shares being exercised	6,048,751	6,048,751	Earnings per share (in EUR)	1.8	2.6
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