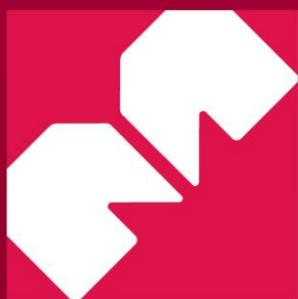


ANNUAL REPORT 2018



Mercator
moj najbolji sosed







*We are all Mercator Group:
those who work here,
those who stock the shelves,
those who shop here,
shape our public image,
and contribute to the common good.*

It is nice to be in the company of the good.

TABLE OF CONTENTS



INTRODUCTION 1

- Report by the President of Management Board 2
- Supervisory Board Report 4
- Performance highlights 8
- Business strategy 9
- Introduction and organization 11
- Business operations 14
- Review of key events 16
- Corporate Governance Statements 21



BUSINESS REPORT 33

- Effect of economic conditions and competition on operations 34
- Store formats and category management 37
- Marketing and loyalty programs 41
- Real estate management 53
- Performance analysis in 2018 56
- Operations and performance plans for 2019 62
- Risk management 63
- Financial management 68
- Mercator share and investor relations 70
- Taxes and other charges 73



NON-FINANCIAL REPORT 75

- Non-Financial Statement 76
- Responsibility to employees and respect for human rights 78
- Responsibility to customers 87
- Responsibility to natural environment 89
- Responsibility to social environment 102
- Responsibility to suppliers 106
- Responsibility to quality 109



FINANCIAL REPORT 113

- Management Responsibility Statement 114
- Financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. 115
- Notes to consolidated financial statements of the Mercator Group and financial statements of the company Poslovni sistem Mercator d.d. 125
- Independent auditor's report 195



CONTACTS MERCATOR 204



INTRODUCTION.

There are no insignificant goals in life and business; there are no simple solutions or easy wins. Therefore, we want to be the best, as only the best is good enough for sustained success in the future.



• • • ● Report by the President of Management Board

In 2018, Mercator Group further pursued its strategy laid down for the period from 2016 to 2022. The pursuit of strategy is based on four key foundations: focus on the customers, their needs and wishes; monitoring and responding to the international trends in retail taking into account local and regional specifics; activation of strategic divestments the important for the Group's deleveraging, which in turn is the key precondition for the Group's long-term business success and development; and strict execution of the Value Creation Plan. The later was implemented in 2018 in all markets where the Group is conducting its core activity. Improving the efficiency of operations is the basic prerequisite for the Group's long-term development as the largest national and regional retailer.

The year 2018 was characterized by harsh conditions for Mercator Group operations, especially in retail. The competition is investing heavily in all markets into retail network development and thereby decreasing the Group's market shares in terms of sales area. In year 2018 we have seen the entrance of a new discount retailers to the Serbian market. Economic growth was steady in all markets. Consumer confidence improved throughout the region in 2018, but it still lags behind the European average. Employment possibilities and willingness to spend had a positive impact in this respect. Consumers' primary concerns include security of employment, health, and work-life balance. Macroeconomic conditions were favourable in 2018.

FMCG retail has stagnated. The Economic Sentiment Index (ESI) continued to decrease. The decline in expectations was more pronounced in our major trade partners, including Germany and Italy where a drop of GDP was recorded in the third quarter of 2018. The slowdown in economic growth in the eurozone is anticipated to continue in this year.

Therefore, it is of utmost importance that Mercator Group increased its sales revenue in 2018 relative to the year 2017 by 1.2%, and especially that revenue from FMCG retail, i.e. Mercator's core activity, rose by 3.2%. Mercator Group wrapped up the 2018 fiscal year with a profit of EUR 1.6 million. It should also be noted that normalized gross cash flow from operating activities (EBITDA normalized) increased by as much as 18.6% over 2018, to EUR 107.5 million. In only two years, Mercator Group increased its normalized EBITDA by 72.3%.

At the end of 2018, Mercator Group provided employment to 20,310 people. Each week, our stores are visited by over 5 million customers choosing between products displayed on over 800 kilometres of shelves. Despite limited financial sources, Mercator Group newly opened or refurbished 122 stores. With the new openings and refurbishments of existing stores we are providing excellent service for the customers, a broad choice, and a pleasant shopping experience.

In 2018, Mercator Group companies paid a total of EUR 173 million of taxes, contributions, and other charges. Of this amount, EUR 120 million of taxes and other charges were paid in Slovenia (69% of Mercator Group's total tax liabilities), which is 1.16% of total government budget for 2019 (revision of the budget of the Republic of Slovenia for the year 2019). Only for comparison, or to put the figure into perspective¹: EUR 120 million is more



¹ Source: Revised budget of the Republic of Slovenia for 2019, Official Journal of the Republic of Slovenia No. 19/2019, dated March 29, 2019



than the amount allocated in the revised budget to the Directorate of Infrastructure for an annual investments into maintenance and construction of state roads in the Republic of Slovenia, or 3 years' budget of the Administration of the Republic of Slovenia for Civil Protection and Disaster Relief.

One of the preconditions for Mercator Group's long-term stability and long-term development possibilities is deleveraging. In mid-October 2018, the company Poslovni sistem Mercator d.d. and companies Supernova signed an sale and purchase agreement for ten shopping centres in Slovenia, which was completed in February 2019. According to the sale and purchase agreement, valued at EUR 116.6 million, Poslovni sistem Mercator will lease back for the long term only parts of the shopping centres in which it is conducting its core activity.

With all deleveraging activities conducted in 2018, Mercator Group succeeded in significantly reducing its debt. The ratio between net financial debt and normalized EBITDA at the end of the year was at 7.2, which means it was cut by 24.2% compared to the year 2017. More importantly, it was cut from 14.1 to 7.2 in only two years.

In 2019, Mercator Group will continue to pursue its strategy that has already yielded a positive results. In 2019, it is expected that business will be under pressure due to increased activities of the competition in all markets, especially in core activity. At the same time, the year 2019 will be characterized by the increase of all types of costs, including energy, services and labour costs, in all markets of the Group's operations. The Group is therefore entering another challenging year that will also include activities regarding the execution of the approved Settlement of the Agrokor Group creditors.

President of the Management Board of the company Poslovni sistem Mercator d.d.
Tomislav Čizmić

Ljubljana, April 25, 2019



• • ● Supervisory Board Report

Pursuant to the legislation and company Articles of Association, operations of the company Poslovni sistem Mercator d.d. as Mercator Group's parent company were supervised in 2018 by a Supervisory Board that met at five regular sessions and ten correspondence sessions in the course of the year.

As at December 31, 2018, the Supervisory Board consisted of Matej Lahovnik, Fabris Peruško, Irena Weber, Sergei Volk, Vladimir Bošnjak and Ivica Mudrinić as representatives of capital; and Matjaž Grošelj, Jože Lavrenčič, and Vesna Stojanović as labour representatives.

The following changes took place in the Supervisory Board in the course of the year.

- Based on their respective letters of resignation, Ante Ramljak's has ceased to be the Supervisory Board chairman and member on February 28, 2018, Teo Vujčić's has ceased to be the Supervisory Board member on April 4, 2018, and Damir Kuštrak's on April 16, 2018. The mandate of Matej Lahovnik and Ivica Mudrinić expired on August 29, 2018.
- At the 25th regular Shareholders Assembly of the company Poslovni sistem Mercator d.d., held on June 12, 2018, the following Supervisory Board members were appointed upon proposal by the majority shareholder: Fabris Peruško, Irena Weber, Sergei Volk, Matej Lahovnik, and Ivica Mudrinić.

• • ● Major Supervisory Board resolutions

The Supervisory Board addressed the following issues and adopted the following major resolutions:

- The Supervisory Board discussed and adopted the Annual Report for the Mercator Group and the company Mercator d.d. for the year 2017, and confirmed the wording of the Supervisory Board Report on the 2017 Annual Report audit.
- To the Supervisory Board was presented the report on the activities for collection of receivables within the Group, which were reported pursuant to Lex Agrokor, and consented that the Mercator Group companies vote in favour of the proposed settlement (called "Nagodba" in Croatian).
- The Supervisory Board was presented the Report on all transactions concluded with the majority shareholder Agrokor d.d. and companies affiliated to it for the periods from November 1, 2017, to January 31, 2018; from February 1, 2018, to April 30, 2018; from May 1, 2018, to July 31, 2018; and from August 1, 2018, to October 31, 2018.
- The Supervisory Board adopted the proposal for appointment of the company auditor for the year 2018.
- The Supervisory Board approved the agenda for the 25th Shareholders Assembly (AGM) of the company Poslovni sistem Mercator d.d.
- To the Supervisory Board was presented the business results of the company Poslovni sistem Mercator d.d. and the Mercator Group for the periods, 1–3, 2018; 1–6, 2018; and 1–9, 2018.
- The Supervisory Board was presented the Internal Audit Report for the year 2017.
- The Supervisory Board appointed the monetization committee.
- The Supervisory Board approved the divestment of ten shopping centres in Slovenia, and lease back of hypermarkets and other commercial premises used by Mercator in these shopping centres for a period of 15 years, with the option to extend the lease for further 15 years.
- The Supervisory Board of Mercator d.d. was informed about the divestment processes within the Mercator Group and the deleveraging processes.
- The Supervisory Board adopted the Business Plan of the Mercator Group for the year 2019.



• • ● Activities of the Audit Committee

As at December 31, 2018, the composition of the Audit Committee was as follows: Vladimir Bošnjak (Audit Committee Chairman), Matej Lahovnik (Audit Committee member since April 17, 2018), and Aleksander Igličar (independent expert on accounting and auditing, Audit Committee member since August 31, 2018).

Damir Kuštrak was an Audit Committee member until April 16, 2018, and Sergeja Slapničar was the Audit Committee member as an independent expert on accounting and accounting until August 30, 2018.

In 2018, the Audit Committee held eight sessions, of which five were regular meetings and three were correspondence sessions.

At the sessions, the Audit Committee:

- approved the 2018 annual plan for the internal audit department;
- discussed and commented the Annual Report of the company Poslovni sistem Mercator d.d. and the Mercator Group for the year 2017;
- discussed the valuation of real estate pursuant to IAS 36;
- discussed the report by the independent certified auditor on the progress and findings of the second stage of the audit conducted at the company Poslovni sistem Mercator d.d. and the Mercator Group in 2017;
- discussed and confirmed the offer for auditing services for the company Poslovni sistem Mercator d.d. and the Mercator Group for the year 2018 and proposed to the Supervisory Board that the auditing company Deloitte revizija d.o.o. be selected as the company auditor;
- examined and proposed suggestions for improvement of the Business Reports of the company Poslovni sistem Mercator d.d. and the Mercator Group for the periods 1–3, 2018; 1–6, 2018; and 1–9, 2018;
- supervised the work of Internal Audit in the period 1–12, 2018, and submitted proposals for improvements;
- discussed the report on external audit of the internal audit function at Poslovni sistem Mercator d.d., for the period from January 1, 2016, to December 31, 2017;
- reviewed and commented on the Business plan for the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2019.

• • ● Activities of the Human Resource Committee

As at December 31, 2018, the Human Resource Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. had the following members: Matej Lahovnik, Ivica Mudrinić, and Vesna Stojanović. The Human Resource Committee held three meetings in 2018.

• • ● Semiannual and Annual Report for 2018

At their session held on September 5, 2018, The Supervisory Board was presented the non-audited Semi-annual Business Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for the period 1–6, 2018. The company announced its non-audited semi-annual report pursuant to the relevant legislation and the Rules and Regulations of the Ljubljana Stock Exchange.

At its regular session held on April 25, 2019, the Supervisory Board discussed the audited non-consolidated and consolidated annual report for the year 2018, audited by the auditing company Deloitte revizija, d.o.o., Slovenia, and was presented the Corporate Governance Statement, as a part of the process of adopting the annual report. The Annual Report had been previously reviewed by the Audit Committee of the company Poslovni sistem Mercator d.d. at its session held on April 18, 2019. The Audit Committee session was also attended by the certified auditor who provided all and any additional explanations required by the Audit Committee. On April 25, 2019, the auditing company issued unqualified opinions on the non-consolidated and consolidated Annual Report. Supervisory Board did not have any objections to the certified auditor's report and concurred with it.



The Supervisory Board verified the Report on Relations with Affiliated Companies and the Statement prepared in this respect by the management of the company Poslovni sistem Mercator d.d. The Supervisory Board had no objections to the statement regarding relations with affiliated companies. The Supervisory Board was also presented the Independent Auditor's Report on the said statement, by which the auditor confirms and concludes that the information in the Report on Relations with Affiliated Companies is true and accurate in all material respects.

The Supervisory Board had no objections to the submitted Annual Report of the company Poslovni sistem Mercator d.d. and the Mercator Group for 2018, and confirmed it unanimously at the session held on April 25, 2019.

In 2018, Mercator Group generated a net profit in the amount of EUR 1,606 thousand.

In 2018, the company Poslovni sistem Mercator d.d. generated a net loss in the amount of EUR 10,882 thousand. The company proposes to cover the accumulated loss in the amount of EUR 10,882 thousand, by debiting the retained net profit by an amount of EUR 7,071 thousand, and by debiting the capital surplus by an amount of EUR 3,811 thousand.

The Supervisory Board compiled this Supervisory Board report pursuant to the provisions of Article 282 of the Companies Act. The Report is intended for the Shareholders Assembly.

Supervisory Board Deputy Chairman
Poslovni sistem Mercator d.d.
dr. Lahovnik Matej
Ljubljana, April 25, 2019



Leading market share in Slovenia



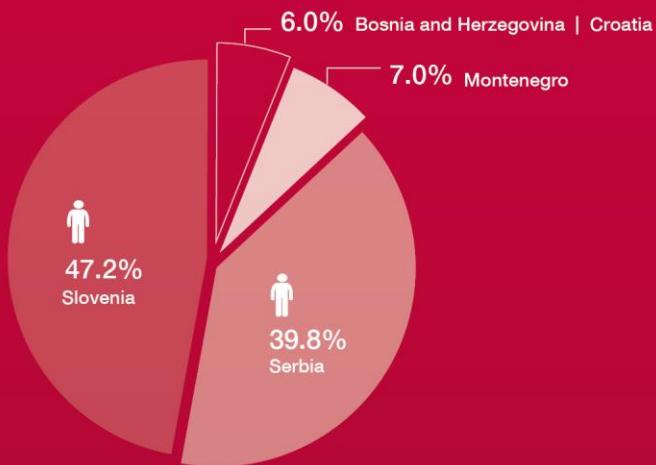
1.8 million
of active card holders

5 million customers per week



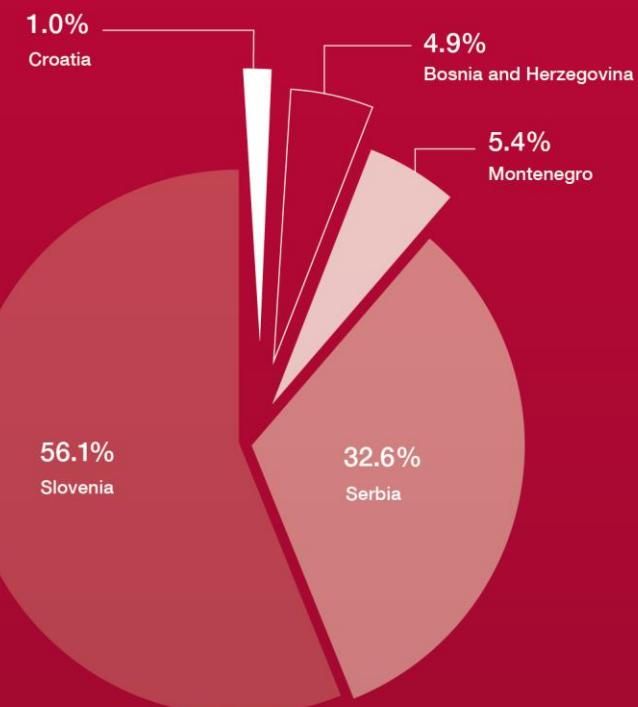
1,051 of stores

20,310 Employees



more than **800 km** of shelves,
equivalent to the distance
from Ljubljana to Hamburg

EUR 2.2 billion
Net sales revenue



We opened and refurbished 122 stores



EUR 1.6 billion of net sales revenue in the core activity of retail (3.2% growth relative to 2017)



EUR 107.5 million of normalized EBITDA, which is 18.6% more than in 2017



At the end of the year, financial debt amounted to EUR 785 million, which is EUR 97 million less than at the end of 2017



EUR 173 million of paid taxes, contributions, and charges



•••● Performance highlights

| | | Mercator Group business | | | |
|---------------------------------|--|-------------------------|-----------|-----------|---------------------|
| | | 2016 | 2017 | 2018 | Change 2018/2017 |
| INCOME STATEMENT | (in EUR 000) | | | | |
| | Sales revenue | 2,199,587 | 2,152,172 | 2,177,187 | 1.2% |
| | Sales revenue from FMCG retail | 1,539,561 | 1,577,532 | 1,628,473 | 3.2% |
| | Profit (loss) for the year | -78,063 | -184,435 | 1,606 | - |
| | Gross cash flow from operating activities (EBITDA) | 33,320 | -102,662 | 106,822 | - |
| | Normalized gross cash flow from operating activities (EBITDA normalized)* | 62,353 | 90,631 | 107,458 | 18.6% |
| | Gross cash flow from operating activities before rental expenses (EBITDAR) | 104,139 | -32,523 | 174,592 | - |
| | Normalized gross cash flow from operating activities before rental expenses (EBITDAR normalized) * | 133,172 | 160,633 | 175,134 | 9.0% |
| STATEMENT OF FINANCIAL POSITION | (in EUR 000) | | | | |
| | Total assets as at Dec. 31 | 2,122,836 | 2,076,723 | 1,936,298 | -6.8% |
| | Equity as at Dec. 31 | 557,376 | 478,401 | 479,525 | 0.2% |
| | Net financial debt as at Dec. 31 | 876,698 | 857,588 | 771,212 | -10.1% |
| CASH FLOWS | (in EUR 000) | | | | |
| | Net financial debt / equity as at Dec. 31 | 1.6 | 1.8 | 1.6 | -10.3% |
| | Net financial debt / normalized EBITDA as at Dec. 31 | 14.1x | 9.5x | 7.2x | -24.2% |
| | (in %) | | | | |
| | Normalized gross cash flow from operating activities (EBITDA normalized) / Sales revenue | 2.8 | 4.2 | 4.9 | 0.7 p.p. |
| | Normalized gross cash flow from operating activities before rental expenses (EBITDAR normalized) / Sales revenue | 6.1 | 7.5 | 8.0 | 0.5 p.p. |
| INVESTMENTS | (in EUR 000) | | | | |
| | Capital expenditure | 90,426 | 70,904 | 29,905 | -57.8% |
| EMPLOYEES | (in EUR 000) | | | | |
| | Number of employees as at Dec. 31 | 20,354 | 20,801 | 20,310 | -2.4% |
| PRODUCTIVITY AND VALUE ADDED | Number of employees (FTE) | 18,646 | 18,664 | 18,847 | 1.0% |
| | (in EUR 000) | | | | |
| | Productivity per employee in FMCG retail | 111.1 | 113.8 | 114.1 | 0.3% |
| | Value added per employee in FMCG retail | 23.5 | 24.5 | 26.3 | 7.0% |
| SHARE | Market value per share as at Dec. 31 (in EUR) | 68.0 | 20.1 | 23.0 | 14.6% |
| | Market capitalization as at Dec. 31 (in 000 EUR) | 414,184 | 122,245 | 140,092 | 14.6% |
| | Number of companies in the Mercator Group as at Dec. 31 | 16 | 17 | 17 | 0.0% |

* Normalized value does not include non-recurring (one-off) events presented in the chapter Performance Analysis in 2018.



•••● Business strategy

VISION

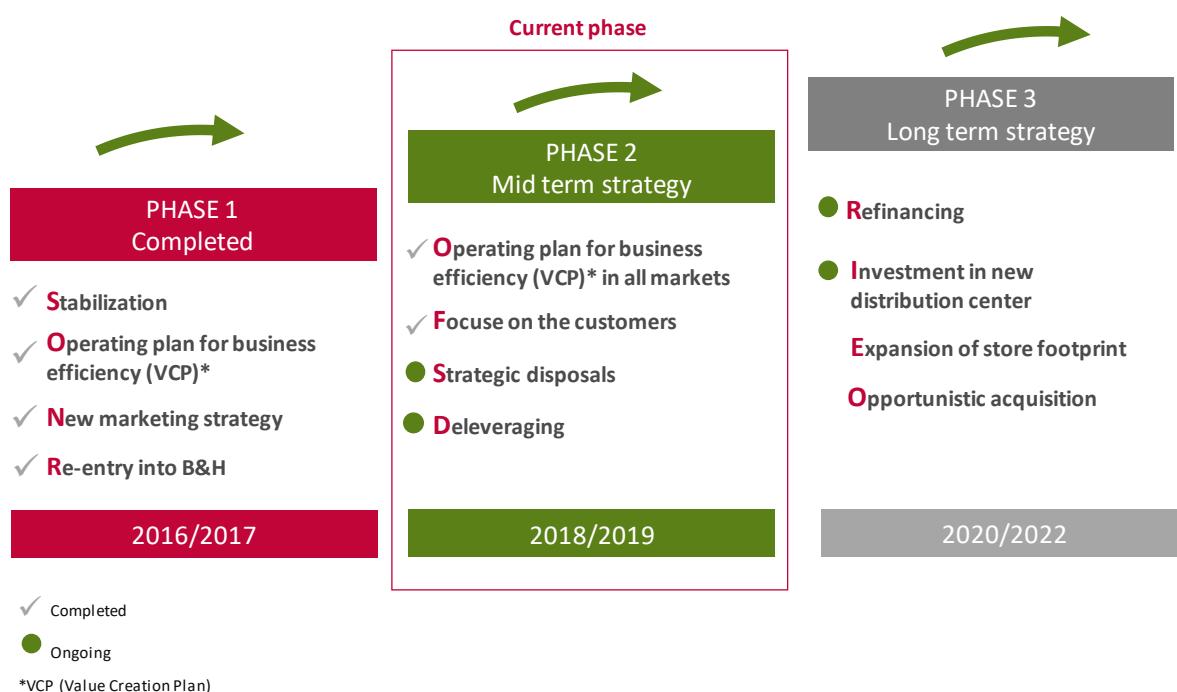
Mercator will be the best local retailer in every market of its operations.

MISSION

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

STRATEGY

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

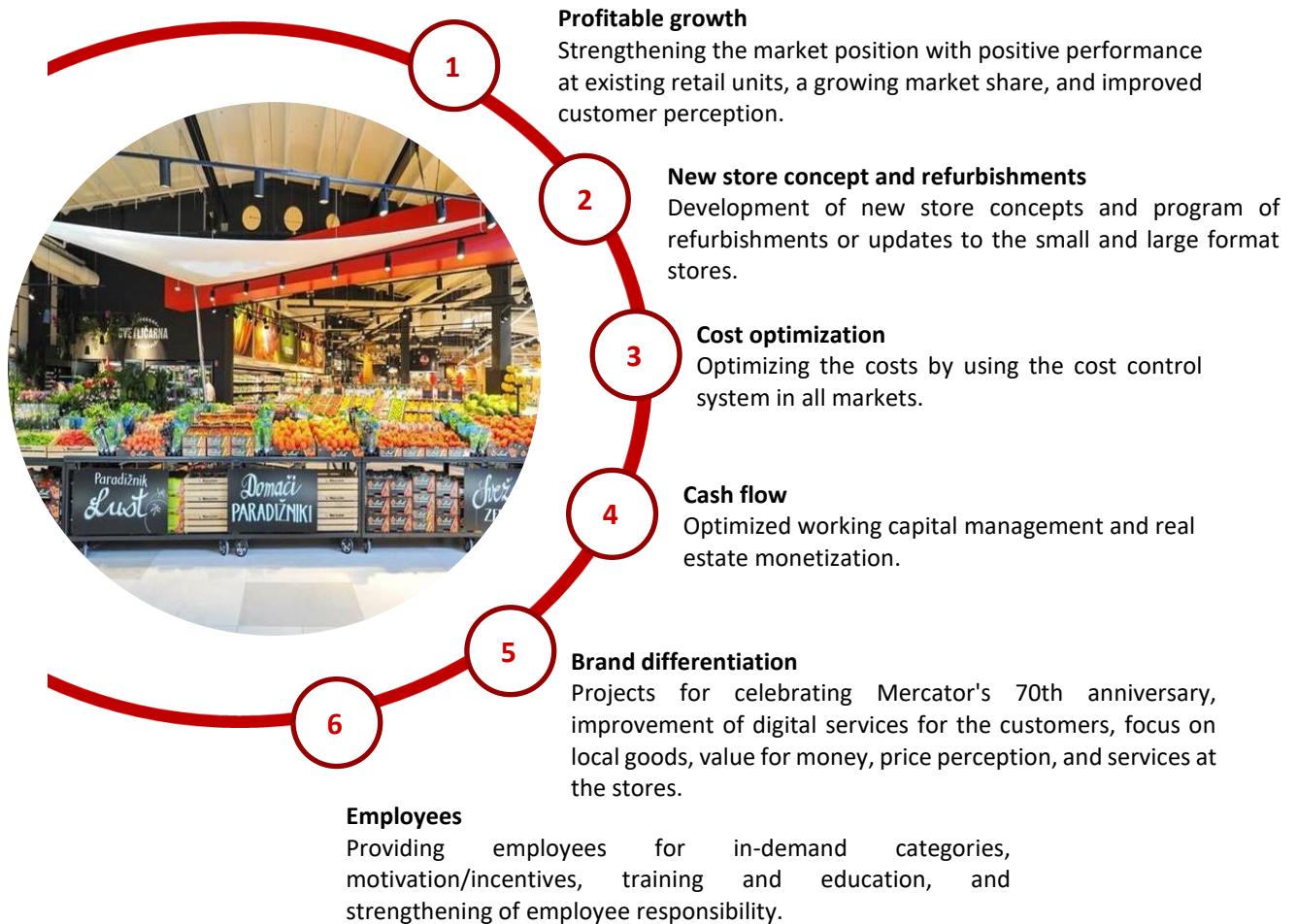




• • ● Operating plan for business efficiency

In the first half of 2018, the Value Creation Plan, which also includes activities to achieve targets specified in the operational plan, was also implemented in foreign markets. In 2018, a total of 146 initiatives^[1] were planned in all markets of the Group's operations. There were 74 planned initiatives in Slovenia, 30 in Serbia, 26 in Bosnia and Herzegovina, 10 in Montenegro, and 6 in Croatia. At the end of 2018, 84% of initiatives held the status of successful progress or completion.

Activities for execution of the Value Creation Plan, with the main goal of increasing free cash flow:



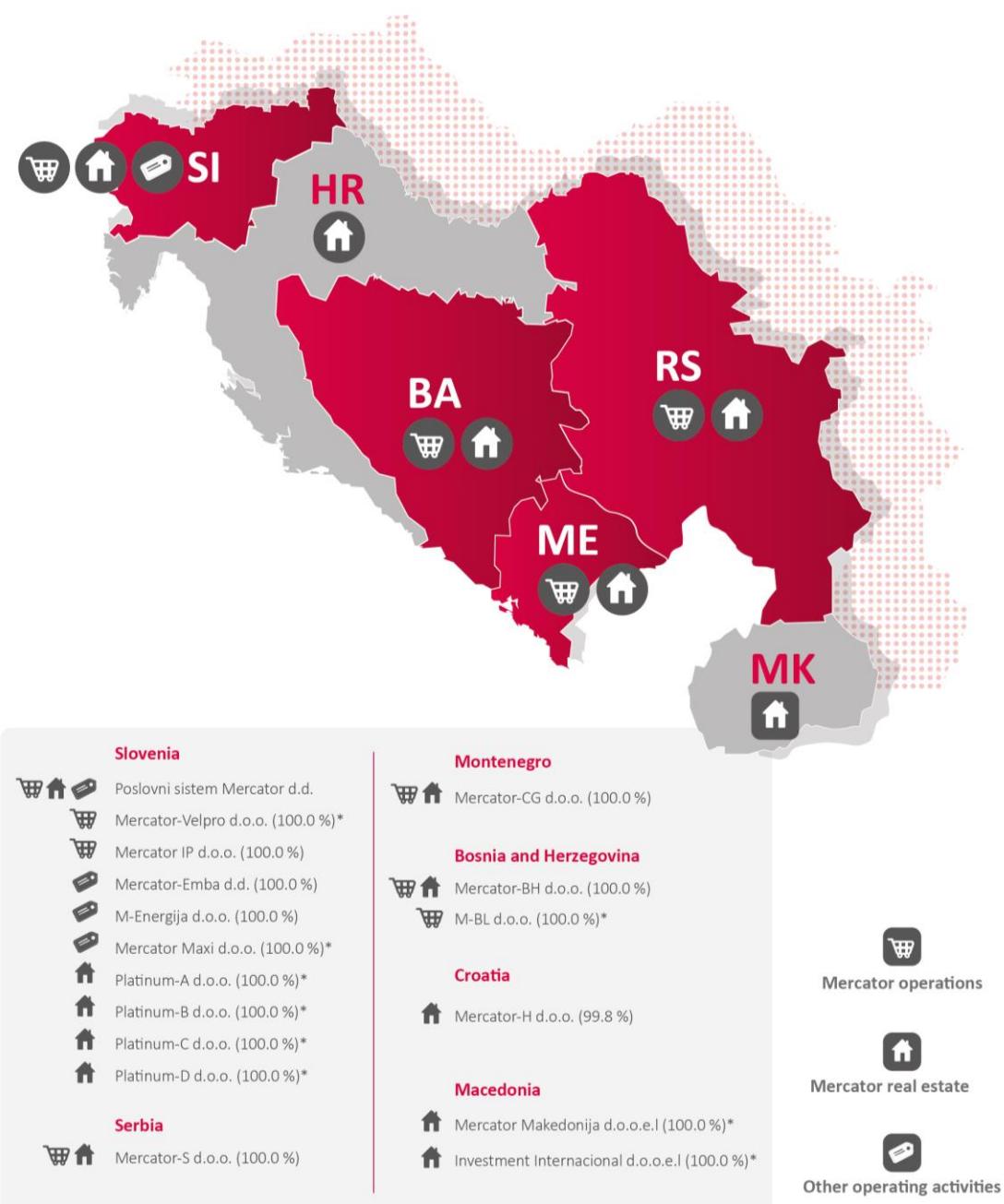
^[1] An initiative is a cluster of independent activities and/or interrelated activities that are carefully planned in order to attain a certain key goal, or which affect a number of key goals.



•••● Introduction and organization

••● Mercator Group compositions as at December 31, 2018

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





Branch Offices: As at December 31, 2018, Mercator Group companies did not have any branch offices.

Other Organizations: The company Poslovni sistem Mercator d.d. is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees. The company Mercator–S, d.o.o., is the founder of the Mercator Solidarity Foundation (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 foreign foundations is to provide solidarity aid to employees in respective companies, who are in social or financial distress.

• ● ● Presentation of the parent company of Mercator Group



| | |
|--|---|
| Company name | Poslovni sistem Mercator d.d. |
| Company head office | Dunajska cesta 107, 1113 Ljubljana, Slovenia |
| Activity | Retail in non-specialized food retail outlets (G 47.110) |
| Registration number | 5300231 |
| VAT tax code | 45884595 |
| LEI (Legal Entity Identifier) | 549300X47J0FW574JN34 |
| Company nominal capital as at December 31, 2018 | EUR 254,175,051.39 |
| Number of shares issued and paid-up as at December 31, 2018 | 6,090,943 |
| Share listing | Ljubljanska borza, d.d., official market, prime market, symbol MELR |

Contact



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Twitter www.twitter.com/mercator_sl



Website www.mercatorgroup.si



LinkedIn www.linkedin.com/company/335027



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



Youtube www.youtube.com/user/mercatorslo



• • ● Organization of the parent company of Mercator Group as at December 31, 2018

The Management Board represents the company. It manages its business independently and at own responsibility. As at December 31, 2018, the Management Board of the company Mercator d.d. consisted of four members: President of the Management Board, two members, and the extraordinary member.



Tomislav Čizmić
President
of the Management Board
Field of operation:
Management of the company
Poslovni sistem Mercator d.d.
and Mercator Group



Draga Cukjati
Member
of the Management Board
Field of operation:
finance, accounting
and informatics



Igor Mamuza
Member
of the Management Board
Field of operation:
Mercator retail Slovenia



Gregor Planteu
Extraordinary member of the
Management Board
Field of operation:
Field of operation in accordance
with the Act on Conditions for
Appointment of Extraordinary
Management Board Member in
Companies of Systemic Importance
of the Republic of Slovenia



• • • Business operations

• • • Fast-moving consumer goods

Mercator Group's core activity is fast-moving consumer goods retail, in a dense and extensive retail network in **Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina**. We are striving to provide the broadest offer of local, national, and regional brands.

In 2018, we also launched the **My Brands** ("Moje znamke") campaign, to cooperate with suppliers for creating a joint story and new offer for our customers, in foreign markets of our operations. This, we have established a long-term strategic platform for joint development in the region, which allows joint marketing activities, the broadest offer of local brands, and development of special offer for the customers. The campaign already includes 340 partner brands.



Slovenia



Serbia



Montenegro



Bosnia and Herzegovina



Our wide assortment is upgraded with local products within the campaign **We Love Local** ("Radi imamo domače"). Thus, we are pursuing the vision of being the best local retailer in all markets of our operations.

In all markets of our business, the campaign included 160 local suppliers

and 20 agricultural cooperatives, providing a total of 1,400 products. We are also pursuing the modern shopping trends by introducing our own **offer of organic ("Bio") products, and products for a variety of lifestyles**. In the digital age, consumers start shopping before they enter the store, and the focus is on improvement of shopping experience. Thus, we offering our customers updated existing store concepts as we keep up with the shopping trends with the development of the **Organic** and **Minute** concepts. New store concepts are adjusted to consumers' new shopping habits.

We are focused on our key competitive advantages:

- attractive fresh assortment, with emphasis on local produce,
- hot bar (warm food counter),
- delicatessen,
- beverages,
- service.



Broad market coverage is provided with **different store formats**. In recent years, we focused mainly on refurbishments of smaller market (FMCG) stores, continuing the tradition of coming closer to our customers in the local environment. Diversity of store formats is rounded off with hypermarkets, supermarkets, and wholesale units.

We shall continue to provide our customers a broad and quality offer of fast-moving consumer goods, which fits the needs and wishes of every individual, while also offering a quality shopping experience for the users.



• • ● Mercator real estate

Real estate is a separate business field at Mercator as the extent of our real property portfolio requires particular care and management from the aspect of environmental care and energy efficiency, and from the aspect of other improvements. Within this field, we seek to reach the optimum in managing our buildings and tenants, developing our retail network, and improving the attractiveness of our shopping centres. Mercator Group owns buildings (this includes the buildings in which the Group is conducting its business and investment property) and land with a combined total value of EUR 1.3 billion.



• • ● Home products



The M Tehnika (technical consumer goods) stores offer products for home and landscaping at favourable payment terms, across Slovenia. The offer includes small and major home appliances, consumer electronics, tools and accessories, construction and gardening equipment and machinery, and products for a cosy home and ambient and well-kept environment. In 2018, our sales assortment was expanded to kitchens of Slovenian origin. The offer of traditional stores is rounded off with the offer of the M Tehnika online store that offers over 15,000 well-priced products, with the option of payment in instalments with the Pika card and free delivery for all orders of over EUR 200. In the last two years, M Tehnika succeeded in maintaining the position of the largest home appliance retailer, and to improve its recognition in the segments of construction, gardening, and home improvement.

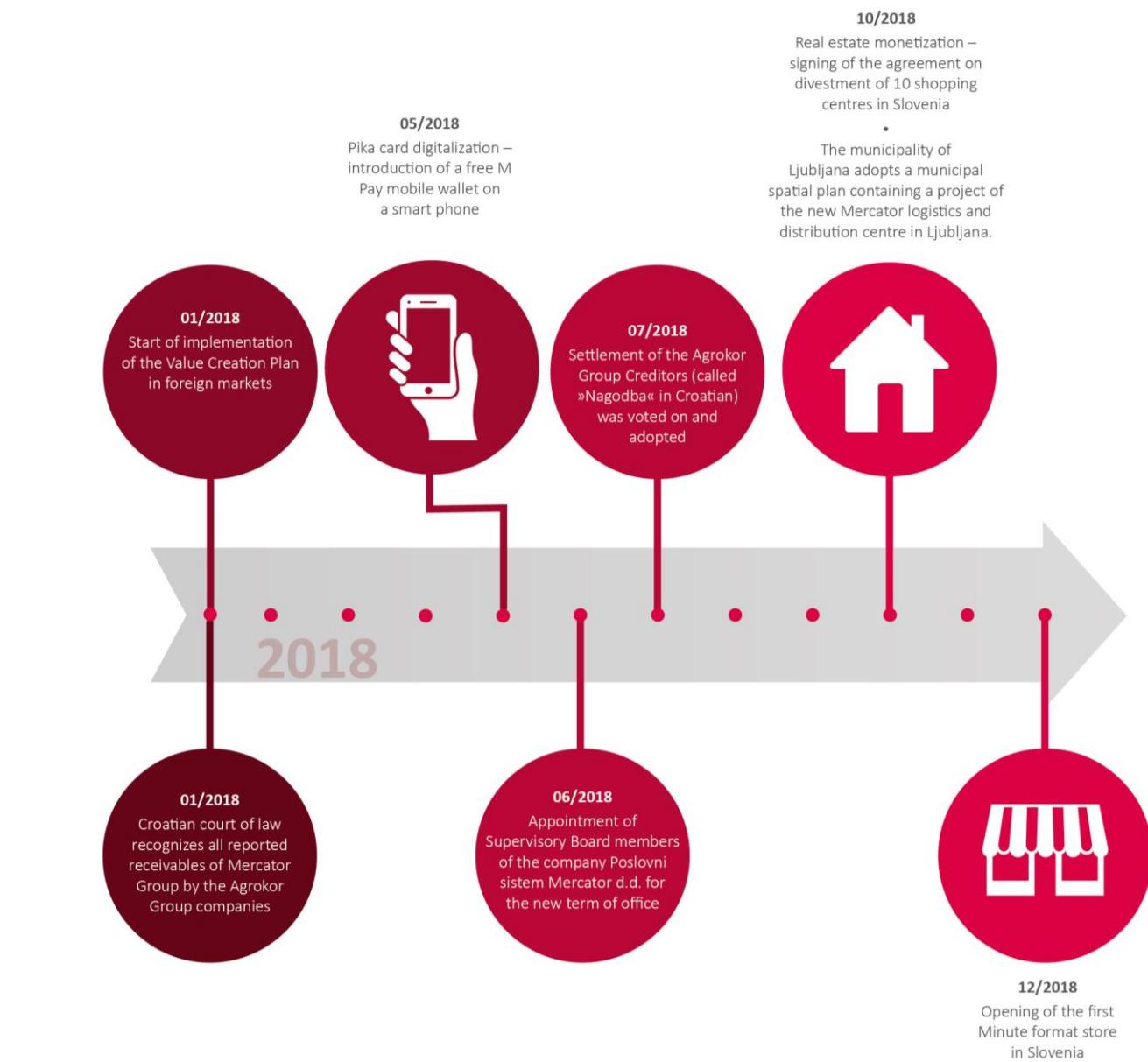
• • ● Service activities and manufacturing

Also operating as a part of the Mercator Group are two independent manufacturing companies: **Mercator-Emba d.d.** and **Mercator IP d.o.o.** Production program of the company Mercator-Emba d.d. includes production of instant cocoa products, dessert toppings, cereal products, and packaging of other products. The company Mercator IP d.o.o. as a service and manufacturing company operates according to a modern concept of employment of persons with disabilities, to whom Mercator Group dedicates particular attention. Mercator Group also offers its customers other service activities like self-service petrol stations **Maxen**.





•••● Review of key events



Changes in parent company governance

On February 28, 2018, Ante Ramljak resigned from the position of Supervisory Board member at Poslovni sistem Mercator d.d.; as of April 4, 2018, Teo Vujčić resigned from the position of Supervisory Board member, and as of April 16, 2018, Damir Kuštrak resigned from the position of Supervisory Board member.

At the 25th regular Shareholders Assembly of the company Poslovni sistem Mercator d.d., held on June 12, 2018, the following Supervisory Board members representing the interests of capital were appointed for a four-year term of office: Fabris Peruško, Irena Weber and Sergei Volk. Four-year term of office was also extended for incumbent members Matej Lahovnik and Ivica Mudrinić who started their mandate on August 30, 2018. Thus, the nine-member Management Board of the company Poslovni sistem Mercator d.d. operates with the following composition: Fabris Peruško, Irena Weber, Sergei Volk, Matej Lahovnik, Ivica Mudrinić, Vladimir Bošnjak, Vesna Stojanović, Jože Lavrenčič, and Matjaž Grošelj.



Events related to the developments at the Agrokor Group

Pursuant to a special legislation, the so-called Lex Agrokor that the Croatian government adopted in April 2017, Mercator Group companies reported until and including June 9, 2017, a total of EUR 43,788,150 of receivables payable by the Agrokor Group companies. In January 2018, the court in Zagreb recognized and confirmed all reported receivables.

On July 4, the Settlement of the Agrokor Group Creditors (called "Nagodba" in Croatian) was voted on and approved; it became final on October 18, 2018. All information on the Settlement is available on the website <http://nagodba.agrokor.hr>.

In March 2018, a report by the **extraordinary Management Board member**, whose appointment was proposed by the Government of the Republic of Slovenia, for the period from November 1, 2017, to January 31, 2018, was released, followed by another such report in June for the period from February 1, 2018, to April 30, 2018, another one in September for the period from May 1, 2018, to July 31, 2018, and another one in November for the period from August 1, 2018, to October 31, 2018. **All reports indicate that all transactions signed between the company Mercator d.d., and the company Agrokor d.d. and the companies affiliated with it, complied with the principles of diligence, good management and credibility, and that the company did not sustain any loss or damage with regard to such transactions.**

Real estate monetization

On October 12, 2018, the company Poslovni sistem Mercator d.d. and companies Supernova signed an agreement on the sale of ten shopping centres in Slovenia. According to the sale and purchase agreement, valued at EUR 116.6 million, Poslovni sistem Mercator will lease back for the long term the parts of the shopping centres in which it is conducting its core activity. The monetization project is primarily intended for deleveraging and it fosters Mercator Group's long-term development.

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

In October 2018, the Municipality of Ljubljana adopted the municipal spatial plan that also includes the plans for Mercator's new logistics and distribution centre in Ljubljana.

Pika card digitalization

In May 2018, we implemented Mercator's free mobile wallet M Pay which is a part of the MOJ M mobile application. On the smart phone, it operates the same as the actual Pika card; therefore, the customers can use their phones to pay when they shop. It applies to all Pika cards. M Pay operates based on the QR code principle and it also allows contact-less payment or collection of bonus points.

• • ● Major events following the end of period at hand

In February 2019, the second stage of the monetization project was completed with the divestment of ten shopping centres in Slovenia with the closing of the agreement between the company Poslovni sistem Mercator d.d. and companies Supernova. Supernova paid the acquisition price of EUR 116.6 million, and Mercator took on long-term lease the parts of the centres in which it is conducting its core activity. Total amount received for the divested shopping centres was used for repayment of financial liabilities.

In March 2019, divestment procedure for the company Investment Internacional d.o.o.e.l., Macedonia, was completed. In the Macedonian market, Mercator remains present with the company Mercator Makedonija d.o.o.e.l.



● ● ● Awards and other achievements

Slovenia



In Slovenia, Mercator brand received the **Trusted Brand 2018** award in the shopping centre category, and the **Trusted Brand 2018** award for **environment protection** in the food retail category.

In May 2018, an independent audit took place at Mercator for the extension of the environmental management system certificate; this year, the audit fully followed for the first time the requirements of the new international standard ISO 14001:2015.



The bakery section of the Chamber of Agricultural and Alimentary Companies with the Slovenian Chamber of Commerce and Industry presented the highest award to **seven Mercator baking and pastry products** made at the pastry workshop Kranjski kolaček that is a part of the company Mercator IP d.o.o. The golden awards are proof that Mercator offers superior products in its dessert and bakery department, too.



At the 39th International Contest for meat and meat produce, **Minute** products received for the third consecutive year the gold, silver or bronze medal in the category of meat produce. All 11 award-winning products are made by the company Mercator IP d.o.o. The contest included 35 manufacturers or producers from Slovenia, Austria and Croatia, and the expert



jury rated 204 different products. The official award ceremony took place on August 27, 2018, at the 56th International Agriculture and Food Industry Fair AGRA in Gornja Radgona.

In October 2018, employees of our pastry shop **Kranjski kolaček** ("The Kranj Cupcake") took part for the first time at the 7th International Congress Interslast in the Croatian spa resort of Tuhelj. The Interslast Congress included a competition in three categories; our company took part in two of them. In the category of **birthday cakes** Pastry Cup Senior, our employee received two accolades for her product: first place and golden award from the **Press Interslast 2018** reporter's association; and third place, with bronze medal, from the expert jury of **Pastry Cup of Croatia 2018**.

The **Maxim** restaurant ranked among the **eight best Slovenian restaurants** in the French culinary guide **Gault & Millau**. The guide includes 130 of the best Slovenian restaurants. Maxim restaurant is the only one in Slovenia to have received an award for both the best service and superior cuisine.



M Tehnika online store is a trustworthy online retailer. It has met the criteria for the **Certified Shop** label and thus acquired the European trust label **EMOTA**. The Certified Shop label means that the M Tehnika online store complies with the national and EU standards of online shopping.

The company Poslovni sistem Mercator d.d., or the executive area **M Tehnika**, is the recipient of a **special award for employee motivation** – The Mystery Shopper Star for 2017. The award was presented by the largest specialized mystery shopping agency in Slovenia, which offers the mystery shopping services, and which is also a member of the global Mystery Shopping Providers Association (MSPA).





In September, we received the **Select Quality for Fruit** certificate. To this end, we launched special communication at the points of sale.

Mercator brand qualified for this year's selection of Slovenian Superbrands, from among over 10,000 entries. The Superbrands are brands that stand out in the Slovenian market for their distinction, quality, confidence, and emotional charge.



In **Serbia**, the **IDEA**, **Roda** and **Mercator** stores received the Superbrands 2017–2018 award, while Roda won three **Qudal medals for the highest quality level**.

In Serbia, **IDEA** won two awards in 2018. In November, it received the title of **the best in the category of direct communication ("below the line communication")** at the Kaktus Festival of Integrated Communication for its IDEA Dorćol campaign; only a month later, it won the **customer relations award** at the UEPS Festival for its campaign for the IDEA Organic stores.



• • ● Mercator's humanitarian activities

The campaign **Do not Ignore, Support!** ("Ne ignoriraj, podpiraj!") includes projects of support to the Friends of the Youth Association Ljubljana Moste Polje, Slovenian Coeliac Disease Society, and the humanitarian organization Anina Zvezdica ("Anna's Little Star"). The campaign also included cooperation with the company Mars to collect dog and cat food at Mercator stores until May 16, which was then donated to select societies and animal shelters. Together with our customers and Mars donations, we collected and gave away 4.5 tons of pet food. The campaign continued under the slogan "**Buy, donate, train**" and it took place until the end of August.

By buying Friskies products, the customers contributed to the Canis society for training of guide and assistance dogs. From September 20 to October 3, the campaign continued with fund raising for a donation to the dogs of the Mountain Rescue Association, in such way that 10 grams of food for the rescue dogs were donated for each Whiskas, Pedigree, Kitty, or Buddy product sold. Thus, Mercator supports the efforts of shelters and societies for long-term improvement in animal welfare.



Mercator donated EUR 135 thousand for the future of Slovenian ski jumping. **Young ski jumpers and ski jumping clubs** received total donations of EUR 45 thousand while the **rest was donated to women's and men's national ski jumping team**.

In 2018, we teamed up with the Slovenian Red Cross to actively collect food and other necessities on a quarterly basis at our major shopping centres. Thus, we collected at 141 stores over 46,000 donated products like flour, rice, pasta, milk, meat products, canned food, cereals, diapers, hygienic accessories, body care products, school supplies etc.



Mercator also traditionally takes part in the **Drobtinica** campaign that the Slovenian Red Cross organizes every October across Slovenia to commemorate the World Food Day and the International Day for the Eradication of Poverty. Thus, we have donated a total of over 34 tonnes of bread in the last 10 years.





Looking to contribute to **preservation of natural environment**, we regularly donate our damaged and sample products from discontinued programs to recycling and reuse centres where they are recycled into useful products, and to high schools where they are used for practical training and education.

M Tehnika took part in the campaign **Old Appliances for Children's Laughter**, the purpose of which was to collect waste appliances, light fixtures, and batteries at our technical consumer goods stores. The proceeds were donated to the Rdeči noski ("The Red Noses") society that seeks to lift the spirits of the children who have to spend time away from home.



In Serbia, IDEA dedicated its efforts in August to babies for the seventh consecutive time. As a part of the campaign **Niš v srcu** ("Niš in Our Hearts"), we prepared the campaign "**Baby month**" in Niš and helped young families by donating gift packages, and presented double buggies to mothers who gave birth to twins.

In Montenegro, IDEA is – for the third year – the sponsor of the most humanitarian TV show in the country, called **Dnevnička**, in which IDEA is teamed up with Montenegrin celebrities to provide aid to families in need. As soon as the TV show went on air, the viewers grew fond of its humanitarian purpose and the stories that touch everyone.





• • • ● Corporate Governance Statements

Pursuant to Article 70, Paragraph 5 of the Companies Act (ZGD-1), Business Report of the company Poslovni sistem Mercator, d.d., also includes a Corporate Governance Statement.

• • ● Reference to the Corporate Governance Code

The governance of the company Poslovni sistem Mercator d.d. is based on legal provisions, sound business practice, and the principles of the Corporate Governance Code.

Management and Supervisory Board of the company Poslovni sistem Mercator d.d. hereby submit this statement of compliance with the Code, which is also a constituent part of the 2018 Annual Report. It is available at company website at www.mercatorgroup.si.

Compliance with the provisions of the Code

Management Board and Supervisory Board of the company Poslovni sistem Mercator d.d. reviewed in 2018 the corporate governance at the company Poslovni sistem Mercator d.d., and the Mercator Group, and the compliance thereof with the Code, and prepared a new statement which reflects the actual situation of corporate governance at the company Poslovni sistem Mercator, d.d., and the Mercator Group.

It was found that corporate governance at the company Poslovni sistem Mercator d.d. and the Mercator Group complies with the provisions of the Code, with particular deviations explained below.

Diversity policy (Recommendation 4): The company Poslovni sistem Mercator d.d. is developing a document on diversity policy, which is in the process of adoption. However, diversity policy is already implemented in practice in the managerial and supervisory bodies in terms of the following aspects: gender, age, education, and professional experience.

Relations with shareholders (Recommendation 6.2): Given the fact that majority shareholder Agrokor d.d. and the second largest shareholder Sberbank of Russia hold a combined total of 88.11% of ownership, they independently communicate their intents regarding the management policy for the investment into the publicly traded stock corporation, and therefore, the company did not make any additional invitations to shareholders to publicly disclose their management policies with regard to their investment in this publicly traded stock corporation.

Shareholders Assembly (Recommendation 8.5): In the materials for the 25th regular Shareholders Assembly, and at the 25th regular Shareholders Assembly, the company Poslovni sistem Mercator d.d. provided information about the work experience of the proposed Supervisory Board candidates. Moreover, the candidates provided their written statements declaring that there were no circumstances opposing their appointment pursuant to the provisions of the Companies Act (ZGD-1). However, an assessment of any conflict of interests on the part of the candidates, pursuant to the criteria of independence as laid down in the Corporate Governance Code for Publicly Traded Companies (the LjSE Code) was not conducted, since all candidates were proposed by the majority shareholder of the company Poslovni sistem Mercator d.d.

Shareholders Assembly (Recommendation 8.6): The company does not disclose the process of recruitment, nomination and assessment of Supervisory Board candidates, since the candidates are proposed by the majority shareholder based on their own selection processes.



Supervisory Board, independence (Recommendations 9.2, 9.3, 18.7, 22, 23): In the current ownership structure of the company Poslovni sistem Mercator d.d., the company Agrokor d.d. holds 69.57% of total company shares and the company Sberbank of Russia holds 18.54% of shares. Thus, the company Supervisory Board and the Supervisory Board committees also include members with close economic ties to the said shareholders.

Procedure of selecting the Supervisory Board member candidates (Recommendation 10.1): Some Supervisory Board members have not produced documentation (Supervisory Board members who are foreign citizens, and labour representatives) to prove their specialized professional or expert competencies for Supervisory Board membership. Nevertheless, they qualify for such engagement on account of their professional competencies or experience.

Statement of independence (Recommendation 11): All Supervisory Board members have signed a special statement specifying their position on meeting each of the independence criteria. The company has not released the signed statements on the company's official website since compliance with respective independence criteria is a matter of personal integrity of every Supervisory Board member.

Supervisory Board tasks and payment to the Management Board (Recommendations 12.10 and 21.1): In 2018, Management Board member receipts only included the fixed part, while the decision on the variable part of the reward to Management Board members is adopted by the Supervisory Board based on the performance in the preceding year.

Supervisory Board member training (Recommendation 13.1): The Supervisory Board does not specify its annual plan for Supervisory Board and committee member training, since Supervisory Board members take part in training and education programs based on the needs of every member. The company Poslovni sistem Mercator d.d. is a member of the Slovenian Directors' Association that also offers training and education courses for Supervisory Board members, which are also attended by the Supervisory Board members.

Composition and appointment of the Management Board (Recommendation 20.7): Pursuant to the adopted Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia, the District Court of Ljubljana entered ex officio into the court register the extraordinary Management Board member at the company Poslovni sistem Mercator d.d. Gregor Planteu. The duration of his contract depends on the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia.

Public disclosure of important information (Recommendation 29.9): The company released its Rules of Procedure for the Supervisory Board, Rules of Procedure for the Audit Committee, and Rules of Procedure for the Human Resource Committee on its website at www.mercatorgroup.si, in Slovenian and English. The company does not release Rules of Procedure for the Shareholders Assembly, which the company does not need, since every Shareholders Assembly is presided over by a renowned attorney at law, in compliance with the relevant legislation.

The composition of the Management Board and Supervisory Board, pursuant to Appendix C of the Corporate Governance Code, is presented in more detail below in this chapter, while the receipts by the Management Board and Supervisory Board are, also consistently with the Appendix C of the Corporate Governance Code, presented in more detail in the financial part of the Annual Report under section 33, Related party transactions.

The company Poslovni sistem Mercator d.d. shall continue to observe the recommendations of the Code in the future. It will look to implement as far as possible the non-binding recommendations and this to improve its corporate governance system.



● ● ● Description of key characteristics of internal control and risk management at the company, with regard to the financial reporting process

Mercator Group companies compile their financial statements **pursuant to the International Financial Reporting Standards (IFRS)**, making sure that the financial position, income, and cash flows are presented fairly and consistently with the actual effects of business events.

Internal controls include policies and procedures put into place and conducted by the Mercator Group at all levels in order to control the risks related to financial reporting. The purpose of internal controls is to provide reliability of financial reporting and compliance with the applicable laws and other internal and external regulations. The purpose of internal controls in accounting is to manage the risks pertaining principally to the following:

- credibility of accounting information based on valid and credible bookkeeping documents, and evidence of the existence of business events, complete with a clear presentation of all information relevant for correct bookkeeping of such events;
- accuracy of financial data which is appropriately reviewed before announcement; controls are conducted at several levels by comparing and aligning or harmonizing the data of analytic bookkeeping to the data in the bookkeeping documents, as well as to the data of business partners or actual physical status of assets, and bringing into line the analytical accounting and the general ledger;
- completeness and timeliness of financial information, provided by uniform accounting policies and precisely defined procedures and recording deadlines as laid down in the accounting rules and regulations of the Mercator Group, and in other internal acts of the Mercator Group companies; also important is appropriate delineation of powers and responsibilities.

The information system plays a vital role in the provision of quality accounting information from the aspect of the use of modern technology. Most Mercator Group companies employ **SAP** as the **central IT system**. It is fittingly integrated with other IT solutions implemented at respective companies. Operation of the SAP system and the internal controls integrated therein are checked annually in cooperation with authorized third-party service providers.

Risks occurring in financial reporting are also managed and mitigated by the following:

- good internal communication (provision of information) and notification;
- clear and concise accounting practices and their strict implementation;
- harmonized accounting policies throughout the entire Mercator Group;
- continuous improvement of organization of the accounting function at each company, as well as at the Mercator Group level;
- timely preparation, detailed treatment, and suitable concept in terms of contents and substance in statements relevant for business decision-making;
- comprehensive and extensive disclosures and explanations;
- regular internal and external audits and reviews of business processes and operations.

The above is only possible with highly professional, meticulous, and persistent employees complying with the relevant legislation and sharing Mercator's values. Therefore, we devote a lot of care to their regular education. We provide both internal and third-party professional education, as well as training to acquire the soft skills.



• • ● Structure of company shareholders as at December 31, 2018

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

• • ● Legal transactions between the company Poslovni sistem Mercator d.d., and the majority shareholder Agrokor d.d. and the companies affiliated to it

On May 6, 2017, the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (ZLČUDSP) came into effect (Official Journal of the RS, 23-1204/2017; hereinafter referred to as the Act). At its session on May 8, 2017, the government of the Republic of Slovenia established that Poslovni sistem Mercator d.d. was a company of systemic importance to the Republic of Slovenia. Upon proposal by the government of the Republic of Slovenia, the district Court of Ljubljana appointed on May 18, 2017, pursuant to the Act, **Gregor Planteu** as the extraordinary Management Board Member at the company Poslovni sistem Mercator d.d.

The extraordinary Management Board member at the company Poslovni sistem Mercator d.d.:

- is responsible exclusively for the management of transactions with the majority shareholder Agrokor d.d. and its subsidiaries;
- does not deal with regular operations of the company Poslovni sistem Mercator d.d.;
- prevent, pursuant to the Act specified above, any financial draining of the company Poslovni sistem Mercator d.d. by its majority shareholder Agrokor d.d.

Management Board members and the extraordinary Management Board Member jointly represent the company of systemic importance Poslovni sistem Mercator d.d. and adopt unanimously the decisions regarding management of all transactions related to the majority shareholder Agrokor d.d. and companies affiliated to the it.

For operational execution of the Act, the Management Board of Poslovni sistem Mercator d.d. adopted an Organizational Rule for Managers and Executives of the company Poslovni sistem Mercator d.d. and its subsidiaries for concluding and managing any transactions in relation to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia. This Organizational Rule specifies particularly the following:

- more precise definition of the transactions between the company Mercator d.d. with the majority shareholder Agrokor d.d. or companies affiliated to it, which are regulated pursuant to the Act;
- status of transactions effected before the Act came into force;
- obligations of Mercator Group managers and executives for which joint representation and adoption of decisions, or approval by the extraordinary Management Board member, is required in accordance with the Act.



The company Poslovni sistem Mercator d.d. shall, pursuant to the Act, **compile every three months a report on all transactions concluded with the majority shareholder Agrokor d.d. and the companies affiliated to it** and present the report to the Supervisory Board, while the extraordinary Management Board member shall present it to the Minister of Economy. In 2018, reports were released for the following periods: in March 2018 for the period from November 1, 2017, to January 31, 2018; in June 2018 for the period from February 1, 2018, to April 30, 2018; in September 2018 for the period from May 1, 2018, to July 31, 2018; and in November 2018 for the period from August 1, 2018, to October 31, 2018. All reports conclude that **all transactions effected with the majority shareholder Agrokor d.d. and its subsidiaries conformed to the principles of diligence, good management and credibility, and that the company Poslovni sistem Mercator d.d. did not sustain any loss or damage with regard to such transactions.**

All transactions concluded between the company Poslovni sistem Mercator d.d. and the company Agrokor d.d. conform to the principles of diligence, good management and credibility.

Pursuant to Article 545 of the Companies Act (ZGD-1), the company Poslovni sistem Mercator d.d. also prepared its Report on Relations with Affiliated Companies in 2018, which lists all legal transactions executed by the company in 2018 with the controlling/parent company or any company affiliated to it. The Report finds that Poslovni sistem Mercator d.d. as a subsidiary did not conclude in 2018 any legal transaction with the parent company of the Agrokor Group, which would have any harmful effects on the operations of the company Poslovni sistem Mercator d.d. Moreover, there were not any legal transactions between the parent company and its subsidiaries in this period, executed based on an obligatory instruction. Pursuant to Articles 545 and 546 of the Companies Act (ZGD-1), the parent company did not exert its influence in a way to coerce or induce the subsidiary into conducting a legal transaction disadvantageous or damaging to the subsidiary, or to do anything to its disadvantage. Moreover, the company did not perform or omit any action at the initiative or in the interest of such companies.

• • ● Audit

Pursuant to the Companies Act, audit of financial statements is mandatory for Mercator Group companies. The purpose of the audit is to increase the level of trust among the users of financial information. The auditor applies appropriate audit procedures and methods to review the financial statements and passes an opinion as to whether they are compiled in compliance with the appropriate framework of financial reporting in all relevant aspects.

External audit

At their 25th regular Shareholders Assembly, the Shareholders Assembly appointed the auditing company Deloitte revizija d.o.o. as the auditor for the company Poslovni sistem Mercator d.d. The same auditing company is also auditing the Mercator Group and most of the subsidiaries.

In its work, the auditing company Deloitte revizija d.o.o. uses the latest auditing methodology that takes into account the fundamental auditing principles and other auditing rules in compliance with the International Standards on Auditing and International Statements on Auditing, while also supporting and improving the quality of the audit and contributing to its efficiency.

Internal audit

The Internal Audit department is organized within the controlling company and it operates at the level of the entire Mercator Group. In terms of organization, it is subordinate to and reports directly to the President of the Management Board; in terms of function, it reports to the Audit Committee and the Supervisory Board. Mercator Group internal audit complies with the International Standards of Professional Conduct in Internal Auditing, Code of Professional Ethics for Internal Auditors, and the Code of Internal Auditing Principles.

Pursuant to the said standards, external audit of the quality of internal audit function shall be conducted once every five years, in order to review the internal audit's compliance with the International Standards for the Professional Practice of Internal Auditing and the Code of Professional Ethics for Internal Auditors. External audit



of the internal audit function was conducted at Mercator in 2018. Based on the procedures of the external audit of the internal audit function at the company Mercator d.d. and the Mercator Group, the external auditor believes its operation in the period reviewed was compliant in all material aspects with the International Standards for the Professional Practice of Internal Auditing, Code of Professional Ethics for Internal Auditors, and the Code of Internal Auditing Principles.

Internal audit system is closely related to the risk management system. Mercator deals with risks in a systematic manner. A Risk Management Council is organized that works in the planning stage with the persons responsible for respective processes to check the success of execution of the existing strategy and attainment of the goal laid down, and to identify the issues of relevance to the stakeholders involved. Based on the analysis, the Council identifies the risks and opportunities that could appear, and uses evaluation to define the risks that are of key importance for respective companies and the Group. At Mercator Group, the fields with a higher degree of risk and the fundamental, key processes are subject to audit. From the aspect of Internal Audit, the key processes are those that are of relevance for the accomplishment of the start of respective companies and the Mercator Group, and/or which are subject to disclosure requirements.

In 2018, internal audit conducted 9 internal audits. The audits were conducted in purchasing and category management, retail, wholesale, and logistics, and risk management.

Corporate social responsibility is viewed by Mercator Group as a cornerstone of Mercator Group's future success. We support the culture of openness according to the highest standards of integrity and responsibility. Following an initiative by the Supervisory Board and the Audit Committee, Mercator Group companies established a whistle-blowing system called **Say it out loud** ("Povejmo"), which allows reporting dubious or disputable conduct. Mercator Group internal audit is in charge of this activity.

The rules in this regard were written in the document titled "Policy of Motivating Responsibility and Integrity of Conduct", available on the company website.² It is the goal of this policy to encourage all benevolent reports of any concerns, objections, reservations, and observations of non-transparent conduct or disputable business practices at Mercator, in order to prevent by prompt action any disputable business practices and the resulting damage to the Mercator Group before such damage is incurred, to provide all employees providing such benevolent reports protection from any retaliation (especially mobbing, harassment, or intimidation), and to additionally encourage by responsible treatment and resolution of such reports more ethical, moral, and fair conduct.

• ● ● Bodies of corporate governance

Company rules on appointment of members of managerial and supervisory bodies and changes to the Articles of Association

As at December 31, 2018, the company Poslovni sistem Mercator d.d. was managed by a three-member Management Board and an extraordinary Management Board member. The number of Management Board members and their respective fields of work are specified in the Management Board Act adopted by the company Supervisory Board, upon proposal by the Management Board president. The three Management Board members are employed on permanent employment contracts, with the Management Board member's employment contract tied to his or her term of office. Extraordinary Management Board has a fixed term employment contract that is tied to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia.

The fundamental function of the Supervisory Board is to supervise the management of company affairs. Pursuant to the corporate governance code, Supervisory Board member are independent in their work and decision-making. Supervisory Board members appointed by the Shareholders Assembly represent the interests of shareholders. Supervisory Board members representing the workers and elected pursuant to the Worker Participation in Management Act by the company Works Council represent the interests of all workers within the scope of powers and authority vested in the Supervisory Board.

² <https://mercatorgroup.si/en/corporate-social-responsibility/>



The Shareholders Assembly decides on any changes to the Articles of Association with a three-quarter qualified majority of the nominal capital represented in the vote.

Shareholders Assembly and shareholder rights

The Shareholders Assembly is a corporate body in which the will of the shareholders is formed and voiced to become the will of the company. Managing the company is a shareholder's fundamental corporate right that the shareholders exercise together with other company shareholders by means of voting at the Shareholders Assembly about the issues for which the Shareholders Assembly is authorized, and by adopting resolutions to this effect.

Pursuant to the company Articles of Association, the Shareholders Assembly of the company Poslovni sistem Mercator d.d. shall adopt decisions as specified below.

1. In relation to the Management Board:
 - it can express a no confidence vote to the president and (or) member(s) of the Management Board;
 - decides on granting discharge from liability to the Management Board or to an individual Member of the Management Board;
 - exceptionally it can decide on business management issues, if requested by the Management Board.
2. In relation to the Supervisory Board:
 - it elects and relieves of duty the members of the Supervisory Board representing the interests of shareholders;
 - it decides on granting discharge from liability to the Supervisory Board or to an individual member of the Management Board;
 - it decides on the amount of attendance fees or other compensation and reward for the services of Supervisory Board members.
3. In relation to the annual report and performance:
 - it decides on the adoption of the annual report if the Supervisory Board has not approved the annual report or in case the Management Board and the Supervisory Board have ceded the decision on annual report adoption to the Shareholders Assembly;
 - it decides on profit distribution according to the proposal by the Management Board and the Supervisory Board.
4. In relation to the Articles of Association:
 - it decides on changes and amendments to the Articles of Association.
5. With regard to nominal capital and shares:
 - it decides on measures for capital increase and decrease.
6. In relation to the status changes:
 - it decides on company dissolution and status changes (merger, affiliation, splitting up or spin off, change of company form).
7. In relation to operations auditing:
 - it decides on auditor appointment.
8. On other matters according to the law and Articles of Association.

As a rule, the company Management Board shall convene the Shareholders Assembly of Poslovni sistem Mercator d.d. once per year, in cases specified by law or company Articles of Association, and when this is beneficial to the company. The convocation of the Assembly shall be announced in the Delo daily paper, the electronic information dissemination system of the Ljubljana Stock Exchange called SEOnet, and the company website at www.mercatorgroup.si at least 30 days prior to the Assembly date. In addition to the location and time of the Assembly, the convocation, or announcement defines the conditions for taking part in the assembly and asserting the voting right, as well as the agenda and proposed resolutions with the contents as the resolutions will be voted on.



Shareholders' voting right shall be exercised in proportion to the share of the company's nominal capital that they hold. Each vote-bearing no par value share shall grant the shareholder one vote. Voting right may be exercised at the Shareholders Assembly only by a shareholder who is registered for attendance at the Assembly no later than at the end of the fourth day before the Assembly date, and who is registered in the central register of dematerialized securities as at the cut-off date. Each shareholder with the right to attend the Shareholders Assembly may also appoint in writing a proxy to attend the Shareholders Assembly on their behalf and exercise their voting right.

The company Poslovni sistem Mercator d.d. ensures compliance with the principles of equal treatment of all shareholders and ensures equal access to information, and encourages the shareholders to actively exercise their voting rights by organized collection of proxy voting authorizations.

On June 12, 2018, the 25th regular Shareholders Assembly took place with 94.85% of total shares with voting rights present. The Shareholders Assembly included a presentation of the 2017 Annual Report and the Supervisory Board Report on the audit results for the 2017 Annual Report. In addition, the Shareholders Assembly was informed about the receipts of the members of managerial and supervisory bodies, about the Supervisory Board assessment procedures, about the discharge from liability to the company Management Board and Supervisory Board, and on the appointment of the auditing company for the year 2018. The Shareholders Assembly appointed the auditing company Deloitte revizija d.o.o. as the company auditor for 2018. The Shareholders Assembly was informed about the resignations of three Supervisory Board members (Ante Ramljak, Teo Vujčić and Damir Kuštrak) and the expiry of the term of office of two Supervisory Board members (Matej Lahovnik and Ivica Mudrinić), and appointed five new Supervisory Board member (Fabris Peruško, Irena Weber, Sergei Volk, Matej Lahovnik and Ivica Mudrinić).

Minutes of the company Shareholders Assembly sessions shall be kept in the form of a notarial record, which means that compliance of the resolutions specified in the minutes with the decisions of the Shareholders Assembly has to be confirmed by the selected Notary Public.

Information on activities and composition of the Audit Committee and the Human Resource Committee

The **Audit Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. has been in operation with varying membership since 2008. It plays an important role in the total corporate governance structure of the company Poslovni sistem Mercator d.d. and the Mercator Group. It aids the Supervisory Board in performance of its tasks, especially by monitoring and supervising the financial reporting, internal controls, risk management, and the work of internal and external auditors. The tasks and powers of the Audit Committee were defined by the Supervisory Board and laid down in the Audit Committee Rules of Procedure. These Rules of Procedure comply with the requirements of Article 280 of the Companies Act (ZGD-1). The Audit Committee reports to the Supervisory Board.

As at December 31, 2018, the composition of the Audit Committee was as follows: Vladimir Bošnjak (Audit Committee Chairman), Matej Lahovnik (Audit Committee member since April 17, 2018), and Aleksander Igličar (independent expert on accounting and auditing, Audit Committee member since August 31, 2018). Damir Kuštrak was an Audit Committee member until April 16, 2018, and Sergeja Slapničar was the Audit Committee member as an independent expert on accounting and accounting until August 30, 2018. The activities of the Audit Committee are aimed at further improvement of performance of the supervisory function at the company.

The **Human Resource Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. was founded on June 15, 2017, with the following membership: Matej Lahovnik, Ivica Mudrinić, and Vesna Stojanović. Matej Lahovnik was appointed Human Resource Committee chairman. The Human Resource Committee conducts its tasks and exercises its powers based on authorization granted from time to time by the Supervisory Board of the company Poslovni sistem Mercator d.d.



Information on the composition of managerial and supervisory bodies (Appendices C.1 and C.2 to the Corporate Governance Code)

Management Board

| First and last name Gender Function | Field of work in Management Board | First appointment to position | Completion/end of term | Nationality | Year of birth | Education | Professional profile | Membership in other supervisory bodies of non-associated companies |
|--|--|-------------------------------|--|-------------|---------------|-------------------------------|---|--|
| Tomislav Čizmić male President | management of the company Poslovni sistem Mercator d.d. and Mercator Group | April 6, 2017 | April 6, 2022 | Croatian | 1973 | MA Economics/ MS Economics | competencies from all segments of management or business administration | - |
| Draga Cukjati female Member | finance, accounting, and informatics | April 18, 2017 | April 6, 2022 | Slovenian | 1971 | BA Economics | finance, accounting, investment banking, structured and project financing, mergers and acquisitions | - |
| Igor Mamuza male Member | Mercator retail Slovenia | April 1, 2016 | April 6, 2022 | Croatian | 1973 | BA Economics | retail management, sales | Solana Pag d.d., Croatia |
| Gregor Planteu male Extraordinary Member | in accordance with the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies od Systemic Importance to the Republic of Slovenia | May 24, 2017 | in accordance with the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies od Systemic Importance to the Republic of Slovenia | Slovenian | 1975 | BA Economics | management, corporate finance, and financial restructuring | - |

**Supervisory Board**

| First and last name Gender Function | First appointment to position | Completion/ end of term | Represent ative | Attend. at committee sessions | Nationality | Year of birth | Education | Professional profile | Ind. pursuant to Article 23 of the Code | Occurrence of conflict of interests in the fiscal year | Membership in supervisory boards of other companies | Membership at Committees President/ Member | Attend. at committee sessions |
|---|-------------------------------------|----------------------------|--------------------|-------------------------------------|-------------|------------------|--|--|--|--|--|--|-------------------------------------|
| Ante Ramljak male President | June 15, 2017 | February 2, 2018 | C | 1/2 | Croatian | 1967 | BA Economics | investment banking, mergers and acquisitions | NO | NO | Sarajevski Kiseljak d. d., Bosnia and Herzegovina | - | - |
| Damir Kuštrak male Member | August 29, 2014 | April 16, 2018 | C | 3/3 | Croatian | 1956 | BS Construction Engineering and MA Agriculture | corporate governance, finance | YES | NO | Agrokor d. d., Croatia | AC Member | 2/2 |
| Teo Vujčić male Member | June 15, 2017 | April 4, 2018 | C | 3/3 | Croatian | 1969 | PhD (doctor of sciences) | retail, finance | NO | NO | Dijamant a.d., Serbia; Ledo d.d., Croatia; Multiplus Card d.o.o., Croatia; PIK Vrbovec d.d., Croatia; Zvijezda d.d., Croatia | - | - |
| Fabris Peruško male Member | June 12, 2018 | | C | 7/7 | Croatian | 1973 | MA economics, BS electrical engineering | economy | YES | NO | - | - | - |
| Matej Lahovnik male Deputy chairman/ Member | March 30, 2012 | | C | 15/15 | Slovenian | 1971 | PhD in management and organization | management | YES | NO | - | AC-Member; HR- President | AC: 7/7; HR: 3/3 |
| Irena Weber female Member | June 12, 2018 | | C | 6/7 | Croatian | 1973 | BA economics | finance | YES | NO | Adriatica.net d.o.o., Croatia; Projektgradnja d.o.o., Croatia; Tisak d.d., Croatia; Zagreb Plakat d.o.o., Croatia; Žitnjak d.d., Croatia | - | - |
| Ivica Mudrinić male Member | August 29, 2014 | | C | 15/15 | Croatian | 1955 | BS electrical engineering | competencies from all segments of management or business administration | YES | NO | Rochester Institute of Technology Croatia | HR Member | 3/3 |
| Sergei Volk male Member | June 12, 2018 | | C | 7/7 | Russian | 1969 | Master of business administration, specializing in finance | banking | YES | NO | - | - | - |

to be continued

C = representative of Capital

E = representative of Employees

AC = Audit Committee

HR = Human Resource Committee



continued

| First and last name Gender Function | First appointment to position | Completion/ end of term | Representative | Attend. at committee sessions | Nationality | Year of birth | Education | Professional profile | Ind. pursuant to Article 23 of the Code | Occurrence of conflict of interests in the fiscal year | Membership in supervisory boards of other companies | Membership at Committees President/ Member | Attend. at committee sessions |
|---|----------------------------------|----------------------------|----------------|-------------------------------------|-------------|---------------|---|--|---|--|---|--|-------------------------------------|
| Vladimir Bošnjak male Member | June 15, 2017 | | C | 15/15 | Croatian | 1973 | BA economics, MBA | investment banking, finance, mergers and acquisitions, accounting | NO | NO | Belje d.d., Croatia; Dijamant a.d., Serbia; Jamnica d.d., Croatia; Konzum d.d., Croatia; Ledo d.d., Croatia; Zvijezda d.d., Croatia | AC President | 7/7 |
| Vesna Stojanović female Member | July 3, 2013 | | E | 15/15 | Slovenian | 1957 | administration clerk | human resources | YES | NO | - | HR Member | 3/3 |
| Matjaž Grošelj male Member | May 20, 2015 | | E | 15/15 | Slovenian | 1969 | sales manager, VI level of education | logistics | YES | NO | - | - | - |
| Jože Lavrenčič male Member | November 5, 2017 | | E | 15/15 | Slovenian | 1979 | economist, VI level of education | retail | YES | NO | - | - | - |

C = representative of Capital

E = representative of Employees

AC = Audit Committee

HR = Human Resource Committee

External members of commissions

| First and last name Gender Function | Attend. at committee sessions | Nationality | Education | Year of birth | Professional profile | Membership in other supervisory bodies of non-associated companies |
|---|----------------------------------|-------------|---------------------------------------|---------------|---------------------------|--|
| Sergeja Slapničar female Audit Committee – until August 30, 2018 | 6/6 | Slovenian | PhD in management and organization | 1971 | accounting and finance | - |
| Aleksander Igličar male Audit Committee – from August 31, 2018 | 2/2 | Slovenian | MS economics | 1962 | accounting and finance | Iskra Mehanizmi Holding d. d., Slovenia; Radiotelevizija Slovenija, Slovenia – until December 2018 |

Tables C.3 and C.4 are presented in the Financial part of the Annual report.



Observing the diversity policy

The company Poslovni sistem Mercator d.d. has not adopted a dedicated document on diversity policy. However, diversity policy is conducted in practice in the managerial and supervisory bodies in terms of the following aspects: gender, age, education, and professional experience. At present, gender diversity is not entirely observed, as the company Management Board includes one female employee and the Supervisory Board includes two female employees. In terms of other aspects of the diversity policy, the managerial and supervisory bodies have suitable composition.

● ● ● Management of subsidiaries

Mercator Group consists of the parent/controlling company Poslovni sistem Mercator d.d. and its subsidiaries in which the parent company holds, directly or indirectly, the majority interest or the majority of voting rights. Parent company controls its subsidiaries within a single Management Board.

The company Poslovni sistem Mercator d.d. as the parent/controlling company of the Mercator Group operates by the principles of improving business performance in each subsidiary and the Mercator Group as a whole. The controlling company shall provide corporate governance at subsidiaries:

- through attendance at subsidiary general meetings or shareholders assemblies, and membership in supervisory boards;
- with standardization and unification of rules and procedures in respective fields or areas;
- a system of powers and authorizations is in place to delineate the responsibilities for concluding individual transactions;
- through a system of regular working meetings and video- or teleconferences of the Management Board of the company Poslovni sistem Mercator d.d., along with authorized employees, with the management teams of subsidiaries, in order to review the accomplishment of results and performance in the core activity and to optimize the purchasing channels within the entire Mercator Group.

In 2018, Value Creation Plans (operating plans for business efficiency) were implemented in all markets of the Group's operations. These plans improve the level of corporate governance and facilitate the exchange of the best practices within the Mercator Group.



BUSINESS REPORT.

*Mercator Group is
unstoppably introducing
global standards
and the best European
practices to the region.
We are developing new
store formats,
we are introducing
sustainable approach,
digitalizing the shopping
processes, and we know
our customers best.*



● Effect of economic conditions and competition on operations

In late 2018, steady growth of economic activity continued in the eurozone, and the economic climate continued to somewhat deteriorate. In the last months of the year, relatively fast growth of activity in the construction sector continued. Moreover, activity in processing industries continued to increase, however, it was slower than in the preceding years due to lower growth of international trade and halts in the automotive industry (especially in Germany). FMCG retail has stagnated. The Economic Sentiment Index (ESI) continued to decrease. The decline in expectations was more pronounced in our major trade partners, including Germany and Italy where a drop of GDP was recorded in the third quarter of 2018. The slowdown in economic growth in the eurozone is anticipated to continue in this year. Forecasts by international institutions (International Monetary Fund – IMF, the European Commission – EC, Organization of Economic Cooperation and Development – OECD, the European Central Bank – ECB, Consensus Economics) were revised downwards for the eurozone and for our trade partners in the last months of the year. Risks of realization of forecasts remain predominantly negative. Major risks in this respect include increases of international trade barriers, as well as political and other factors within the EU, including relations between public finance and banks in Italy, and the pending exit of the United Kingdom of Great Britain and Northern Ireland from the European Union.

Development of modern stores, new shopping paths and channels, also results in the development of new trends. Recently, the focus has been on the following:

- convenience (proximity of the store, fast and simple shopping);
- broad and interesting fresh offer (expanded fresh produce departments, food to go, eat in, and take out offer), and
- placement of local and homemade products.

Food is becoming the main theme of communication, appearing in all digital media (blogs, websites, recipes, recommendations, opinions). The key task of a modern retailer is to enable the customer simple shopping anytime and anywhere.

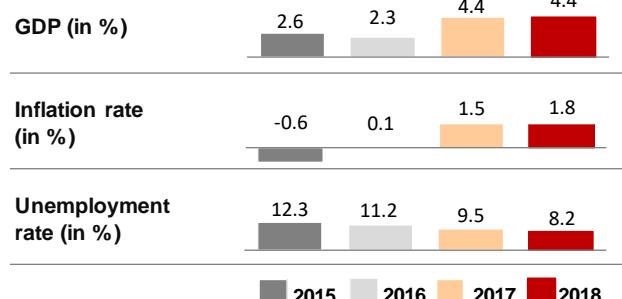
Consumer confidence improved throughout the region in 2018, but it still lags behind the European average³. Employment possibilities and willingness to spend had a positive impact in this respect. Consumers' primary concerns include security of employment, health, and work-life balance. Macroeconomic conditions were favourable in 2018. Most retailers in all markets continued to expand their retail network.

Key macroeconomic indicators in the markets of Mercator's retail operations⁴



Slovenia

Conditions in Slovenian economy continued to improve towards the end of 2018, albeit at a steadier pace than in 2017. Unemployment rate saw a steady decrease in the last months, and the growth of employment remained relatively high with increased influx of foreign workers. Strengthening of the service sector is reflected in ever higher growth of services prices, while the decrease of the inflation rate towards the end of the



³ Nielsen: Consumer Confidence Index, Q3 2018, Adriatic

⁴ Economic conditions are commented based on the following data sources: UMAR (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), ECB (European central bank), FED (Federal Reserve System), EBRD (European Bank for Reconstruction and Development), S&P (Standard&Poor's ratings services), statistical offices or respective countries, IMF (International Monetary Fund), market research company Nielsen, and EC (European Commission).



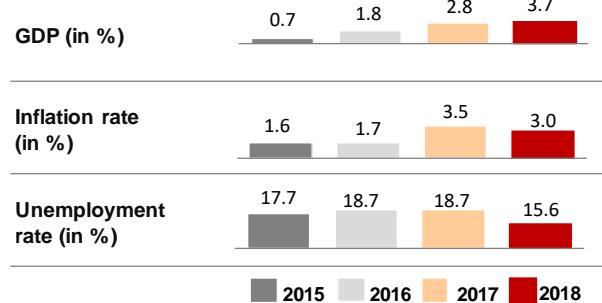
year is a result of a drop in oil price. For the most part of 2018, higher prices of petroleum products and food contributed to the growth of the consumer price index, in addition to services; in December, the contribution of the former decreased considerably, and the inflation rate decreased as a result. The country's rating for 2018 is A+ with a stable outlook.

Effect of market situation on consumption: consumer confidence⁵ in Slovenia in 2018 improved, which had a positive effect on private spending. Also contributing positively to consumer confidence were employment possibilities, financial security, and willingness to spend. Thirty-five percent of respondents believe the country is still in a recession. Their main concerns include their personal health, work-life balance, and rising living costs. The consumers tend to allocate their financial surpluses to savings, holidays and home improvement; however, a large share of respondents does not have any surpluses.

Competitive environment: in addition to traditional retailers (Mercator, Spar, Tuš), other major retail chains (Hofer, Lidl, and Eurospin) account for a considerable market share. Retail industry is relatively stable and consolidated (top five players account for 86% of the market⁶).



Serbia



The economy developed in 2018, but the growth came to a halt at the end of the year. Private spending increased as a result of higher disposable income and permanent income. The country's rating for 2018 is BB with a positive outlook.

Effect of market situation on consumption: consumer confidence in Serbia improved in 2018⁷. Positively affecting the consumer confidence were employment possibilities, security of finance, and willingness to spend. Three quarters of respondents believe the country is in a recession. Sixty-one percent of respondents believe the country will not recover from the recession in the next 12 months. Consumers' primary concerns include security of employment, their own health, and work-life balance. They use and surplus income for holidays, home improvement, new clothing, and savings.

Competitive environment: Retail industry is relatively less consolidated (top five retailers combined account for 32% of the market). Mercator's competition includes international retailers (Delhaize, Metro, Lidl) and domestic retail chains (DIS, Univerexport, Vero, Aman and Gomex). In November, Lidl entered the market.⁸



⁵ Nielsen: Consumer Confidence Index, Q3 2018, Slovenia

⁶ Valicon, market share survey, December 2018

⁷ Nielsen: Consumer Confidence Index, Q3 2018, Serbia

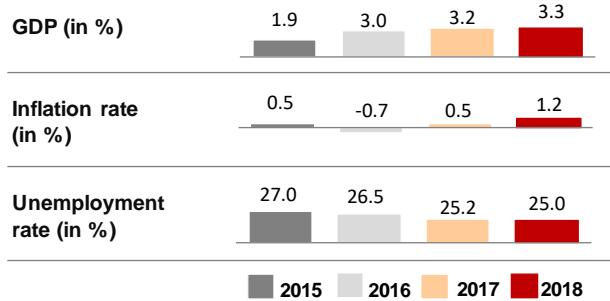
⁸ GfK, market share survey, December 2018



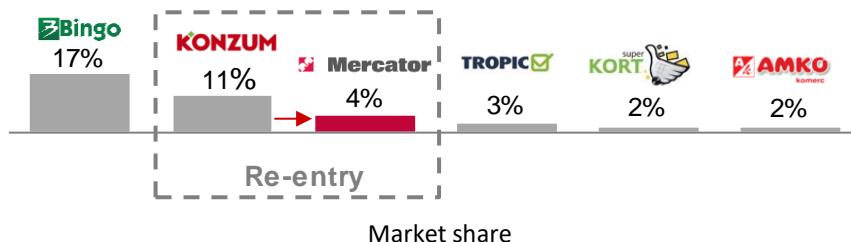
Bosnia and Herzegovina

Economic growth in the third quarter slowed down as a result of slow growth of household consumption and weaker exports. Government spending increased. The country's rating for 2018 is B with a stable outlook.

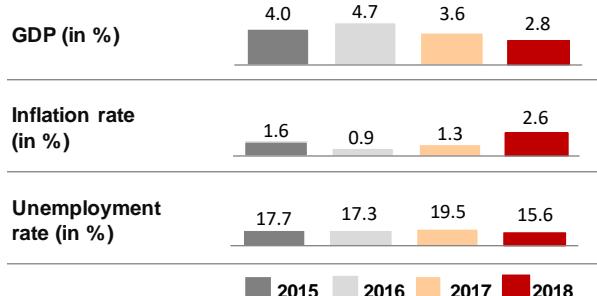
Effect of market situation on consumption: in 2018, GDP growth rate in Bosnia and Herzegovina was at 3.3%. Unemployment rate remains high at 25.0%. Inflation rate in 2018 was at 1.2%.



Competitive environment: the market of Bosnia and Herzegovina is highly diversified. The largest retailers include Bingo, Konzum and Mercator.⁹



Montenegro



The data shows that the economy grew based on private and government spending. This is related to tourism which was the economy's driving force in 2018. The country's rating for 2018 is B+ with a negative outlook.

Effect of market situation on consumption: in 2018, Montenegro recorded a GDP growth rate of 2.8%. Unemployment rate decreased, but it remains high at 15.6%. Inflation rate in 2018 was at 2.6%.

Competitive environment: in the Montenegrin market in 2018, the top five retailers accounted for a 79% market share. Most retailers continued to expand their retail network, including regional Mercator and the local retail chains Voli Trade, HDL Laković, Supermarketi Franca, and Aroma.¹⁰



⁹ Market share data is based on internal sources.

¹⁰ Market share data is based on internal sources.



• • • ● Store formats and category management

• • ● Store formats

Consumer shopping behaviour is a reflection of the changing demographics, rapid lifestyle, and intensive development of technology. The consumers have become more demanding, more informed, and more aware. They look to get the most for their money and they are less loyal to a single retailer, which further increases the complexity of the business. Customers are willing to spend less and less of their time for shopping, and they expect ever faster shift of retail into the digital world and the online environment.

Mercator is pursuing the general market trends with continuous development at its stores and rapid introduction of modern technological solutions. **Intensive development of new store concepts** is becoming increasingly relevant. This includes especially the **convenience of shopping**, and requires adjusting to the needs of the consumers by increasing the offer of organic products and offer for select target consumers looking for gluten-free products, products with low fat, sugar, and salt content etc. In addition to convenience, relevant aspects also include **speed** and the offer of **healthy and locally sourced products**. In 2018, we intensively developed a **new supermarket concept** based on building the perception of a retailer with added value for the customers shopping for fresh produce (fresh program), and on rational shopping approach for dry program. Major emphasis is placed on the elements of lifestyle supermarket. The new concept will be implemented presumably in 2019.



In 2018, we continued to invest into refurbishment of the existing retail network and opening of newly constructed units. In **Slovenia**, we refurbished and opened **74 units** in 2018. The refurbished Mercator stores afford customers a more pleasant shopping environment, with appropriate category structures and an offer of new services adapted to the most recent trends.

Standing out among major refurbished units in Slovenia is the **Kamnik hypermarket** that was comprehensively renovated. Many **new elements** were added to our attractive offer. In the supermarket format, we opened a **new unit in Kočevje**. The supermarket is an upgrade to the neighbourhood stores, offering a broader and especially deeper offer of fast-moving consumer goods. The **new modern supermarket**, spanning nearly 1,000 m², offers a wide variety of food, with emphasis on fresh produce.





Standing out among smaller unit is the **market Gregorčičeva** that introduces a **new retail concept of Minute convenience store**. The focus is on the "Grab and Go" offer that combines **convenience, innovativeness, lifestyle, and healthy offer** of products that are ready for consumption – i.e. everything that today's consumers need in their lives on the fast lane. The unit is located in a high-traffic urban environment in which two types of customers predominate: in the morning, mostly employees, students, and passers-by; in the afternoon, they are local residents. The offer and the layout are adapted accordingly with two shopping paths: the first one offers quick shopping, while the other one is focused on conventional shopping.

Stores were also refurbished and newly opened in the markets of **Montenegro, Serbia, and Bosnia and Herzegovina**. In **Montenegro**, we newly opened and refurbished a total of **26 units**, with 8 new openings and 18 refurbishments. Moreover, the IDEA online store was launched. In **Bosnia and Herzegovina**, we refurbished a total of **14 units**. In **Serbia**, we newly opened and refurbished a total of **8 units** in 2018. This included 2 new openings and 6 refurbishments.



Composition of retail units by store formats as at December 31, 2018



Composition of units as at December 31, 2018

| COUNTRY | SLOVENIA | | SERBIA | | | MONTE-NEGRO | BOSNIA AND HERZEGO-VINA | MERCATOR GROUP | | |
|---------------------------------------|-----------------|------------------------|-----------------|------------------------|-------------|-------------|-------------------------|-----------------|---------------------------------|-------------------------------|
| | Mercator | Number of units | Mercator | Number of units | Roda | | | Idea | Idea | Mercator |
| STORE FORMAT | Mercator | Number of units | Mercator | Number of units | Roda | Idea | Idea | Mercator | Gross sales area (in m²) | Net sales area (in m²) |
| FMCG retail units | 465 | 2 | 36 | 283 | 117 | 77 | 980 | 810,910 | 521,975 | |
| Wholesale units (Cash & Carry/VELPRO) | 13 | - | - | 6 | 2 | - | 21 | 57,829 | 34,674 | |
| Restaurants | 8 | - | - | - | - | - | 8 | 2,070 | 1,379 | |
| Total FMCG program | 486 | 2 | 36 | 289 | 119 | 77 | 1,009 | 870,810 | 558,028 | |
| Technical consumer goods | 42 | - | - | - | - | - | 42 | 61,857 | 37,467 | |
| Total other programs | 42 | - | - | - | - | - | 42 | 61,857 | 37,467 | |
| Total units under management | 528 | 2 | 36 | 289 | 119 | 77 | 1,051 | 932,667 | 595,495 | |
| Franchise stores | 182 | - | - | - | - | - | 182 | 38,478 | 25,317 | |
| TOTAL | 710 | 2 | 36 | 289 | 119 | 77 | 1,233 | 971,145 | 620,812 | |



● ● ● Category management



Slovenia

In 2018, we **optimized the processes** in category management and material operations by setting up new, modern infrastructure that allowed us to more easily and efficiently manage our assortment offered at retail units, and to simplify the work for employees in retail units. We continued to **actively support and promote local offer** at Mercator stores. We provided the most sought-after and best-selling products and local specialities for our customers. We were more efficient in our promotional activities. We introduced new features and maintained a neat and customer-friendly sales area. We educated and trained our employees in all departments on the current issues and new developments in the market.

Key activities in 2018:

- we are focused on our customers;
- material operation process optimization and improvement of efficiency;
- upgrade and revision of assortment management, taking into account the consumers' shopping behaviour;
- more efficient management of promotional activities throughout the process;
- more efficient management the store area at a level of particular products or categories, and the store as a whole;
- provision of suitable service at the point of sale by additional employee training and education and optimization of the entire work process.



Serbia

In 2018, activities were focused on **upgrade to material operations process** through negotiations with suppliers, more efficient assortment placement in our retail units, filling the market niches with new products through brand development and more efficient promotion, and improvement of the level of service at retail units by more intensive employee training and education.

Key activities in 2018:

- expansion and improvement in the appeal of the assortment in order to satisfy the largest possible number of differing needs of the consumers;
- making orientation easier and improving the general shopping experience at retail units, with focus on improvement of layouts and planograms, and provision of relevant services;
- providing competitive regular pricing and product promotions that invite consumers and improve the price perception of the chain;
- improvement of margin;
- preparing for the entry of Lidl to the Serbian market;
- successful completion of the first part of the project "Vredno je zajedno" ("Better together") with sales increase of one third in this assortment; the second part of the project is to follow.



Montenegro

In 2018, we continued to focus on **fresh product departments** (fresh meat, fruit and vegetables, and the bakery shop) and **improvement of service** by continuous employee training and education.

Key activities in 2018:

- choice of optimum assortment that will meet the needs of all our consumers;
- competitive prices for the best-selling products by respective regions, and innovativeness in promotional sales;
- successful start of the "My Brands" ("Moji brendovi") project;
- optimum management of sales area, with additional exposure of key items and projects.





Bosnia and Herzegovina

In 2018, our key category management activities were focused on the following:

- negotiations with suppliers and signing of agreements;
- development of the "We Love Local" project;
- successful start of the "My Brands" ("Moji brendovi") project;
- improvement of profit margin by pursuit of the new strategy;
- focus on our private label; and
- pricing management and decrease of differences between price lists across regions.





• • • ● Marketing and loyalty programs

• • ● Loyalty programs and brands by markets*

| | Loyalty program | Brand |
|------------------------|---|---|
| Slovenia |  |    |
| Serbia |  |    |
| Montenegro |  |  |
| Bosnia and Herzegovina |  |  |

*An active cardholder is one who has made at least 1 purchase in the last 12 months.



• • ● Marketing

Our marketing activities are focused on market priorities and the dynamics of changes in the trade industry.

We are pursuing five key fields:

- value for money;
- fresh categories;
- local;
- the best shopping experience; and
- assortment.

2Cellos in an exclusive campaign for Mercator



In April 2017, Mercator rejuvenated its communication campaign, with the song No Roots by then hardly known singer Alice Merton playing the decisive role. In 2018, we further upgraded our revised campaign and invited 2Cellos to take part. They prepared their rendition of the song No Roots by singer-songwriter Alice Merton and took part in the video shoot of Mercator's TV campaign 2018. On March 25, 2018, they surprised the visitors of Mercator Centre Šiška in Ljubljana with a short performance that was a special experience for our customers, and the start of a new campaign.

The main emphasis of the new campaign was communication of the values conveyed by the protagonist in the TV ad:

- I know very well (local products);
- I eat very well (fresh and high-quality food);
- I am well (service and overall atmosphere at our stores).

Mercator is the **retailer with the longest retail tradition in Slovenia**.

Due to the extensive network of stores across Slovenia, including smaller towns and villages, Mercator traditionally has a higher market share in the segment of mature and older consumers. Competition is the most stringent in the segment of young consumers and young families (aged 18 to 38). Therefore, Mercator's key marketing goal for the future of the brand is a **turn towards the youth**. In addition to store refurbishment, the revised communication platform is focused primarily on the younger target audience, with a **refreshed tone of communication**.

We bet on the following **breakthrough elements**:

- personal identification of consumers with the food, with our slogans "**I know very well**", "**I eat very well**", and "**I am well**";
- refreshed **visual system** (with major emphasis on photos);
- atypical choice of **music** for Mercator (acoustic rendition of the song **No Roots** by Alice Merton); and
- hiring a top-class **director** of music videos and dance films.



1. VALUE FOR MONEY

Slovenia

My Brands



10 winners of a 10-day rental of an Adria recreational vehicle.

In 2018, we continued with the "My Brands" project that will also continue in 2019. This project involves special marking of products of select and renowned brands that are especially exposed in Mercator stores and communication. The My Brands campaign included 3 major activations in 2018. In early March 2018, new suppliers were included in the project in Slovenia. The project was also supported with the activity "Collect the Stamps for a Gorenje Refrigerator". In June, we launched a new activity within the My Brands project, in which customers who bought at least EUR 10 worth of products and at least one My Brands product received a coupon with a code and thus entered the sweepstakes for 2 Adria Airways airline tickets. A total of 500 airline tickets were presented in public prize drawings at three locations: Mercator Centre Koper, Mercator Centre Maribor, and Mercator Centre Ščika. The year 2018 was wrapped up with activation and SMS (text message) sweepstakes "Collect My Brands, Drive an RV", which included

We provide well-priced shopping

We are constantly adapting to customer needs and demand, but we also create new opportunities and services that make everyday easier for our customers. Convenience, rationality, and quality are important factors affecting the consumers' choices.

Our key policy is to focus on satisfying the needs of modern consumers and to offer well-priced shopping. Key target tasks are therefore geared towards improving the perception of pricing and value for money, and towards making the offer more appealing in order to retain the existing customers and to attract new ones. More special campaigns are dedicated to Mercator Pika card holders as we wish to offer more to our most loyal customers.

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



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

PRIPOROČAMO



We wish to make sure that our basket of products represents the best value to our customer, in terms of both pricing and quality. Therefore, we are constantly adjusting our marketing mix; we conduct campaigns that include favourable shopping, and we keep finding new ways to win discounts or savings. In the first quarter of 2018, we introduced a new activity for our customers, called "3 for 2 is a good deal, because you don't pay for the third one".



With Pika, our customers save more

Advantages of the Pika Card customer loyalty system are now known to virtually every household in Slovenia. They especially appreciate the fact that they are awarded the points, which can later on be redeemed, for the entire offer, and that the card also allows deferring the payment and payment in up to 24 instalments at a zero-interest rate. Pika card affords the customers a number of benefits when shopping in Mercator's sales network and at partner companies.

In 2018, the Pika card was again recognized as the best customer loyalty card.



In addition to the higher share of Pika discounts on select products from the flyers, and double and extra points, Pika coupon -25% on selected product, customer loyalty programs for point redemption (e.g. Hi-Tec hiking equipment), which are available to all Pika card holders, additional benefits are offered to all retirees who show their retiree card at the check-out counter.

Coupons printed at the check-out counter were adapted to our customers' shopping habits



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

Pika Magazine



In 2018, we released three issues of the Pika Magazine. This included an Easter issue in the spring, that also came with a notebook as a present for our customers. We then published a special summer issue of the Pika Magazine in June, which was focused on reading and also included recipes for the hot summer days. A gift for our customers was a short romantic story. In December, we issued special Christmas edition full of recipes and contents that promoting awareness of the importance of clean environment. We presented to our customers a reusable shopping bag.



Conversion of the blue Pika card into the green one

In the month of July, we conducted the campaign titled "One is Enough – the Green Pika!" ("Dovolj je ena – Pika zelena!"). The goal of the campaign was to increase the number of green Pika cards. We prepared a special campaign/offer for all new Pika card holders in July, including 100 bonus points for the first 500 users, which were deposited on their new green Pika cards.



Foreign markets

Super Card in Serbia

The Super Card is the only and the largest loyalty program in Serbia. It includes over 11 partners and 962 stores where it can be used.



In 2018, Roda and Super Card carried out the campaign "Super Club" and founded a club and a program of offer intended for families with children younger than 7 years. The campaign included organizing discounts only for club members four times a year, as well as daily discounts for products for daily child care.



Super Card Montenegro

Super Card is a customer loyalty program that includes 23 partners and rewards customer's shopping. In November, we set up a mobile application that allows even simpler shopping and additional benefits for the card holders. Also in November, we set up our Facebook page.



2. FRESH CATEGORIES

Slovenia

Activities in the fruit and vegetables department

In the first quarter of 2018, we conducted activities within our fresh categories, related to the offer of **fresh fruit and vegetables**. The fruit and vegetables campaign was a part of the umbrella campaign with athletes "**OURS. THE BEST.**" in which we highlighted our sponsorships related to particular categories.

In January, we carried out a standard sales promotion campaign for fruit and vegetables, adding to the appeal of the offer with major sweepstakes for bananas of the Derby brands. As the proud sponsor of Slovenian national ski jumping teams, we supported for the third consecutive year the ski jumping clubs and societies raising and training junior ski jumpers with a special campaign "**Jump to Mercator, support our ski jumpers**" carried out in February. During the campaign, which ended at the end of February, every customer who purchased fruit and vegetables at Mercator was presented with a coupon bearing a code that allowed voting for a club. Thus, we received 680,000 votes for ski jumping clubs.



In September, we received the **Select Quality for Fruit** certificate. To this end, we launched special communication at the points of sale.

Bread

Within the fresh categories, particular attention was paid to the **bread category**. In the Chamber of Agricultural and Food Producing Companies within the Slovenian Chamber of Commerce and Industry presents each year the awards for excellent quality of bread, baked and fine pastry, biscuits, pasta, and fresh pastry. Mercator's assortment includes as many as 40 gold-award-winning types of bread, of which 22 were received by bread from the Grosuplje bakery, which is exclusively available only at Mercator. In April, we worked with the Grosuplje Bakery (Pekarna Grosuplje) in Slovenia to develop a **new type of bread called Home Baking ("Domača peka")**, which was also supported with a special marketing campaign.

At the end of April, the campaign "**Ours. The Best.**" also included the campaign **for fresh meat** in which we highlighted the sponsorship of the Slovenian Hockey Association, and famous hockey players took the roles of Mercator's master butchers. The campaign lasted for six weeks, and each week we highlighted a particular type of meat or fish, and underscored the positive effect of eating meat and meat products in a flyer.



In July, we extended the online store sales program with fresh meat products from our butchers.

Foreign markets

Fresh categories in Serbia

Research has shown that customers plan their shopping for fruit and vegetables separately. Therefore, IDEA, with its "Who are you cooking for?" campaign, became the first retail chain in Serbia to link meat and vegetables in its communication. This is also a platform for communicating our key unique selling propositions, which follows a variety of themes and occasions throughout all seasons. In the first wave of the campaign, we communicated our offer for grilling; then, in the summertime, we focused on football; and in September and October, we focused on preparing lunch for the school-age children.





3. LOCAL

Slovenia



In Slovenia, the "**We Love Local**" project was highlighted around five traditional celebrations in 2018: carnival, Easter, May 1, St Martin's Day, and Christmas. Each holiday was assigned an ambassador from among domestic suppliers. Ambassadors shared by all are Jani Jugović (Tejani, Cool Fotr) and comedian Gašper Bergant. They make expert tours at selected suppliers to discover interesting details about the products, hold a culinary challenge, and present the happening in a video.

At the end of January, we launched the **carnival-themed offer** lasting until February 13. The campaign included frying Berliners (doughnuts), made from artisan GreGurMan flour, in cold-pressed rapeseed oil, at the Cimerman farm, while Tejani Kitch'n offered a recipe for how to make Berliners in a glass. This was followed by the start of the **Easter season** in early March. Our ambassadors visited Kodila ham factory where they learned how to make real home-made Easter ham in bread dough and made traditional crackling bread. We also held sweepstakes for a KitchenAid appliance. Three TV ads were aired to present the breadth of assortment of our local Easter treats.

In the summer season of the **We Love Local** campaign we were exploring the cuisine at Alpine huts of the Mountaineering Society Ljubljana – Matica. The campaign was called **Climb the mountain and eat well with Gašper and Jani**. Our ambassadors were joined by Mercator mountaineers as they visited the huts, explored the nearby natural beauty, encouraged the followers on social media to actively spend their leisure time, educated on proper mountaineering and hiking conduct, safety, waste, equipment, and of course nutrition.



The main feature in the autumn was the campaign "**Organic (BIO) We Love Local**" in which we directed the spotlight on local growers and producers of organic food. We launched a marketing campaign with five ambassador-suppliers, and we presented other suppliers in a special catalogue and at the "**We Love Local**" fairs with which we launched the campaign. Music for the TV ad was written by the Slovenian composer Aldo Kumar. The offer of local organic products was further highlighted at 100 stores.

Late autumn was the time for the St. Martin's feast. We teamed up with the Finance daily paper to organize a contest for the best wines made of indigenous Slovenian sorts. Over 70 local winemakers took part. The expert jury selected 3 wines that we included in the assortment at select hypermarkets. The winners were pinela by Ferjančič, rebula (Ribolla Gialla) by Bizjak, and modra frankinja (Blaufränkisch) by Šuklje. The winning winemakers were also visited by our ambassadors Jani Jugović (Cool Fotr) and Gašper Bergant. They shot a video about each of them. In addition to social media, the project was also presented at our stores, in a wine flyer, and in the Pika Magazine. It involves support to local winemakers and expanding the offer of the We Love Local products.





We rounded off the year with a traditional Christmas celebration. Our two ambassadors, now experts on local offer, decided to invite their blogger friends and prepare for them a Christmas dinner with locally sourced ingredients that they learned about throughout the year. Along with "Midva kuhava", Šketa brothers, and Dr Feelgood they prepared an idyllic traditional family celebration worthy of Christmas. The last chapter of the We Love Local 2018 story was presented on the social media, radio Ognjišće, Gloss magazine, and in the December issue of the Pika Magazine.



Foreign markets



In Serbia, the campaign "**The flavours of my town**" took part within the Roda format, which included a presentation of special products and campaigns. Customers at Roda can thus buy sausages from Vojvodina, goat cheese from Srem, and other homemade products.

In Montenegro, we carried out in October the 3rd wave of the project "**The flavours of my town**", in which we focused on the presentation of all 23 producers and 15 new products. Thus, we wrapped up 2018 with 64 products from this segment.



In July, we launched in Bosnia and Herzegovina the project "**We Love Local**". In its first stage, it introduces the currently available products from our suppliers; at the same time, we invited new small suppliers to become our partners in the future.

4. THE BEST SHOPPING EXPERIENCE

Slovenia



The **Days of Great Britain** took place at the hypermarket Ljubljana Šiška from April 19 to May 19, organized in cooperation with the British-Slovenian Chamber of Commerce and the Embassy of the United Kingdom. The project included introducing new products to our sales assortment and preparing special product features or highlights at the stores, promotion campaigns, tastings, and a flyer. We also prepared generous sweepstakes with a trip to London as the main prize.

At the Ljubljana Šiška hypermarket, we continued in the summer months with our **in-store (point-of-sale) activities** intended specially to improve the perception of the breadth of assortment and functional retail. In the





warmest months of the year, we were dedicated especially to promotion of refreshing drinks and homemade ice cream. In September, we celebrated the **Days of Sparkling Wines** and prepared for our customers a selection of special top-class international sparkling wines produced according to the traditional method (*méthode classique*). We celebrated the opening with a short interview with the globally renowned wine expert Steven Spurrier, and Slovenian wine-maker Janez Istenič.

We wrapped up the year 2018 with a series of events and activations at our stores, which were dedicated to the coming holiday season. The highlighted products included especially the sweets and pastry from our pastry shop, and sparkling wines, wines, and our selection of gifts. For our youngest visitors, we prepared a visit by St. Nicholas, a puppet play, and a visit by Santa Claus. At the Ljubljana Šiška hypermarket, Santa Claus hosted children for four days in a row, and listen to their wishes. He then brought the presents to children who won the sweepstakes to their homes.

Foreign markets

Serbia

In Serbia, we also launched a project highlighting the customers' favourite brands in 2018, called "**It is worth being together**". The project title was chosen as reference to everything we hold dear. The initiative is boosting the recognition and distinctiveness of brands at IDEA, Roda, and Mercator stores.



In order to present all benefits for our customers in a single place, we simplified communication and improved the pricing perception via the "**It Pays!**" campaign. It included analyzing the shopping behaviour of retirees, and offering them, as a novelty, the "retiree basket" in which we presented special products only for them.

In order to encourage the development of entrepreneurship in Serbia, **Roda** worked in October, November, and December with Direct Media and TV Prva to develop the project **Super Serbia**. After three months of competition, the product "Gold in a glass" was declared the winner and it will be included in the Roda store shelves for one year.



Montenegro



In May, we issued the first **Super Magazine** that presents the trends for the upcoming season. The magazine is the first lifestyle magazine in Montenegro to be issued by a retail chain; it also involves a sweepstakes.

At the end of summer, we conducted a campaign titled "**Going back to school is fun**", and used a 12-page catalogue to present a broad choice of school supplies.



In October, we offered our customers a broad selection of Italian products as a part of the "Italian Days" project. In November, we presented a selection of products from Serbia, Croatia, Macedonia, and Bosnia and Herzegovina.

Bosnia and Herzegovina



In Bosnia and Herzegovina, we also launched the campaign "**My Brands, Our Values**", which included working with our local suppliers to boost the value and importance of local production and mutual support, thus opening the door for a major regional business platform that will continue next year as well.



Review of digital communication channels in the markets of Mercator Group operations¹¹



¹¹ Online retail information: Slovenia, Serbia, Montenegro

Information on text (SMS) messages sent: Slovenia, Serbia, Montenegro, Bosnia and Herzegovina

Information on electronic messages sent: Slovenia, Serbia, Montenegro, Bosnia and Herzegovina

Information on Facebook followers: Slovenia, Serbia, Montenegro, Bosnia and Herzegovina

Information on the mobile application (mobile application downloads and number of transactions): Slovenia, Serbia



Innovations in the markets of Mercator's retail operations

Innovations allow the customer faster payment methods, new ways of shopping, and new shopping experiences.

Mercator Web Store



In 2018, we developed a new concept called IDEA Organic.

Tik Tak



More than 50% of customers are using the Tik Tak self-check-out counters.

M Scan ("Scan in a jiffy")



The average basket size is double when the M Scan service is used.

M Scan Mobile



By the end of the year we shall launch M Scan Mobile at all stores in Slovenia.

**Mobile applications
(My M, Super Card etc.)**



The mobile application already has over 100,000 downloads in Slovenia.

Wireless phone charging



In Serbia, the project is being carried out in cooperation with Samsung.



5. ASSORTMENT

Loyalty programs

In 2017, we prepared an attractive customer loyalty program **Dormeo Dreamcatcher** in Slovenia, which also extended into the first quarter of 2018. In February 2018, we prepared a new customer loyalty program **Hi-Tec** that included offering our customers the purchase of superior hiking and leisure time products of the Hi-Tec brand. In May 2018, we prepared a new customer loyalty program called **Chop & Grill**. It included an offer of pans, knives, and a mini grill for the picnic season. In August 2018, we launched a customer loyalty program **Tefal**. Customers were offered the purchase of products for children, and small domestic appliances. In November, we launched a new customer loyalty program **Svilanit**. A new feature in this activity is that we have done away with the physical stickers pasted onto coupons. Instead, electronic stickers were loaded onto the customers' Pika cards.

Private label – products for an active lifestyle

In January 2018, we were active with our private label as a part of sponsorship for our Olympic team. We highlighted our organic product label **Bio Zone**, and exposed the entire offer of gluten-free, lactose-free, vegetarian, and vegan products. In January, we conducted product promotion campaigns at events held by the Slovenian Olympic Committee; in February, we held a comprehensive campaign that included participation by our athletes and participants of the Olympic games. Collaborating with the brand ambassador Alenka Košir, we communicate the Bio Zone label through our digital channels. The Donat Mg brand invited us to take part in the "Reset!" project that also includes our products.



Our new private label **Free Zone** shows that we care for a variety of lifestyles. It was launched last August with a charming slogan "No gluten, but lots of fun". Thus, we will enable the group of people with gluten intolerance problems or who choose not to include gluten in their diets for other reasons to purchase quality yet affordable products.

Development of convenient offer and the "to-go" segment with the Minute label

In 2018, we prepared a refreshment of the offer of our **Minute to-go** products. We developed an entirely new segment of product offer, adjusted to the modern consumer looking for fast, yet healthier solutions for a meal on the go. We tested the offer in the summer, and scheduled the full launch just before the opening of Mercator's first Minute unit at the end of October. The products include a line of innovative salads, snacks, and other healthier options for a quick meal on the go. Three products received the award for the most innovative food product in Slovenia in 2018, which is one half of all award-winning products. Moreover, Minute products boast many other awards, such as Agra. At the end of the year, we launched new offer of coffee to go, called **Minutes for Coffee**, in cooperation with Barcaffé.





Communicating the Mercator product quality in relation to support to sports



In June, we carried out a five-week campaign in which we promoted dairy products of the Mercator private label. The campaign was given a sports theme and we invited young football players and the Slovenian football legend Sebastjan Cimirotič to take part.



Saving the best – or rather the sweetest – for last, we launched our new chocolate Finesse at the end of the year.

In addition to conventional communication tools and POS exposure, we presented the first children to visit all our stores free chocolate during the St. Nicholas holiday, to bring joy to both children and their parents.



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

We offer our customers a rich selection of healthy food, lactose-free, sugar-free, and gluten-free products under our own label Bio Zone. As a part of the "BIO once, BIO forever" campaign, customers are offered over 1,000 products for a healthy and active lifestyle, which makes Mercator the leader in terms of raising the awareness about healthy food among our customers. The ambassador of the campaign is Tomislav Cvitanušić, a marathon runner, triathlete, and mountaineer.



••• Real estate management

In 2018, Mercator Group's priority in investment activities, consistently with the investment plan, was refurbishment of retail units and setting up new stores acquired through operating lease. Thus, we opened at the period at hand a total of **16 new market (FMCG) program stores**.

We also searched for and evaluated new potential locations to extend Mercator's retail network. Activities also took place with regard to divestment of non-core or non-operating assets, and regarding the search for investors willing to build or acquire retail area to suit Mercator's needs and then offer these facilities to Mercator on a lease basis.

We released an international call for request for proposal for divestment of our non-operating real estate and select shopping centres (within the monetization project). We received multiple non-binding offers, conducted due diligence and negotiations with the selected buyer, and in October, we already signed the agreement to sell ten shopping centres, according to which Mercator will lease for the long term the parts of the shopping centres that it is using for conducting its core activity. The divestment was completed in February of 2019.

In October 2018, the Municipality of Ljubljana adopted the municipal spatial plan that also includes the plans for Mercator's new logistics and distribution centre in Ljubljana.

Continuation of the real estate monetization project – successfully completed divestment of 10 shopping centres in Slovenia.

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

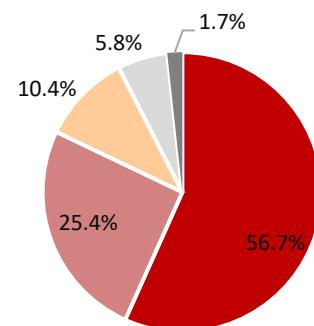


Investment and Divestment

In 2018, Mercator Group investment into property, plant, and equipment (CAPEX) amounted to EUR 29.9 million. Of this amount, 56.7% was used for investments in Slovenia and 43.3% was used for investments in international markets.

Investments in 2018 by markets

| | Capital expenditure in 2018 (in EUR 000) | Structure (in %) |
|------------------------|--|------------------|
| Slovenia | 16,960 | 56.7% |
| Serbia | 7,589 | 25.4% |
| Montenegro | 3,106 | 10.4% |
| Croatia | 1,732 | 5.8% |
| Bosnia and Herzegovina | 518 | 1.7% |
| Total | 29,905 | 100.0% |



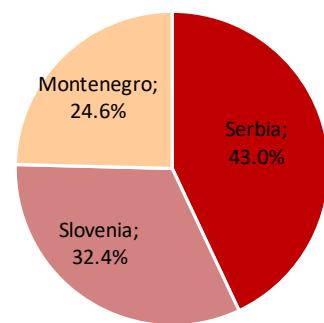


Investment into refurbishment existing units accounted for 55.1% of total investments; expansion of new retail units represented 15.5%; IT investments accounted for 20.6%; investments into distribution centres accounted for 3.9%; and the remaining 4.9% was invested in non-trade activities.

In 2018, Mercator Group **newly acquired 7,589 m² of gross store area**. All new gross area was acquired is subject to operating lease.

In 2018, Mercator Group **divested property, plant, and equipment worth EUR 27.6 million**, of which EUR 26.8 million pertains to the divestment of property (real estate) and EUR 0.8 million pertains to plant and equipment.

Newly opened sales area in 2018 by markets



Summary of total gross retail area as at December 31, 2018

| | Gross retail area (in m ²) | | |
|------------------------------------|--|----------------|------------------|
| | Used for own operations | Leased out | TOTAL |
| Owned retail area | 523,755 | 392,859 | 916,614 |
| Leased retail area | 408,912 | 157,437 | 566,349 |
| Total retail area | 932,667 | 550,296 | 1,482,963 |
| Owned warehouse capacity | 138,318 | 19,548 | 157,866 |
| Leased warehouse capacity | 63,201 | 10,508 | 73,709 |
| Total warehouse capacity | 201,519 | 30,056 | 231,575 |
| Owned commercial facilities | 18,079 | 3,312 | 21,391 |
| Leased commercial facilities | 7,583 | 346 | 7,929 |
| Total commercial facilities | 25,662 | 3,658 | 29,320 |
| GROSS AREA UNDER MANAGEMENT | 1,159,848 | 584,010 | 1,743,858 |
| - of which owned | 680,152 | 415,719 | 1,095,871 |
| - of which leased | 479,696 | 168,291 | 647,987 |



Summary of retail units launches by markets in 2018



Slovenia

Area of new facilities: 2,460 m²

Number of new units: 6

Openings: Market Begunje pri Cerknici; Market Unec; Market Godovič; Market Iga vas; Market Šobec, Supermarket Kočevje

Refurbishments/rearrangements:

Number of units: 68



Serbia

Area of new facilities: 3,263 m²

Number of new units: 2

Openings: Market Strumička, Belgrade; Supermarket Roda Vršac

Refurbishments/rearrangements:

Number of units: 6



Montenegro

Area of new facilities: 1,866 m²

Number of new units: 8

Openings: Market Štoj; Market Sutomore 3; Market Gornja Gorica, Podgorica; Market Žabljak; Market Plav; Market Masline1, Podgorica; Market Momišići, Podgorica; Market Danilovgrad

Refurbishments/rearrangements:

Number of units: 18



Bosnia and Herzegovina

Refurbishments/rearrangements:

Number of units: 14

In 2018, a total of **122 stores** were newly opened or refurbished at the Mercator Group level.



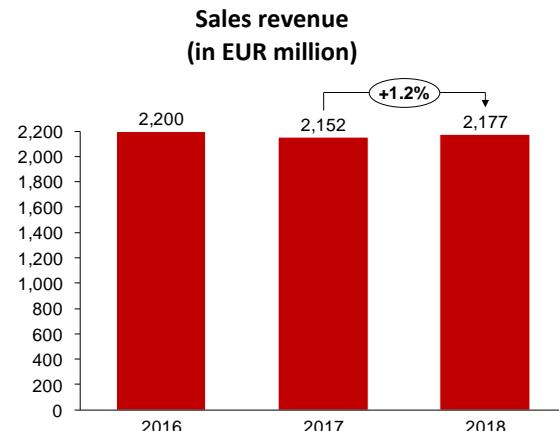


● ● ● Performance analysis in 2018

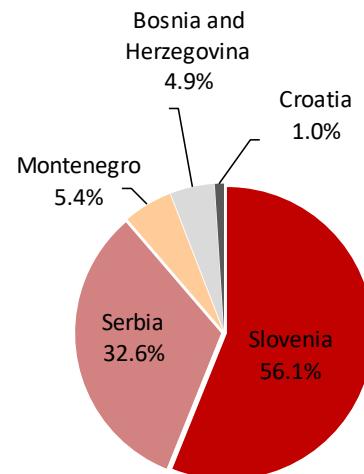
Sales revenue

In 2018, Mercator Group **sales revenues** amounted to **EUR 2,177.2 million**, which is 1.2% more than in 2017. The new strategy, new store concept, store refurbishments, and improved competitiveness of services have been yielding positive results in Mercator Group's core activity. Re-establishment of retail operations in the market of Bosnia and Herzegovina in September of 2017 also had a positive effect on Mercator Group revenue. Slovenia and Serbia remain the most important markets for the Mercator Group.

In 2018, revenue in the Slovenian market decreased by 0.3% relative to the preceding year. The drop in revenue is a result of lower revenue in wholesale operations, resulting from closing of franchise units, decrease in transit revenue, and loss of sales in the agricultural equipment program. Sales revenue also declined in Serbia (by 4.9%) due to opening of new store areas by our competitors and entry of a new competitor in the market (Lidl), lower revenue from wholesale operations due to lower transit revenue and closing down of underperforming Velpo Centres, and loss of revenue from rent resulting from the divestment of the shopping centre in Belgrade. In the market of Montenegro, revenue decreased by 3.5% relative to 2017 as a result of new store openings of our competitors and a weaker tourist season compared to the year before. Moreover, we saw our revenue decrease in the market of Croatia (by 3.2%), which results from the fact that revenue in 2017 was higher on account of disposal of inventories pursuant to the agreement on divestment of non-core activities, while revenue from rents remained on a par with the 2017 figure. In the market of Bosnia and Herzegovina, our revenue increased by EUR 70,734 thousand, which is a result of resumption of our retail operations since September 2017.



Consolidated sales revenue in 2018 by markets



Sales revenue from retail

The new strategy, new store concept, store refurbishments, and improved competitiveness of services have been yielding positive results in Mercator Group's core activity. Revenue from our retail operations are higher than in the comparable period of the year before in Slovenia and Bosnia and Herzegovina, while they are lower in the markets of Serbia and Montenegro, especially due to new store openings by our competitors.

| in EUR 000 | 2016 | 2017 | 2018 | Change 2018/2017 |
|---------------------------|-----------|-----------|-----------|------------------|
| Sales revenue from retail | 1,539,561 | 1,577,532 | 1,628,473 | 3.2% |

In 2018, Mercator Group **sales revenue from retail increased by 3.2%** relative to the year 2017.



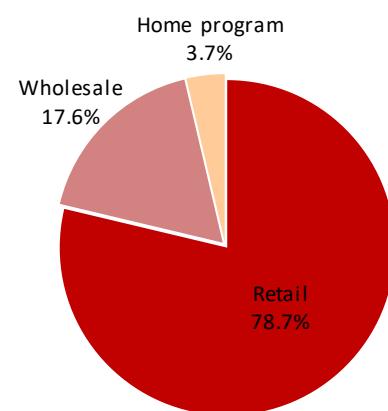
Structure of sales revenue by Mercator Group programs

| Sales revenue structure (in %) | 2016 | 2017 | 2018 |
|--|---------------|---------------|---------------|
| Retail | 74.1% | 77.6% | 78.7% |
| Wholesale | 22.2% | 18.6% | 17.6% |
| Home program | 3.7% | 3.8% | 3.7% |
| Total revenue in retail, wholesale and home programs* | 100.0% | 100.0% | 100.0% |

*In addition to revenue from retail and wholesale, and home products, Mercator Group also generates revenue from real estate, logistics services, and restaurants.

The structure of sales revenue by respective programs did not change significantly in 2018. FMCG retail accounts for the highest share of revenue with 78.7%. Relative to the year before, this share in comparison to other programs increased by 1.1 percentage point. In 2018, revenue from wholesale operations decreased due to closing of franchise units, closing down of underperforming Velpo Centres in Serbia, lower revenue in transit, and loss of revenue in the agricultural equipment program. The share of sales revenue from specialized trade program of home products amounted to 3.7% in 2018.

Sales revenue by programs in 2018 (in %)



Expenses by type

In 2018, total expenses by type amounted to EUR 613,969 thousand, which is 1.5% more than in 2017. The increase in expenses in 2018 relative to 2017 is mostly a result of the following:

- resumption of operations in the market of Bosnia and Herzegovina in September 2017 (effect in the amount of EUR 11,580 thousand) and
- higher labour costs and energy costs, mostly due to price increases in the total amount of EUR 9,415 thousand.

Adjusting for the effect of the company Mercator–BH d.o.o., labour costs, and energy costs, total expenses by type at the Mercator Group level in 2018 amount to EUR 285,635 thousand, which is a decrease of EUR 12,209 thousand, or by 4.1% relative to 2017.

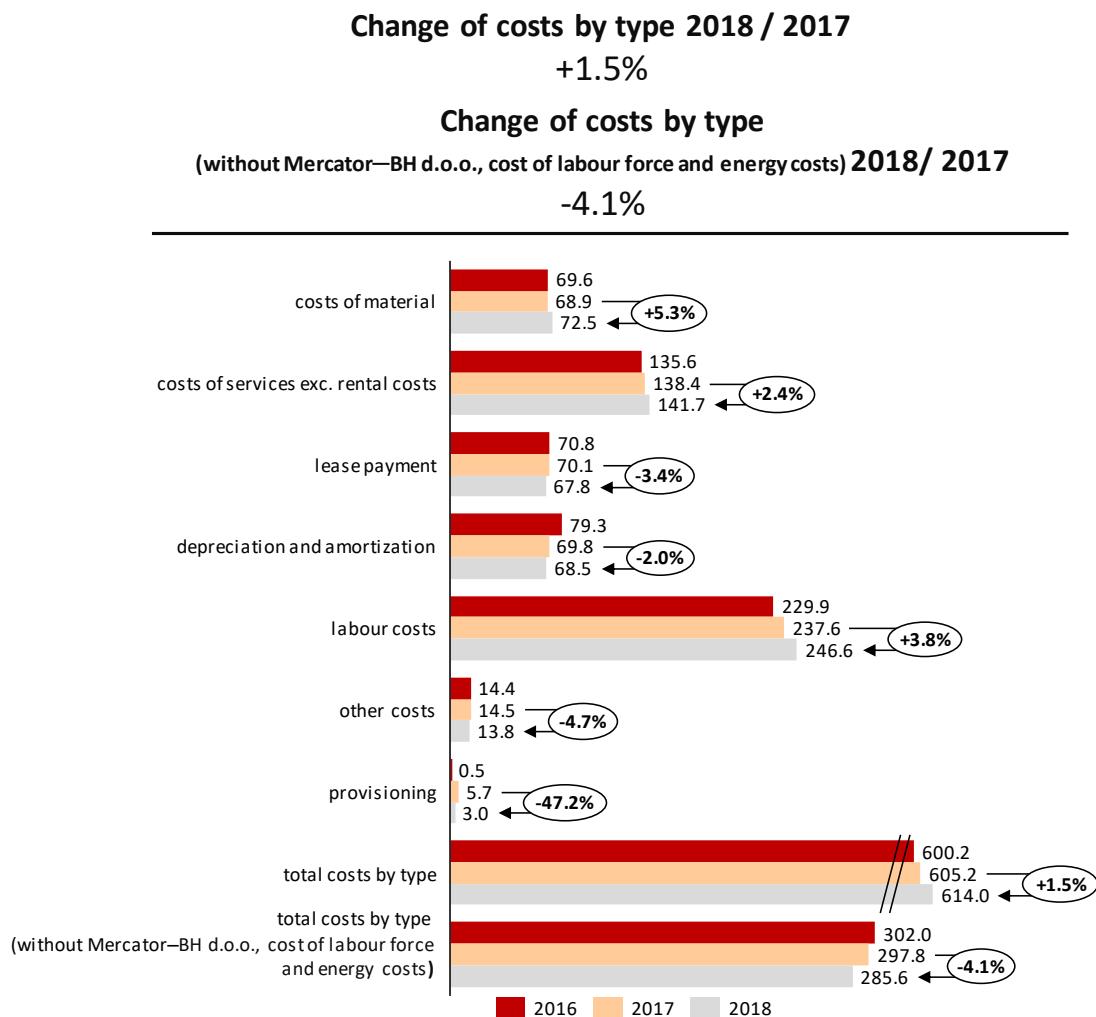
Development by respective types of expenses was as follows:

- **Material costs** in 2018 amounted to EUR 72,540 thousand, which is an increase of 5.3% relative to the preceding year, and mostly a consequence of higher energy costs in the markets of Slovenia and Croatia, and resumption of operations in the market of Bosnia and Herzegovina in September 2017.
- **Costs of services excluding rents** increased in 2018 compared to 2017 due to higher costs of payments to student labour agency and the cost of private employment agency workers and contract-based workers, especially in the market of Slovenia; these costs amounted to EUR 141,726 thousand at the level of the entire Mercator Group. **Rental expenses** amounted to EUR 67,771 thousand in 2018, which is 3.4% less than in 2017. The decrease mostly pertains to the market of Croatia where a contract for the logistics and distribution centre Sveti Nedelja was terminated.
- **Labour costs**, amounting to EUR 246,626 thousand, increased in 2018 at the level of the entire Mercator Group by 3.8% relative to 2017. Labour costs increased in Bosnia and Herzegovina where Mercator re-entered the retail market in September 2017, and in Serbia due to the changes in legislation regarding the inclusion of lunch allowance in the salary and changes in minimum wage legislation.
- **Depreciation and amortization expenses** at the level of the entire Mercator Group decreased from EUR 69,846 thousand in 2017 to EUR 68,479 thousand, or by 2.0%.
- **Other costs by type**, which include e.g. environment protection expenses, donations, membership fees etc., amounted to EUR 13,794 thousand in 2018, which is 4.7% less than in 2017.



- **Costs of provisions** in 2018 amounted to EUR 3,032 thousand. This pertains to provisions for other liabilities and charges, and provisions for reorganization expenses.

Total expenses by type (adjusting for the effect of the company Mercator-BH d.o.o., labour costs, and energy costs) amounted to EUR 285.6 million in 2018, which is a **decrease of EUR 12.2 million** relative to 2017.



Results from operating activities, financial result, and result for the year

In 2018, Mercator Group's **result from operating activities (EBIT)** amounted to EUR 38,343 thousand, which is EUR 210,851 thousand more than in 2017; however, the data is not comparable to last year, especially due to revaluation adjustment of real estate in 2017.

In 2018, **net finance expenses** for the Mercator Group amounted to EUR 30,565 thousand, which is EUR 494 thousand more than in the year before. Interest expenses (for regular and default interest), amounting to EUR 30,692 thousand, account for the largest share of finance expenses.

Mercator Group's **profit for the financial year** in 2018 was positive at EUR 1,606 thousand.

Review of non-recurring business events

In 2018, net one-off (non-recurring) business events at the level of the entire Mercator Group amounted to EUR 0.6 million, while the effect of one-off events on Mercator Group's business results in 2017 amounted to EUR 193.3 million, with revaluation adjustment to land and buildings (property and plant) accounting for the largest part thereof with EUR 145.8 million.



Non-recurring business events in the period 2016–2018 are summarized in the table and presented below.

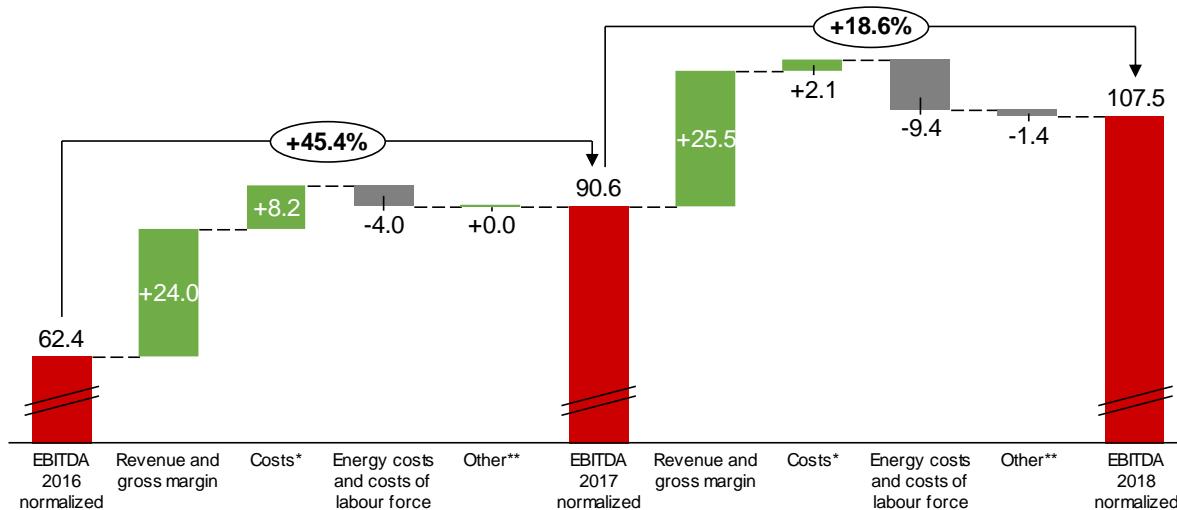
Review of non-recurring business events in the period 2016–2018

| in EUR million | 2016 | 2017 | 2018 |
|--|--------------|---------------|-------------|
| The impact of Intersport and Modiana operations and cos of sales processes | 11.7 | - | - |
| Net adjustments of short-term assets | -46.0 | -53.5 | -8.7 |
| Net adjustments of long-term assets | - | -145.8 | 3.4 |
| Net other one-off events | 13.0 | 5.9 | 4.7 |
| Net one-off events | -21.3 | -193.3 | -0.6 |

Normalized gross cash flow from operating activities (EBITDA normalized) and normalized gross cash flow from operating activities before rental expenses (EBITDAR normalized)

Normalized gross cash flow from operating activities (EBITDA normalized) amounted to EUR 107,458 thousand in 2018, which is EUR 16,827 thousand more than in 2017. Following is a presentation of the normalized gross cash flow from operating activities (EBITDA normalized) by years.

Normalized gross cash flow from operating activities (EBITDA normalized) in the period 2016–2018 (EUR million)



*The costs do not include labour costs and energy costs.

**The item "Other" includes mainly net other operating revenue and expenses.

The Value Creation Plan initiatives have yielded results regarding revenue and gross profit margin. We have also optimized our sales assortment with pricing initiatives.

In 2018, normalized expenses at the Mercator Group level, and not taking into account the company Mercator-BH d.o.o. (due to resumption of retail operations in September 2017) increased by EUR 7,282 thousand, especially due to the increase of labour costs and energy costs in the amount of EUR 9,415 thousand. In 2018, we continued to implement strict costs control through the Value Creation Plan initiatives, which had a positive effect on the decrease of expenses other than labour and energy costs in the amount of EUR 2,134 thousand relative to 2017.

In 2018, **Mercator Group generated EUR 107.5 million of normalized EBITDA**, which is EUR 16.8 million more than in 2017.

Normalized gross cash flow from operating activities before rent (EBITDAR normalized) amounted to EUR 175,134 thousand in 2018, which is EUR 14,501 thousand more than in the preceding year.



Assets

Mercator Group's assets as at December 31, 2018, amounted to EUR 1,936,298 thousand, which is 6.8% less than at the end of 2017.

Mercator Group non-current assets as at December 31, 2018, amounted to EUR 1,400,811 thousand, which is 6.1% less than at the end of 2017. The value of property, plant, and equipment (fixed assets) accounts for the highest share of non-current assets, with 95.6%. The decrease in the value of property, plant, and equipment in 2017 is a result of revaluation adjustments of property and plant (land and buildings) at the end of 2017, and changes in the bookkeeping policy on recording booking of assets intended for monetization.

Mercator Group current assets as at December 31, 2018, amounted to EUR 535,487 thousand, which is 8.4% less than at the end of 2017. The decrease pertains especially to the market of Serbia due to a one-off increase in receivables as at December 31, 2017, related to the divestment of the Mercator Centre Belgrade at the end of 2017. The largest items within current assets as at December 31, 2018, are inventories (39.3%) and trade and other receivables (29.6%).

Mercator Group assets

| in EUR 000 | December 31, 2016 | December 31, 2017 | December 31, 2018 | Change Dec. 31, 2018/ Dec. 31, 2017 | Share in total assets 2018 |
|---|-------------------|-------------------|-------------------|-------------------------------------|----------------------------|
| Tangible and intangible assets | 1,601,767 | 1,424,185 | 1,338,831 | -6.0% | 69.1% |
| Non-current loans and deposits given | 31,385 | 24,147 | 18,976 | -21.4% | 1.0% |
| Non-current receivables and available-for sale financial assets | 23,990 | 43,655 | 43,004 | -1.5% | 2.2% |
| Non-current assets | 1,657,143 | 1,491,988 | 1,400,811 | -6.1% | 72.3% |
| Assets held for sale | - | 117,146 | 148,439 | 26.7% | 7.7% |
| Inventories | 224,328 | 210,233 | 210,319 | 0.0% | 10.9% |
| Current receivables | 206,937 | 228,412 | 158,646 | -30.5% | 8.2% |
| Current loans and deposits given | 8,110 | 4,833 | 4,550 | -5.9% | 0.2% |
| Cash and cash equivalents | 26,318 | 24,112 | 13,534 | -43.9% | 0.7% |
| Current assets | 465,694 | 584,736 | 535,487 | -8.4% | 27.7% |
| Total assets | 2,122,836 | 2,076,723 | 1,936,298 | -6.8% | 100.0% |

Equity and liabilities

Mercator Group equity and liabilities

| in EUR 000 | December 31, 2016 | December 31, 2017 | December 31, 2018 | Change Dec. 31, 2018/ Dec. 31, 2017 | Share in total equity and liabilities 2018 |
|--|-------------------|-------------------|-------------------|-------------------------------------|--|
| Equity | 557,376 | 478,401 | 479,525 | 0.2% | 24.8% |
| Trade, other payables and deferred tax liabilities | 45,117 | 58,708 | 51,125 | -12.9% | 2.6% |
| Loans received and other financial liabilities | 769,776 | 765,309 | 597,999 | -21.9% | 30.9% |
| Provisions | 26,818 | 29,683 | 30,143 | 1.6% | 1.6% |
| Non-current liabilities | 841,711 | 853,701 | 679,267 | -20.4% | 35.1% |
| Trade, other payables and tax liabilities | 590,509 | 628,231 | 590,758 | -6.0% | 30.5% |
| Loans received and other financial liabilities | 133,241 | 116,391 | 186,748 | 60.4% | 9.6% |
| Current liabilities | 723,750 | 744,622 | 777,506 | 4.4% | 40.2% |
| Total liabilities | 1,565,461 | 1,598,322 | 1,456,773 | -8.9% | 75.2% |
| Total equity and liabilities | 2,122,836 | 2,076,723 | 1,936,298 | -6.8% | 100.0% |



Mercator Group's loans received and other financial liabilities as at December 31, 2018, amounted to EUR 784,747 thousand, which is EUR 96,953 thousand less than at the end of 2017, and EUR 118,271 thousand less than as at the end of 2016. Mercator Group's net financial debt as at December 31, 2018, amounted to EUR 771,212 thousand, which is EUR 86,376 thousand lower than a year earlier.

Total trade and other payables as at December 31, 2018, amounted to EUR 590,103 thousand, which is EUR 44,034 thousand less than at the end of 2017.

Provisions as at December 31, 2018, amounted to EUR 30,143 thousand, which is 1.6% more than at the end of 2017.

Coverage of non-current assets with non-current liabilities, and the net financial debt to normalized EBITDA ratio

| | December 31, 2016 | December 31, 2017 | December 31, 2018 |
|---|-------------------|-------------------|-------------------|
| Coverage of non-current assets with non-current liabilities | 84.4% | 89.3% | 82.7% |
| Net financial debt/EBITDA normalized | 14.1x | 9.5x | 7.2x |

As at December 31, 2018, long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounted to 82.7%, which is 6.6 percentage points less than as at the end of 2017. The ratio between net financial debt and normalized EBITDA in 2018 amounted to 7.2, which is a considerable improvement over the preceding year when the indicator was at 14.1. The completed monetization of real property in Serbia and divestment of non-core or non-operating assets in Slovenia also had a positive effect on the decrease of relative debt.

Effect of the new IFRS 16 pertaining to leases

The new IFRS 16 Leases, came into effect for the Mercator Group as of January 1, 2019.

Following is a presentation of the impact of the effect of the new standard on business performance indicators and indebtedness of Mercator Group in 2018, if the new standard had been applied as of January 1, 2018.

| in EUR million | 2018 | MSRP 16 impact | 2018 adjusted |
|--|-------------------|--|---|
| Gross cash flow from operating activities (EBITDA) | 106.8 | 65.0 | 171.8  |
| Normalized gross cash flow from operating activities (EBITDA normalized) | 107.5 | 65.0 | 172.4  |
| in EUR million | December 31, 2018 | MSRP 16 impact | December 31, 2018 adjusted |
| Total loans received and other financial liabilities | 784.7 | 298.6 | 1,083.3  |
| | December 31, 2018 | December 31, 2018 adjusted | |
| Net financial debt/EBITDA normalized | 7.2x | 6.2x  | |

In Mercator Group's estimate, **gross cash from operating activities (EBITDA)** in 2018 would have been higher by EUR 65.0 million if the IFRS 16 had been in effect as of January 1, 2018.

In Mercator Group's estimate, loans received and other financial liabilities related to leases would have increased by EUR 298.6 million if the IFRS 16 had been in effect as of January 1, 2018.

In Mercator Group's view, the ratio **net financial debt/EBITDA normalized** as at December 31, 2018, would have amounted to 6.2x, if the IFRS 16 had been in effect since January 1, 2018.



•••● Operations and performance plans for 2019

For 2019, Mercator Group is planning further execution of its development strategy in which deleveraging remains key.

Planned operations and performance in 2019

Despite the harsh business conditions and strong increase in new sales area of our competitors in all markets, Mercator is planning to increase the revenue at its existing units in its core activity of retail and in its non-core activities of wholesale and M Tehnika in 2019. The key characteristic of operations and performance in 2019 will be especially growth of costs in all markets, including costs of energy, material and services, and in particular labour costs, also due to changes in legislation. Despite the negative effects, we shall continue to execute our Value Creation Plan in 2019, which will allow us to neutralize the negative effects.

Continuation of the real estate monetization project

In its strategic plan for the period until 2021, Mercator Group highlights deleveraging as a key goal. This goal, which will have highly positive effects on business performance and especially further development of the Group, will be attained especially with monetization projects that the Group will continue in 2019. As at December 31, 2018, Mercator Group still owned buildings (this includes the buildings in which the Group is conducting its business and investment property) and land with a combined total value of EUR 1.3 billion, regardless of the monetization projects already completed. In 2019, Mercator will actively continue the project of constructing a new logistics and distribution centre in Ljubljana.

Investment activities in 2019

In 2019, Mercator will continue to update its stores, while a new concept of assortment that places even more stress on fresh food departments will remain Mercator's fundamental direction towards consumers and its competitive edge. Thus, Mercator will continue to pursue the mission of being the best local retailer in every market of its operations.



•••● Risk management

••● Risk monitoring and management system

Risk management is a proactive system approach for anticipation and timely identification of both negative trends and occurrences (risks), and positive trends and occurrences (opportunities), with the purpose of efficient response to and reaping thereof to the benefit of the company.

Implementation of measures and activities pertaining to key risks in 2018

In 2018, we addressed and completed 160 measures that were launched based on a completed analysis of risks at the Mercator Group for 2018. We monitored their execution on a monthly basis and documented our findings in our reports. We linked the risks to the Value Creation Plan.

Risk analysis for the year 2019

In the planning stage at Mercator Group companies, we review the success of the current strategy and accomplishment of the goals laid down, and we seek to define the relevant (internal and external) issues, needs, and stakeholder expectations (customers, shareholders, employees, social and natural environment etc.).

For 2019, we employed systematic analysis to identify and evaluate the risks that could occur in all processes of Mercator Group operations. We have defined the **key risks** for each company and the Mercator Group. All key risks were addressed from the aspect of activities already conducted and from the aspect of planned activities, and specific measures were proposed. The measures were forwarded to the responsible persons to ensure their execution. We shall monitor their progress on a regular basis.

Following are the criteria for defining a key risk at Mercator Group:

- the risk is a key risk for a particular company;
- the risk exceeds the value of 1% of Mercator Group's EBITDA;
- if the sum of all risks within a particular type of risks exceeds 3% of Mercator Group EBITDA, then the largest risk among them is the key risk for the Mercator Group.

••● Key risks of the Mercator Group

Following is a presentation of the types of risks that are key for the Mercator Group, and the planned activities for their decrease in 2019.

| Key risk: Corporate governance risk | |
|--|--|
| Risk description | Assessment of exposure 2019/2018 |
| Corporate governance risk is related to long-term development of Mercator Group companies, and it pertains to the development and implementation of the Group's strategy, stability of ownership, integration processes, management of companies, compliance with the ethics code, flow of information, Group reputation etc. | <p>In our estimate, the corporate governance risk will be lower in 2019 relative to 2018.</p> <div style="text-align: right; margin-top: -20px;">  lower equal higher </div> |



Activities planned to mitigate the risk

- Risk pertaining to the operations of the Agrokor Group

We shall monitor the public announcements on a daily basis. At council meetings with the President of the Management Board, we shall discuss potential risks pertaining to the operation of the Agrokor Group, which could affect the Mercator Group, prepare a plan of corrective measures as necessary, and monitor their implementation.

- Correct definition and execution of strategy

We shall consistently monitor the monthly execution of the Value Creation Plan, and thus regularly check on the pursuit of the strategic goals laid down. We shall develop an action plan for any identified deviations, and submit it to the Management Board for approval. The criterion for success is operations and performance in accordance with the adopted Value Creation Plan initiatives.

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

| Risk description | Assessment of exposure 2019/2018 |
|---|--|
| The risk of competitiveness and development of the offer of goods, services, and sales channels pertains to the question of what will our customers, supply sources, services, and sales channels be like in the medium-term future. | In our view, the risk of competitiveness and development of the offer of goods, services, and sales channels in 2019 will be higher than in 2018. <div style="text-align: right; margin-top: -20px;">  lower equal higher </div> |
| Activities planned to mitigate the risk | <ul style="list-style-type: none"> ➤ Risk of a decline in market share resulting from new store openings of our competitors Especially in Serbia where a new competitor – Lidl – entered the market at the end of 2018, we expect the competition to further expand its store area. Our activities in 2019 will be targeted mostly towards preservation of our market share through monthly monitoring of market share development and changes in Mercator's and its competitors' net sales area. ➤ Uncompetitive pricing In 2019, we shall consistently prepare monthly analyses of price perception and adjustments to regular and special-offer retail prices as a part of the flyer. In order to mitigate the risk, we shall also direct our activities towards further development of the Mercator private label. ➤ Inadequate investment into sales channel development and misalignment between stores and customer expectations. We wish to adapt to the trends and customer expectations as much as possible. Therefore, we are planning to open new stores in 2019 and rearrangements and refurbishments of the existing stores. We shall continue to look for new potential locations. Consistently with the strategy defined for each store format, our activities will also include setting up the key departments (Grab and go, organic produce, fruit and vegetables, bakery shop with "bake-off" products, seasonal department etc.). |

Key risk: Financial risks

| Risk description | Assessment of exposure 2019/2018 |
|--|---|
| Financial risks involve credit, interest rate, currency, liquidity, inflation, price, and other similar risks. | In our estimate, the financial risk will remain the same in 2019 relative to 2018. <div style="text-align: right; margin-top: -20px;">  lower equal higher </div> |



Activities planned to mitigate the risk

Activities planned for 2019 by particular types of risks:

➤ Liquidity

We shall monitor on a daily basis the actual cash flow, and coordinate the cash flows in a centralized manner at various levels of decision-making to make sure individual companies always have available an adequate amount of cash for repayment of their respective liabilities. We shall continue to optimize working capital management, especially to improve the management of merchandise inventories, to speed up the collection of overdue receivables, and to optimize the payment terms to our suppliers, depending on the nature of goods and market conditions.

➤ Sustainable financial structure

As at December 31, 2018, Mercator Group's net financial debt amounted to EUR 771.2 million, which is 10.1% less than as at the end of 2017. The decrease in debt is also a result of real estate monetization in Serbia. In 2019, we shall continue with the third stage of real estate monetization, which is of key importance for further sustainability of Mercator Group's financial structure. In 2019, we shall continue to regularly communicate with our key stakeholders and honour the covenants agreed upon with our creditor banks.

Key risk: Operational risk in category management and procurement

| Risk description | Assessment of exposure 2019/2018 |
|--|--|
| Operational risk in category management and procurement includes trends and occurrences that may affect the efficiency of operation of the fields of category management and procurement. | In our estimate, the operational risk in category management and procurement will remain the same in 2019 relative to 2018.  lower equal higher |

Activities planned to mitigate the risk

In 2019, we shall focus on the following:

➤ Risks pertaining to seasonal effects

We shall carefully plan and order seasonal products, taking into account our sales history and market development, define the right launch dates for seasonal offer and the starting dates for clearance sales, taking into account the inventories in our retail network and the warehouses.

➤ Risks pertaining to increase of commodity prices

We shall monitor commodity exchanges for developments regarding the raw materials and products from categories that are the subject of price fluctuations in commodity markets, and plan the amounts of such products.

Key risk: Operational risk in wholesale

| Risk description | Assessment of exposure 2019/2018 |
|--|---|
| Operational risk in wholesale includes trends and occurrences that could affect the efficiency of wholesale operations. | In our estimate, the risk of wholesale operations will remain the same in 2019 relative to 2018.  lower equal higher |

Activities planned to mitigate the risk

Activities in wholesale in 2019 will be focused mostly on the segment of Agro and franchise customers. In order to accomplish our plans, we shall seek new suppliers and customers. We shall continue to regularly monitor our operations and ensure unimpeded supply to our customers. We are planning investments into the comprehensive visual identity and equipment of franchise units.

Key risk: Operational risk in logistics

| Risk description | Assessment of exposure 2019/2018 |
|--|---|
| Operational risk in logistics includes trends and occurrences that could affect the efficiency of logistics operations. | In our estimate, the risk of logistics operations will be higher in 2019 relative to 2018.  lower equal higher |



Activities planned to mitigate the risk

- Providing the conditions of logistics infrastructure

Activities in 2019 and the years thereafter will be focused on the following: provision of funding required for urgent maintenance and refurbishment works for buildings and the appertaining logistics equipment, electrical and mechanical installations; regular maintenance of buildings and equipment as specified by the law; unification of the minimum logistics standards for new delivery points, including suitable access for the largest trucks and delivery point equipment for unloading or loading of goods and packaging, as well as adequate requirements regarding the area for handling of trade goods/merchandise and transport and other packaging.

- Construction of a new logistics and distribution centre in Slovenia

In 2019, we shall complete further steps, as planned, for the construction of new logistics infrastructure, including the selection of suitable technology for the new distribution centre, and development of project for obtaining the relevant building permits.

Key risk: Human resource risks

| Risk description | Assessment of exposure 2019/2018 |
|---|--|
| Human resource risks deal with employees and they pertain to employee training and education, salaries, information provided to the employees, excess demand (scarce) human resources, absenteeism, employee satisfaction, employee fluctuation etc. | In our estimate, the human resource risk will be higher in 2019 relative to 2018.  lower equal higher |

Activities planned to mitigate the risk

In 2019, we shall focus on improving employee commitment by further revision of the values and culture, setting up the project of revising our job systematization, further development of leadership, strengthening of the employer brand, and development of employee competences.

In 2019, our activities will also be targeted towards perceived risks regarding the lack of human resources in operations, such as retail, logistics etc. If suitable human resources are not available, then work processes cannot take place, which in turn could result in a drop of sales. In addition to the current situation in the labour market, the possibility of recruiting the right human resources is made even more difficult by poor competitiveness of salaries in the industry, working hours in retail, and lack of motivation for work in retail – especially among the young. We shall also seek to mitigate the risk of lack of human resources in excess demand jobs (service lines) by changing or adjusting our processes.

Key risk: IT risks

| Risk description | Assessment of exposure 2019/2018 |
|---|--|
| IT risks pertain to the use of information systems, information security, and daily support to business processes. | In our estimate, the IT risk will remain the same in 2019 relative to 2018.  lower equal higher |

Activities planned to mitigate the risk

In 2019, activities in IT will be focused on execution of all regular operational activities (such as e.g. operation of communication and central systems), and maintenance of suitable information system architecture. Moreover, the following is planned to mitigate the risk:

- regular implementation and monitoring of distribution of the security updates on workstations and servers, and implementation of stricter security requirements (firewalls, ID certificates for vulnerability management on workstations etc.);
- upgrades and optimization of management processes for information assets, changes, and problems related to the central IT systems;
- continuing the establishment of an advanced central registry of changes taking place on the assets and allowing the operation of the central IT systems;
- introduction of new IT systems and functionalities that will affect the operation of the existing central IT systems.

**Key risk: Environmental risks**

| Risk description | Assessment of exposure 2019/2018 |
|---|---|
| Environmental risks are related to the identified environmental aspects such as use of raw materials and energy, emissions into the air, wastewater emissions, solid waste etc. | In our estimate, the environmental risk will remain the same in 2019 relative to 2018. <div data-bbox="897 325 1214 370" style="text-align: center;"> </div> <div data-bbox="897 370 1214 393" style="text-align: center; font-size: small;"> lower equal higher </div> |
| Activities planned to mitigate the risk | |
| <p>The most important critical environment risk identified at the Mercator Group pertained to inefficient use of electric energy due to suboptimal design of business processes and technologies employed. Therefore, activities in 2019 will include the following:</p> <ul style="list-style-type: none"> ➤ We will continue to inform the employees on a quarterly basis about the efficient use of energy. ➤ We shall upgrade the existing energy accounting system with a more detailed targeted monitoring of energy consumption. ➤ We shall replace outdoor lighting, update the installation, and replace the interior lighting with more energy-efficient light fixtures. | |



● ● ● Financial management

Stable Financial Operations

As at December 31, 2018, Mercator Group net financial debt amounted to EUR 771,212 thousand, which is 10.1% less than as at the end of 2017. Thus, Mercator Group continued its stable financial operations last year.

| in EUR 000 | Dec. 31, 2016 | Dec. 31, 2017 | Dec. 31, 2018 | Change Dec. 31, 2018/ Dec. 31, 2017 |
|--|----------------|----------------|----------------|-------------------------------------|
| Non-current loans received and other financial liabilities | 769,776 | 765,309 | 597,999 | -21.9% |
| Current loans received and other financial liabilities | 133,241 | 116,391 | 186,748 | 60.4% |
| Loans received and other financial liabilities | 903,017 | 881,700 | 784,746 | -11.0% |
| Cash and cash equivalents | 26,318 | 24,112 | 13,534 | -43.9% |
| Financial assets | 26,318 | 24,112 | 13,534 | -43.9% |
| Net financial debt | 876,698 | 857,588 | 771,212 | -10.1% |

Financing costs

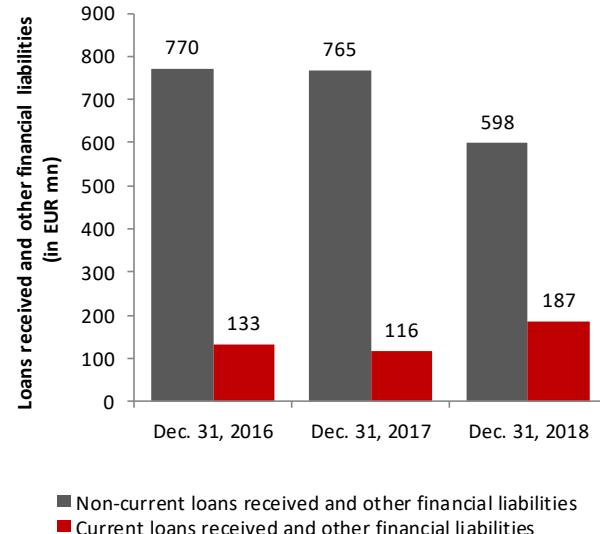
In the period 1–12, 2018, the 6-month EURIBOR averaged at -0.266%. In the equivalent period of the year before, the average for the 6-month Euribor was at -0.260%.

Debt to equity and financial liability ratio

As at December 31, 2018, Mercator Group attained a debt-to-equity (capital structure) ratio of 1:1.61. The ratio is a quotient between equity and net financial debt.

In recent years, Mercator Group succeeded in improving the composition of financial liabilities by maturity by completing its financial restructuring. The share of non-current financial liabilities in total financial liabilities as at December 31, 2018, amounted to 76.2% (86.8% as at December 31, 2017). A considerable part of current financial liabilities is of non-current nature as the creditors are committed to revolving or renewing the loans until their final maturity, based on the Master Restructuring Agreement (MRA). The MRA finally matures in 2021, and the Serbian Deal finally matures in 2020.

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



**Available liquidity lines as at December 31, 2018**

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

| in EUR 000 | Dec. 31, 2018 |
|--------------------------------|---------------|
| Cash and cash equivalents | 13,534 |
| Standby revolving credit lines | 25,469 |
| Total | 39,003 |

Security of bank loans

Restructuring of Mercator Group's financial liabilities included securing such liabilities with mortgages on Mercator's own real property, with financial investments into subsidiaries, receivables, inventories, and funds/deposits in bank accounts.



•••● Mercator share and investor relations

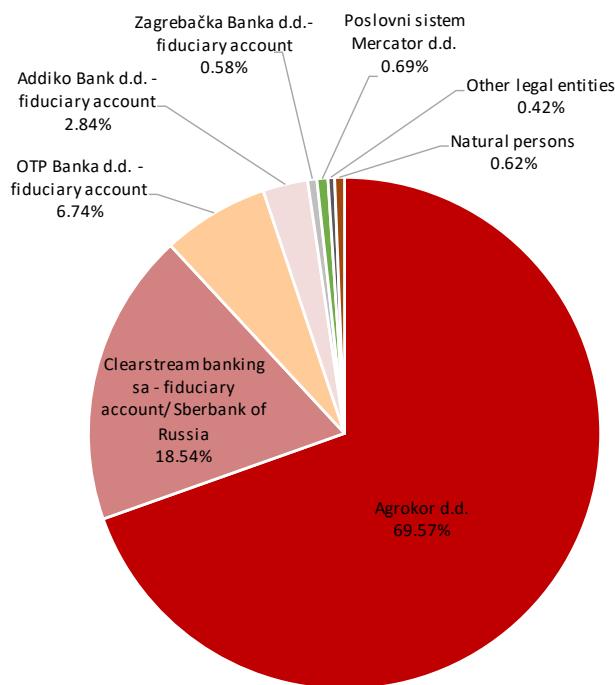
••● Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31, 2018:



| | |
|------------------------|---|
| 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 | 1,611 |

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





Major Shareholders

As at December 31, 2018, the four largest shareholders combined owned 97.69% of the company. Key information on the largest shareholders is presented in the chapter Corporate Governance Statement.

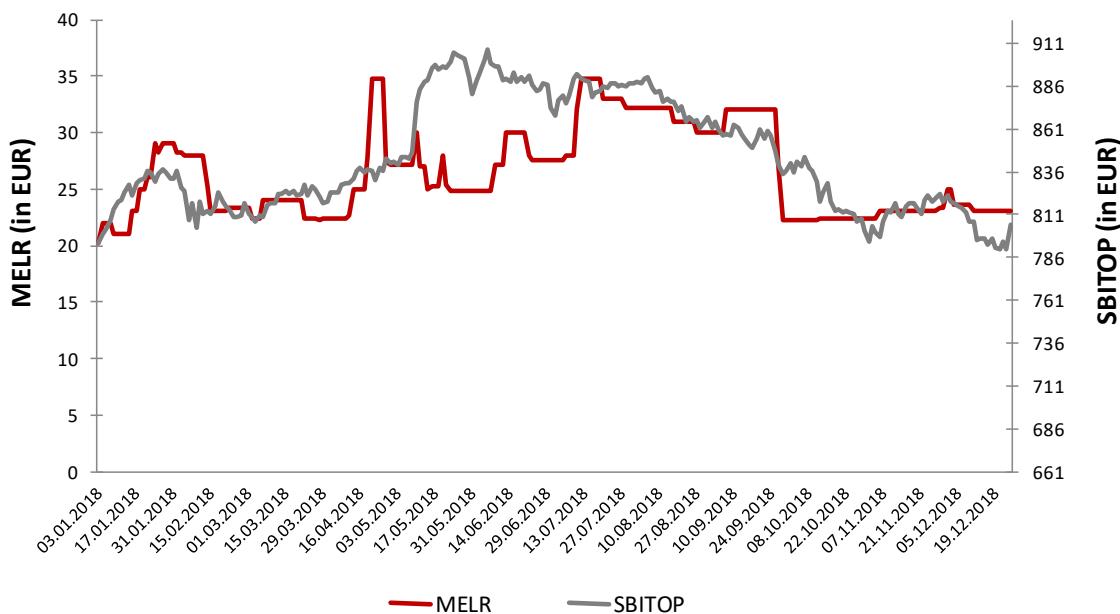
Shares held by Management and Supervisory Board members as at December 31, 2018

As at December 31, 2018, Management Board members and Supervisory Board members of the company Poslovni sistem Mercator d.d. did not hold any company shares.

Foreign shareholders

As at December 31, 2018, the share of international investors in the company Poslovni sistem Mercator d.d. was 98.68%, and it did not change in comparison to December 31, 2017.

Movement of price per MELR share in the period 1–12, 2018, compared to the movement of the SBITOP index





Key information for the shareholders¹²

| | December 31, 2017 | December 31, 2018 | Change Dec. 31, 2018 / Dec. 31, 2017 |
|---|----------------------|----------------------|--|
| 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) | 122,245,226 | 140,091,689 | 14.6% |
| Market value of share (in EUR) | 20.1 | 23.0 | 14.6% |
| Book value per share (in EUR) | 70.0 | 68.5 | -2.1% |
| Minimum close rate in the period (in EUR) | 19.6 | 20.2 | 3.1% |
| Maximum close rate in the period (in EUR) | 68.0 | 34.8 | -48.8% |
| Average close rate in the period (in EUR) | 43.4 | 26.4 | -39.2% |
| Earnings per share (in EUR) | -33.7 | -1.8 | - |
| Price/earnings ratio (P/E) | -0.7 | 86.6 | - |
| Capital gains yield (in %) | -70.5 | 14.6 | - |

Dividend policy

No dividend payment is planned for 2019.

Own shares

As at December 31, 2018, the company Poslovni sistem Mercator d.d. held 42,192 own shares. In the period 1–12, 2018, the company Poslovni sistem Mercator, d. d., neither acquired nor disposed of own shares.

Investors

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

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

¹²**Market capitalization** is calculated by multiplying the number of shares entered into the court register as at December 31 with market price per share as at December 31.

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

Earnings per share is calculated as the ratio between net profit of the company Poslovni sistem Mercator d.d. and weighted average number of ordinary shares in the period at hand, excluding the own shares.

P/E (price-to-earnings) ratio is calculated as the ratio between market price per share as at December 31 and net Mercator Group profit per share.

Capital gain yield is calculated as the ratio between market price per share as at December 31 of the current year, and market price per share as at December 31 of the previous year.



● ● ● Taxes and other charges

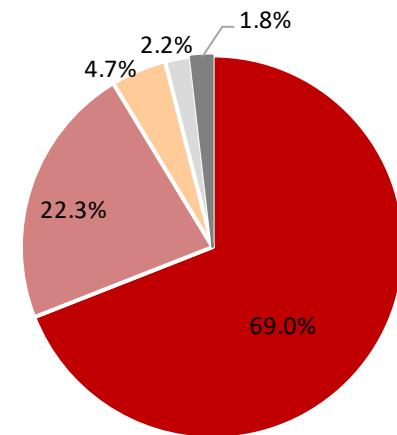
Taxes are of key importance for economic and social development. At Mercator Group, we comply with the effective tax legislation in all countries of our operations, the international regulations, and with the sound taxation practices based on the principles of sustainability and corporate social responsibility. Our taxation policy reflects and supports our operations. Our goal is to make sure that all taxes are calculated and charged correctly and that they are paid in due time, and that the tax returns are filed in a timely manner and consistently with the effective tax legislation.

Mercator Group is managing its taxation risks in a similar manner as every other operational risk. Taxation risk management is a key process that can protect the company from negative consequences for the accomplishment of its business goals.

Mercator Group tax strategy and policy, adopted at the management level, is written down in an internal act.

Payment of taxes, contributions, and other charges, broken down by respective markets, in 2018

| | Tax, contributions, and other charges in 2018 (in EUR 000) |
|------------------------|--|
| Slovenia | 119,793 |
| Serbia | 38,623 |
| Montenegro | 8,117 |
| Bosnia and Herzegovina | 3,767 |
| Croatia | 3,149 |
| Total | 173,450 |



In 2018, Mercator Group companies paid a total of **EUR 173 million of taxes, contributions, and other charges**. Of this amount, **EUR 120 million of taxes and other charges were paid in Slovenia** (69.0% of Mercator Group's total tax liabilities), which is 1.16% of total government budget for 2019 (revision of the budget of the Republic of Slovenia for the year 2019). Only for comparison, or to put the figure into perspective*: EUR 120 million is more than the amount allocated in the revised budget to the Directorate of Infrastructure for a year of investments into maintenance and construction of state roads in the Republic of Slovenia, or 3 years' worth of budget of the Administration of the Republic of Slovenia for Civil Protection and Disaster Relief.

* Source: Revised budget of the Republic of Slovenia for 2019, Official Journal of the Republic of Slovenia No. 19/2019, dated March 29, 2019

Types of taxes, contributions, and other charges

Taxes have different names in respective countries of Mercator Group operations. They can be classified into four groups:

Personal income taxes – these are taxes related to employment/work, and they include the personal income tax and social security contributions.

Corporate income taxes – these are taxes related to profits of the company, such as: corporate income tax, tax on profit, withholding tax, tax after withholding.

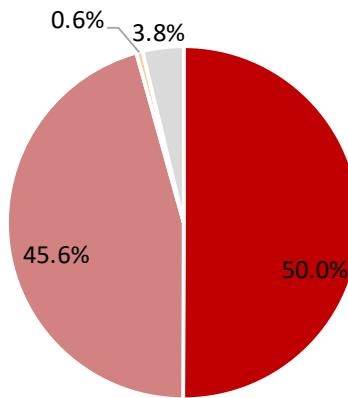


Taxes on goods, services, products – these are taxes on sales of goods and services, such as the value added tax, tariffs, excise duties, tax on financial services.

Other taxes and charges – these include property taxes, charges for the use of property, taxes on transactions with real property, taxes related to the environment, such as: real estate transfer tax, charge for the use of building land, environment charges, duties etc.

Types of taxes, contributions, and other charges in 2018

| | Tax, contributions, and other charges in 2018 (in EUR 000) |
|------------------------------------|--|
| Personal income taxes | 86,822 |
| Taxes on goods, services, products | 79,118 |
| Corporate income taxes | 999 |
| Other taxes and charges | 6,511 |
| Total | 173,450 |



Cooperation of the company Poslovni sistem Mercator d.d. with the Financial Administration of the Republic of Slovenia

The company Poslovni sistem Mercator d.d. was the first Slovenian company to whom the Financial Administration of the Republic of Slovenia awarded in March 2016, for a period of three years, a special status within the program for encouraging voluntary fulfilment of liabilities and decrease of administrative burden of financial control. In March 2019, the three-year period expired; therefore, the company filed in December 2018 an application for the extension of the special status, and this application has been granted.

Mercator and the Financial Administration of the Republic of Slovenia (FURS) are executing the program based on the principles of transparency, cooperation, understanding, and mutual trust. The FURS grants the company fast and responsive resolution of any problems in fulfilment of its tax liabilities with willingness to cooperate. Such form of cooperation with the allows greater certainty regarding taxes for the company.



NON-FINANCIAL REPORT.

*We work well,
because we work
with the best:
not only our employees,
partners and suppliers,
but also the best athletes,
musicians, and
young talents.*



Pursuant to the Directive 2014/95/EU of the European Parliament and of the Council dated December 6, 2014, Guidelines on non-financial reporting (2017/C 215/01), and pursuant to Article 70.c of the Companies Act (ZGD-1 No. 15/17 dated March 31, 2017), the company Poslovni sistem Mercator d.d. includes into its business report a Non-Financial Statement.

NON-FINANCIAL STATEMENT

Mercator Group conceives of sustainable development as balanced activity in particular fields of social responsibility, environment protection, and economic sustainability. For socially responsible and sustainable operation, Mercator has laid down goals to create a healthy and safe future for people and the environment.

Sustainability projects are carried out in the field of energy efficiency and preservation of natural resources. We work in a constructive manner with our suppliers to guarantee safety and quality of products for our customers. We also provide information to our customers and raise their awareness. We provide neat and safe working conditions for our employees and contribute to the development of our local environment. We are highly attentive to both the most important social issues and to individuals. Our operations are transparent and compliant with the highest business standards, and we treat all stakeholders equally.

The Management Board of the company Poslovni sistem Mercator d.d. is issuing a statement of compliance of the reporting non-financial information for the fiscal year 2018 pursuant to the provisions of Article 70.c of the Companies Act (ZGD-1). Non-financial aspects of Mercator Group operations are presented later in this chapter.

Ljubljana, April 12, 2019

mag. Tomislav Čizmić
President of the Management Board

Draga Cukjati
Member of the Management Board

Igor Mamuza
Member of the Management Board

Gregor Planteu
Extraordinary Management Board Member



● ● ● Non-financial reporting

Mercator is fostering economic and social development of the local environment in which it operates as it generates broader economic and social effects, provides a pleasant and neat environment for the consumers and employees, and constantly improves the quality of the goods and services it offers. We are aware that only socially responsible operations will lead to greater business success, competitiveness, and productivity.

Business model and governance

Mercator Group's core activity is fast-moving consumer goods retail, in a dense and extensive retail network in Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina.

Mercator Group's business model is presented in more detail in the Business Report within this Annual report, under the following chapters:

- Business Strategy,
- Presentation and Organization, which presents Mercator Group composition and governance of the parent company,
- Business activities, which presents all Mercator Group activities in more detail.

Approach to governance and the corporate governance systems are presented in more detail based on the Corporate Governance Code for Listed Companies in the Corporate Governance Policy of the company Mercator d.d. and the Mercator Group, which is publicly available at the company website at www.mercatorgroup.si and in the public information dissemination system SEOnet.

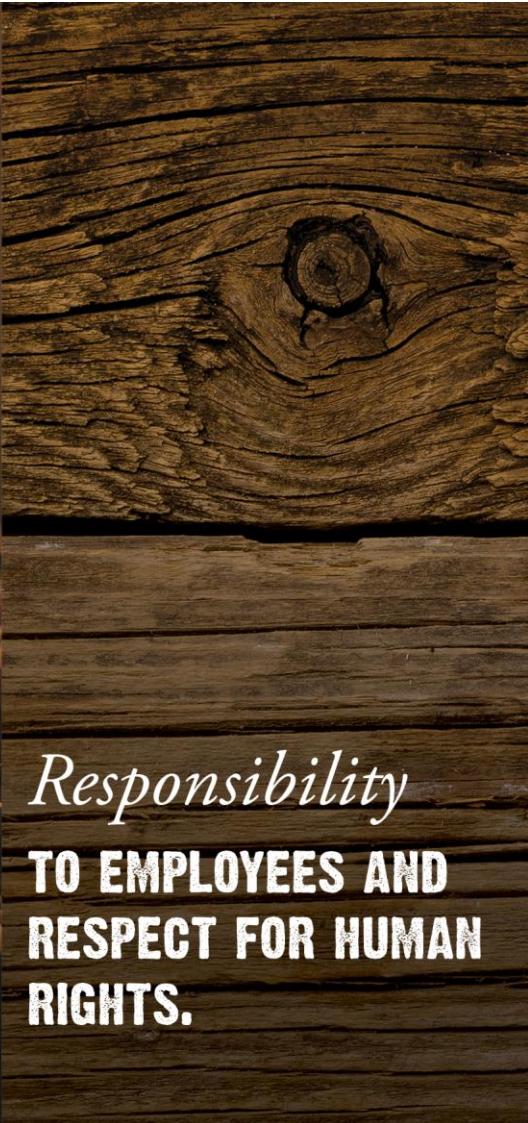
Presentation of Mercator Group's key policies

Mercator's relevance in the broad social environment goes beyond the role of a retailer. Its influence and activities reach into other important fields of social life as well and therefore, we are looking to involve and integrate all our stakeholders into our processes as we follow eight policies.

Mercator Group policies

| | | | |
|---|---|--|--|
| EMPLOYEE POLICY <i>and respect for human rights</i> | DIVERSITY policy | CUSTOMER RELATIONS policy | SUPPLIER RELATIONS policy |
| ENVIRONMENTAL policy | POLICY OF RESPONSIBILITY to social environment | ANTI-CORRUPTION policy | QUALITY policy |

Diversity policy is presented in more detail in the Corporate Governance Statement in the Business Report part of this Annual Report, while other policies and results thereof, as well as the non-financial indicators are presented in more detail later in this chapter. Mercator Group's key risks are described and presented in the chapter Risk Management in the Business Report part of the Annual Report.



Responsibility
**TO EMPLOYEES AND
RESPECT FOR HUMAN
RIGHTS.**

• • ● Employee policy and respect for human rights

EMPLOYEE POLICY *and respect for human rights*

Employees are at the core of our operations as they are the key to customer satisfaction and thereby to the attainment of Mercator's business goals. Therefore, our activities in human resource management activities are focused on the following:

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

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

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



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



• • ● Employees at the Mercator Group

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

As of June 1, 2018, promotions were awarded in the operational part of the company Poslovni sistem Mercator d.d., for the areas of FMCG retail, wholesale, technical consumer goods, restaurants, and logistics.

On August 15, 2018, the new Collective Contract for the trade/retail activity in Slovenia came into effect, which introduces, among other things, a change in the payment for Sunday work and a restriction regarding work on Sundays and holidays.

On July 1, 2018, changes in macro- and microorganizational structure were introduced at the company Mercator-S d.o.o.; on September 1, 2018, such changes came into effect at Mercator IP d.o.o.

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

Activities for the pilot trial for implementation of a **5-day work week in retail** were intensively under way in the second half of the year at the company Poslovni sistem Mercator d.d.

The "Minute" products by the company Mercator IP d.o.o. won **11 medals** at this year's AGRA fair, including three gold, seven silver, and one bronze medal.

Looking to improve the method of expiry date monitoring in retail, we introduced electronic expiry date records (shelf life management) platform (EKR) at the company Mercator- S d.o.o.

At the company Mercator-CG d.o.o., the project "**Recommend to a Friend**" was implemented in 2018, which allows the employees to take part in the recruitment process.

At the company Mercator-BH d.o.o., a number of **new internal acts** were adopted as of September 18, 2018, regulating the areas of company operations, salary accounting, systematization, and performance appraisal. The goal is to improve organization and systematization of jobs at the operational units in the retail and logistics sector.

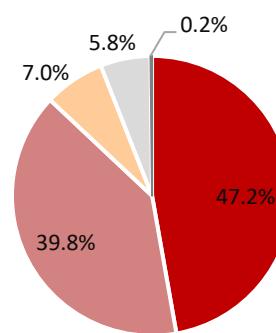


Number of employees

Number of employees by Mercator Group markets

| Number of employees by markets | Number of employees as at December 31, 2018 | Number of employees as at December 31, 2017 | Index number of employees Dec 31, 2018 / Dec 31, 2017 | Number of employees based on hours worked in the period Jan- Dec 2018 | |
|--------------------------------|---|---|---|---|---------------|
| | | | | 8,724 | 18,847 |
| Slovenia | 9,580 | 9,762 | 98.1 | 8,724 | |
| Serbia | 8,096 | 8,301 | 97.5% | 7,586 | |
| Montenegro | 1,424 | 1,420 | 100.3% | 1,330 | |
| Bosnia and Herzegovina | 1,173 | 1,280 | 91.6% | 1,171 | |
| Croatia | 37 | 38 | 97.4% | 36 | |
| Total | 20,310 | 20,801 | 97.6% | | 18,847 |

Number of employees by markets December 31, 2018



As at December 31, 2018, Mercator Group had 20,310 employees, of which 52.8% worked internationally, i.e. outside the country in which the Group is based. The number of employees was the highest in Slovenia with 9,580, and the lowest in Croatia with 37. Compared to 2017, the number of employees increased at Mercator-CG d.o.o. (by 0.3%) while it decreased by an average of 3.8% in all other Mercator Group markets. The share of employees in administration (white-collar employees) increased relative to the preceding year at the companies Mercator-BH d.o.o. and Mercator-H d.o.o., while it decreased in other markets of Mercator Group operations.

Mercator Group has **over 20,000 employees** in all markets of its operations.

Share of employees by type of employment contract

Slovenian companies of the Mercator Group had the largest number of employees with permanent employment contracts with 9,486, or 99% of all employees. On the other hand, the company Mercator-CG d.o.o. had the largest share of employees on fixed-term (temporary) employment contracts with 28% (399 out of 1,424 employees).

| Share of employees by type of employment contract (in %) | Individual contract | Standard contract | Permanent contract | Contract for a fixed period |
|--|---------------------|-------------------|--------------------|-----------------------------|
| Slovenia | 0.7 | 99.3 | 99.0 | 1.0 |
| Serbia | 0.7 | 99.3 | 77.7 | 22.3 |
| Montenegro | 0.1 | 99.9 | 72.0 | 28.0 |
| Bosnia and Herzegovina | 0.3 | 99.7 | 89.3 | 10.7 |
| Croatia | 8.1 | 91.9 | 89.2 | 10.8 |
| Total | 0.6 | 99.4 | 88.0 | 12.0 |

Employees by gender

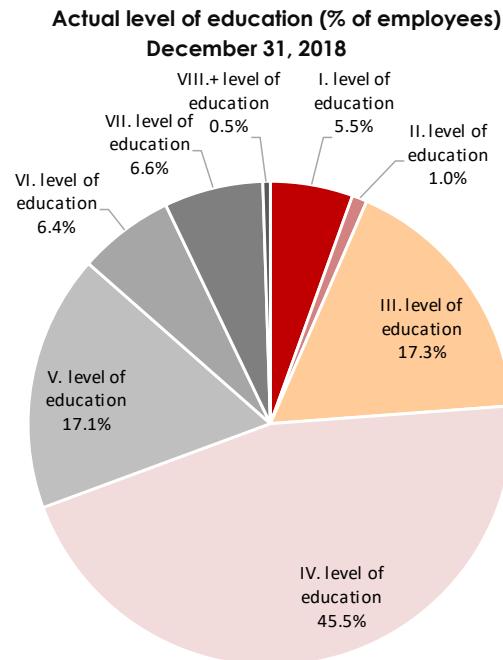
In 2018, Mercator employed more female than male employees: 68.7% of employees were women and 31.3% were men. Compared to the preceding year, the number of male employees increased by 6.6% and the number of female employees decreased by 6%.

| Year | Number of employees | Men (in %) | Woman (in %) |
|-------------------|---------------------|------------|--------------|
| December 31, 2018 | 20,310 | 31.3 | 68.7 |
| December 31, 2017 | 20,801 | 28.6 | 71.4 |



Actual level of education

The largest share of Mercator Group employees has IV. level of education (9,251 employees, or 45.5%), which reflects our core activity of retail. These are followed by employees who have completed III. level of education with 3,517 or 17.3% of employees – with the highest number at Mercator-S d.o.o. A total of 3,474 employees have V. level of education; the most of these are employed at Poslovni sistem Mercator d.d. At this company, there are the fewest employees with III. level of education (47). These are followed by 82 employees who have completed VIII. or higher level of education.



Employment of disabled persons

The largest number of persons with disabilities are employed in the Slovenian market with 8.7% or 829 of total employees here. Of these, 213 (25.7%) are employed at Mercator IP d.o.o., while 613 (73.9%) are employed at the company Poslovni sistem Mercator d.d. In total, 5% of Mercator Group employees are persons with disabilities.

| Number of employees with disabilities in Mercator Group by markets | Disabled persons December 31, 2018 | Disabled persons December 31, 2018 (in %) |
|--|------------------------------------|---|
| Slovenia | 829 | 8.7 |
| Serbia | 151 | 1.9 |
| Montenegro | 1 | 0.1 |
| Bosnia and Herzegovina | 39 | 3.0 |
| Total | 1,020 | 5.0 |

Training and education

In the period at hand, Mercator Group devoted 142,011 hours to functional training and education, of which 18,030 hours in statutory education. In training and education were involved 27,947 employees, the cost of this effort was EUR 485,044. On average, each participant received 5 hours of functional training.

| 2018 | All training and education | | | Statutory education | |
|------------------------|----------------------------|------------------------|----------------|---------------------|------------------------|
| | Number of hours | Number of participants | Costs (in EUR) | Number of hours | Number of participants |
| Slovenia | 84,692 | 17,462 | 393,325 | 7,823 | 4,333 |
| Serbia | 37,990 | 4,078 | 58,078 | 3,706 | 1,853 |
| Montenegro | 8,760 | 1,879 | 21,209 | 419 | 279 |
| Bosnia and Herzegovina | 10,505 | 4,524 | 12,432 | 64 | 4 |
| Croatia | 64 | 4 | 0 | 6,018 | 2,299 |
| Total | 142,011 | 27,947 | 485,044 | 18,030 | 8,768 |



The **Mercator Humanitarian Foundation** provided aid to 160 employees from the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o., who were in need of assistance. We paid out humanitarian aid in the total amount of EUR 89,453. In foreign markets we provided aid in the amount of EUR 58,741 thousand to 168 employees.

Occupational health and safety

| Number of workplace accidents | 2018 | 2017 | Index 2018/2017 |
|-------------------------------|------------|------------|-----------------|
| Slovenia | 339 | 317 | 106.9 |
| Serbia | 464 | 590 | 78.6 |
| Montenegro | 10 | 16 | 62.5 |
| Bosnia and Herzegovina | 28 | 18 | 155.6 |
| Total | 841 | 941 | 89.4 |

In 2018, a total of 841 workplace accidents were recorded at Mercator Group. Compared to 2017, the number of workplace accidents is lower by 10.6%. A large increase in the number of accidents was only seen in Bosnia and Herzegovina (by 55.6%), since we resumed operations in this market in the autumn of 2017; in 2018, however, our operations in this market took place throughout the year.

Absenteeism due to illness and average age of employees by markets

| Year 2018 | Health-related absenteeism to the burden of the company (in %) | Average age of employees |
|------------------------|--|--------------------------|
| Slovenia | 4.2 | 44.2* |
| Serbia | 3.5 | 40.0 |
| Montenegro | 1.8 | 38.2 |
| Croatia | 0.9 | 42.6 |
| Bosnia and Herzegovina | 2.9 | 40.7 |
| Total | 3.7 | - |

*Data refers to the company Poslovni sistem Mercator d.d.

The level of health-related absenteeism burdening the company is calculated as the ratio between total health-related absenteeism hours and the total number of hours worked by all employees in the period. In 2018, overall health-related absenteeism rate at the Mercator Group amounted to 3.7%. Among all Mercator Group markets, the largest percentage of health-related absenteeism to the burden of the company was seen in Slovenian market, with 4.2%. Within Slovenia, the highest rate was recorded at the company Mercator IP d.o.o. (5.9%), while the lowest rate was recorded at M-Energija d.o.o. (2.1%).

As at December 31, 2018, average age of employees in the company Poslovni sistem Mercator d.d amounted to 44.2 years, in Croatia 42.6 years, in Bosnia and Herzegovina 40.7 years, in Serbia 40.0 years and in Montenegro 38.2 years.



Human resource management activities at the company Poslovni sistem Mercator d.d. in 2018



At the company Poslovni sistem Mercator d.d., **expert training** was provided as a part of FMCG retail education for employees at the bread and meat departments. We held 193 workshops on **finishing pre-baked bread and pastry**, which were attended by **1,050** employees.



The **butcher training program** was carried out in seven groups this year. In the first part, **69 new and existing butchers and their managers** learned about the strategy of work in the meat departments, selling skills, product preparation, and management of their work environment. This was followed by a tour of the meat department. For butchers who have only recently started to work at meat departments, we also provided one-month mentorship programs with experienced employees from the retail units where respective participants work. For other



employees at meat departments, we held a short training course focusing on **new aspects related to HACCP and trade/retail legislation**, which was attended by a total of **351 employees**.



Additionally, we offered to FMCG retail employees training on **organic cheese** (148 participants), **preparation of cold cut platters** (104 employees), and we trained new **G.O.L.D. instructors** (12 employees).

The succession program in retail is a case of good practice. The purpose of the project is to create a pool of interior candidates who will be systematically trained in the long run, and prepared to assume key positions in our retail. In February, we launched the **5th Retail Academy**. In November, **57 select candidates** from across Slovenia successfully graduated from it. Many of them have since been appointed store managers and deputy store managers. The succession project was also rolled out to M-Tehnika (technical consumer goods program) where 6 employees took part in the **M Tehnika Academy**. They completed the program in December.



In 2018, we also launched the **6th Retail Academy** program that included employees who assumed managerial jobs in 2018 but were not included in the succession program. Moreover, the selection process for the next generation is already in progress. It will be completed in 2019.



Internal coaches also provide continuous support to our development projects. At the company, we started to introduce internal coaching in 2012; currently, there are **12 active internal coaches**. They come from a variety of fields, and they perform the work of an internal coach in addition to their regular work. In this year, 70 employees opted for internal coaching. Most of them are Retail Academy participants, some work at M Tehnika, and some work in wholesale and administration. In this year, internal coaches held **386 coaching sessions**. The group of internal coaches also cares for continuous development through regular monthly supervisions and additional training. In this year, they were trained in new techniques and approaches to coaching, while 6 female coaches were trained for conducting group coaching that we held for the first time for all hypermarket managers. Internal coaches also actively take part in conferences and meetings, as the case of introduction of internal coaching at our company is an example of good practice.



some work at M Tehnika, and some work in wholesale and administration. In this year, internal coaches held **386 coaching sessions**. The group of internal coaches also cares for continuous development through regular monthly supervisions and additional training. In this year, they were trained in new techniques and approaches to coaching, while 6 female coaches were trained for conducting group coaching that we held for the first time for all hypermarket managers. Internal coaches also actively take part in conferences and meetings, as the case of introduction of internal coaching at our company is an example of good practice.



In 2018, four groups completed their training at the **Stock Assistant School**. The participants completed their five-day program. In addition to workshops, they spent four days on training at the departments of bread, delicatessen, cash registers, and fruit and vegetables.

To complete the program, the participants also had to write a seminar paper, with support of their personal mentors. The participants addressed a range of topics pertaining to practical work. A total of **36 employees** successfully completed their



training. They all received certificates of internal training for work as sales assistant.

Successful work at the **Logistics Management School** has inspired us to continue our in-depth work with key logistics employees. In the summer, we conducted behavioural interviews with some employees, and prepared based on them the **competences complete with description of conduct for the positions of leaders/managers in logistics**. In the autumn, we conducted pilot measurement of leader competencies at the Slovenčeva Distribution Centre, and carried out a sociometric test. A total of **391 employees** responded to invitation to the test. We presented a report on the results to the logistics management that in turn adopted the decision to conduct the measurements in 2019 in other distribution centres as well.



In November, we held a festive ceremony at Festivalna dvorana to present our employees whose hard work, example they set for the others, and outstanding achievements earned them one of the titles traditionally awarded at Mercator. The **Best Internal Instructor** award was presented to 7 employees; the **Best Shop Assistant** award was received by 35 employees; **Best Boss** award was presented to 9 employees; **Best Store** award went to 21 units; and the most prestigious **Mercator Award** went to a total of 19 recipients in 2018.

In the second half of 2018, we launched the activities for the pilot trial for implementation of a **5-day work week in retail**. The trial will be conducted at the Supermarket Mengeš that was opened in early 2019.



Human resource management activities at the company Mercator IP d.o.o. in 2018

As of January 2018, the company Mercator IP d.o.o. launched a **new production plant OU Sandwiches and Salads** in Slovenske Konjice, which makes sandwiches and salads with extended shelf life, and fruit salads. Products made under the **Minute brand** are sold at Mercator's retail stores. At the end of April 2018, we started deliveries of 6 new products to select OMV petrol stations. These products were developed especially for OMV under the label VIVA.

In October 2018, employees of our pastry shop Kranjski kolaček ("The Kranj Cupcake") took part for the first time at the **7th International Congress Interslast** in the Croatian spa resort of Tuhejlj. In addition to a competition, the Congress included interesting lectures and presentations, as well as tasting events of the products made by participating companies.

As at December 31, 2018, the company Mercator IP d.o.o. had 407 employees, of which 213 or 52.33% were employees with some recognized category of disability.



Human resource management activities at the company Mercator-S d.o.o. in 2018

"**Generation 2018**" is a six-month student training program focusing on one of the following areas: category management, IT, logistics, wholesale, human resource management, marketing, legal issues, and finance. The program is organized so that every level represents a step forward in terms of tasks and responsibilities. **Twenty students** participated, to whom we offered – with the support of a mentor – knowledge, experience, and the opportunity to become a part of our company after they complete the program. Sixteen candidates completed the program. We were also focused on the project of **dual education**, which is conducted in partnership between the Serbian Chamber of Commerce and Industry, and secondary vocational schools.



We created advanced employer profiles on social networks **LinkedIn**, **Instagram**, and **Facebook**, and in the HR advertising campaign **Infostud**.



We also conducted **socially responsible activities** that included hiring of persons with disabilities, strengthening young Roma families, and hiring of residents of the Zvečanska Maternity Home. As a part of the project "**hiring of persons with disabilities**", we created a sales assistant job with adjusted working environment. "**Strengthening of Young Roma Families**" is the next socially responsible project that trains young Roma families for work in retail. We are working with the **Zvečanska Maternity Home** to hire their residents.

In order to improve the method of monitoring expiry dates in retail, we carried out training for **electronic expiry date records (shelf life management program) (EKR)**. 674 employees from four regions took part in the program. They learned about the benefits and technical characteristics of the new platform.

An **advanced course in MS Excel** was organized. It was attended by 11 employees from headquarters. The purpose of the training was to acquire practical skills that could improve their work efficiency. A third-party service provider also organized two 2-day training programs on **manager reporting**, which was attended by 27 leaders of respective business areas. Third-party training of trainers, aimed at boosting the employees' training skills, also took place in 2018.



Human resource management activities at the company Mercator-CG d.o.o. in 2018

In 2018, we launched two activities: the projects "**Recommend to a Friend**" and "**Trust Us**". The first one allows the employees to take part in the recruitment process. By proposing a candidate who is then hired for at least 4 months, the employee who proposed the candidate is rewarded with EUR 20. As of December 2018, we raised the reward to EUR 100. With the project "**Trust Us**", we are looking for our employees to share with us their comments, criticism, proposals and recommendations.



February was designated as the innovation month. We organized a contest called "**Be Innovative, Create an Idea for the Idea**". The employees received forms into which they could enter their creative and innovative idea for which they could win one of the awards at the end of the year: EUR 500, tablet computer, smart phone, a EUR 100 voucher, and a package of products.

In May, we held intensive **MS Excel courses**. The purpose of the program, prepared especially for our employees, was for them to improve their skills and to acquire new ones. This, in turn, should allow them to simplify their daily tasks and to complete them in a shorter period of time.

In the last quarter, we held training courses for all 929 shop assistants, with the topic **Services and Communication with the Employees**, in order to improve the services rendered by and the communication of employees who are in direct contact with our customers.

We also established the process of **on-boarding and orientation** for all newly hired employees in retail, which allows structured control over the newly hired employees in the first three months of work at our company. The talent development department and its leaders monitor the newly hired employees from the start of employment to the end of the third month of their work. A list of certain systems and criteria was compiled to evaluate the progress of newly hired employees.



Trainer network of retail trainers was updated. Human resource management worked with retail, investment, and network development to select 13 business units in 11 towns across Montenegro, which operate as so-called employee training centres. This update also included standardization of all work instructions for trainers, full educational material for a variety of fields of work (meat department, delicatessen department, fruit and vegetables, bakery, work at the cash register, issue of goods etc).



Currently, we are focused on training of new employees. At first, 51 trainers were selected; as the needs for training expanded, three more shop assistants were educated to become trainers. The goal of the trainer network is to develop a fast and efficient training method to ensure work according to uniform standards and values. During the trainer network operation, 95 newly hired employees were trained; 31 newly hired employees were trained to work at the cash register.

In December, we selected the best employees in all fields as a part of the project "**We can do everything when we are together**". We also honoured our tradition during the last days of 2018 when some directors spent a day at our stores as a part of the campaign "**Everyone to Retail**". This allows them to connect with the employees and learn more about the retail processes.



Human resource management activities at the company Mercator-BH d.o.o. in 2018

In April and May, we held **training for 24 internal trainers** in order to improve the level of retail employee training and qualification. A total of **10,505** class hours of training and education involving over **4,524** employees were completed by the end of December. The training and education sessions focused on the following subjects: mandatory training, selling skill development, introduction of HACCP standards, security and insurance training, and leadership competence development in retail.



In order to improve the organization and systematization of all jobs for operational units in the sectors of retail and logistics, **new internal acts** were adopted as of September 18, 2018, for various entities, especially in the fields of company operations, salary calculation and accounting, systematization, and performance appraisal.

Another important activity in the period from April to September was **generating the budgeted revenue and attaining the planned work productivity** at all stores. A decision was made to introduce, on trial basis,

team/group rewarding in retail. Such incentives have proven an efficient and useful tool for attaining excellent sales results. Therefore, it was included in the acts referred to above. From April to September 2018, the award was presented to 31 retail units, and 629 employees received the reward as incentive.

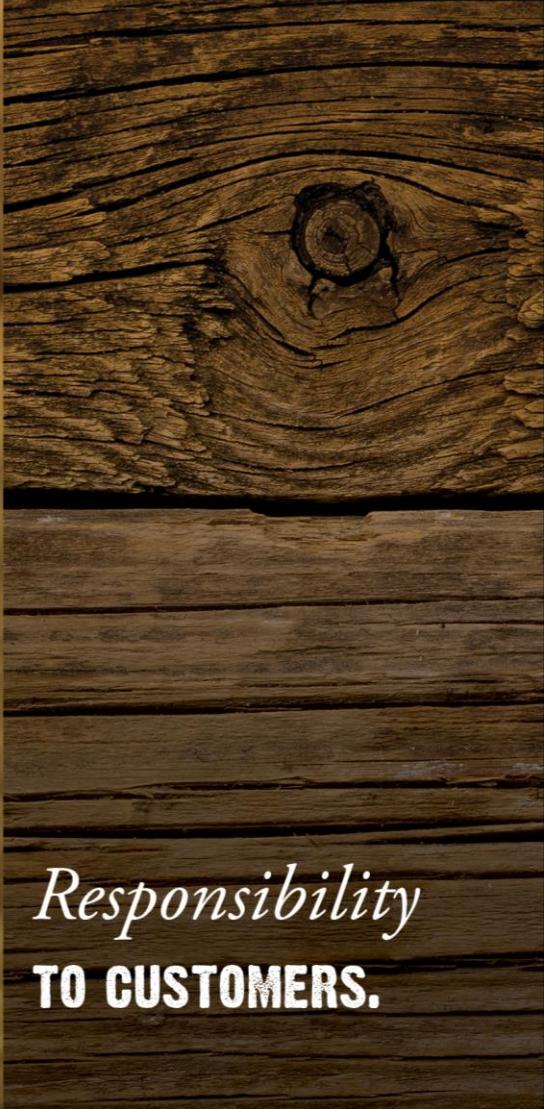


In order to acquire new skills, knowledge, and work authorizations, and to upgrade the existing ones, the management of the retail and HRM sector conducted in September a **shop manager council** at which the educational contents included issues related to the **system of work and motivation**. The council was

conceived of as a combination of interactive presentations and lectures. The goal was to improve the level of expert knowledge and shop manager training. The lectures were organized in a pleasant and informal environment. The lecturers included in-house directors and heads of sectors. Particular emphasis was placed on issues related to establishment and maintenance of quality in the retail unit systems and processes.

On December 25, 2018, a new collective labour agreement was signed between the company Mercator-BH d.o.o. and the independent trade union PPDIVUT in Bosnia and Herzegovina. Sound relations and social dialogue have led to high mutual respect and the signing of the first collective labour agreement for workers in the retail/trade sector, which only attests to the high level of partnership between the trade union and the employer.





Responsibility **TO CUSTOMERS.**

• • ● Customer Relations Policy

CUSTOMER RELATIONS *policy*

It is Mercator's goal to not only attract customers, but also to retain them and to increase their loyalty. Therefore, we are committed to quality as we look to provide the highest level of service to the customers at our stores. To this end, we also prepared commitments to customers by respective markets.

Customer complaints

Customer complaints or comments are an important source of information and the basis for improvement of our offer and service, therefore we address every complaint or comment and we are looking to take them into account as much as possible. Thus, we eliminate any deficiencies and improve our offer and our services.

All customer complaints, regardless of who received the complaint and how it was presented (telephone, e-mail, conventional postal delivery service, Facebook etc.), are collected at our Contact Centre. We coordinate their resolution and provide feedback on the solution as needed. Most frequently, the complaints are lodged via telephone or e-mail. We analyse the received complaints and develop proposals for improvements and measures for their pursuit.



Marketing activities related to the offer of local products

We continued our project **We Love Local** in 2018. The project involves offering genuine produce and products from local farmers, growers, and producers. The project includes 160 local suppliers and 20 agricultural cooperatives. The offer within the project already includes 1,400 local products.



Each year, we procure **EUR 1.2 billion worth of goods from local and regional suppliers**, which is **more than 70% of total** Mercator Group purchases.

Care for food safety

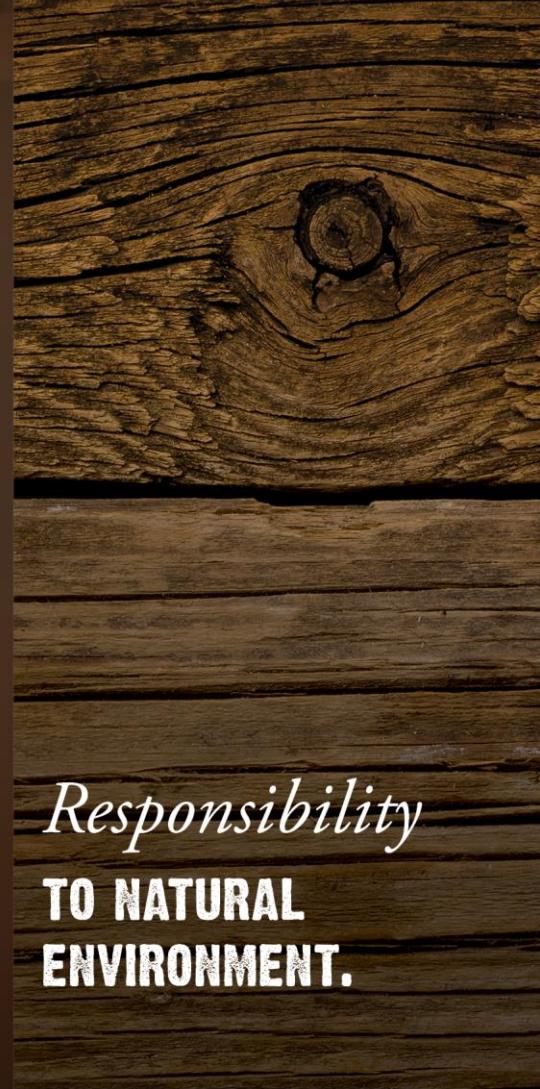
Key medium-term goals regarding responsibility to customers include providing control over safety, compliance, and quality of our private label products; efficient annual internal control over each unit; employee training; and control of safety and quality of food in open departments.



In order to offer safe, compliant, and quality products to consumers, the company Poslovni sistem Mercator d.d., Slovenia conducted the following activities in 2018:

- we conducted continuous quantity and quality control on acceptance of fresh food at the central warehouses (e.g. fresh fruit and vegetables, fresh meat etc.);
- at least 1,811 private label product samples were analysed in our in-house laboratory and by third-party institutions;
- we conducted monitoring on 2,498 food samples and swabs from our open departments;
- we recorded 206 samples as a part of national monitoring;
- we carried out 527 regular and at least 28 extraordinary internal controls at our sales units;
- for employees in retail, we held 80 workshops on internal controls according to the principles of the HACCP system (1,442 employees took part in the workshops);
- we successfully completed the audit for marketing organic food, expanded our sales of non-prepacked organic food to fish, offered our own cheese-cutting service, and we re-introduced finishing of pre-baked organic bread;
- we successfully completed the audit for the Select Quality certificate for the sale of poultry, beef, and veal, and we acquired an additional certificate for the sale of non-prepacked fruit from the Select Quality scheme;
- we introduced systematic control over the products from a variety of quality schemes that allow easier orientation for the consumer choosing between such products, with approaches such as special product/price tags in the retail network (organic/lactose-free/gluten-free), and more broadly in the online store etc.

In addition to establishing and implementing our own work procedures at Mercator, we strictly comply with national and European legislation and we actively work with the Slovenian Chamber of Commerce and relevant Ministries in the development of new legislation or in making changes to the currently effective national and European legislation.



Responsibility **TO NATURAL ENVIRONMENT.**

• • ● Environmental policy

ENVIRONMENTAL *policy*

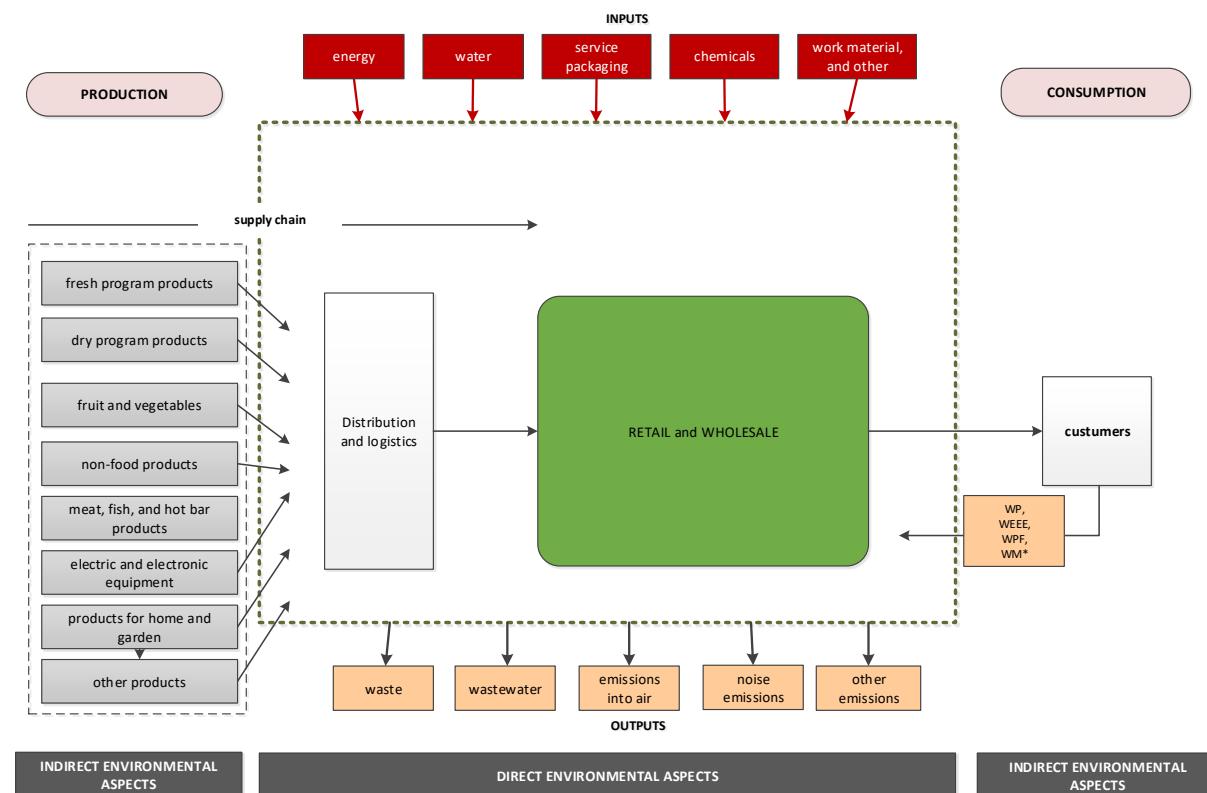
Mercator Group is striving to transition to circular economy in which resources are used prudently and sustainably. Consistently with the changes to the legislation and new European strategies on waste packaging management, we were searching in 2018 for solutions for a more environmentally friendly use of shopping bags. Our strategy in this respect is to offer our consumer shopping bags and their reusable alternatives that lead to better use of raw materials, water and energy, and decrease waste, thus also decreasing the negative effect on soil, water, air, and biodiversity. This is consistent with our commitments laid down in the Environmental Policy of the company Poslovni sistem Mercator d.d., according to which we shall strive to prevent and reduce pollution and negative effects on the environment throughout the entire life cycle of our products and services, especially with regard to generation of waste and emissions, and use of raw materials and energy. In addition, we have also committed to include environment protection into our strategic documents pertaining to management and operations.



● ● ● Effects on the environment

Mercator's operations directly affect our natural environment. In order for us to sell products, we use natural resources at our sales units, such as water, energy, service packaging etc., or the so-called inputs. Moreover, our retail business activity results in generation of various types of waste, wastewater, noise emissions, emissions into air etc., or the so-called outputs. The same applies of course for our other processes and organizational units. Mercator Group also owns real property, the use of which also affects the environment.

Environmental aspects and effects on the environment in retail and wholesale



*WP – waste packaging; WEEE – waste electric and electronic equipment; WPF – waste phytopharmaceuticals; WM – waste medications

It is Mercator Group's goal to **protect, preserve, and improve the environment in the countries** of our operations, to actively take part in the transition into a low-carbon society that manages its resources rationally and economically, and to cut pollution and the risks related

Both external and internal factors are relevant for Mercator Group operations. These factors affect the way in which Mercator's responsibility towards the environment is managed, and the possibility of attaining the goals of the environmental management system put into place. At least once per year, the company Poslovni sistem Mercator d.d. conducts an **analysis of interested parties**, their requirements, needs and expectations relative to the company, as well as the requirements, needs and expectations of the company Poslovni sistem Mercator d.d. towards the interested parties. Thus, we identify the opportunities and risks that are of relevance for our environmental management system. The key group of stakeholders at the Mercator Group includes shareholders, employees, customers, suppliers of goods and services, shareholders, national authorities, banks, insurance companies, the media, educational and research institutions, associations, non-government organizations, local and broader communities, and others. Cooperation with them involves an open and responsible dialogue.

We are aware that failure to meet the requirements, needs and expectations of the interested parties may present a risk due to e.g. potential penalties, termination of permits, extraordinary conditions, sub-optimal



expenses, hindrances to operations etc. Therefore, we take into account the requirements, needs, and expectations of the interested parties when assessing the environmental risks and opportunities, when assessing the importance of the environmental aspects, and when defining our environmental goals.

● ● ● Environmental management system

At the companies Poslovni sistem Mercator d.d. and Mercator-S d.o.o., we have established and documented the environmental management system pursuant to the requirements of the **international standard ISO 14001:2015**. The system includes comprehensive management of environmental aspects in order to reduce the negative effects of our operations on the environment. Thus, we strive within the environmental management system to optimize our business processes and to reduce the negative effects of our operations on the environment, and to provide optimum expenditure for our environment protection services.

Environmental aspects have been managed in a systematic manner at the companies Poslovni sistem Mercator d.d. and Mercator-S d.o.o. since 2009 and 2012, respectively, which is also confirmed by the certificate for the environmental management system in compliance with the each time valid version of the international standard ISO 14001:2015.

Audits

External audits

- At the company Poslovni sistem Mercator d.d., the SIQ certification institution conducted an external audit of the environmental management system according to the ISO 14001:2015 standard.
- At Mercator-S d.o.o., the audit company Quality Austria conducted an external audit of the environment management system according to the ISO 14001:2015 standard.

Internal audits

At the companies Poslovni sistem Mercator d.d. and Mercator-S d.o.o., internal audit of the environmental management system according to the ISO 14001:2015 standard was carried out; some cases of non-compliance were identified and remedied.

Communication

We used our system for internal communication with the employees whose work has significant environmental impact, to the following ends in 2018:

- For employees at retail units of the company Poslovni sistem Mercator d.d., we continued to offer **education on environment protection** as a part of the Deputy Shop Manager School.
- **We updated the Environment Protection portal** intended for all employees of the company Poslovni sistem Mercator d.d.
- We prepared, updated, and standardized the internal environment protection documents.



Circular economy project

In order to raise the awareness of our consumers that **waste packaging of their products can be recycled and reused as new products**, which in turn protects the natural resources and raw materials, the company Poslovni sistem Mercator d.d. teamed up with a product supplier with whom we will carry out a new circular economy project in 2018.

Cooperation with the government authorities

As members of the Sustainable Development and Environment Protection Council, employees of the company Poslovni sistem Mercator d.d. actively cooperated with the Ministry of the Environment and Spatial Planning.



We were also active as members of the Environment Committee with the Slovenian Chamber of Commerce, and as members of the Environment and Spatial Planning Committee within the American Chamber of Commerce. As members of the Slovenian Chamber of Commerce, the company Poslovni sistem Mercator d.d. actively took part in 2018 in the public discussions of environmental legislation.

Awards and special achievements

In 2018, the company Poslovni sistem Mercator d.d. won the top spot in the environment protection category of the Trusted Brand 2018 survey.



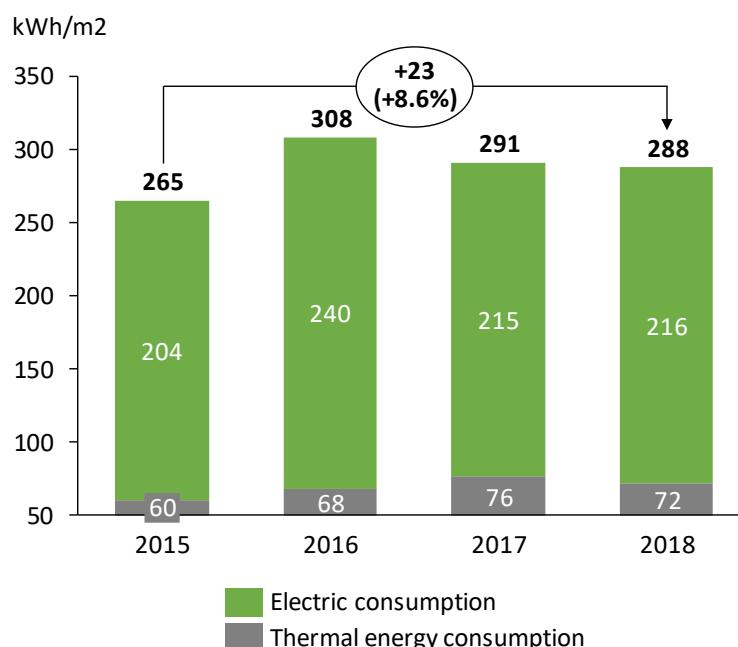
● ● ● Energy efficiency

The pace and purpose of exploitation of renewable and non-renewable natural resources are increasingly reducing the ability of our planet to restore the sources of energy on which our welfare and growth depend. Therefore, Mercator Group is making every effort to preserve the natural resources and reduce the negative impact on the environment by embracing the principles of sustainability which include rational production and consumption.

In 2018, the following applies to the five markets of Mercator Group operations:

- **energy consumption costs** amounted to EUR 41,618 thousand;
- **carbon dioxide emissions from fuel and energy consumed** amounted to 335,295 tons of CO₂; specific emission was 179 kg of CO₂/m²;
- **electric energy consumption** amounted to 487,173 thousand kWh; specific power consumption stood at 216 kWh/m².

Electric and thermal energy consumption at the Mercator Group, by years



Slovenia

At the company Poslovni sistem Mercator d.d., we are aware of the importance of energy efficiency. Therefore, we made it our **goal to reduce energy consumption by 1% annually**. In order to attain this goal, the following activities were continued or carried out:

- Based on the "Business Cooperation Agreement in the Implementation of Energy Management for Energy Savings Optimization", the following measures continued:
 - energy accounting was established for all buildings of the company Poslovni sistem Mercator d.d.;
 - measures for efficient use of electric energy are in place at 491 facilities or units; and



- measures for efficient use of heating energy are in place at 214 facilities or units.
- We inform the employees on a quarterly basis on the measures for efficient use of energy. Each month, we conduct energy consumption control for individual employees.
- Based on the energy policy strategy, we redesigned and updated the heating system on five units.

In 2019, we shall continue to inform the employees on a quarterly basis about the efficient use of energy. We are also planning to upgrade the existing energy accounting system with a more detailed targeted monitoring of energy consumption. Measures for efficient use of energy will be implemented with the aid of our contractual partner.

Efficient use of energy will include restoration of boiler rooms and installation of energy-efficient equipment at some facilities. In addition to restoration of boiler rooms, we are also planning to replace the lighting fixtures on buildings and outdoor areas with energy-efficient LED lighting.



Serbia

Following are the energy efficiency measures implemented in 2018 at the company Mercator-S d.o.o.:

- installation of two gas-powered boilers at Roda Mega Novi Sad and Roda Centar Kragujevac;
- replacement of old fluorescent lighting with new LED lighting at Roda Centar Kragujevac;
- the "Retail" project included 28 units;
- compensation of reactive power at 38 units.

The company's main goal is to **cut energy consumption by at least 1% per year**. Plans for 2019:

- to include 4 further units into the retail supply project;
- compensation of reactive power at 14 units.



Montenegro

To improve the efficiency of energy use, the company Mercator-CG d.o.o. issued in 2018 its guidelines for rational use of electric energy at retail units, which are included in the internal rules and regulations.



Bosnia and Herzegovina

In 2018, the company Mercator-BH d.o.o. operated consistently with the guidelines regarding the rationalization of energy consumption:

- control of rational use of energy, focusing on lighting and refrigeration equipment;
- installing LED lighting at the shopping centre Tuzlanka;
- implementing refrigeration equipment and building heating management based on weather-controlled regulation (for units where such implementation was possible);
- selecting the best-priced supplier of extra-light heating oil from a list of quotations.

The following activities are planned for 2019:

- continuing the rational use of lighting and refrigeration equipment – control by shopping centre managers;
- further replacement of the existing lighting with LED lighting;
- continuing refrigeration equipment and building heating management based on weather-controlled regulation;
- looking for a strategic energy supplier to negotiate a lower price, especially for the supply of extra-light heating oil;
- monitoring monthly costs and corrective measures.



Croatia

In 2018, the company Mercator-H d.o.o. adopted measures to improve energy efficiency:

- implementing the guidelines consistently with the Manual for Efficient Use of Energy at our stores;
- replacing less efficient equipment with more efficient equipment – e.g. replacing halogen lighting with LED lighting.



In 2019, we are planning to continue to implement the measures introduced in 2018. We are also planning to repair the failures on the central control systems, which will lead to more rational use of energy.

● ● ● Sustainable logistics and merchandise supply



Slovenia

Operation of the business field of logistics in 2018 was characterized in 2018 by continuation of continuous improvements in terms of provision of a **high level of availability for products from our sales assortment**, without increasing the inventory level across the entire supply chain in the company, as it remains on a par with the inventory level from the year earlier, and considerably lower than in 2015 and 2016. We have successfully introduced into the processes of supplying our stores with trade goods/merchandise new methods and procedures for efficient stocking of new stores or existing stores following major updates or refurbishments, and thus in turn considerably simplified and sped up the preparation of new or updated stores for their opening or resumption of operation.



In 2018 we continued to increase the share of central supply of our stores. Thus, the share of central supply to our FMCG stores exceeds 80% of total merchandise supply. We have successfully re-integrated the distribution of dairy products, which was outsourced to a third-party service provider in 2015 following the fire at our distribution centre Zalog. Towards the end of the year, we started to introduce "cross-dock" product distribution for certain special product categories, and thereby laid the foundations for considerable expansion of such supply to our stores in the years ahead. Cross dock distribution of trade goods, or merchandise, will allow us to integrate into central supply a large number of additional products, without significantly increasing the level of trade goods inventories at distribution centres.



We also continued to develop computer support to ordering of goods, both for orders to stock for our distribution centres, and for orders directly for our stores, with the goal of cutting the number of simple and recurring manual activities and increasing automated computer procedures. In the summer season of 2018, we introduced into our ordering processes for the first time the

calculations of economically justifiable order volumes; we introduced the principle of fair distribution of available amounts upon order processing; and we paid particular attention to algorithms for peak management in order to optimize the use of available resources, operating assets and equipment.



Serbia

In 2018, changes were implemented in logistics at the company Mercator-S d.o.o. in order to improve the stock of individual categories at retail units, and to optimize distribution (integration of distribution of wine and alcoholic beverages and increase of the number of night-time deliveries to retail units). We introduced systemic control of expiry dates upon acceptance of goods at logistics and distribution centres, and computer-aided monitoring of key parameters across suppliers, and we organized a department for monitoring packaging flows by customers and suppliers.



Montenegro

At the company Mercator–CG d.o.o., fruit and vegetables, delicatessen, and packed food are distributed via our warehouses. With a constant process of distribution optimization for fruit and vegetables, the number of deliveries via warehouse increased in 2018; moreover, progress can also be observed in terms of timeliness of the deliveries. Due to larger number of deliveries, the time utilization of the vehicle fleet improved as well. In 2018, we fully optimized the ordering of packed food for all retail units.



Bosnia and Herzegovina

Logistics processes at the company Mercator–BH d.o.o. were characterized in 2018 by activities related to resumption of retail operations. The most important activity was the introduction of the in-house developed IT support to logistics processes, the warehouse management system.

In mid-2018, a permit for the logistics and distribution centre Blažuj for warehousing animal source foods (foods of animal origin), and veterinary control number of the plant were obtained. As this condition was satisfied, we were able to launch the distribution of private label dairy products from our central warehouse.



● ● ● Activities to mitigate our effects on the environment

Out of respect to the natural environment, Mercator Group not only complies with the requirements of the environmental legislation, but also conducts a range of other activities to prevent or mitigate negative impact on the environment.

Waste and raw materials



Slovenia

New shopping bags

In 2018, we searched for alternatives to the existing packaging and the implemented processes. Consistently with our sustainability strategy, we changed the appearance and offer of shopping bags. Now, the bags are **made of 100% recycled plastics**. The company Poslovni sistem Mercator d.d., namely, is pursuing the goal of circular economy, and we encourage **reusing of shopping bags**, as this is the only way to contribute to the preservation of our natural environment.



We inform and remind our customers that plastic shopping bags should not be the only ones viewed as harmful to the environment, since all shopping bags (including, for example, paper bags, biodegradable bags, textile bags etc.) have a negative impact on the environment. Shopping bag life cycle analyses have shown that plastic shopping bags have a smaller environmental footprint than others.



As explained by the Ministry of the Environment and Spatial Planning, campaigns that fail to encourage the customers to change their consumer habits (from "new bag for every purchase" to "reusing the shopping bags"), but rather merely encourage to replace one packaging material for a certain packaging unit with another packaging material, will not lead to the accomplishment of the national and European targets, as they fail to contribute to the reduction of consumption of general decrease in the production of packaging. Therefore, we offered our consumers reusable shopping bags, and encouraged them to use as few as possible.

We also wish to ensure for our customers adequate possibilities for **use of their own packaging for delicatessen; however, we also have to comply with legislation and guidelines on food safety**, and first align the requirements with all relevant institutions in charge of ensuring hygienically impeccable products for our consumers.



Waste and raw material management activities in the Slovenian market:

- In order to attain the medium-term plan of **reducing the amount of mixed municipal waste by 10%**, we optimized at the company Poslovni sistem Mercator d.d. the volume of waste bins at 9 units and provided more suitable waste bins for small waste packaging and biological waste, thus increasing the share of separately collected waste and cutting the mixed municipal waste handling costs.
- At 19 refurbished retail units of the company Poslovni sistem Mercator d.d., we installed waste sorting bins for separate waste collection for the customers.
- We were actively dedicated to **control of waste packaging sorting** at the units of the company Poslovni sistem Mercator d.d. In order to improve the quality of sorted or separately collected waste packaging, we optimized our management of small waste packaging at our stores.
- At our stores, we conducted activities to **cut the amount of waste food**, e.g. by systemic control of expiry dates for food in the stores (and offering discounts on goods close to expiry date), appropriate food storage (according to manufacturer's instructions), donations of flawless food products to the Red Cross and the Slovenian Caritas etc.
- We carried out projects to **reduce paper operations**, such as expanding the number of business partners who issue e-invoices, and developed new mobile applications that will allow our customers paperless payment or checkout at our stores.
- We **emptied the archives** at the company Poslovni sistem Mercator d.d. We submitted all separately collected, or sorted, paper documentation to the authorized waste collection centre, and donated the funds received for the collected paper documentation to Mercator Humanitarian Foundation.
- The company Poslovni sistem Mercator d.d. worked with the Reuse Centre regarding the submission of damaged products.
- At the M Tehnika units, we worked with the company ZEOS, ravnanje z odpadno električno in elektronsko opremo d.o.o. (waste electric and electronic equipment management company) and joined the project "**E-Waste Management**", with the slogan "E-cycle!" to promote sorting of e-waste and waste batteries.



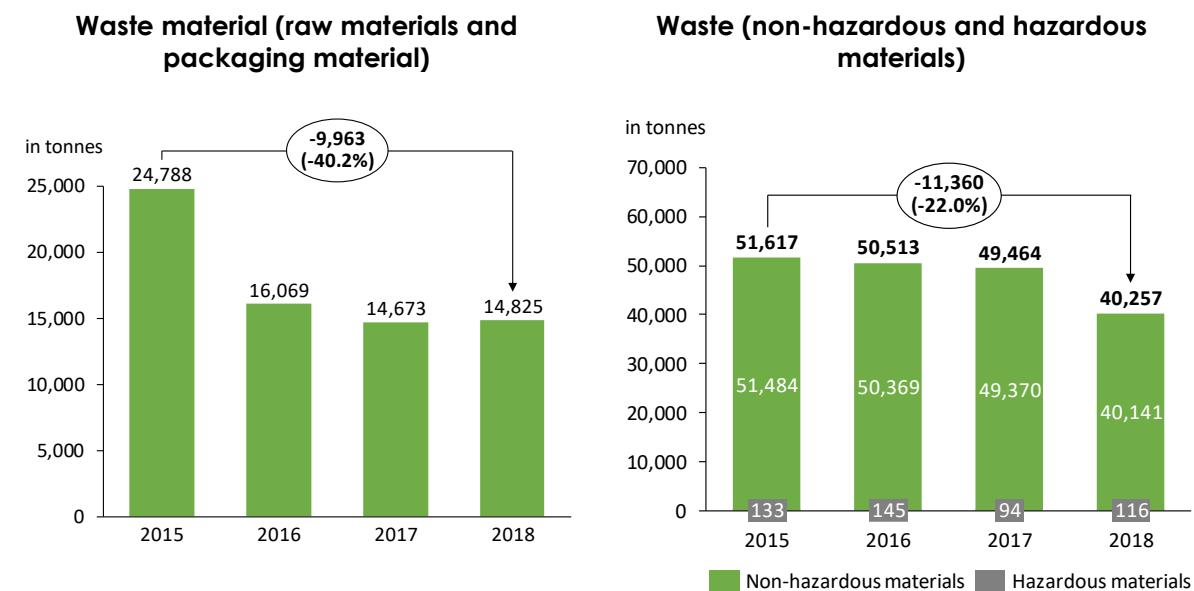
By consistent and diligent sorting of waste packaging, the company Poslovni sistem Mercator d.d. separately collected and recycled in the last five years:

- **more than 38 thousand tonnes** of waste cardboard packaging;
- **more than 6 thousand tonnes** of waste plastic packaging, and
- **more than 8 thousand tonnes** of waste wooden packaging.

Thus, we prevented generation of over 40 tonnes of CO₂ emissions, consumption of 150 m³ of water, and preserved nearly 8 thousand trees.



Trends of natural resource use and waste generation at the company Poslovni sistem Mercator d.d.:



Foreign markets

In the markets of Montenegro, Serbia, and Bosnia and Herzegovina, the following activities of waste and raw materials management were carried out in 2018:

- Consistently with the legislative changes in the Republic of Serbia, **plastic shopping bags have to be charged in 2018**. Before the ban on free plastic shopping bags, the company **Mercator-S d.o.o.** used 11.5 million plastic shopping bags per month; after the ban, their amount dropped to 4 million, which equals 35% of the shopping bags used in 2017.
- In 2018, the company **Mercator-S d.o.o.** sorted, i.e. separately **collected, and recycled 2,883 tonnes of waste paper packaging, and 180 tonnes of waste plastic packaging**. Outdated IT equipment and unusable electric and electronic equipment was disposed of at authorized waste collection centres. The company also sorted and separately collected 10 tonnes of hazardous waste and 75 tonnes of 3rd-category animal by-products.
- In Montenegro, legislation on waste management has not yet been fully prepared. Thus, the company **Mercator-CG d.o.o.** works in this respect with the companies authorized for collection of particular types and fractions of waste.
- At **Mercator-BH d.o.o.**, all types of waste generated as a result of our operations are managed consistently with the legislative requirements. Waste generated during goods handling are managed in a way that is not harmful and does not pose a risk to people or the environment. Majority of waste generated in the course of operations of Mercator-BH d.o.o. are non-hazardous waste; only a small fraction of the generated waste is hazardous.

Water and wastewater



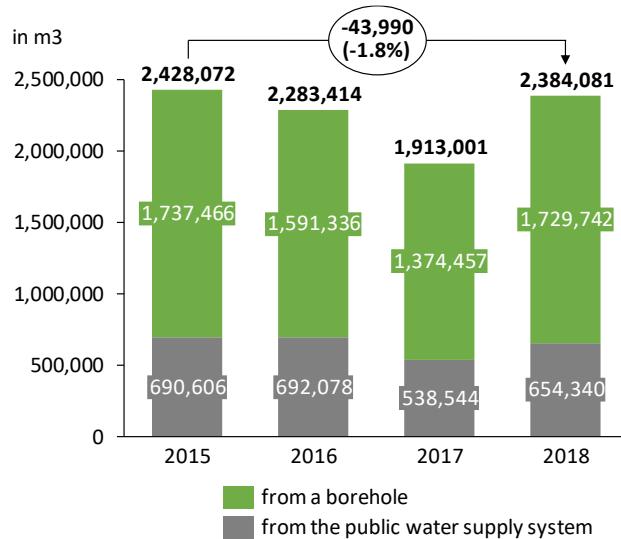
Slovenija

- At the Bohova distribution centre, we replaced the borehole for monitoring the amount and the level of groundwater pumped for cooling of goods at the distribution centre. Thus, we ensured more suitable monitoring of water amounts and levels.
- We also provided adequate wastewater treatment and promoted awareness among our employees about the correct management of organic waste generated during food preparation (e.g. during the use of a fryer, convection oven etc.). Thus, we reduced the impact of wastewater and the amount of sediment in drainage channels.



Trends of natural resource use at the company Poslovni sistem Mercator d.d.:

Total amount of water pumped, by source



Serbia

Wastewater quality is monitored at **Mercator-S d.o.o.** consistently with the legislation and the plans for internal wastewater sampling in installed oil and fat skimming devices. In 2018, sampling was conducted on 36 oil and fat skimming devices; for those skimming devices in which deviations were identified, all deficiencies were remedied.

Emissions into atmosphere and ozone depleting substances



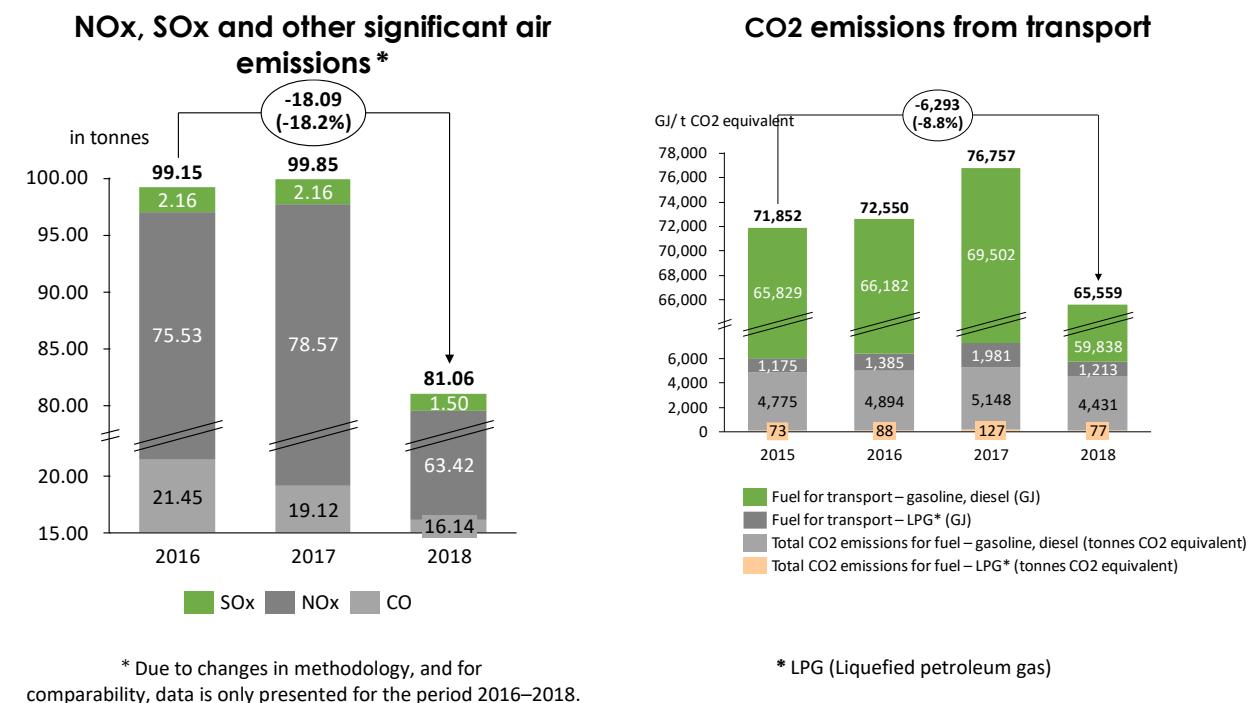
Slovenia

In Slovenia, the following activities related to emissions into atmosphere and ozone depleting substances were carried out in 2018:

- At 5 units, we **replaced heating oil with a more environmentally friendly energy source** (e.g. natural gas, district heating with woody biomass) and updated the boiler rooms.
- On newly constructed units and refurbished buildings at the company Poslovni sistem Mercator d.d., we replaced and updated at 12 locations the equipment in the cooling equipment engine room and replaced the freezers on 6 buildings. All newly installed equipment and devices are more environmentally friendly.
- We made sure that 80 units were connected for **remote monitoring of operation and temperature control**. At these units, we also introduced remote alarms, which means that the service department is immediately informed about any problems, which in turn leads to optimum temperatures and reduces damage to the equipment and products.
- We **updated a part of our vehicle fleet** and leased 30 freight vehicles with the Euro 6 engine that has a lower environmental impact.
- We examined the possibility for Mercator online store delivery vehicles in urban centres to be fuelled by methane produced from organic waste generated at our stores and distribution centres. The project is still in progress.
- At M Tehnika stores, we optimized the method of hazardous waste collection and thus reduced the number of transports of such waste, and consequently emissions into air.



Trends of natural resource use and waste generation at the company Poslovni sistem Mercator d.d.:



Serbia

At **Mercator-S d.o.o.**, emissions into atmosphere from stationary sources were measured in 2017 at the start and at the end of the heating season at 20 commercial buildings with boiler rooms in which heat is generated from wood pellets or natural gas. Measurement results were consistent with the requirements laid down in the relevant legislation.

Hazardous substances and preparations

Slovenia

- We developed warehouse plans for storing hazardous chemicals for all distribution centres in which hazardous chemicals are stored (DC Novo Celje, DC Slovenčeva, DC Ptuj and DC Agrooprema Murska Sobota).
- We prepared new internal documents dealing with chemicals:
 - work procedures for chemicals;
 - handling instructions for hazardous chemicals;
 - basic design and equipment standards for stores with chemicals;
 - rules and regulations for positioning of hazardous chemicals in the FMCG program – for the FMCG program;
 - rules and regulations for positioning of hazardous chemicals, biocides, and phytopharmaceuticals in specialized stores with phytopharmaceuticals – for M-Tehnika, and
 - guidelines for safe storage of hazardous chemicals in retail/trade.

Serbia

At the company **Mercator-S d.o.o.**, appropriate labelling of stores was provided, consistently with the requirements laid down in the relevant legislation, and chemicals and biocides were registered in the Chemicals and Biocide Register.



Noise



Slovenia

- At 6 locations of the company Poslovni sistem Mercator d.d. in which the critical values of noise indicators were exceeded, we restored the sources of such noise and thus eliminated the excess noise at these locations.
- In newly constructed buildings and refurbished buildings at the company Poslovni sistem Mercator d.d., we are removing the refrigeration equipment, compressors, and condenser units for freezers and replacing them with freezer chests with built-in motor, which do not cause noise emissions into the environment.



Serbia

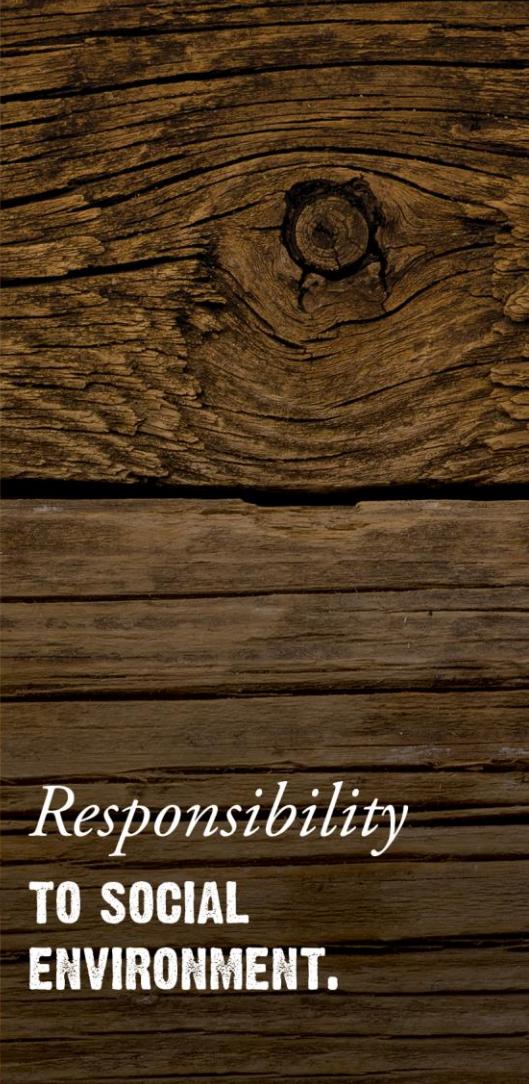
At 6 locations of the company **Mercator-S d.o.o.** in which the critical values of noise indicators were exceeded, we restored the sources of such noise and thus eliminated the excess noise at these locations.

States of emergency



Slovenia

We standardized and ensured the equipment for response in case of a spill of a hazardous chemical at all units of the company Poslovni sistem Mercator d.d. Thus, we provided correct and safe treatment of hazardous chemicals at our stores and reduced the risk of negative effects on the natural environment in case of a hazardous chemical spill.



Responsibility
**TO SOCIAL
ENVIRONMENT.**

• • ● Policy of responsibility to social environment

**POLICY OF
RESPONSIBILITY
to social
environment**

As a socially responsible company, we are looking to contribute to the development of local and regional environment and to improve the quality of people's lives. Sponsorships and donations, and participation in socially beneficial campaigns are an important part Mercator Group's comprehensive socially responsible conduct. Therefore, we support and enable humanitarian, sports, cultural, scientific, educational, and other projects.



Slovenia

Donations and sponsorships

In 2018, Mercator continues to pursue the tradition of prompt response to the needs of local environments in which we operate, in keeping with our slogan of the best neighbour. We respond to all applications submitted by societies, organizations, clubs, and individuals. In 2018, these numbered over 2,000 and included support to over 750 different humanitarian, cultural, educational, and sports projects.

In 2018, the company Poslovni sistem Mercator d.d. supported over 750 different humanitarian, cultural, educational, and sports projects.

In addition to aid to numerous societies and individuals, our humanitarian activities also included donations to the Friends of the Youth Association Moste Polje for families in social distress, the Palčica Safe house in Grosuplje, and the Safe House in Pilštanj.



Donating food for hot meals

In 2018, we continued the Donated Food project. Volunteers of the Lions Clubs from Celje, Maribor, Trbovlje, Velenje, Koper, Brnik, Novo mesto and Slovenj Gradec, and the "Pod strehco" institute from Ljubljana collect food every evening from 18 stores across Slovenia.



Teaming up with Gašper Bergant, Cool Fotr, and Viki Grošelj in the project "Go to the mountains, eat well!"

As the sponsors of the Matica and Mercator Mountaineering Societies, and the sponsor of the elite alpine climber Viki Grošelj, we brought together our campaign We Love Local,

blogger Jani Jugovic, and Gašper Bergant, and visited 5 mountain huts and raised the awareness of the safety during mountain hiking, proper equipment, protection of the environment, and healthy nutrition. At the end of our campaign, we joined the campaign by Zavarovalnica Triglav (insurance company) "Let Us Clean the Triglav Glacier" and, with joined forces and with help from professional alpine climbers – mountain rescue team members, Alpine Association of Slovenia, Triglav National Park, and the Anton Melik Institute of Geography, cleaned the Triglavski podi.



Pursuing the trends and supporting a number of conferences

In 2018, we sponsored the following conferences: Sales summit, Slovenian Marketing Conference, BledCom Conference, Bled Strategic Forum, Slovenian HRM Congress, Fanfara, Sales and Marketing on the Shelves, Trade and Retail Conference, Corporate Governance Conference, and the Portorož Business Conference.

National competition in sales techniques

This time, national competition in sales techniques took place at the Secondary School of Trade and Commerce in Domžale. Over 100 high school students from across Slovenia competed. Mercator has been supporting the event as a traditional sponsor since 2006.

Mercator fields three teams in the Business Football League

In 2018, we selected three teams from the ranks of our employees, to represent Mercator in the Business Football League.

We are sponsoring sports associations, clubs, and athletes and spreading the sport spirit and healthy lifestyle through mass sporting events.





Serbia

Consistently with the strategy of connecting with the local communities, IDEA launched a local campaign in Novi Sad, called "**I Believe in Idea!**". Thus, it joined the project New Cities – Microgranting, and worked with the Novi Sad 2021 Foundation to rebuild four neighbourhoods. A total of 67 ideas for minor urban investments were contributed to the public call for proposals for the New Cities – Microgranting contest. Selected projects reshaped the public spaces and thus became new spots that the residents and visitors can enjoy.



IDEA and Basketball Club Crvena Zvezda signed a new three-year contract, thus extending the successful cooperation that dates back four years. IDEA and the club from Mali Kalemeđan organized many socially responsible activities together. Standing out among them are aid to children's oncology clinic, and the projects "IDEA Finish Line" and "Win for Smile", whose goal was to integrate persons with special needs into society through sports and creative work. The projects were positively received beyond the region, and saw excellent response from the Euroleague.



By creating an ambient for shopping and with the campaigns and projects that it supports, Roda is constantly stressing that the family is the foundation of a healthy society. Thus, it is hardly a surprise that it joined the new season of the project **Helping Out with Tamara** in which it will help many Serbian families live better, along with the entire team. The show will be aired every Friday at 9 p.m. on the first channel of RTS (Serbian public broadcaster).



In December, IDEA organized the **IDEA Caravan** for the fourth consecutive time. Although the streets were covered by a thick layer of snow, more than 2,000 employees were able to arrive at over 50 homes for orphans and children's hospitals, and present New Year's packages to over 5,000 children. The Caravan visited 23 towns throughout Serbia.



In Serbia, IDEA was a proud sponsor of the Belgrade Marathon this year. The activity was attended by a record-breaking number of participants from all continents. They also included renowned athletes from the world of global track and field, many citizens, as well as over 50 Mercator Group employees who supported the marathon under the slogan "**Who joins the marathon, creates it**".



Montenegro

We supported the event "**Let Us Paint Love**" that brought together school children, including children with special needs, who sent their works of visual art, dedicated to a previously selected topic, for the event. The final event took place in five Montenegrin towns. In addition to the award ceremony for the best products, it also included an entertainment program for children.





The traditional IDEA **Caravan** visited again last year all children's hospitals and children's wards at hospitals throughout Montenegro. Over 100 employees teamed up with Kodi and Father Frost to visit children at hospitals and to present them with over 300 gift packages and toys.



We are sponsoring sports associations, clubs, and athletes.
Successful sponsorship of the **Basketball Association of Montenegro** continued in 2018 when we cheered for the basketball players, male and female, in their qualifiers.

As a part of the sponsorship, the basketball league for junior teams is proudly called the **IDEA Youth League**.



In the summer, IDEA also supported the **3x3 Montenegro** basketball tournament that took place at six Montenegrin towns and brought together many fans of this new Olympic sport.

IDEA also supported the young male and female basketball players at the **Basketball Cam Kolašin** where over 300 children came together in three groups during the summer.



● ● ● Anti-corruption policy

ANTI-CORRUPTION policy

Consistently with the Articles of Association of the company Poslovni sistem Mercator d.d., a document titled Binding Guidelines for Provision of Compliance of Operations was prepared, defining the fundamental principles and rules applying to the employees in their mutual relations and in relations to customers and third parties with whom they collaborate during their work. At Mercator Group, we are therefore raising the awareness of all employees on the importance of compliant and fair conduct, and prevention of non-compliance in everyday practice. We have also established a mechanism for disclosure of disputable practices (whistleblowing system) at the company, called "Say It Out Loud". The purpose of the "Say It Out Loud" mechanism is to make sure that any disputable practices and irregularities are identified, resolved, and eliminated in the earliest stage, within the company. Mercator Group internal audit is in charge of this activity. The rules in this regard were written in the document titled "Policy of Motivating Responsibility and Integrity of Conduct", available on the company website.



Responsibility TO SUPPLIERS.

• • ● Supplier relations policy

SUPPLIER RELATIONS *policy*

Long-term partnership relations with suppliers of branded products and products under Mercator private labels are a key element in the corporate sustainable responsibility. Transparent transactions and joint efforts allow us to establish an environmentally friendly supply chain as we work with our suppliers. It is Mercator Group's goal to establish such relationships and rules with suppliers who will provide stable and, given the scope, most favourable supply sources for trade and non-trade goods and services in the long run.

Supplier commitments, monitoring and control

Mercator Group signs annual, biannual, or triennial contracts on supply of goods with the suppliers. General Terms and Conditions of the company Poslovni sistem Mercator d.d., which define the terms and conditions of cooperation in supply of fast-moving consumer goods, are a constituent part of every such contract. By signing the contract, the suppliers confirm that they are fully aware of the General Terms and Conditions and that they fully agree with them.

Special chapter of General Terms and Conditions is dedicated to quality, safety, labelling, and traceability. By signing a special statement, suppliers of fruit and vegetables commit to providing appropriate and safe products, while suppliers of other food products sign a written Statement of Product Safety, Quality, and Compliance for food and materials in contact with food.

Supplier control is carried out by the internal control and food safety department. Findings of our in-house control are supplemented with the data provided by national control of product safety and quality. In case of non-compliance, we work with the suppliers to implement corrective measures.



Assessment and selection of suppliers

Assessment of suppliers is aimed at providing constant quality, safety, and traceability of products in order to promote and foster the health of customers in compliance with the contractual provisions, relevant legislation, and Mercator's special requirements.

Assessment of current FMCG suppliers takes place once per year, before new procurement contracts are signed. Criteria according to which a supplier is evaluated depends on the clauses and provisions from the core contract; they are divided into two sets: commercial criteria and criteria of quality. Criteria of quality refer to any non-compliance in the process of supply of goods, and non-compliance of products.

Based on overall supplier assessment, we specify their suitability. Contracts for the current year may be signed with suitable suppliers, or cooperation with them may be continued. We negotiate corrective measures and implementation deadlines with other suppliers. No agreements are signed with inadequate suppliers, except for exceptional cases when they meet the quality criteria and no alternative sources are available.

Moreover, supplier assessment is conducted in all markets of the Mercator Group, which is the basis for determining the suitability of suppliers for cooperation with Mercator in respective markets.

Inclusion of suppliers into expansion of local offer

We work with local suppliers to offer our customers as much locally grown produce as possible. As a part of the We Love Local project, we continue our long-standing partnership with the local suppliers in all markets of our operations. The project involves 160 local suppliers and 20 agricultural societies offering 1,400 products.

By offering the best from the local environment, **we are encouraging innovation and supporting the success of local farmers and growers** and strengthening the competitive advantage from the perspective of differentiation in comparison to discount retailers.

A variety of projects are under way as a part of the We Love Local project, such as "Good People Behind Good Food", "From Serbia, My Favourite", "This is What Homemade Sounds Like" etc.



Inclusion of suppliers into the project My Brands

In 2018, the campaign **My Brands** that builds close links with our suppliers to create a shared story and new offers for our consumers was rolled to foreign markets. Thus, we created a long-term strategic platform for shared development in the region, which allows joint marketing activities, the broadest offer of local brands, and development of special offer for the customers. The campaign already includes 340 partner brands.



In the food industry, **Slovenia** has many renowned brands that have succeeded in keeping the leading market position and maintaining their quality and reputation. As a result, they take an important share of Mercator's shelves. Products of these brands have become important parts of the Slovenian brand landscape; therefore, we launched the initiative for their collaboration and offered them more than just a shelf in our aisles. The purpose of synergistic collaboration with the umbrella project My Brands is to connect the suppliers not only at the level of a shared special offer, but also to connect in creation of joint marketing stories and new offers for the consumers. During this time, the initiative was joined by over 50 partner food brands. The partners recognized the great potential of a shared appearance that systematically exposes the most reputable brands both at the stores and in advertising activities.





• • ● Quality Policy

QUALITY policy

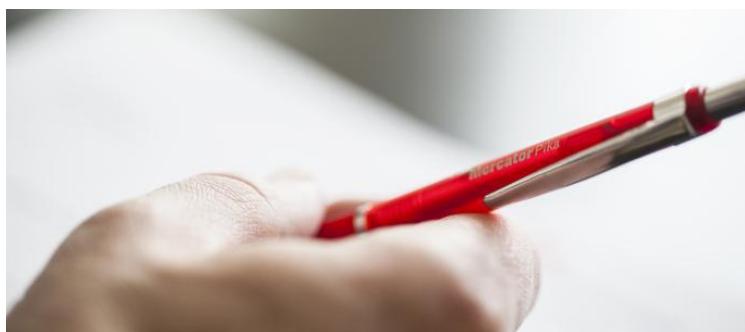
The quality policy specifies the method of operation that ensures long-term satisfaction for our customers by offering superior level of offer of products and services. Thus, we are providing successful operation and growth of the company that represents a solid base for development of employees, owners, and other relevant stakeholders. The management and all employees at Mercator are committed to meet the needs and requirements of our customers and to continuously improve the efficiency of our management system.



● ● ● Management of certified management systems

There are 16 certified management systems maintained at Mercator Group companies. In 2018, the company Poslovni sistem Mercator d.d. obtained a new certificate Select Quality for Fruit, while the company Mercator–Emba d.d. discontinued the certification of the ISO 9001 system and obtained the new SWA certificate. In 2018, there were 8 extension audits: ISO 9001 and ISO 14001 at Poslovni sistem Mercator d.d. and Mercator–S d.o.o.; HACCP at Mercator–S d.o.o.; and IFS, SQMS, and UTZ at Mercator–Emba d.d.

| Quality management systems | Poslovni sistem Mercator d.d. | Mercator–S d.o.o. | Mercator IP d.o.o. | Mercator–Emba d.d. | Mercator–CG d.o.o. |
|---|-------------------------------|-------------------|--------------------|--------------------|--------------------|
| ISO 9001 – Quality management system | ✓ | ✓ | | | |
| ISO 14001 – Environmental management system | ✓ | ✓ | | | |
| HACCP – Ensuring food safety | | ✓ | | | ✓ |
| IFS – International Food Standard | | | | ✓ | |
| SQMS – Supplier Quality Management System | | | | ✓ | |
| AEO – Status of an authorized economic operator | ✓ | | | | |
| Family-Friendly Company | ✓ | | ✓ | | |
| Organic farming | ✓ | | | | |
| Select Quality – fresh meat | ✓ | | | | |
| Select Quality – Fruit | ✓ | | | | |
| UTZ – Sustainable cocoa farming | | | | ✓ | |
| SWA – Supplier workplace accountability | | | | ✓ | |

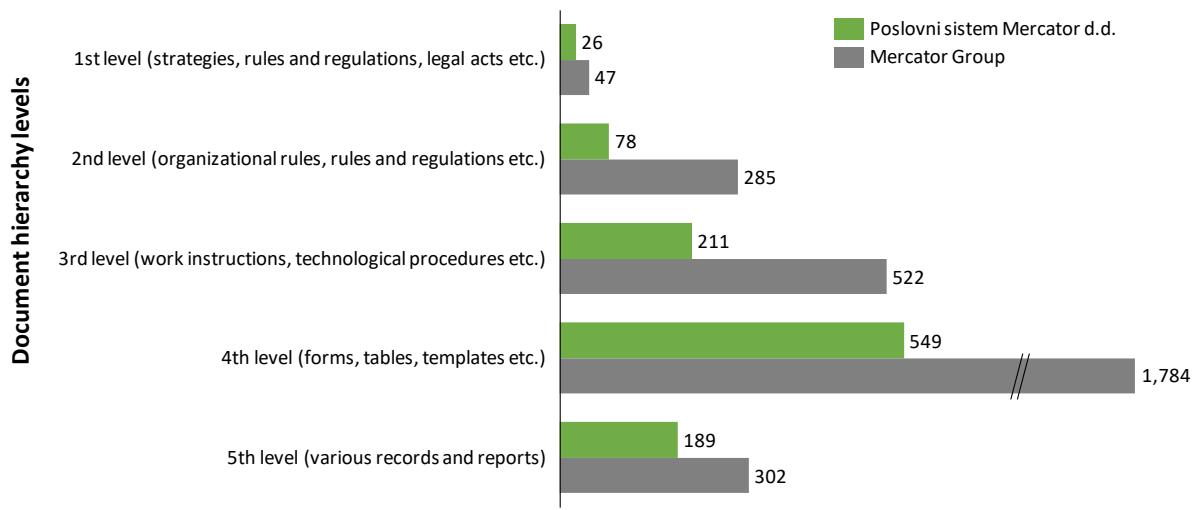




● ● ● Management of knowledge and information

The rules of operations in effect at the Mercator Group are defined in internal documents available to all employees. Thus, the company provides better communication and improved flow of knowledge and information. Users can independently search for documents related to their roles in the business process, and submit proposals for their improvements. Document contents are regularly revised and updated based on good practices and proposals for changes. Documents are monitored in a variety of ways, most frequently by companies, functions, and hierarchy.

Number of valid documents in the Mercator Standards Collection as at December 31, 2018



As at December 31, 2018, there were **2,940** valid documents in the Mercator Standards Collection for the entire Mercator Group. In 2018, we posted **691** new or revised documents, while **103** documents were archived (their use was discontinued).

● ● ● Control of operations

Processes and goods are controlled in various stages of the business process in order to provide their compliance with the legislation, effective standards, and specified requirements.

External control at the Mercator Group is conducted by inspection authorities and third-party auditors who ensure compliance with the legislation and other requirements pertaining to Mercator. In addition to external control, we also conduct various forms of **internal control**. Compliance of operations is reviewed with internal controls, monitoring, internal audit, accounting and tax supervision and control, internal audits, and controls of security, occupational health and safety and fire safety. Internal control includes checking the quality of goods, documentation, and conducting business processes in compliance with the requirements of respective forms of internal control, Mercator standards, and good practices. Employees in charge of activities and process administrators control respective processes and systematically measure and monitor process performance based on the indicators and the goals laid down. Findings of such controls are, in turn, the basis for action.



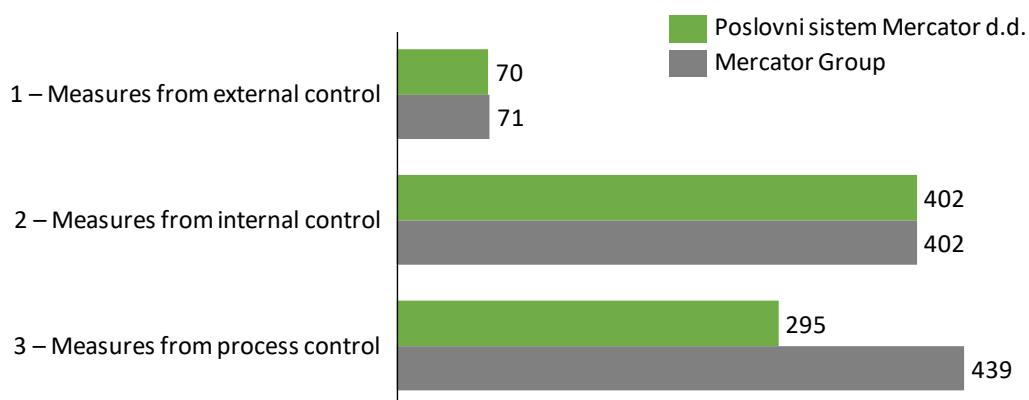
● ● ● Management of the continuous improvement system

Errors that may appear in the operations process are eliminated or corrected, while implementation of measures eliminates the causes of non-compliance; thus, we are continuously improving our operations.

Continuous improvement process is consistent with the company strategy, based on the findings of councils, control of operations, customer and employee satisfaction analyses, risk management, non-compliance system, recommendations and commendations, and improvement proposals provided by the employees. The system has IT support, which provides faster and more transparent resolution of any reports. Analyses are used to identify major discrepancies and to introduce corrective measures based on our findings.

Respective management systems have been combined into an **integrated management system** whose basic requirements are implemented across all Mercator Group companies, regardless of whether certified management systems are in place there or not. The management system is being continuously expanded and developed, and systemic monitoring of key indicators allows us to efficiently manage the processes and to improve and transfer good practices between Mercator Group companies.

Number of measures implemented in 2018, by origin of report



Source: Internal application and measures for 2018

In the non-compliance, recommendations, commendations, and measures management application, we addressed in 2018 at the Mercator Group level a total of **912** measures. This figure, however, only accounts for a part of all measures implemented to improve our operations, as the use of the non-compliance, recommendations, commendations, and measures management application has not been implemented in all areas of control and at all Mercator Group companies, which will be the goal of our efforts in the future.



FINANCIAL REPORT.

Consistent pursuit of strategy is important especially for attainment of financial stability. Only a financially stable company can focus on development and offer a positive perspective and future for its employees, business partners, and investors.



Management Responsibility Statement

The company's Management Board is responsible for preparation of the Annual Report for the company Poslovni sistem Mercator, d.d., and the Mercator Group for the year 2018, and of the financial statements which, to the best knowledge of the Management Board, present truly and fairly the development and operating results of the company and its financial position, including the description of significant risk types the company or any other company included in the consolidation are exposed to as a whole.

The Management Board confirms to have consistently applied the appropriate accounting policies in compiling the financial statements and to have made the accounting estimates according to the principle of fair value, prudence and good management, and that the financial statements give a true and fair view of the company's property and operating results for the year 2018.

The Management Board is also responsible for appropriate accounting, the adoption of adequate measures for protection of property and other assets, and confirms that the financial statements, together with notes, have been prepared on the basis of the going concern assumption and in line with the applicable legislation and the International Financial Reporting Standards as adopted by the EU.

The Management Board approves and confirms the Annual Report of the company Poslovni sistem Mercator, d.d., and the Mercator Group for financial year 2018.

Ljubljana, April 12, 2019

Tomislav Čizmić
President of the Management Board

Draga Cukjati
Member of the Management Board

Igor Mamuza
Member of the Management Board

Gregor Planteu
Extraordinary Management Board Member



Financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d.



Consolidated statement of financial position of the Mercator Group and statement of financial position of the company Poslovni sistem Mercator d.d.

| in EUR thousand | Note | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|------|------------------|------------------|----------------------------------|------------------|
| | | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| ASSETS | | | | | |
| Property, plant and equipment | 14 | 1,074,997 | 1,159,237 | 654,982 | 736,152 |
| Investment property | 16 | 242,890 | 244,316 | 4,498 | 4,838 |
| Intangible assets | 15 | 20,945 | 20,632 | 12,953 | 12,573 |
| Deferred tax assets | 19 | 38,528 | 42,920 | 35,339 | 40,184 |
| Trade and other receivables | 22 | 4,083 | 344 | 2,585 | 422 |
| Loans/deposits given | 23 | 18,976 | 24,147 | 2,103 | 99,220 |
| Available-for-sale financial assets | 18 | 393 | 391 | 261 | 259 |
| Capital investments in Group companies | 17 | - | - | 297,757 | 190,798 |
| Total non-current assets | | 1,400,811 | 1,491,988 | 1,010,479 | 1,084,445 |
| Assets held for sale | 20 | 148,439 | 117,146 | 148,439 | 95,203 |
| Inventories | 21 | 210,319 | 210,233 | 103,752 | 104,950 |
| Trade and other receivables | 22 | 158,388 | 228,168 | 60,183 | 71,239 |
| Current tax assets | 19 | 258 | 244 | - | - |
| Loans/deposits given | 23 | 4,550 | 4,833 | 30 | 27,180 |
| Cash and cash equivalents | 24 | 13,534 | 24,112 | 6,298 | 11,635 |
| Total current assets | | 535,487 | 584,736 | 318,702 | 310,208 |
| Total assets | | 1,936,298 | 2,076,723 | 1,329,180 | 1,394,652 |
| EQUITY | | | | | |
| Nominal capital | | 254,175 | 254,175 | 254,175 | 254,175 |
| Capital surplus | | 6,381 | 207,523 | 6,381 | 207,523 |
| Own shares | | (3,235) | (3,235) | (3,235) | (3,235) |
| Revenue reserves | | 42,830 | 42,830 | 16,624 | 16,624 |
| Fair value reserve | | 194,658 | 200,181 | 143,971 | 149,214 |
| Retained net profit or loss | | 66,441 | 45,102 | 7,071 | 2,584 |
| Net profit/loss for the period | | 1,597 | (184,284) | (10,882) | (203,726) |
| Currency translation reserve | | (83,471) | (84,029) | | |
| Equity attributable to the controlling company owners | | 479,376 | 478,261 | | |
| Non-controlling interests | | 149 | 140 | | |
| Equity | | 479,525 | 478,401 | 414,106 | 423,159 |
| LIABILITIES | | | | | |
| Trade and other payables | 29 | 926 | 7,174 | 170 | 1,012 |
| Loans received and other financial liabilities | 27 | 597,999 | 765,309 | 422,563 | 539,291 |
| Deferred tax liabilities | 19 | 50,198 | 51,534 | 39,338 | 40,684 |
| Provisions | 28 | 30,143 | 29,683 | 25,708 | 25,377 |
| Non-current liabilities | | 679,267 | 853,701 | 487,779 | 606,365 |
| Trade and other payables | 29 | 589,177 | 626,963 | 297,730 | 303,621 |
| Current tax liabilities | | 1,582 | 1,268 | - | - |
| Loans received and other financial liabilities | 27 | 186,748 | 116,391 | 129,565 | 61,507 |
| Current liabilities | | 777,506 | 744,622 | 427,295 | 365,128 |
| Total liabilities | | 1,456,773 | 1,598,322 | 915,075 | 971,493 |
| Equity and liabilities | | 1,936,298 | 2,076,723 | 1,329,180 | 1,394,652 |

The accompanying notes are an integral part of consolidated and financial statements and should be read in conjunction with them.



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

| in EUR thousand | Note | Skupina Mercator | | Poslovni sistem Mercator d. d. | |
|---|------|------------------|------------------|-----------------------------------|-------------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Sales revenue | 9 | 2,177,187 | 2,152,172 | 1,181,909 | 1,186,622 |
| Cost of goods sold and selling costs | 11 | (2,093,166) | (2,116,036) | (1,118,726) | (1,141,334) |
| Administrative expenses | 11 | (75,118) | (87,387) | (36,288) | (47,239) |
| Impairment of property, plant and equipment and intangible assets | 11 | (805) | (147,072) | - | (98,033) |
| Other operating revenue | 10 | 30,246 | 25,815 | 9,054 | 12,867 |
| Results from operating activities | | 38,343 | (172,508) | 35,948 | (87,117) |
| | | | | | |
| Finance revenue | 13 | 4,136 | 6,626 | 8,170 | 6,054 |
| Finance expenses | 13 | (34,701) | (36,696) | (50,043) | (142,155) |
| Net finance expense | | (30,565) | (30,071) | (41,873) | (136,101) |
| | | | | | |
| Profit or loss before tax | | 7,779 | (202,579) | (5,924) | (223,217) |
| | | | | | |
| Tax | 19 | (6,172) | 18,144 | (4,957) | 19,491 |
| | | | | | |
| Net profit/loss for the year | | 1,606 | (184,435) | (10,882)* | (203,726)* |
| | | | | | |
| Net profit/loss for the year attributable to: | | | | | |
| Owners of controlling company | | 1,598 | (184,284) | | |
| Non-controlling interests | | 8 | (151) | | |
| | | | | | |
| Net profit and adjusted profit (loss) per share in EUR | 26 | 0.3 | (30.5) | (1.8) | (33.7) |

The accompanying notes are an integral part of consolidated and financial statements and should be read in conjunction with them.

*In 2018, the net loss of the company Poslovni sistem Mercator d.d amounted to EUR -10,882 thousand and includes the impairments of investments in subsidiaries in the amount of EUR 28,321 thousand, which are eliminated at the Mercator Group level. Net loss in the year 2017 amounted to to EUR -203,726 thousand and includes the impairments of investments in subsidiaries in the amount of EUR 115,580 thousand.



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

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|----------------|------------------|----------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net profit/loss for the year | 1,606 | (184,435) | (10,882) | (203,726) |
| Other comprehensive income: | | | | |
| Items subsequently not reclassified to profit or loss | (1,041) | 97,751 | 1,827 | 75,594 |
| Change in fair value of property, plant and equipment | 402 | 126,464 | 451 | 91,695 |
| Provisions for termination benefits | 329 | (231) | 377 | (191) |
| Other changes | (3,121) | (7,741) | (332) | 68 |
| Deferred tax for items subsequently not reclassified to profit or loss | 1,348 | (20,742) | 1,331 | (15,978) |
| Items that may be reclassified subsequently to profit or loss | 559 | 7,709 | 2 | 8 |
| Foreign currency translation differences | 558 | 7,704 | - | - |
| Change in fair value of available-for-sale financial assets | 3 | 10 | 3 | 10 |
| Deferred tax for items that may be reclassified subsequently to profit or loss | (1) | (5) | (1) | (2) |
| Other comprehensive income for the year | (482) | 105,460 | 1,829 | 75,602 |
| Total comprehensive income for the year | 1,124 | (78,975) | (9,053) | (128,124) |
| | | | | |
| Total comprehensive income for the year attributable to: | | | | |
| Owners of the controlling company | 1,115 | (79,008) | | |
| Non-controlling interests | 9 | 33 | | |

The accompanying notes are an integral part of consolidated and financial statements and should be read in conjunction with them.



Consolidated statement of changes in equity of the Mercator Group

| in EUR thousand | Mercator Group | | | | | | | | | | | |
|---|-----------------|-----------------|----------------|------------------|--------------------|-----------------------------|-----------------------------------|------------------------------|---|---------------------------|-----------------|--|
| | Nominal capital | Capital surplus | Own shares | Revenue reserves | Fair value reserve | Retained net profit or loss | Net profit or loss for the period | Currency translation reserve | Equity attributable to the controlling company owners | Non-controlling interests | Total equity | |
| As at January 1, 2017 | 254,175 | 286,772 | (3,235) | 41,686 | 104,541 | 37,514 | (72,463) | (91,720) | 557,270 | 106 | 557,376 | |
| Total comprehensive income for the year | | | | | | | | | | | | |
| Net profit/loss for the year | - | - | - | - | - | - | (184,284) | - | (184,284) | (150) | (184,434) | |
| Revaluation of land and buildings | - | - | - | - | 126,370 | 93 | - | - | 126,464 | - | 126,464 | |
| Change in fair value of available-for-sale financial assets | - | - | - | - | 10 | - | - | - | 10 | - | 10 | |
| Adjustment of income tax | - | - | - | - | (23,018) | 2,272 | - | - | (20,747) | - | (20,747) | |
| Foreign exchange differences | - | - | - | - | - | - | - | 7,691 | 7,691 | 13 | 7,704 | |
| Provisions for termination benefits | - | - | - | - | (481) | 251 | - | - | (231) | - | (231) | |
| Other changes | - | - | - | - | (7,181) | (731) | - | - | (7,912) | 171 | (7,741) | |
| Other comprehensive income | - | - | - | - | 95,700 | 1,885 | - | 7,691 | 105,276 | 184 | 105,460 | |
| Total comprehensive income for the year | - | - | - | - | 95,700 | 1,885 | (184,284) | 7,691 | (79,008) | 34 | (78,975) | |
| Transactions with owners directly recognized in equity | | | | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | | | | |
| Transfer of net profit for the previous year to retained earnings | - | - | - | - | - | (72,463) | 72,463 | - | - | - | - | |
| Coverage of losses pursuant to the Management Board decision | - | (79,249) | - | 1,144 | (60) | 78,165 | - | - | - | - | - | |
| Total transactions with owners | - | (79,249) | - | 1,144 | (60) | 5,702 | 72,463 | - | - | - | - | |
| Balance as at December 31, 2017 | 254,175 | 207,523 | (3,235) | 42,830 | 200,180 | 45,101 | (184,284) | (84,029) | 478,261 | 140 | 478,401 | |



| in EUR thousand | Mercator Group | | | | | | | | | | |
|---|-----------------|------------------|----------------|------------------|--------------------|-----------------------------|-----------------------------------|------------------------------|---|---------------------------|----------------|
| | Nominal capital | Capital surplus | Own shares | Revenue reserves | Fair value reserve | Retained net profit or loss | Net profit or loss for the period | Currency translation reserve | Equity attributable to the controlling company owners | Non-controlling interests | Total equity |
| As at January 1, 2018 | 254,175 | 207,523 | (3,235) | 42,830 | 200,180 | 45,101 | (184,284) | (84,029) | 478,261 | 140 | 478,401 |
| Total comprehensive income for the year | | | | | | | | | | | |
| Net profit/loss for the year | - | - | - | - | - | - | 1,597 | - | 1,597 | 9 | 1,606 |
| Sales of revalued land and buildings | - | - | - | - | (7,041) | 7,443 | - | - | 402 | - | 402 |
| Change in fair value of available-for-sale financial assets | - | - | - | - | 3 | - | - | - | 3 | - | 3 |
| Deferred taxes | - | - | - | - | 1,347 | - | - | - | 1,347 | - | 1,347 |
| Foreign exchange differences | - | - | - | - | - | - | - | 558 | 558 | 0 | 558 |
| Provisions for termination benefits | - | - | - | - | 167 | 163 | - | - | 329 | - | 329 |
| Other changes | - | - | - | - | 3 | (3,123) | - | - | (3,121) | - | (3,121) |
| Other comprehensive income | - | - | - | - | (5,522) | 4,482 | - | 558 | (482) | 0 | (482) |
| Total comprehensive income for the year | - | - | - | - | (5,522) | 4,482 | 1,597 | 558 | 1,115 | 9 | 1,124 |
| Transactions with owners directly recognized in equity | | | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | | | |
| Transfer of net profit for the previous year to retained earnings | - | - | - | - | - | 19,442 | (19,442) | - | - | - | - |
| Coverage of losses pursuant to the Management Board decision | - | (201,141) | - | - | - | (2,584) | 203,726 | - | - | - | - |
| Total transactions with owners | - | (201,141) | - | - | - | 16,857 | 184,284 | - | - | - | - |
| Balance as at December 31, 2018 | 254,175 | 6,381 | (3,235) | 42,830 | 194,658 | 66,441 | 1,597 | (83,471) | 479,376 | 149 | 479,525 |

Pursuant to IFRS 9, on January 1, 2018, an effect of this standard was recorded in equity under the item of retained net profit or loss in the amount of EUR 4,485 thousand on the Mercator Group level.



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

| Poslovni sistem Mercator d.d. | | | | | | | | | |
|---|-----------------|-----------------|----------------|------------------|--------------------|-----------------------------|-----------------------------------|------------------|--|
| in EUR thousand | Nominal capital | Capital surplus | Own shares | Revenue reserves | Fair value reserve | Retained net profit or loss | Net profit or loss for the period | Total equity | |
| As at January 1, 2017 | 254,175 | 286,772 | (3,235) | 16,624 | 76,196 | (1,802) | (77,447) | 551,283 | |
| Total comprehensive income for the year | | | | | | | | | |
| Net profit/loss for the year | - | - | - | - | - | - | (203,726) | (203,726) | |
| Revaluation of land and buildings | - | - | - | - | 91,695 | - | - | 91,695 | |
| Change in fair value of available-for-sale financial assets | - | - | - | - | 10 | - | - | 10 | |
| Adjustment of income tax | - | - | - | - | (18,252) | 2,272 | - | (15,980) | |
| Provisions for termination benefits | - | - | - | - | (436) | 245 | - | (191) | |
| Other changes | - | - | - | - | - | 68 | - | 68 | |
| Other comprehensive income | - | - | - | - | 73,018 | 2,584 | - | 75,602 | |
| Total comprehensive income for the year | - | - | - | - | 73,018 | 2,584 | (203,726) | (128,124) | |
| Transactions with owners directly recognized in equity | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | |
| Transfer of net profit for the previous year to retained earnings | - | - | - | - | - | (77,447) | 77,447 | - | |
| Allocation of reserves pursuant to the Management Board decision | - | - | - | - | - | 1,802 | - | 1,802 | |
| Coverage of losses pursuant to the Management Board decision | - | (79,249) | - | - | - | 77,447 | - | (1,802) | |
| Total transactions with owners | - | (79,249) | - | - | - | 1,802 | 77,447 | - | |
| Balance as at December 31, 2017 | 254,175 | 207,523 | (3,235) | 16,624 | 149,214 | 2,584 | (203,726) | 423,159 | |

**Poslovni sistem Mercator d.d.**

| in EUR thousand | Nominal capital | Capital surplus | Own shares | Revenue reserves | Fair value reserve | Retained net profit or loss | Net profit or loss for the period | Total equity |
|---|------------------------|------------------------|-------------------|-------------------------|---------------------------|------------------------------------|--|---------------------|
| As at January 1, 2018 | 254,175 | 207,523 | (3,235) | 16,624 | 149,214 | 2,584 | (203,726) | 423,159 |
| Total comprehensive income for the year | | | | | | | | |
| Net profit/loss for the year | - | - | - | - | - | - | (10,882) | (10,882) |
| Sales of revalued land and buildings | - | - | - | - | (6,952) | 7,403 | - | 451 |
| Change in fair value of available-for-sale financial assets | - | - | - | - | 3 | - | - | 3 |
| Deferred taxes | - | - | - | - | 1,330 | - | - | 1,330 |
| Provisions for termination benefits | - | - | - | - | 377 | - | - | 377 |
| Other changes | - | - | - | - | - | (332) | - | (332) |
| Other comprehensive income | - | - | - | - | (5,242) | 7,071 | - | 1,829 |
| Total comprehensive income for the year | - | - | - | - | (5,242) | 7,071 | (10,882) | (9,053) |
| Transactions with owners directly recognized in equity | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | |
| Transfer of net profit for the previous year to retained earnings | - | - | - | - | - | (203,726) | 203,726 | - |
| Coverage of losses pursuant to the Management Board decision | - | (201,141) | - | - | - | 201,141 | - | - |
| Total transactions with owners | - | (201,141) | - | - | - | (2,584) | 203,726 | - |
| Balance as at December 31, 2018 | 254,175 | 6,381 | (3,235) | 16,624 | 143,972 | 7,071 | (10,882) | 414,106 |

Pursuant to IFRS 9, on January 1, 2018, an effect of this standard was recorded in equity under the item of retained net profit or loss, in the amount of EUR 332 thousand at the company Poslovni sistem Mercator d.d.

The accompanying notes are an integral part of consolidated and financial statements and should be read in conjunction with them.



Proposal for coverage of accumulated loss of the company Poslovni sistem Mercator d.d.

Identified accumulated loss for 2018 comprises the following¹³:

| in EUR thousand | Poslovni sistem Mercator d.d. | |
|---|-------------------------------|------------------|
| | 2018 | 2017 |
| Net profit/loss for the year | (10,882) | (203,726) |
| Retained net profit or loss | 7,071 | 2,584 |
| Coverage of net loss for the year chargeable to capital surplus | 3,811 | |
| Accumulated loss for the year | - | (201,141) |

The company Poslovni sistem Mercator d.d. proposes that the accumulated loss in the amount of EUR 10,882 thousand is covered by the retained profit in the amount of EUR 7,071 thousand and by the capital surplus in the amount of EUR 3,811 thousand.

¹³ The Company allocated the accumulated loss in accordance with Article 230 of the Companies Act.



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

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|------------------|------------------|----------------------------------|------------------|
| | 2018 | 2017 restated | 2018 | 2017 restated |
| Cash flows from operating activities | | | | |
| Net profit/loss for the year | 1,606 | (184,435) | (10,882) | (203,726) |
| <i>Adjustments:</i> | | | | |
| Tax | 6,172 | (18,144) | 4,957 | (19,491) |
| Depreciation and amortization | 68,478 | 69,846 | 32,592 | 32,750 |
| Impairment of property and investment property | (2,812) | 147,072 | - | 98,033 |
| Impairment of goodwill and intangible assets | - | 1,785 | - | 1,200 |
| Write-off of property, plant and equipment | - | 1,086 | 396 | 4,647 |
| Gains on disposal of property, plant and equipment | (13,907) | (9,967) | (2,996) | (3,805) |
| Losses on disposal of property, plant and equipment | 501 | 6,704 | 401 | 412 |
| Dividends received, gains on disposal of available for sale financial assets | (8) | - | (354) | - |
| Write-offs from revaluation of financial investments, losses from disposal of available-for-sale financial assets | - | 47 | 28,321 | 115,627 |
| Net other financial income (expenses) | 2,826 | 1,288 | (3,023) | 5,585 |
| Revaluation adjustment to receivables and non-financial assets | (2,218) | (824) | (868) | (0) |
| Revaluation adjustment to inventories | 4,812 | 21,840 | 657 | 6,266 |
| Change in provisions and other changes | (2,558) | 2,352 | 920 | (477) |
| Net foreign exchange differences | (2,945) | (5,483) | 2 | (52) |
| Interest income | (945) | (824) | (3,165) | (5,402) |
| Interest expenses | 31,636 | 35,050 | 20,092 | 20,632 |
| Cash from operating activities before the change of working capital | 90,641 | 67,393 | 67,050 | 52,199 |
| Change in inventories | (4,898) | (7,744) | 540 | 10,068 |
| Change in trade and other receivables | 17,104 | (199) | 13,216 | 2,856 |
| Change in trade and other payables, and provisions | (39,139) | 26,259 | (7,525) | (11,097) |
| Tax paid | (1,470) | (1,876) | (129) | - |
| Cash from operating activities | 62,238 | 83,832 | 73,154 | 54,025 |
| Cash flows from investing activities | | | | |
| Expenses acquisition of subsidiaries and business operations, net of cash acquired, recapitalization of companies | - | - | - | (8,470) |
| Expenses for acquisition of property, plant and equipment, investment property and intangible assets | (29,704) | (54,917) | (15,791) | (20,383) |
| Acquisition of available-for-sale financial assets | - | (70) | - | (37) |
| Proceeds from disposal of property, plant and equipment, investment property and intangible assets | 72,021 | 19,331 | 13,106 | 14,948 |
| Interest income | - | 824 | - | 5,402 |
| Dividends received | - | 8 | - | 290 |
| Net receipts/expenses for loans given and deposits | 6,407 | 10,515 | (8,261) | (199) |
| Cash from investing activities | 48,724 | (24,309) | (10,947) | (8,448) |
| Cash flow from financing activities | | | | |
| Net receipts/expenses for loans received | (93,430) | (32,499) | (48,408) | (30,869) |
| Interest expenses | (29,716) | (29,584) | (19,137) | (16,417) |
| Cash from financing activities | (123,146) | (62,083) | (67,545) | (47,286) |
| Net increase/decrease in cash and cash equivalents | (12,184) | (2,559) | (5,338) | (1,708) |
| Cash and cash equivalents at beginning of the year | 24,112 | 26,318 | 11,635 | 13,344 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 1,606 | 354 | - | - |
| Cash and cash equivalents at the end of the year | 13,534 | 24,112 | 6,298 | 11,635 |

The accompanying notes are an integral part of consolidated and financial statements and should be read in conjunction with them.



•••● Notes to consolidated financial statements of the Mercator Group and financial statements of the company Poslovni sistem Mercator d.d.

1. REPORTING COMPANY

Poslovni sistem Mercator d.d. is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The company Poslovni sistem Mercator d.d. is the controlling company of a group of associated companies in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro and Macedonia. The role of the company is two-fold: its activities mainly comprise trading activities and various corporate governance tasks for the companies in the Mercator Group. The consolidated financial statements of the Mercator Group as at and for year ended December 31, 2018 comprise the company Mercator d.d. and its subsidiaries. The company Poslovni sistem Mercator d.d. is a subsidiary of the company Agrokor d.d. therefore the Mercator Group is consolidated within the Agrokor Group. The consolidated financial statements of the Agrokor Group are available at the registered office of Agrokor d.d. Trg Dražena Petrovića 3, Zagreb, Croatia. Mercator Group's core and predominant activity is retail and wholesale of fast-moving consumer goods and home products.

2. BASIS FOR PREPARATION

a) Statement of compliance

Consolidated financial statements of the Mercator Group and financial statements of the company Poslovni sistem Mercator d.d. have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and in compliance with the provisions of the Slovenian Companies Act.

The management of the company approved the financial statements on April 12, 2019.

b) Basis of measurement

Consolidated financial statements of the Mercator Group and financial statements of the company Poslovni sistem Mercator d.d. have been prepared on the historical cost basis, except for the items below, where the amounts are measured at fair value:

- buildings;
- land;
- investment property;
- available-for-sale financial assets.

Methods used for fair value measurement are described in Note 5.



c) Functional and presentation currency

The consolidated financial statements of the Mercator Group and the financial statements of the company Poslovni sistem Mercator d.d. attached herewith are presented in EUR, i.e. in the functional currency of the company Poslovni sistem Mercator, d.d. All financial information figures presented in EUR are rounded to one thousand units.

d) Use of estimates and judgements

Preparation of financial statements in compliance with IFRS requires the company management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

The estimates and assumptions are reviewed regularly. Adjustments of accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by revision.

Information on significant assessments regarding uncertainty and critical judgments, which were prepared by the management in the process of accounting policies execution and which affect the amounts in the financial statement the most, is given below.

i. Property, plant and equipment

The Mercator Group and the company Poslovni sistem Mercator d.d. measure land and buildings using the revaluation model and plant and equipment using the cost model as described in section 3(f)(i). The estimated useful life of property, plant and equipment is disclosed in section 3(f)(iv).

ii. Investment property

The Mercator Group and the company Poslovni sistem Mercator d.d. measure investment property using the revaluation model.

iii. Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets, the Mercator Group and the company Poslovni sistem Mercator d.d. pursuant to IAS 23 Borrowing Costs (2007), capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Capitalization of interest expense is performed for major investments whose construction and preparation for use lasts more than 6 months. In 2018, no investment meets the above criteria for capitalization of borrowing expenses.

iv. Available-for-sale financial assets

Long-term financial investments of the Mercator Group and the company Poslovni sistem Mercator d.d. into equity of other companies, classified as available-for-sale financial assets, also include such assets that could not be appraised at fair value. Shares of these companies are not listed on the stock exchange. Fair values of these assets cannot be reliably measured; therefore, they are valued at historical cost less impairment loss.

v. Trade and other receivables

The Mercator Group and the company Poslovni sistem Mercator d.d. form adjustments of trade receivables on monthly basis and from sales with the loyalty card, on basis of the expected loss model. Model of expected loss tells what portion of trade receivables that occurred in a certain time period, shall not be paid in the following years.

vi. Inventories

Carrying amounts of inventories do not materially exceed their realizable value. Value adjustments of inventories are based on previous years' experience:

- inventories acquired a year before the current year are adjusted by 50% of their cost;
- inventories acquired two years or more before the current year are adjusted by 80% of their cost.



In the future, the Mercator Group and the company Poslovni sistem Mercator d.d. do not expect any events that would significantly influence the accounting estimates.

vii. Provisions

Carrying amounts of provisions are measured as the present value of the expenditures expected to be required for the settlement of liabilities. Estimates are given by experts, or the values are based on original documentation. The outcome and the date of resolution of legal proceedings, which were the basis for recognition of provisions, are uncertain.

Provisions for termination benefits and long-service awards refer to estimated payments of termination benefits upon retirement and jubilee benefits as a result of long service, as at the balance sheet date, discounted to present value. They are recognized on the basis of actuarial calculation, approved by the parent company's Management Board. Actuarial calculation is based on the assumptions and estimates applicable at the time of the calculation, which may differ in the future from the actual assumptions at the time due to changes. This refers mostly to determining discount rate and estimating staff turnover, mortality and salary growth. Due to the actuarial calculation complexity and long-term features of items, the liabilities for post-employment benefits are susceptible to changes in the mentioned estimates.

In the future, the Mercator Group and the company Poslovni sistem Mercator d.d. do not expect any events that would significantly influence the accounting estimates.

viii. Deferred taxes

Deferred taxes are calculated based on temporary differences applying the balance sheet liability method, using the tax rate applicable in the next financial period. If the tax rate changes, deferred tax assets and liabilities will change accordingly.

The companies of Mercator Group recognize deferred tax assets for the carry forward of unused tax losses and unused tax credit only in cases when it is likely that future taxable income will be available against which the unused tax losses and unused tax credits can be charged. The basis for estimate is the medium-term business plan of the Mercator Group and the company Poslovni sistem Mercator d.d.

In the future, the Mercator Group and the company Poslovni sistem Mercator d.d. do not expect any events that would significantly influence the accounting estimates.

e) Changes in disclosures on the financial statements

Mercator Group and the company Poslovni sistem Mercator d.d. have changed the Mercator Group consolidated statement of cash flow and the statement of cash flow for the company Poslovni sistem Mercator d.d. Changes regarding Mercator Group pertain to inventories and fixed assets. The item revaluation adjustment to inventories increased by EUR 17,519 thousand; on the other hand, the item change in inventories was also changed by the same amount, as it now also includes all adjustments to inventories, including non-cash adjustments. The item expenses for acquisition of property, plant, and equipment, investment property, and intangible assets was decreased by EUR 15,978 thousand; at the same time, the item change in trade and other receivables was adjusted by the same amount. The change pertains to the company Mercator-BH d.o.o. and its acquisition of equipment that was paid for through offsetting of trade receivables.

Changes at the company Poslovni sistem Mercator d.d. pertain to inventories and trade receivables. The item revaluation adjustment to inventories increased by EUR 2,242 thousand; on the other hand, the item change in inventories was also changed by the same amount, as it now also includes all adjustments to inventories, including non-cash adjustments. The item change in trade and other receivables was decreased by EUR 27,150 thousand, and the item expenses for acquisition of subsidiaries and business activities, excluding acquired cash and cash equivalents and capital increases, changed by the same amount. The change pertains to the loan extended by the company Poslovni sistem Mercator d.d. to the company Mercator-H d.o.o., which was included in trade receivables, but it is actually, in terms of substance, a loan extended to a company/subsidiary.



The item interest expense for both periods has been reclassified from cash flows from operating activities to cash flows from financing activities for the Mercator Group and the company Poslovni sistem Mercator d.d. The reason for the change is a more appropriate presentation of cash flows, since the total interest paid relates to received bank loans.

Impact of above described changes on the cash flow statements of the Mercator Group and the company Poslovni sistem Mercator d.d. in year 2017:

| in EUR thousand | Mercator Group | | | Poslovni sistem Mercator d.d. | | |
|---|----------------------------|-----------------|--------------------------|----------------------------------|-----------------|--------------------------|
| | 2017 without changes | restated | 2017 after changes | 2017 without changes | restated | 2017 after changes |
| Cash flows from operating activities | | | | | | |
| Net profit/loss for the year | (184,435) | - | (184,435) | (203,726) | - | (203,726) |
| <i>Adjustments:</i> | | | | | | |
| Tax | (18,144) | - | (18,144) | (19,491) | - | (19,491) |
| Depreciation and amortization | 69,846 | - | 69,846 | 32,750 | - | 32,750 |
| Impairment of property and investment property | 147,072 | - | 147,072 | 98,033 | - | 98,033 |
| Impairment of goodwill and intangible assets | 1,785 | - | 1,785 | 1,200 | - | 1,200 |
| Write-off of property, plant and equipment | 1,086 | - | 1,086 | 4,647 | - | 4,647 |
| Gains on disposal of property, plant and equipment | (9,967) | - | (9,967) | (3,805) | - | (3,805) |
| Losses on disposal of property, plant and equipment | 6,704 | - | 6,704 | 412 | - | 412 |
| Dividends received, gains on disposal of available for sale financial assets | - | - | - | - | - | - |
| Write-offs from revaluation of financial investments, losses from disposal of available-for-sale financial assets | 47 | - | 47 | 115,627 | - | 115,627 |
| Net other financial income (expenses) | 1,288 | - | 1,288 | 5,585 | - | 5,585 |
| Revaluation adjustment to receivables and non-fin. assets | (824) | - | (824) | (0) | - | (0) |
| Revaluation adjustment to inventories | 4,321 | 17,519 | 21,840 | 4,024 | 2,242 | 6,266 |
| Change in provisions and other changes | 2,352 | - | 2,352 | (477) | - | (477) |
| Net foreign exchange differences | (5,483) | - | (5,483) | (52) | - | (52) |
| Interest income | (824) | - | (824) | (5,402) | - | (5,402) |
| Interest expenses | 35,050 | - | 35,050 | 20,632 | - | 20,632 |
| Cash from operating activities before the change of working capital | | | | | | |
| Change in inventories | 49,874 | 17,519 | 67,393 | 49,957 | 2,242 | 52,199 |
| Change in trade and other receivables | 9,775 | (17,519) | (7,744) | 12,310 | (2,242) | 10,068 |
| Change in trade and other payables, and provisions | 15,788 | (15,987) | (199) | 30,006 | (27,150) | 2,856 |
| Interest expenses | 26,259 | - | 26,259 | (11,097) | - | (11,097) |
| Tax paid | (29,584) | 29,584 | - | (16,417) | 16,417 | - |
| Cash from operating activities | 70,235 | 13,597 | 83,832 | 64,759 | (10,733) | 54,025 |
| Cash flows from investing activities | | | | | | |
| Expenses acquisition of subsidiaries and business operations, net of cash acquired, recapitalization of companies | - | - | - | (35,620) | 27,150 | (8,470) |
| Expenses for acquisition of property, plant and equipment, investment property and intangible assets | (70,904) | 15,987 | (54,917) | (20,383) | - | (20,383) |
| Acquisition of available-for-sale financial assets | (70) | - | (70) | (37) | - | (37) |
| Proceeds from disposal of property, plant and equipment, investment property and intangible assets | 19,331 | - | 19,331 | 14,948 | - | 14,948 |
| Interest income | 824 | - | 824 | 5,402 | - | 5,402 |
| Dividends received | 8 | - | 8 | 290 | - | 290 |
| Net receipts/expenses for loans given and deposits | 10,515 | - | 10,515 | (199) | - | (199) |
| Cash from investing activities | (40,295) | 15,987 | (24,308) | (35,598) | 27,150 | (8,448) |
| Cash flow from financing activities | | | | | | |
| Net receipts/expenses for loans received | (32,499) | - | (32,499) | (30,869) | - | (30,869) |
| Interest expenses | - | (29,584) | (29,584) | - | (16,417) | (16,417) |
| Cash from financing activities | (32,499) | (29,584) | (62,083) | (30,869) | (16,417) | (47,286) |
| Net increase/decrease in cash and cash equivalents | (2,560) | - | (2,560) | (1,708) | - | (1,708) |
| Cash and cash equivalents at beginning of the year | 26,318 | - | 26,318 | 13,344 | - | 13,344 |
| Eff. of exchange rate fluctuations on cash and cash eq. | 354 | - | 354 | - | - | - |
| Cash and cash equivalents at the end of the year | 24,112 | - | 24,112 | 11,635 | - | 11,635 |



3. Relevant accounting policies

The accounting policies defined below have been applied consistently to all periods presented in these consolidated financial statements of the Mercator Group and financial statements of the company Poslovni sistem Mercator d.d. for all Group and Company entities.

a) Basis of consolidation

i. Business combinations

Business combinations are accounted for based on the acquisition method as at the day of the combination, which equals the day of acquisition or when the Group gains control. Control is the power to make decisions on financial and business policies of a company or a business entity in order to gain benefits from its activities. In order to assess its control, the Mercator Group takes into account the criteria of currently exercisable potential voting rights.

With regard to acquisitions, the Mercator Group measures or evaluates the goodwill as at the day of acquisition, as follows:

- at fair value of the transferred acquisition price; plus
- recognized value of any non-controlling interest in the acquired company (The non-controlling interest can be initially measured either at fair value or at proportional share in acquired assets and liabilities valued as at the date of acquisition. The Group decides on the method upon each acquisition); plus
- fair value of existing shares in equity of the acquired company, if the business combination is carried out gradually; less
- net recognized value (fair value, unless IFRS requires differently) of acquired assets and liabilities as at the day of the acquisition.

If the difference is negative, it is recognized as surplus (income) in the income statement.

Transferred acquisition proceeds do not include amounts of settlements regarding previously existing relations. These amounts are normally recognized in the income statement. Acquisition costs, except for costs related to issue of equity or debt instruments related to the business combination, are recognized in the income statement as they are incurred.

Contingent liabilities regarding business combinations are recognized at fair value as at the day of acquisition. If a contingent liability is classified in equity it does not have to be remeasured; the payment is recognized within equity. Subsequent changes in the fair value of contingent liability are recognized in the income statement.

ii. Subsidiaries

Subsidiaries are companies controlled by the Mercator Group. Controlling exists when the Mercator Group is able to decide on financial and business policies of a company in order to obtain benefits from its operations. In assessing control, existence and effect of potential voting rights that are currently exercisable or exchangeable are taken into account. Financial statements of subsidiaries are included in consolidated financial statements from the date when the controlling begins to the date when it stops. The accounting policies of subsidiaries have been changed if necessary or aligned with the policies adopted by the Mercator Group.

iii. Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions of shareholders who operate as owners; therefore, goodwill is not recognized. Changes in non-controlling interest arising from transactions that do not include loss of control are based on proportionate share of net assets of the subsidiary or on fair value of the non-controlling interest. If the purchase price for acquisition of non-controlling interest differs from their carrying amount, the difference is recognized in equity.



iv. Loss of control

After loss of control, the Mercator Group derecognizes assets and liabilities of the subsidiary, non-controlling interest, and derecognizes other components of equity that pertain to the subsidiary. Any surplus or deficit resulting from loss of control is recognized in the income statement. If the Group retains a share in the previously controlled subsidiary, such share is valued at fair value as at the day of loss of control and the difference is recognized in the income statement. Subsequently, such share is recognized in equity as investment in an associate (at equity method) or as available-for-sale financial asset, depending on the extent of retained influence.

v. Transactions excluded from consolidation

Balances, revenues and expenses, gains and losses arising from intra-group transactions are eliminated from consolidated financial statements. Unrealized losses are excluded in the same way as profits, provided that there is no evidence of impairment.

b) Foreign currency

i. Foreign currency transactions

Transactions expressed in a foreign currency are translated into the relevant functional currency of the Mercator Group companies at the exchange rate applicable on the date of transaction. Cash and liabilities denominated in a foreign currency as at the balance sheet date are converted into functional currency at the exchange rate applicable at the date. Positive or negative foreign exchange differences are differences between amortized cost in the functional currency at the beginning of the period, which is adjusted by the amount of effective interest and payments during the period, as well as amortized cost in foreign currency converted at the exchange rate at the end of the period. Non-cash assets and liabilities expressed in a foreign currency and measured at fair value are converted into the functional currency at the exchange rate on the date when the amount of fair value is determined. Currency translation differences are recognized in the income statement, except for differences arising on recalculation of equity instruments classified as available-for-sale financial assets (except for the case of impairment when all currency translation differences recognized in other comprehensive income are reclassified to the income statement), for non-financial liabilities designated as hedges (if such hedges are effective), or for cash flow hedges (if such hedges are effective), which are recognized directly in equity.

ii. Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates effective as at the balance sheet date. Revenue and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at average exchange rates in the period.

Foreign exchange differences arising from translation are recognized directly in other comprehensive income and are recognized in translation reserve within equity. From the day of transition to the IFRS, these changes are recognized in the translation reserve. Upon a partial or full disposal of a foreign operation, the relevant amount in the foreign currency translation reserve (FCTR) is transferred to the income statement.

In case of a subsidiary that is not fully owned, a pro rata share of currency translation reserve is allocated to noncontrolling interest. When a company abroad (foreign operation) is disposed of in a way that it is no longer controlled and that significant influence or joint control no longer exists, corresponding accrued amount in the currency translation reserve is transferred to profit or loss, or re-classified as revenue or expense resulting from disposal. If the Mercator Group only disposes of a part of its stake in a subsidiary that includes a foreign company, and still maintains control, the appropriate pro rata share of accumulated amount is reclassified to non-controlling interest.

c) Financial instruments

i. Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables and loans given.



Initially, the Mercator Group and the company Poslovni sistem Mercator d.d. recognize loans and receivables and deposits on the day of their occurrence. Other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the exchange date or when the Mercator Group and the company Poslovni sistem Mercator d.d. become parties under contractual provisions of the instrument.

The Mercator Group and the company Poslovni sistem Mercator d.d. derecognize financial assets when contractual rights to cash flows from this asset are discontinued or when the rights to contractual cash flows from the financial asset are transferred on the basis of a transaction in which all risks and benefits from the ownership of the financial asset are transferred. Any share in the transferred financial asset that is created or transferred by the Mercator Group and the company Poslovni sistem Mercator d.d. is recognized as individual asset or liability.

Financial assets and liabilities are offset and the net amount is disclosed in the balance sheet if and only if the Mercator Group and the company Poslovni sistem Mercator d.d. have legal right to settle the net amount or to realize the asset and at the same time settle its liability.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. At initial recognition, loans and receivables are disclosed at fair value increased by direct costs of transaction. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, decreased by loss due to impairment. Loans and receivables include cash and cash equivalents, loans to other companies and bank deposits, trade and other receivables, and long-term deposits for rent payment. Long-term deposits for rent payment are considered in terms of content (financing lessors) and represent long-term financial receivables. They are discounted with market or contractual discount rates. Discount rate represents the basis for accounting of financial revenues in the entire period for which the rent was paid.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified into the above categories. Available-for-sale financial assets include investments into shares and interests in companies. After the initial recognition, these investments are measured at fair value, increased by the transaction cost, also taking into account the changes in fair value. Impairment losses and foreign exchange differences on available-for-sale equity instruments are recognized in other comprehensive income and disclosed in equity or in fair value reserve. At derecognition of investment, cumulative gains and losses are transferred to profit or loss. Available-for-sale financial assets also include equity securities.

ii. Non-derivative financial liabilities

Initially, the Mercator Group and the company Poslovni sistem Mercator d.d. recognize issued debt securities and subordinate debt as at the date of their occurrence. All other financial liabilities are initially recognized on the trade date when the Mercator Group and the company Poslovni sistem Mercator d.d. become contractual parties in relation to the instrument.

The Mercator Group and the company Poslovni sistem Mercator d.d. derecognize financial liabilities in case the obligations stipulated in the contract have been fulfilled, annulled or time-barred.

Financial assets and liabilities are offset and the amount is recognized in the balance sheet if and only if the Mercator Group and the company Poslovni sistem Mercator d.d. have the official enforceable right to offset recognized amounts and intend to pay net amount or are legally entitled to offset amounts and have the intention to pay net amount or realize the asset and at the same time settle its liability.

The Mercator Group and the company Poslovni sistem Mercator d.d. recognize non-derivative financial instruments as other financial liabilities. Such financial liabilities are initially carried at fair value increased by the costs that are directly attributable to the transaction. After the initial recognition, financial liabilities are measured at amortized cost using the effective interest method.



Other financial liabilities comprise loans and trade and other payables.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on transaction accounts, cash on hand and deposits with maturity of up to 3 months.

e) Nominal capital

Ordinary shares

Ordinary shares are an integral part of nominal capital. Additional costs directly attributable to issuing of ordinary shares and share options are disclosed as decrease in equity, net of effects on the equity.

Repurchase of own shares (treasury shares)

When nominal capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable costs and excludes any tax effects, is recognized as a change in equity. Repurchased shares are classified as own shares and are deducted from equity. When own shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to share premium.

f) Property, plant and equipment

i. Reporting and measurement

Plant and equipment are measured using the cost model. They are carried at cost less accumulated depreciation and any accumulated impairment losses.

The cost includes costs that are directly attributable to the acquisition of assets. Borrowing cost regarding acquisition or construction of relevant property, plant, or equipment are capitalized if they are related to the acquisition of a major asset and if construction or preparation for use lasts over 6 months. In 2018, the Mercator Group and the company Poslovni sistem Mercator d.d. did not carry out any investments that would meet the described criteria. Costs of property, plant and equipment manufactured within the Group include the costs of material, direct labour costs, and other costs that can be directly attributable to the asset's preparation for its intended use, costs of decomposition and removal of property, plant and equipment and reconstruction of the site where the item of assets was located, as well as capitalized borrowing costs.

Gains and losses on disposal of an item of property and plant (except plant and equipment, which are carried at cost) are determined by comparing the proceeds from disposal of an item of property and plant with the net value recognized in other income/expenses in the income statement. When revalued assets are sold or depreciated, an appropriate amount included in the fair value reserve is transferred to retained earnings.

For valuation of **land**, the Mercator Group and the company Poslovni sistem Mercator d.d. use the revaluation model. As at December 31, 2017, the Mercator Group and the company Poslovni sistem Mercator d.d. changed their accounting policy of valuation of **buildings** from cost model to revaluation model. The fair values reported are based on periodical, but not less than three-year appraisals by an external independent appraiser. Fair value of buildings and land is estimated in compliance with the International Valuation Standards (IVS 2013) and Slovenian business and financial standard No. 2: Valuation/appraisal of real estate (OG RS, no. 106/13, December 18, 2013). To appraise the market value, the possibilities and suitability of all three methods are always examined considering the use of property and availability of information. These three methods are income method (discounted cash flow method), comparable sales (method of direct comparability of sales or transactions), and historical cost (the cost method). If the carrying amount of the asset is increased due to revaluation, the increase must be recognized directly in equity as revaluation surplus. The increase must be recognized in profit or loss (income statement), if it eliminates a revaluation decrease of the same asset, which had previously been recognized in profit or loss. If the carrying amount of assets is decreased as a result of revaluation, then the decrease must be recognized in profit or loss. Decrease is charged directly to equity under the revaluation surplus item, up to the amount of credit in the revaluation surplus for the same asset. When an asset is disposed of the fair value reserve for such asset is transferred directly to retained earnings.



a) Estimation of property fair value

In line with the Accounting Rules, the Mercator Group and the company Poslovni sistem Mercator d.d. periodically, at least every three years, review the fair value of its buildings and land. The appraisal was last carried out as at the end of 2017 by a certified real estate appraiser pursuant to the International Valuation Standards and in relation to the International Financial Reporting Standards. In 2018, the Mercator Group performed a test evaluation of property on 10% sample and discovered that the impairment/enforcement of property is not needed. If, in the framework of property value testing, was concluded that the value of property has significantly changed, the Mercator Group would have to reevaluate all its property and record the latter in its financial statements.

b) Assessment of useful lives of property and equipment

In the Mercator Group and the company Poslovni sistem Mercator d.d. fixed assets are depreciated by the straight-line depreciation method, using the depreciation rates that reflect estimated useful lives of different assets in each company of the Mercator Group. Useful life and remaining value of property, plant and equipment is appraised annually by an internal committee of experts or external independent certified appraisers based on events that indicate the need for revaluation of a particular asset.

ii. Reclassification to investment property

The Mercator Group and the company Poslovni sistem Mercator d.d. may reclassify property used by the owner to investment property. Investment property is appraised using the revaluation model. Only independent buildings entirely rented out are classified as investment property. If only a part of a building is leased, it is not classified as investment property, as it cannot be sold separately, and because the other important part of the building is being used for performance of inhouse service activity or production of goods.

iii. Subsequent costs

The cost of replacing a part of a piece of property, plant and equipment is recognized in the carrying amount of the asset if it is likely that future economic benefits relating to a part of that asset will flow to the Mercator Group and the company Poslovni sistem Mercator d.d. and its fair value can be measured reliably. The carrying amount of the replaced part is derecognized. All other costs (e.g. regular maintenance) are recognized in profit or loss as expenses, as soon as they are incurred.

iv. Depreciation

Depreciation is calculated on a straight-line basis, taking into account the useful life of each individual asset of property, plant and equipment. Leased assets in the form of finance lease are depreciated by taking into account the lease term and their useful lives, unless it is reasonably certain that the Mercator Group and the company Poslovni sistem Mercator d.d. will obtain ownership by the end of the lease term. Land is not subject to depreciation.

The estimated useful lives for current and comparable periods are as follows:

| | 2018 | 2017 |
|---------------------|------------|------------|
| Buildings | 40 years | 40 years |
| Plant and equipment | 2-18 years | 2-18 years |

Useful lives and residual values are again reviewed on the reporting date.

g) Intangible assets

i. Goodwill

Goodwill generated upon acquisition of subsidiaries or activities is recognized under intangible assets.



ii. Other intangible assets

Other intangible assets acquired by the Mercator Group and the company Poslovni sistem Mercator d.d. and with limited useful lives, are measured at cost, less accumulated amortization and accumulated impairment losses.

iii. Subsequent costs

Subsequent costs in relation to intangible assets are capitalized only in cases when they increase future economic benefits arising from the asset to which the costs relate. All other costs, including internally generated brands, are recognized in profit or loss as expenses as soon as they are incurred.

iv. Amortization

Amortization is calculated on a straight-line basis, taking into account useful lives of intangible assets. Amortization begins when an asset is available for use. The estimated useful lives for current and comparable periods are as follows:

| | 2018 | 2017 |
|-----------------------|-----------|-----------|
| Brands/labels | unlimited | unlimited |
| Software and licenses | 10 years | 10 years |

Value of brands/labels is tested for impairment annually on the balance sheet date.

h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

The Mercator Group and the company Poslovni sistem Mercator d.d. classify as investment property only independent buildings entirely rented out. If only a part of a building is leased, it is not classified as investment property, as it cannot be sold separately, and because the other important part of the facility is being for performance of in-house service activity or production of goods (e.g. a hypermarket in a shopping center). Investment property is measured using the revaluation model according to IAS 40.

When the use of property changes so that it has to be reclassified under property, plant and equipment, the reclassification is carried out based on its fair value.

i) Leased assets

Leases for which the Mercator Group and the company Poslovni sistem Mercator d.d. assume all substantial risks and benefits of ownership are classified as finance leases. Upon initial recognition, the leased asset is posted in the amount equal to the lower of either fair value or the present value of the sum of minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are considered operating leases. Assets in operating lease are not posted in the balance sheet of the Mercator Group and the company Poslovni sistem Mercator d.d.

j) Assets held for sale or disposal group

Assets held for sale or disposal group, which includes assets and liabilities the largest share of which is expected to be repaid through sale, are classified as held for sale. Right before the classification under assets held for sale, these assets or disposal group are remeasured. Accordingly, a long-term asset or disposal group is recognized at the lower of carrying amount or fair value less costs to sell. Impairment loss upon reclassification of assets as held for sale and subsequent loss or gain upon remeasurement are disclosed in profit or loss. Gains are not recognized if in excess of the cumulative impairment loss. When intangible assets and property, plant and equipment are reclassified under held for sale or distribution, they are no longer amortized/depreciated.



k) Inventories

Inventories are carried at the lower of historical cost and net realizable value.

Methods of accounting for the cost of inventories and related expenses:

- FIFO method for merchandise,
- method of weighted average purchase prices for raw materials and packaging; cost of inventory includes purchase value, cost of production, transformation, and other costs incurred in bringing them to the current location and in the current condition; with both finished products and work in progress, the costs also include the relevant part of indirect production cost upon normal use of means of production.

Net realizable value is equal to the estimated selling price in the ordinary course of business, less the estimated costs of completion and sales. The estimation of net realizable value of inventory is conducted at least once a year, upon the preparation of the annual financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d.

Write-offs and partial write-offs of damaged, expired and useless inventories are regularly performed during the year on specific items. At the end of the year, inventories are impaired as at December 31 by groups of related or connected items depending on their age or obsolescence. They are impaired on the basis of previous years' experience.

I) Impairment of assets

i. Non-derivative financial instruments

The Mercator Group and the company Poslovni sistem Mercator d.d. individually assess the evidence on impairment of loans and receivables. If established that single significant loans and receivables are not impaired, their joint impairment is assessed. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics, except for receivables with quality insurance.

The Mercator Group and the company Poslovni sistem Mercator d.d. create adjustments of trade receivables on monthly basis and from sales with the loyalty card, on basis of the expected loss model. Model of expected loss tells what portion of trade receivables that occurred in a certain time period shall not be paid in the following years. The calculated percentage of outstanding trade receivables of the Mercator Group and the company Poslovni sistem Mercator d.d. is applied to all outstanding (overdue and not past due) trade receivables. Pursuant to the financial reporting standard IFRS 9 – “Financial Instruments; Recognition and Measurement”, the Mercator Group and the company Poslovni sistem Mercator d.d. have defined categories of risk related to payment of receivables with regard to the type of collateral used to secure receivables, and classified the adjustments of receivables also regarding the maturity. In this manner, 6 risk categories are defined (bank guarantee, mortgage, bill of exchange, enforcement draft, the Agrokor Group and other), as well as 3 categories of maturity (0-30 days, 31-90 days, more than 90 days).

Loss due to impairments related to financial asset reported by its nominal value is calculated as a difference between the residual value of an asset and expected future cash flows, which include expected cash inflows from insurances discounted at effective interest rate. Loss is recognized in the profit or loss and disclosed in the account of allowances for leases and receivables. When due to subsequent events (e.g. payment of debt by the debtor), the amount of loss due to impairment is decreased, this decrease of loss due to impairment is derecognized in profit or loss.

ii. Non-financial assets

On each reporting date, the Mercator Group and the company Poslovni sistem Mercator d.d. review the residual carrying amount of their non-financial assets, inventories and deferred tax assets in order to establish the existence of any signs of impairment. If such signs exist, the recoverable amount of the asset is estimated. Impairment of goodwill and intangible assets that have indefinite useful lives and are not yet available for use is



estimated on each reporting date. Impairment of a cash-generating unit is recognized when its carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of the two: value in use or fair value less costs of sale. When determining the value of an asset in use, the expected future cash flows are discounted to their current value by using the discount rate before tax that reflects regular market assessments of the time value of money and risks that typically occur in relation to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from receipts of other assets and groups of assets (cash-generating unit). For the purpose of goodwill impairment test, the cash-generating units (CGUs) that goodwill is allocated to, are subject to a special testing (i.e. segment ceiling test); CGUs to which goodwill has been allocated are aggregated, so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to cash-generating units or groups of units that are expected to benefit from synergies of the combination.

The corporate assets of the Mercator Group and the company Poslovni sistem Mercator d.d. do not generate separate cash inflows and are used by more than one CGU. The assets of the Mercator Group and the company Poslovni sistem Mercator d.d. are reasonably and consistently allocated to individual CGUs. Their impairment is tested within the scope of testing for impairment of those CGUs to which a relevant Group asset is allocated.

Impairment is disclosed in the income statement. Impairment loss recognized in respect of cash-generating units is allocated first to reduce the carrying amount of the goodwill allocated to the unit (or group of units), and then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit.

Impairment loss in respect of goodwill is not reversed. In relation to other assets, the Mercator Group and the company Poslovni sistem Mercator d.d. evaluate and determine impairment losses in the previous periods at the end of reporting period and establish whether the loss has decreased or no longer exists. Loss due to impairment is reversed in case there has been a change in assessments, on the basis of which the Mercator Group and the company Poslovni sistem Mercator d.d. define the recoverable amount of the asset. The impairment loss is reversed to the amount up to which the asset's increased carrying amount does not exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognized for the asset in prior periods.

m) Employee benefits

i. Other long-term employee benefits – provisions for termination benefits and long service awards

In the balance sheet, the Mercator Group and the company Poslovni sistem Mercator d.d. recognized provisions deriving from future liabilities to employees for long-service awards, calculated in compliance with the collective labour agreement for this industry, and the mandatory retirement benefits as stipulated by the relevant act. There are no other existing pension liabilities. Provisions are created in the amount of estimated payment of termination benefits and long-service awards, discounted as at the reporting date, for the employees in those countries where such payments are required by the local legislation. The calculation is based on the cost of termination pay upon retirement and of all long-service awards expected to be paid until retirement. Provisions are made using the projected unit credit method. Labour costs and interest expense are recognized in the income statement, while recalculated post-employment benefits or unrealized actuarial gains or losses are recognized in other comprehensive income.

ii. Termination benefits

Termination benefits are recognized as an expense when the Mercator Group and the company Poslovni sistem Mercator d.d. are demonstrably committed to either terminate employment before the normal retirement date, or to offer payment of termination benefits to encourage voluntary redundancy, namely, as the result of an existing detailed formal plan for employment termination, and when the Mercator Group and the company Poslovni sistem Mercator d.d. do not have a realistic possibility of withdrawal. Termination benefits for voluntary redundancies are recognized as an expense if the Mercator Group and the company Poslovni sistem Mercator



d.d. have made an offer that would promote voluntary redundancy, if it is probable that the offer will be accepted and if the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, the Mercator Group and the company Poslovni sistem Mercator d.d. discount them to their present value.

iii. Short-term employee benefits

Liabilities for short-term employee benefits are measured without discounting and are recorded under expenses when the work of an employee related to a certain short-term benefit is performed.

A liability is recognized in the amount expected to be paid as short-term receipts payable within 12 months after the expiry period for the service provided, or as profit split program if the Mercator Group and the company Poslovni sistem Mercator d.d. have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

n) Provisions

A provision is recognized when the Mercator Group and the company Poslovni sistem Mercator d.d. have legal or constructive obligations as a result of a past event that may be reliably measured and when it is probable that an outflow of economic benefits will be required to settle the liability. The Mercator Group and the company Poslovni sistem Mercator d.d. determine provisions by discounting the expected future cash flows at a pre-tax discount rate reflecting the existing estimates of the time value of cash and, if needed, the risks specific to a liability.

o) Revenue

i. Revenue from sales of goods, products and materials

Revenue is measured on the basis of payment, to which the Mercator Group expects to be entitled to pursuant to the contract with the buyer. Here the amounts received in the name of third parties are excluded.

Revenue from sales of goods, products and material is recognized at fair value of the received repayment or a relevant receivable, decreased by repayments, rebates for further sale and quantity discounts. Revenue is recognized when all relevant risks and benefits from ownership of assets have been transferred to the buyer, when certainty of recovery of consideration, the associated costs and possibility of return of goods, products and material, exist, when the Mercator Group and the company Poslovni sistem Mercator d.d. stop with further decision-making on quantities sold and when the amount of revenue can be measured reliably.

Transfer of risks and benefits depends on separate provisions of the purchase contract. In case of wholesale, transfer is usually carried out when the goods have been delivered to the buyer's warehouse.

ii. Customer loyalty program

The Mercator Group and the company Poslovni sistem Mercator d.d. issue credit and debit cards Pika to its customers for collecting bonus points at purchases. Bonus periods last six months. The first annual bonus period lasts from February 1 to July 31, the second bonus period from August 1 to January 31 of the following year. During the bonus period, customers collect bonus points.

Bonuses ensure discounts to buyers who would not receive them in case they did not buy the goods (i.e. right in rem). The promise of discount is therefore a separate execution obligation. The price in this transaction is a money equivalent paid by the buyer for goods bought in retail store, which is basis to collect bonuses. IFRS 15 requests the transaction price to be classified as single contractual obligation on the basis of allocation of selling price for a particular product or service, taking into account the discounts and the variable part of payment, and the company to define the selling price upon conclusion of the contract for each product and service. Current accounting model disposes all revenue in relation to bonuses, which may be expected to be used – the discount approved when the buyer realizes the bonuses, and the probability of realization, based on past experiences of the company. There is no significant (material) difference regarding effect on revenue and liabilities between both approaches. The contractual obligation is recognized for revenue relevant to loyalty bonuses at the moment of initial selling transaction. Revenues for loyalty bonuses are recognized when these bonuses are realized by the



buyer. Revenue from bonuses, for which it is not expected to be realized, are recognized proportionally with the pattern of enforcement of rights by buyers.

The company Poslovni sistem Mercator d.d. also performs other marketing campaigns. Contractual obligation is treated similarly as loyalty program Pika in case of right in rem (e.g. sticker, action with a special coupon etc.), but has no significant effect.

iii. Revenue from services rendered

In the event of service provision, e.g. provision from the agreements on consignation, franchise etc., the Mercator Group has only one execution obligation, being the rendering of service. Revenue from services are continuously recognized through the period, in which the services are rendered.

Discounts or rabats and commercial cooperation recognized as deduction from cost of goods sold and production costs of products sold, are a result of contractual obligations taken over by the companies of the Mercator Group from their suppliers by signing a contract. These contracts, which differ among separate suppliers, include discounts or rebates calculated on the basis of scope of actual purchase of goods, and the discounts or rebates for commercial cooperation invoiced to suppliers. Discounts or rebates are approved when particular success conditions are met. These success conditions in general require the Group to achieve certain amounts (thresholds or targeted quantities). Discounts or rebates pursuant to the contracts on commercial cooperation are recognized in the implementation period. They are recorded in accordance with conditions defined in contracts concluded with the Mercator Group suppliers, until their fulfillment.

iv. Rental income

Rental income is recognized in profit or loss on a straight-line basis over the lease term. Any related discounts and benefits are recognized as an integral part of total rental income.

p) Government grants

Initially, all government grants are recognized as deferred revenue in the financial statements where an acceptable assurance exists that the Mercator Group and the company Poslovni sistem Mercator d.d. will receive the grants and fulfil the conditions relating to them. Government grants for covering costs are recognized consistently as revenue in the periods when the relevant costs they should cover are incurred. Government grants related to assets are disclosed in the income statement consistently, under other operating revenue during the useful life of an individual asset.

q) Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Any related discounts and benefits received are recognized as an integral part of total lease expense.

Interest paid for finance lease is recognized under finance expenses and allocated to periods of the lease term, in order to achieve a constant interest rate on the remaining balance of the liability in each period.

Determining whether an arrangement includes a lease

At inception of an arrangement, the Mercator Group and the company Poslovni sistem Mercator d.d. determine whether the arrangement represents or includes a lease. The arrangement is deemed to include a lease if the following criteria are met:

- a specific asset is the subject of a lease if the fulfilment of the arrangement depends on the use of that specified asset; and
- the arrangement transfers the right to use the asset.

At inception or reassessment of the arrangement, the Mercator Group and the company Poslovni sistem Mercator d.d. separate payments and other consideration required by such arrangement to lease payments and to other elements, based on their relative fair values. If the Mercator Group and the company Poslovni sistem Mercator d.d. conclude that payments cannot be divided reliably, the asset and liability from finance lease are recognized at an amount equal to the fair value of the asset defined as the lease subject. Subsequently, the



liability is reduced as payments are made and an imputed finance charge on the liability is recognized by using the incremental borrowing rate of interest presumed by the Mercator Group and Poslovni sistem Mercator d.d.

r) Finance income and expenses

Finance income comprises interest on investments (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, gains on revaluation of fair value of interest in an acquired company that the Mercator Group and the company Poslovni sistem Mercator d.d. had held in the acquired company before the acquisition, and gains on hedging instruments that are recognized in the income statement. Interest income is recognized as it arises, using the effective interest method. Dividend income is recognized in the income statement as at the day when the shareholder's right to payment is exercised; for companies listed on the stock market, this is, as a rule, the day when the right to current dividend ceases to be related to the share.

Finance expenses comprise costs of borrowings, unwinding of the discount on provisions and contingencies, losses from disposal and impairment of available-for-sale financial assets, dividend on preferred shares reported in liabilities, and reclassification of amounts previously recognized as other comprehensive income. Borrowing costs that do not pertain directly to acquisition, construction, or production of an asset under construction are recognized in the income statement using the effective interest method.

Gains and losses from translation between currencies are recognized at net value as finance income or expenses.

s) Corporate income tax

Corporate income tax on income or loss for the financial year comprises current and deferred tax. Income tax is recognized in the income statement, except to the extent that it relates to items disclosed directly in equity or other comprehensive income, in which case it is recognized in equity or in other comprehensive income.

v. Current tax

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous business years.

vi. Deferred tax

Deferred tax is disclosed using the balance sheet liability method, taking into account temporary differences between the carrying amounts of assets and liabilities used for the purpose of financial and tax reporting. The following temporary differences are not considered:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit,
- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future,
- taxable temporary differences upon initial recognition of goodwill.

Deferred tax liabilities are recognized in the amount expected to be paid upon reversal of temporary differences, based on the laws that have been enacted or substantively enacted as at the reporting date.

The Mercator Group and the company Poslovni sistem Mercator d.d. offset deferred tax assets and liabilities if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

As a rule, deferred tax assets are recognized to the extent it is probable that future taxable profit will be available against which a deferred tax asset can be used in the future. Deferred tax assets are decreased by the amount for which it is no longer probable that tax breaks associated with the asset can be utilized in the future.



t) Earnings per share

The Mercator Group and the company Poslovni sistem Mercator d.d. calculate basic earnings per share by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Since the Mercator Group and the company Poslovni sistem Mercator d.d. do not have any dilutive potential ordinary shares (e.g. preference shares or convertible bonds), diluted earnings per share equal the basic earnings per share.

4. Use of new and revised International Financial Reporting Standards (IFRS)

Initial application of new amendments to the existing Standards and Interpretation effective for current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for current financial period:

- **IFRS 9 “Financial Instruments”** – adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018),
- **IFRS 15 “Revenue from Contracts with Customers”** and amendments to IFRS 15 “Effective date of IFRS 15” – adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 2 “Share-based Payment”** – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on February 26, 2018 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** – applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 “Financial Instruments” is applied for the first time),
- **Amendments to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 “Revenue from Contracts with Customers” – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property – adopted by the EU on March 14, 2018 (effective for annual periods beginning on or after January 1, 2018),
- **Amendments to IFRS 1 and IFRS 28 “Improvements to IFRSs (cycle 2014–2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12, IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on February 7, 2018 (amendments to IFRS 1 and IFRS 28 are to be applied for annual periods beginning on or after January 1, 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** – adopted by the EU on March 28, 2018 (effective for annual periods beginning on or after January 1, 2018).

The implementation of the standard **IFRS 9 – Financial Instruments** had an impact on the financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. with regard to impairment of receivables, which is now calculated according to the expected loss model also for receivables not yet due. Explanation related to the implementation of the new standard is disclosed in more in note 30 (Financial Instruments).

The Group adopted IFRS 15 on January 1, 2018. **IFRS 15** replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes and IFRIC 15 – Agreements for the Construction of Real Estate. It covers all contracts concluded with buyers, except leases (revenue from lease and sublease), financial instruments (interest revenue) and insurance contracts covered by other standards.

IFRS 15 introduces a unified 5-step model for defining when and how much revenue should be recognized according to particular contract. It introduces new concepts and principles of revenue recognition, including concepts and principles for recognition of performance obligations or for allocation of transaction prices for contracts with more integral prices. Revenue must be recognized in a manner that reflects the transfer of goods



and services to buyer, and payments, which the company anticipates to receive in exchange for goods and services. Principles in IFRS 15 are applied with the use of following five steps:

1. Recognition (identification) of the contract with a costumer
2. Recognition (identification) of the performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations
5. Recognition of revenue as the performance obligation is satisfied

Since most of the Group's revenue is represented by the sales to end buyers in stores without any other performance obligation where the revenue is recognized when the buyers pass the cash-register, the impact of the use of IFRS 15 on recognition of revenue and other operating revenue is insignificant.

The adoption of other new standards and amendments to the existing standards has not caused significant changes in financial statement.

Standards and amendments to the existing standards issued by the IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following amendments to the existing standards issued by the IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 16 "Leases"** – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IFRS 9 "Financial Instruments"** – Elements of prepayment with negative compensation – adopted by the EU on March 22, 2018 (effective for annual periods beginning on or after January 1, 2019)
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on October 23, 2018 (effective for annual periods beginning on or after January 1, 2019).

The purpose of the new standard **IFRS 16** is to facilitate the comparability of financial statements, since the finance as well as operating lease are presented in the tenants' financial position and it provides the users of financial statements with relevant information on risks related to such contracts. Contrary to accounting of tenants, IFRS 16 significantly emphasizes the accounting requests of the lessor in IAS 17. Significant distinctive element between the definition of lease in accordance with IAS 17 and in accordance with IFRS 16 is the concept of control. Pursuant to IFRS 16, the contract represents or includes a lease if it transfers the right to control particular identified asset for a certain period in exchange for compensation. Control is present, if the tenant (or client) has:

- right to significantly acquire all economic benefits from the use of identifies asset; and
- right to direct use of this asset.

The Mercator Group/company Poslovni sistem Mercator d.d. will use the new definition of lease and its related policies defined in IFRS 16 for all lease contracts concluded or changed or amended on or after January 1, 2019.

Date of entry into force of IFRS 16 for the Mercator Group and the company Poslovni sistem Mercator d.d. is January 1, 2019.

The Mercator Group and the company Poslovni sistem Mercator d.d. have decided for **modified retrospective approach** (approach of retrospective use with cumulative effect) of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Mercator Group will not prepare comparable financial statements, but will recognize the cumulative effect of the transition to IFRS 16 as revaluation of equity (retained earnings) on the date of initial use.

The Mercator Group and the company Poslovni sistem Mercator d.d. have decided not to use this new standard, amendment to the existing standard and the new explanation before the dates of application. The Mercator Group and the company Poslovni sistem Mercator d.d. estimate that the adoption of standard **IFRS 16** will have an impact on financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d., The impact of the new standard on the Group's and Company's financial statements for 2019 is presented below.



| in EUR thousand | Mercator Group | Poslovni sistem Mercator d.d. |
|---|--------------------------|----------------------------------|
| | As at January 1, 2019 | As at January 1, 2019 |
| Right-Of-Use assets | 301,643 | 39,892 |
| Financial liability from lease | (298,596) | (40,485) |
| Impairment for onerous contracts | - | - |
| Rents paid in advance | 13,951 | - |
| Impact of standard recognized through equity revaluation* | (31,075) | (288) |
| Total | (14,078) | (881) |
| Expected impact of the standard on cash flow in 2019: | - | - |
| - cash flow from operating activities | 18,811 | 2,263 |
| - cash flow from financing activities | (18,811) | (2,263) |

*Equity revaluation at the Mercator Group level in the amount of EUR 31.1 million reflect the following:

- the estimated revaluation of the Right-Of-Use assets for locations under the sublease (all property under the sublease will be recognised in accordance with IAS 40 at fair value) in the amount of EUR 21.7 million;
- the estimated revaluation of the Right-Of-Use assets for all other locations where Mercator Group carries out its core activities in the amount of EUR 9.4 million.

The implementation of other new standards and amendments to existing standards in the period of initial use will not have a significant impact on the financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d.,

New standards and amendments to the existing standards issued by the IASB but not yet adopted by the EU
At present, IFRS as adopted by the EU do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB) except from the following new standards and amendments to the existing standards, which as at December 31, 2018 (the effective dates stated below apply to IFRS as disclosed by IASB) were not endorsed for use in the EU:

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after January 1, 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after January 1, 2021),
- **Amendments to IFRS 3 “Business Combinations”** – The definition of a business (applicable to business combinations, where the date of acquisition is the same as the date of beginning of the first annual reporting period beginning on or after January 1, 2020, and for acquisitions of assets at the beginning or after this period),
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates, Errors”** – The definition of *Material* (effective for annual periods beginning on or after January 1, 2020),
- **Amendments to IAS 19 “Employee Benefits** – Planning of amendments, curtailments, and settlements (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** – Long-term interests in associates and joint ventures (effective for annual periods beginning on or after January 1, 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019).



- **Amendments to References to Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after January 1, 2020).

The Mercator Group and the company Poslovni sistem Mercator d.d. anticipate that the adoption of these new standards and the amendments to the existing standards in the period of initial application will not have a significant impact on the financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d.

Hedge accounting regarding the portfolio of financial assets and liabilities, the principles of which have not been adopted yet by the EU, is still unregulated.

5. Fair value determination

The Mercator Group and the company Poslovni sistem Mercator d.d. determined the fair value of individual groups of assets for the purposes of measuring or reporting in compliance with the methods described below. Where additional interpretations relating to assumptions for measurement of fair value are needed, they are stated in the breakdowns of individual items of assets or liabilities of the Mercator Group and the company Poslovni sistem Mercator d.d.

a) Property, plant and equipment

Fair value of property, plant and equipment from business combinations equals their market value at which a willing buyer and a willing seller would trade the property as at the day of the appraisal of value in a transaction between non-associated and independent parties after reasonable marketing, with both parties taking part in the trade being informed, prudent, and without force or coercion. Description of the determination of property fair value is available in Note 3 (f) Property, plant and equipment.

b) Intangible assets

The fair value of patents and trademarks acquired through business combinations is based on estimated discounted royalty payments which will no longer be necessary thanks to the ownership of a patent or trademark. The fair value of other intangible assets is based on the current value of expected future cash flows projected to arise from use and potential sale of such assets.

c) Investment property

The fair values in business or strategic combinations are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

If the current prices in an active market cannot be determined, the property investment value is measured based on the aggregate value of cash flows expected to be received from renting out the property. Yield reflecting specific risks is included in the calculation of the property value based on discounted net cash flows on annual basis.

Where appropriate, the property appraisal should be based on consideration of the following: the type of tenants currently residing in or responsible for meeting lease commitments or likely to become its tenants after the real estate is rented out, and overall picture of their credit rating; the allocation of maintenance and insurance responsibilities between the Mercator Group, the company Poslovni sistem Mercator d.d. and the lessee; and the remaining life of the investment property. When in reviewing or renewing the lease contract it is expected that subsequent increase in rent will occur due to restoring its original condition, it is deemed that all notices, and when appropriate counter-notices, have been served validly and on time.



d) Inventories

The fair value of inventories acquired in business combinations is determined based on their estimated selling price in ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin considering the work required to complete and sell the inventories.

e) Investments in equity and debt securities

The fair value of financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets in business or strategic combinations is determined by reference to their quoted bid price as at the reporting date or, if not available, by using one of valuation methods according to IFRS standards. Valuation methods which can be employed include market multiples and discounted cash flow analysis using expected future cash flows and a market-related discount rate.

f) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, in business combinations is estimated as the present value of future cash flows, discounted at the market rate of interest as at the reporting date.

g) Non-derivative financial liabilities

The fair value of bonds for the disclosure purposes is calculated based on the most recently available market value of bonds in the stock market, prior to the reporting date. Fair values of other non-derivative financial liabilities are not determined, as their carrying amount represents a reasonable approximation of fair value.

6. Tax policy

a) Slovenia

Tax statements (financial statements for tax authorities) of the company Poslovni sistem Mercator d.d. and the companies of the Mercator Group in Slovenia, are prepared in accordance with the International Financial Reporting Standards and the Corporate Income Tax Act.

Corporate income tax rate is at 19%.

Pursuant to the Corporate Income Tax Act, a company's tax base is the profit as the surplus of revenues over expenses, where the basic criteria for recognition in a tax statement are still the revenues and expenses as shown in the income statement, defined pursuant to the legislation or accounting standards.

When calculating corporate income tax, the following tax reliefs can be exercised:

- relief for investments in research and development,
- relief for employment of disabled people of 50% or 70% of the disabled's salaries,
- relief for carrying out practical training within professional training,
- relief for voluntary supplementary pension insurance,
- relief for donations,
- relief for investments in equipment and intangible assets of 40%,
- relief for employment of unemployed under 26 or over 55.

In 2018, the companies recognized and reversed deferred income tax related to the following items:

- differences between operating and tax depreciation and amortization,
- differences in allowances for receivables,
- differences in value of provisions,
- tax losses,



- revaluation of goodwill,
- fixed assets the value of which does not exceed EUR 500 and the useful life of which is longer than one year,
- revaluation of available-for-sale financial assets,
- unused tax breaks,
- revaluation of fixed assets to a higher value (appreciation),
- impairment of investment into equity of subsidiaries.

Each company has to provide documentation on transfer prices; general documentation may be common to a group of related entities as a whole.

b) Serbia

Tax statements of the company Mercator-S d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit pravnih lica').

Corporate income tax rate is at 15%.

In 2018, the company recognized and reversed deferred income taxes in relation to the following:

- differences between operating and tax depreciation and amortization,
- differences in inventories adjustments,
- differences in value of provisions,
- revaluation of fixed assets to a higher value (appreciation),
- tax reliefs,
- calculated, unpaid public income.

The company is obliged to prepare transfer pricing documentation.

c) Croatia

Tax statements of the company Mercator-H d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit').

Taxable base is the profit calculated according to the accounting principles, from which tax recognized costs are subtracted, or to which non-recognized costs are added.

Corporate income tax rate is at 18%.

In 2018, the company recognized deferred taxes liabilities arising from revaluation to a higher value (appreciation) of fixed assets.

The company is obliged to prepare transfer pricing documentation.

d) Bosnia and Herzegovina

Tax statements of the company Mercator-BH, d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit').

Corporate income tax rate is at 10%.

e) Montenegro

Tax statements of the company Mercator-CG d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit pravnih lica').



Corporate income tax rate is at 9%.

In 2018, the company recognized deferred tax liabilities arising from differences between business and tax-deductible depreciation.

7. Business mergers and reorganization of the Mercator Group

In 2018, no such business events took place in the company Poslovni sistem Mercator d.d. neither in the Mercator Group.



8. Business segments

Mercator Group

For the requirements of reporting by business segments, the Mercator Group defined business segments by the countries where the Group carries out its activities. Operating results of a segment are regularly reviewed by a manager who adopts decisions in order to provide basis for adoption of decisions on resources that need to be allocated to certain segment, and who evaluates the performance of operations.

In 2018, the Mercator Group was operating in five countries:

- Slovenia, where the headquarters of the parent company is located, which is also the largest business unit of the Mercator Group. Fields of operation in Slovenia include the following: trade (retail and wholesale), food production, and other non-trade activities (companies: Poslovni sistem Mercator d.d., Mercator-Emba d.d., Mercator IP d.o.o., M-Energija d.o.o.),
- Serbia (company Mercator-S d.o.o.), Croatia (company Mercator-H d.o.o.), Bosnia and Herzegovina (company Mercator-BH d.o.o.) and Montenegro (company Mercator-CG d.o.o.).

The consolidated financial statements also include companies Platinum - A, d.o.o., Platinum - B, d.o.o., Platinum - C, d.o.o., Platinum - D, d.o.o., Mercator - Velpro d.o.o., Mercator Maxi, d.o.o., Mercator Humanitarian Foundation, Mercator Makedonia, d.o.o.e.l., Investment Internacional, d.o.o.e.l., which do not carry out business activities.

For selling goods, products and services between the segments market prices are used. Revenues from any individual customer do not reach 10% of total sales revenues of the Mercator Group.

| in EUR thousand | Slovenia | | Serbia | | Croatia | | Bosnia and Herzegovina | | Montenegro | | Total | | Eliminations | | Mercator Group - consolidated | |
|-------------------------------|-----------|-----------|---------|---------|---------|---------|------------------------|---------|------------|---------|-----------|-----------|--------------|---------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Assets as at December 31 | 1,371,032 | 1,434,048 | 458,354 | 541,278 | 293,474 | 294,030 | 111,319 | 119,495 | 64,368 | 64,249 | 2,298,547 | 2,453,099 | 362,249 | 376,375 | 1,936,298 | 2,076,724 |
| Liabilities as at December 31 | 926,799 | 987,705 | 357,790 | 419,285 | 122,990 | 259,605 | 53,889 | 58,508 | 30,185 | 29,265 | 1,491,654 | 1,754,368 | 34,881 | 156,045 | 1,456,773 | 1,598,322 |
| Sales revenue | 1,239,852 | 1,241,729 | 709,578 | 746,567 | 22,147 | 22,686 | 106,185 | 36,041 | 119,521 | 124,041 | 2,197,284 | 2,171,064 | 20,097 | 18,891 | 2,177,187 | 2,152,172 |
| Sales expense | 1,173,708 | 1,193,168 | 704,608 | 769,704 | 17,007 | 27,237 | 104,295 | 26,990 | 113,646 | 117,111 | 2,113,263 | 2,134,210 | 20,097 | 18,174 | 2,093,166 | 2,116,036 |
| Interest income | 3,410 | 5,608 | 392 | 105 | 44 | 11 | 427 | 602 | 253 | 254 | 4,526 | 6,580 | 3,581 | 5,757 | 945 | 824 |
| Interest expense | 20,170 | 20,837 | 8,219 | 10,836 | 5,599 | 7,794 | 1,069 | 1,208 | 155 | 132 | 35,213 | 40,807 | 3,576 | 5,756 | 31,636 | 35,051 |



Poslovni sistem Mercator d.d.

In 2018, the company Poslovni sistem Mercator d.d. operated as a single economic entity with business and geographical segments. As a result, for 2018, the Company does not display business information either by business or geographical segments, but geographical segments are displayed for the entire group at a consolidated level.

9. Sales revenue

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|------------------|------------------|----------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Sale of goods | 2,082,214 | 2,060,308 | 1,148,039 | 1,136,103 |
| Sales of services | 74,450 | 83,654 | 37,523 | 37,767 |
| Sales of products | 27,940 | 16,172 | - | 16,172 |
| Sales of materials | 461 | 468 | 111 | 103 |
| Expenses for rabats and discounts granted | (7,878) | (8,430) | (3,764) | (3,523) |
| Total | 2,177,187 | 2,152,172 | 1,181,909 | 1,186,622 |

Revenue from sales of goods are reduced by discounts granted to buyers, holders of Pika card.

10. Other operating revenue

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|----------------|---------------|----------------------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Profit from sales of property, plant and equipment | 13,907 | 9,967 | 2,996 | 3,805 |
| Revenue from reversal of provisions | 4,637 | 6,120 | 1,776 | 3,903 |
| Other operating revenue | 11,702 | 9,728 | 4,282 | 5,159 |
| Total | 30,246 | 25,815 | 9,054 | 12,867 |

Mercator Group

Profit from the sale of property, plant and equipment in the amount of EUR 13,907 thousand (2017: EUR 9,967 thousand) refer mostly to the sale of Mercator Center Belgrade in Serbia.

Revenue from the reversal and utilization of provisions in the amount of EUR 4,637 thousand (2017: EUR 6,120 thousand) refer to the use of assigned assets for disability contributions, legal proceedings and reversal of provisions for termination benefits and jubilee benefits.

Among other operating revenue in the amount of EUR 11,702 thousand (2017: EUR 9,728 thousand), the Mercator Group discloses income from indemnities based on insurance premiums and other indemnities in the amount of EUR 1,917 thousand, revenue from costs of warnings and lawsuits in the amount of EUR 1,063 thousand, revenue from employment disability benefits in the amount of EUR 786 thousand and other business revenue in the amount of EUR 7,936 thousand.

Poslovni sistem Mercator d.d.

Profit from the sale of property, plant and equipment amounted to EUR 2,996 thousand in 2018 (2017: EUR 3,805 thousand).

Revenue from the reversal of provisions include drawing of provisions for the improvement of working conditions for the disabled in the amount of EUR 1,138 thousand (2017: EUR 2,253 thousand), reversal of provisions for jubilee benefits in the amount of EUR 595 thousand (2017: EUR 1,550 thousand) and EUR 43 thousand (2017: EUR 100 thousand) from the reversal of provisions for termination benefits.

Among other operating revenue the Company discloses income from indemnities based on insurance premiums and other indemnities in the amount of EUR 920 thousand (2017: EUR 718 thousand), revenue from employment



disability benefits in the amount of 786 thousand EUR (2017: EUR 795 thousand) and other operating revenue in the amount of EUR 2,576 thousand (2017: EUR 3,646 thousand).

11. Cost of goods sold, selling costs and administrative expenses

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|------------------|------------------|----------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Depreciation of property, plant and equipment | 65,247 | 66,275 | 30,362 | 30,536 |
| Amortization of intangible assets | 3,232 | 3,570 | 2,229 | 2,214 |
| Depreciation of investment property | - | 1 | - | 1 |
| Labour costs | 246,626 | 237,645 | 164,797 | 165,058 |
| Costs of material | 72,540 | 68,905 | 28,110 | 26,359 |
| Costs of services excluding rents | 141,726 | 138,430 | 95,336 | 89,458 |
| Lease payments | 67,771 | 70,140 | 9,371 | 9,202 |
| Other costs | 13,794 | 14,477 | 8,444 | 8,671 |
| Provisioning | 3,032 | 5,740 | 2,058 | 4,833 |
| Impairment of property, plant and equipment and investment property | 805 | 147,365 | - | 98,033 |
| Impairment of goodwill and intangible assets | - | 1,785 | - | 1,299 |
| Impairment of property, plant and equipment | 716 | 6,978 | 396 | 4,647 |
| Loss at sales of property, plant and equipment | 501 | 519 | 401 | 313 |
| Expenses due to impairment of receivables | (2,218) | 4,117 | (868) | 5,523 |
| Change in the value of inventories | (242) | (27) | - | - |
| Other operating expenses | 1,940 | 5,388 | 630 | 690 |
| Cost of goods sold | 1,553,618 | 1,579,188 | 813,748 | 839,767 |
| Total cost of goods sold, selling costs and administrative expenses | 2,169,090 | 2,350,495 | 1,155,014 | 1,286,605 |
| - of which expenses by type | 613,969 | 605,182 | 340,707 | 336,333 |

Mercator Group

The cost of goods sold is reduced by rebates and received discounts. It is increased by revaluation of inventories and write-downs of damaged, expired and obsolete inventory and deficits.

Impairment of property, plant, equipment and intangible assets relates to impairment of property in accordance with the accounting policy of the Mercator Group, rules and International Accounting Standards.

Provisions in the amount of EUR 3,032 thousand were created in connection with civil claims, onerous contracts, termination benefits upon retirement and reorganization.

Among the costs of services, the Mercator Group in 2018 shows audit costs for auditing the annual report. To the same audit firms, EUR 232 thousand were paid in the year 2018 for other assurance services and other non-audit services.

Poslovni sistem Mercator d.d.

The cost of goods sold is reduced by rebates and received discounts. It is increased by revaluation of inventories and write-downs of damaged, expired and obsolete inventory and deficits.

The total amount of all remuneration of employees of the Company employed under a contract, that is not subject to the tariff part of the collective agreement, excluding the members of the management, amounted to EUR 5,113 thousand in 2018.



Impairment of property, plant, equipment and intangible assets relates to impairment of property in accordance with the accounting policy of the Mercator Group, rules and International Accounting Standards.

Provisions in the amount of EUR 2,058 thousand were created in connection with civil claims, onerous contracts, termination benefits upon retirement and reorganization.

Among the costs of services, the Mercator Group in 2018 shows audit costs for auditing the annual report. To the same audit firms, EUR 132 thousand were paid in the year 2018 for other assurance services and other non-audit services.

12. Labour costs

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---------------------------------|----------------|----------------|----------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Gross salaries | 180,887 | 172,301 | 115,697 | 114,127 |
| Pension insurance costs | 22,253 | 21,493 | 13,329 | 13,250 |
| Health insurance costs | 9,923 | 9,572 | 8,547 | 8,444 |
| Other labour costs | 33,563 | 34,278 | 27,224 | 29,237 |
| Total | 246,626 | 237,645 | 164,797 | 165,058 |
| Number of employees as at 31/12 | 20,310 | 20,801 | 9,052 | 9,227 |

Mercator Group

Labour costs at the Group level in 2018 amounted to EUR 246,626 thousand (2017: EUR 237,645 thousand).

Among other labour costs, which amounted to EUR 33,563 thousand (2017: EUR 34,278 thousand) in 2018, the Mercator Group classifies reimbursement of meal allowances during work, reimbursement of commute allowances, annual leave allowances and other labour costs.

Poslovni sistem Mercator d.d.

Labor costs at the company Poslovni sistem Mercator d.d. in 2018 amounted to EUR 164,797 thousand (2017: EUR 165,058 thousand).

Among other labour costs, which amounted to EUR 27,224 thousand (2017: EUR 29,237 thousand) in 2018, the company Poslovni sistem Mercator d.d. includes reimbursement of meal allowances during work, reimbursement of commute allowances, annual leave allowances and other labour costs.



13. Finance income and expenses

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|-----------------|-----------------|----------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest income | 945 | 824 | 3,165 | 5,402 |
| Gains on disposal of available-for-sale financial investments | - | - | - | - |
| Dividends received | 8 | 8 | 354 | 290 |
| Other financial income | 238 | 311 | 4,651 | 310 |
| Finance revenue | 1,191 | 1,143 | 8,170 | 6,002 |
| Interest expenses | (31,636) | (35,050) | (20,092) | (20,632) |
| Losses on disposal of available-for-sale financial assets | - | - | - | - |
| Impairments from revaluation of financial investments | - | (47) | (28,321) | (115,627) |
| Other finance expenses | (3,064) | (1,599) | (1,628) | (5,896) |
| Finance expenses | (34,701) | (36,696) | (50,041) | (142,155) |
| Net foreign exchange differences | 2,945 | 5,483 | (2) | 52 |
| Net finance expense recognized in the income statement | (30,565) | (30,071) | (41,873) | (136,101) |

Mercator Group

The largest share of the finance expenses of the Mercator Group represent interest expenses, which amounted to EUR 31,636 thousand in 2018 (2017: EUR 35,050 thousand).

Poslovni sistem Mercator d.d.

The largest part of finance expenses of the company Poslovni sistem Mercator d.d. represent impairments from the revaluation of financial investments, which in 2018 include the impairment of investments in the companies Mercator-H d.o.o., Mercator S d.o.o., and M Energija d.o.o.

The second largest part represent interest expenses, which amounted to EUR 20,092 thousand in 2018 (2017: 20,632).



14. Property, plant and equipment

| Mercator Group | | | | | |
|--|----------------|----------------|----------------------------|-------------------|------------------|
| in EUR thousand | Land | Buildings | Equipment and other assets | FA being required | Total |
| As at January 2017 | | | | | |
| Cost | 495,786 | 1,524,164 | 397,373 | 28,572 | 2,445,895 |
| Revaluation | - | (612,161) | (263,490) | (339) | (875,990) |
| Carrying amount | 495,786 | 912,003 | 133,882 | 28,233 | 1,569,905 |
| Year ended December 31, 2017 | | | | | |
| Opening carrying amount | 495,786 | 912,003 | 133,882 | 28,233 | 1,569,905 |
| Effect of foreign exchange differences | 3,295 | 8,462 | 2,311 | 288 | 14,357 |
| Investments | - | 1,212 | 14,190 | 51,789 | 67,190 |
| Transfers | (37,753) | (79,393) | - | - | (117,146) |
| Disposals | (20,242) | (25,757) | (2,436) | (70) | (48,504) |
| Depreciation | - | (40,140) | (26,134) | - | (66,274) |
| Appreciation or impairment | (77,232) | 47,928 | - | - | (29,303) |
| Other changes | (31,692) | (151,546) | 19,074 | (66,823) | (230,987) |
| Closing carrying amount | 332,163 | 672,770 | 140,887 | 13,418 | 1,159,237 |
| Balance as at December 31, 2017 | | | | | |
| Cost | 333,011 | 1,219,677 | 414,787 | 14,070 | 1,981,545 |
| Revaluation and impairment | (848) | (546,907) | (273,900) | (652) | (822,308) |
| Carrying amount | 332,163 | 672,770 | 140,887 | 13,418 | 1,159,237 |
| Year ended December 31, 2018 | | | | | |
| Opening carrying amount | 332,163 | 672,770 | 140,887 | 13,418 | 1,159,237 |
| Effect of foreign exchange differences | 207 | 239 | 200 | 14 | 659 |
| Investments | 35 | 405 | 3,353 | 22,630 | 26,423 |
| Transfers | (10,329) | (62,628) | 62,307 | (22,786) | (33,435) |
| Disposals | (8,915) | (2,479) | (687) | (7) | (12,088) |
| Depreciation | - | (26,326) | (38,763) | (158) | (65,247) |
| Appreciation or impairment | - | (6) | (568) | - | (574) |
| Other changes | 2 | 3,102 | 117 | (3,199) | 23 |
| Closing carrying amount | 313,163 | 585,076 | 166,847 | 9,910 | 1,074,997 |
| Balance as at December 31, 2018 | | | | | |
| Cost | 313,163 | 1,078,921 | 514,358 | 10,564 | 1,917,006 |
| Revaluation and impairment | - | (493,846) | (347,510) | (654) | (842,009) |
| Carrying amount | 313,163 | 585,076 | 166,847 | 9,910 | 1,074,997 |

**Poslovni sistem Mercator d.d.**

| in EUR thousand | Land | Buildings | Equipment and other assets | FA being acquired | Total |
|-----------------|------|-----------|----------------------------------|----------------------|-------|
|-----------------|------|-----------|----------------------------------|----------------------|-------|

As at January 1, 2017

| | | | | | |
|------------------------|----------------|----------------|---------------|---------------|----------------|
| Cost | 305,574 | 879,842 | 232,558 | 19,423 | 1,437,396 |
| Revaluation | - | (395,879) | (173,791) | - | (569,670) |
| Carrying amount | 305,574 | 483,963 | 58,767 | 19,423 | 867,726 |

Year ended December 31, 2017

| | | | | | |
|--|----------------|----------------|---------------|---------------|----------------|
| Opening carrying amount | 305,574 | 483,963 | 58,767 | 19,423 | 867,726 |
| Effect of foreign exchange differences | - | - | - | - | - |
| Investments | - | - | - | 17,753 | 17,753 |
| Transfers | (35,913) | (59,290) | - | - | (95,203) |
| Disposals | (6,959) | (2,734) | (1,452) | - | (11,144) |
| Depreciation | - | (21,428) | (9,108) | - | (30,536) |
| Appreciation or impairment | (56,894) | 49,104 | - | - | (7,790) |
| Other changes | 32,298 | (12,943) | 7,027 | (31,037) | (4,654) |
| Closing carrying amount | 238,106 | 436,673 | 55,234 | 6,139 | 736,152 |

Balance as at December 31, 2017

| | | | | | |
|----------------------------|----------------|----------------|---------------|--------------|----------------|
| Cost | 238,106 | 871,187 | 229,544 | 6,139 | 1,344,976 |
| Revaluation and impairment | - | (434,515) | (174,309) | - | (608,824) |
| Carrying amount | 238,106 | 436,673 | 55,234 | 6,139 | 736,152 |

Year ended December 31, 2018

| | | | | | |
|--|----------------|----------------|---------------|--------------|----------------|
| Opening carrying amount | 238,106 | 436,673 | 55,234 | 6,139 | 736,152 |
| Effect of foreign exchange differences | - | - | - | - | - |
| Investments | - | - | - | 13,182 | 13,182 |
| Transfers | (11,526) | (46,062) | 13,389 | (9,226) | (53,426) |
| Disposals | (7,764) | (2,328) | (77) | - | (10,169) |
| Depreciation | - | (18,995) | (11,367) | - | (30,362) |
| Appreciation or impairment | - | - | (396) | - | (396) |
| Other changes | 3 | 3,055 | 11 | (3,067) | 1 |
| Closing carrying amount | 218,819 | 372,342 | 56,795 | 7,027 | 654,982 |

Balance as at December 31, 2018

| | | | | | |
|------------------------|----------------|----------------|---------------|--------------|----------------|
| Cost | 218,819 | 781,898 | 244,068 | 7,027 | 1,251,812 |
| Revaluation | - | (409,557) | (187,273) | - | (596,830) |
| Carrying amount | 218,819 | 372,342 | 56,795 | 7,027 | 654,982 |



| <i>Investments in property, plant and equipment shown in the context of investments refer to:</i> | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|----------------|---------------|-------------------------------|---------------|
| in EUR thousand | 2018 | 2017 | 2018 | 2017 |
| Purchase of land, buildings and equipment | 4,630 | 11,173 | 1,101 | 2,396 |
| Refurbishment of existing retail and wholesale units | 16,508 | 45,079 | 9,228 | 9,006 |
| Other | 5,285 | 10,938 | 2,853 | 6,351 |
| Total | 26,423 | 67,190 | 13,182 | 17,753 |

| <i>Decreases in property, plant and equipment relate to:</i> | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|----------------|---------------|-------------------------------|---------------|
| in EUR thousand | 2018 | 2017 | 2018 | 2017 |
| Real estate sales | 11,394 | 45,999 | 10,092 | 9,692 |
| Sale of equipment | 687 | 2,436 | 77 | 1,452 |
| Write-offs | 7 | 70 | - | - |
| Total | 12,088 | 48,504 | 10,169 | 11,144 |

Mercator Group

As at December 31, 2018, value of land, buildings and equipment of the Mercator Group amounted to EUR 1,074,997 thousand. Investments in property, plant and equipment amounted to EUR 26,423 thousand, while disposals of property, plant and equipment amounted to EUR 12,088 thousand.

Poslovni sistem Mercator d.d.

As at December 31, 2018, value of land, buildings and equipment amounted to EUR 654,982 thousand. In 2018, investments in property, plant and equipment amounted to EUR 13,182 thousand, while disposals of property, plant and equipment amounted to EUR 10,169 thousand.

| <i>If land was disclosed at historical cost, the amounts would be as follows:</i> | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|----------------|---------------|-------------------------------|---------------|
| in EUR thousand | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Cost | 264,021 | 272,957 | 179,054 | 198,351 |

| <i>The carrying amount of property, plant and equipment under financial leases amounts to:</i> | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|----------------|---------------|-------------------------------|---------------|
| in EUR thousand | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Cost | 83,779 | 170,731 | 82,081 | 102,748 |

The carrying amount of property, plant and equipment under financial leases amounts to EUR 83,779 thousand for the Mercator Group (2017: EUR 170,731 thousand) and EUR 82,081 thousand for the company Poslovni sistem Mercator, d.d., (2017: EUR 102,748 thousand) and refers almost entirely to land and buildings.



15. Intangible assets

| in EUR thousand | Mercator Group | | | Poslovni sistem Mercator d.d. | | |
|--|----------------|---|---------------|-------------------------------|---|---------------|
| | Goodwill | Trademarks, material rights and licenses | Total | Goodwill | Trademarks, material rights and licenses | Total |
| As at January 1, 2017 | | | | | | |
| Cost | 1,669 | 72,646 | 74,315 | 1,200 | 46,659 | 47,859 |
| Revaluation | - | (52,352) | (52,352) | - | (34,404) | (34,404) |
| Carrying amount | 1,669 | 20,294 | 21,963 | 1,200 | 12,255 | 13,455 |
| Year ended December 31, 2017 | | | | | | |
| Opening carrying amount | 1,669 | 20,294 | 21,963 | 1,200 | 12,255 | 13,455 |
| Effect of foreign exchange differences | 18 | 292 | 309 | - | - | - |
| Investments | - | 3,713 | 3,713 | - | 2,630 | 2,630 |
| Transfers | - | 2 | 2 | - | 2 | 2 |
| Disposals | - | - | - | - | - | - |
| Depreciation | - | (3,570) | (3,570) | - | (2,214) | (2,214) |
| Appreciations and impairments | (1,686) | (99) | (1,785) | (1,200) | (99) | (1,299) |
| Other changes | - | - | - | - | - | - |
| Closing carrying amount | - | 20,632 | 20,632 | - | 12,573 | 12,573 |
| Balance as at December 31, 2017 | | | | | | |
| Cost | 1,669 | 76,412 | 78,081 | 1,200 | 48,680 | 49,880 |
| Revaluation and impairment | (1,669) | (55,780) | (57,449) | (1,200) | (36,107) | (37,307) |
| Carrying amount | - | 20,632 | 20,632 | - | 12,573 | 12,573 |
| Year ended December 31, 2018 | | | | | | |
| Opening carrying amount | - | 20,632 | 20,632 | - | 12,573 | 12,573 |
| Effect of foreign exchange differences | 19 | 15 | 33 | - | - | - |
| Investments | - | 3,282 | 3,282 | - | 2,609 | 2,609 |
| Transfers | - | (0) | (0) | - | - | - |
| Disposals | - | - | - | - | - | - |
| Depreciation | - | (3,232) | (3,232) | - | (2,229) | (2,229) |
| Appreciations and impairments | (19) | - | (19) | - | - | - |
| Other changes | - | 248 | 248 | - | - | - |
| Closing carrying amount | - | 20,945 | 20,945 | - | 12,953 | 12,953 |
| Balance as at December 31, 2018 | | | | | | |
| Cost | - | 77,808 | 77,808 | - | 49,174 | 49,174 |
| Revaluation and impairment | - | (56,863) | (56,863) | - | (36,221) | (36,221) |
| Carrying amount | - | 20,945 | 20,945 | - | 12,953 | 12,953 |

Mercator Group

As at December 31, 2018, intangible assets amount to EUR 20,945 thousand (2017: EUR 20,632 thousand) and include rights, patents, licenses, trademarks and investments into software.



The value of intangible assets increased in 2018 due to investments in the amount of EUR 3,282 thousand.

The trademark value as at December 31, 2018 amounts to EUR 3,700 thousand and refers to the trademark Roda in Serbia. The estimated useful life of the trademark is unlimited. On December 31, 2018, it was tested for potential impairment, which was not identified.

In 2018, the impairments from intangible assets amounted to EUR 19 thousand (2017: EUR 1,785 thousand).

Amortization of intangible assets amounts to EUR 3,232 thousand (2017: EUR 3,570 thousand).

In the process of restructuring of financial liabilities, the Group pledged the brand Roda in Serbia, the carrying amount of which is EUR 3,700 thousand, and other brands that are not disclosed in the balance sheet.

Poslovni sistem Mercator d.d.

As at December 31, 2018, intangible assets amount to EUR 12,953 thousand (2017: EUR 12,573 thousand) and include rights, patents, licenses, trademarks and investments into software.

The value of intangible assets increased in 2018 due to investments in the amount of EUR 2,609 thousand.

In 2018, no impairments from intangible assets were performed (2017: EUR 1,299 thousand).

Amortization of intangible assets amounts to EUR 2,229 thousand (2017: EUR 2,214 thousand).

In the process of restructuring financial liabilities, the company Poslovni sistem Mercator d.d. has pledged certain brands that do not qualify for recognition in accordance with IAS 19. The company Poslovni sistem Mercator d.d. does not have pledges as a debt liability and does not have any obligations to purchase intangible assets that are recognized in the balance sheet.

16. Investment property

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| As at January 1 | 244,316 | 9,899 | 4,838 | 3,237 |
| Effect of foreign exchange differences | 883 | 592 | - | - |
| Investments | - | - | - | - |
| Transfers | 1,991 | 221,999 | - | 5 |
| Disposals | (7,681) | (716) | (342) | (46) |
| Depreciation | - | - | - | - |
| Appreciation and impairments | 3,386 | 12,542 | - | 1,642 |
| Other changes | (5) | - | 2 | - |
| Balance as at December 31 | 242,890 | 244,316 | 4,498 | 4,838 |



The following amounts were recognized in the income statement with regard to investment property:

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|----------------|--------------|-------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Rental income | 14,336 | 11,122 | 111 | 127 |
| Direct expenses arising from investment property and generating rental income | (4,883) | (5,769) | (87) | (90) |
| Total | 9,453 | 5,353 | 24 | 37 |

Mercator Group

The Mercator Group investment property at the Group level in 2018 amounted to EUR 242,890 thousand (2017: EUR 244,316 thousand).

Poslovni sistem Mercator d.d.

Investment property at the level of company Poslovni sistem Mercator d.d. in 2018 amounted to EUR 4,498 thousand (2017: EUR 4,838 thousand).

Financial liabilities of the company Poslovni sistem Mercator d.d. as at December 31, 2018 are not secured by mortgages on investment property.



17. Investments by the company Poslovni sistem Mercator d.d. in equity of Group companies

| in EUR thousand | As at December 31, 2017 | Equity interest (%) as at December 31, 2017 | Recapitalization | Impairment | As at December 31, 2018 | Equity interest (%) as at December 31, 2018 |
|--|-------------------------|---|------------------|-----------------|-------------------------|---|
| Investments in shares and interests | | | | | | |
| Investments in shares and interests in Group companies: | | | | | | |
| In Slovenia: | | | | | | |
| Mercator-Emba d.d., Logatec | 4,011 | 100.0 | - | - | 4,011 | 100.0 |
| Mercator IP d.o.o., Ljubljana | 1,095 | 100.0 | - | - | 1,095 | 100.0 |
| M-Energija d.o.o., Ljubljana | 0 | 100.0 | 4,413 | (4,413) | 0 | 100.0 |
| Ustanova humanitarna fundacija Mercator, Ljubljana | 2 | 100.0 | - | - | 2 | 100.0 |
| Platinum-A, d.o.o., Platinum-B, d.o.o., Platinum-C, d.o.o., Platinum-D, d.o.o., Mercator-Velpro d.o.o., Mercator Maxi, d.o.o.* | 45 | 100.0 | - | - | 45 | 100.0 |
| | 5,153 | | 4,413 | (4,413) | 5,153 | |
| Abroad: | | | | | | |
| Mercator-S, d.o.o., Novi Sad | 121,992 | 100.0 | - | (19,639) | 102,354 | 100.0 |
| Mercator-H, d.o.o., Zagreb | 0 | 99.3 | 130,868 | (4,270) | 126,599 | 99.8 |
| Mercator-BH, d.o.o., Sarajevo | 32,771 | 56.6 | - | - | 32,771 | 56.6 |
| Mercator Makedonija, d.o.o.e.l., Skopje | 0 | 100.0 | - | - | 0 | 100.0 |
| Mercator-CG, d.o.o., Podgorica | 20,282 | 56.3 | - | - | 20,282 | 56.3 |
| Investment International, d.o.o.e.l., Skopje | 10,599 | 100.0 | - | - | 10,599 | 100.0 |
| | 185,645 | | 130,868 | (23,908) | 292,605 | |
| Total equity investments in Group companies | 190,798 | | 135,281 | (28,321) | 297,757 | |

*companies Mercator Makedonija d.o.o.e.l., Skopje, Investment International d.o.o.e.l., Skopje and Platinum-A d.o.o., Ljubljana, Platinum-B d.o.o., Ljubljana, Platinum-C d.o.o., Ljubljana, Platinum-D d.o.o., Ljubljana, Mercator-Velpro d.o.o., Ljubljana, Mercator Maxi d.o.o., Ljubljana, do not yet carry out business activities.

At least every year the company Poslovni sistem Mercator d.d. carries out a test of impairment of investments in the capital of companies within the Mercator Group. In case of identified signs of impairment, the Company makes adjustments in accordance with IFRS.

In 2018, the company Poslovni sistem Mercator, d.d., recapitalized the company Mercator-H d.o.o. in the amount of EUR 130,868 thousand, and impaired the investment in the amount of EUR 4,270 thousand as at December 31, 2018. In 2018, the Company also increased equity of the company M-Energija d.o.o., in the amount of EUR 4,413 thousand, and impaired the investment in the amount of EUR 4,413 thousand as at December 31, 2018. As at December 31, 2018, the company Poslovni sistem Mercator d.d., also impaired the investment into the company Mercator-S, d.o.o., in the amount of EUR 19,639 thousand. The Company assessed all these investments on the basis of the net asset value method. The estimated fair value of the companies is based on IAS 36, which defines the recoverable amount of the asset or cash-generating unit as the larger of the two items; its fair value decreased by the costs of sales or its value in use.



18. Available-for-sale financial assets

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Investments in insurance companies, shares and interests of other companies | 384 | 385 | 294 | 294 |
| Appreciation | 46 | 44 | 22 | 19 |
| Impairments | (38) | (38) | (55) | (55) |
| Total | 393 | 391 | 261 | 259 |

Revaluation to fair value for available-for-sale financial assets is recognized in equity. Impairment of available for-sale financial assets is recognized in the income statement. The available-for-sale financial assets of the Mercator Group and the company Poslovni sistem Mercator d.d. include also assets that could not be valued at fair value; thus, these assets are valued at cost less the loss due to impairment. Shares of these companies are not listed on the stock exchange.

Mercator Group

Available-for-sale financial assets at the Mercator Group level on December 31, 2018, amounted to EUR 393 thousand (2017: EUR 391 thousand).

Poslovni sistem Mercator d.d.

In the company Poslovni sistem Mercator d.d. these assets on December 31, 2018, amounted to EUR 261 thousand (2017: EUR 259 thousand).

19. Taxes

| Taxes recognized in profit or loss in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|----------------|-----------------|----------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Current tax | 1,673 | 1,876 | - | - |
| Deferred tax | 4,499 | (20,020) | 4,957 | (19,491) |
| Tax | 6,172 | (18,144) | 4,957 | (19,491) |

Poslovni sistem Mercator d.d.

For 2018, the company Poslovni sistem Mercator d.d. does not disclose tax liability. The amount of uncovered tax loss as at December 31, 2018 amounts to EUR 122,931 thousand (2017: EUR 138,497 thousand).

In accordance with IAS 12, the current and deferred tax is recognized as income or expense and is included in net profit or loss. If the tax relates to the items that are disclosed directly in the comprehensive income, deferred tax is credited directly to or against the capital.



| Tax recognized in other comprehensive income: in EUR thousand | Mercator Group | | | Poslovni sistem Mercator, d.d | | |
|---|-------------------------|------------|------------------------|--------------------------------------|------------|------------------------|
| | 2018 | | 2018 | 2018 | | 2018 |
| | Value before tax | Tax | Value after tax | Value before tax | Tax | Value after tax |
| Net gains/losses recognized in revaluation surplus in relation to property, plant and equipment | 1,601 | 148 | 1,749 | 1,653 | 129 | 1,782 |
| Gains/losses recognized in revaluation surplus related to available-for-sale financial assets | 4 | (1) | 3 | 4 | (1) | 3 |
| Foreign currency translation differences - foreign operations | 563 | - | 563 | - | - | - |
| Provisions for termination benefits | 322 | 8 | 329 | 367 | 10 | 377 |
| Other changes | (3,126) | - | (3,126) | (332) | - | (332) |
| Other comprehensive income | (637) | 154 | (482) | 1,691 | 138 | 1,829 |

| Tax recognized in other comprehensive income: in EUR thousand | Mercator Group | | | Poslovni sistem Mercator, d.d | | |
|---|-------------------------|-----------------|------------------------|--------------------------------------|-----------------|------------------------|
| | 2017 | | 2017 | 2017 | | 2017 |
| | Value before tax | Tax | Value after tax | Value before tax | Tax | Value after tax |
| Net gains/losses recognized in revaluation surplus in relation to property, plant and equipment | 126,464 | (20,958) | 105,506 | 91,695 | (15,997) | 75,698 |
| Gains/losses recognized in revaluation surplus related to available-for-sale financial assets | 10 | (5) | 5 | 10 | (2) | 8 |
| Foreign currency translation differences - foreign operations | 7,704 | - | 7,704 | - | - | - |
| Provisions for termination benefits | (231) | 23 | (207) | (191) | 18 | (172) |
| Other changes | (7,741) | 194 | (7,547) | 68 | - | 68 |
| Other comprehensive income | 126,206 | (20,746) | 105,461 | 91,582 | (15,980) | 75,602 |

**Reconciliation to effective tax rate*:**

| in EUR thousand | 2018 | 2017 |
|--|--------------|-----------------|
| Profit or loss for the year | (10,882) | (203,726) |
| Tax | 4,957 | (19,491) |
| Profit or loss before tax | (5,924) | (223,217) |
| | | |
| Tax calculated at tax rate 19% (2017: 19%) | (1,126) | (42,411) |
| Increase/decrease in income for tax purposes | 303 | (224) |
| Decrease/increase in expenses for tax purposes | - | - |
| Tax of non-deductible expenses | 12,470 | 6,511 |
| Tax reliefs | (6,690) | 16,633 |
| Other reconciliations | - | - |
| Total tax | 4,957 | (19,491) |
| Effective tax rate | -46% | 10% |

*The Mercator Group does not prepare consolidated tax settlements.

Deferred taxes are calculated based on temporary differences under the balance sheet liability method using the tax rate effective in individual countries where the Mercator Group companies operate.

| <i>Movements in deferred taxes:</i> | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|-----------------|----------------|-------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| At the beginning of the year – net deferred tax (liabilities) | (8,614) | (7,827) | (500) | (4,011) |
| Foreign exchange differences | (29) | (71) | - | - |
| Recognized in profit or loss | (4,499) | 14,067 | (4,957) | 19,492 |
| Recognized in other comprehensive income | 154 | (15,445) | 138 | (16,643) |
| Recognized at acquisition | 1,318 | 663 | 1,321 | 663 |
| At the end of the year – net deferred tax assets (liabilities) | (11,670) | (8,614) | (3,999) | (500) |

Deferred tax liabilities:

| in EUR thousand | Revaluation of property, plant and equipment | Revaluation of available for-sale financial assets | Depreciation of property, plant and equipment under EUR 500 | Differences between tax recognized and business depreciation | Total |
|--|--|--|---|--|---------------|
| Balance as at January 1, 2017 | 28,329 | 6 | 1,002 | 2,019 | 31,356 |
| Foreign exchange differences | 141 | - | - | 5 | 146 |
| Recognized in profit or loss | (15) | - | 44 | (297) | (268) |
| Recognized in other comprehensive income | 20,957 | 5 | - | - | 20,963 |
| Recognized under liabilities | (663) | - | - | - | (663) |
| Balance as at December 31, 2017 | 48,749 | 11 | 1,047 | 1,727 | 51,534 |
| Foreign exchange differences | 33 | - | - | - | 33 |
| Recognized in profit or loss | (40) | - | 52 | 84 | 95 |
| Recognized in other comprehensive income | (148) | 1 | - | - | (147) |
| Recognized under liabilities | (1,318) | - | - | - | (1,318) |
| Balance as at December 31, 2018 | 47,276 | 12 | 1,099 | 1,811 | 50,198 |

**Deferred tax liabilities:**

| in EUR thousand | Revaluation of property, plant and equipment | Revaluation of available for-sale financial assets | Depreciation of property, plant and equipment under EUR 500 | Differences between tax recognized and business depreciation | Total |
|--|--|--|---|--|---------------|
| Balance as at January 1, 2017 | 23,040 | 1 | 979 | 1,210 | 25,230 |
| Foreign exchange differences | - | - | - | - | - |
| Recognized in profit or loss | (17) | - | 46 | 90 | 119 |
| Recognized in other comprehensive income | 15,996 | 2 | - | - | 15,998 |
| Recognized under liabilities | (663) | - | - | - | (663) |
| Balance as at December 31, 2017 | 38,356 | 3 | 1,026 | 1,299 | 40,684 |
| Foreign exchange differences | - | - | - | - | - |
| Recognized in profit or loss | (29) | - | 49 | 83 | 103 |
| Recognized in other comprehensive income | (129) | 1 | - | - | (128) |
| Recognized under liabilities | (1,321) | - | - | - | (1,321) |
| Balance as at December 31, 2018 | 36,877 | 4 | 1,075 | 1,383 | 39,339 |

**Deferred tax assets**

| in EUR thousand | Mercator Group | | | | | | | |
|--|--|---|---------------|--|---|--|--------------|---------------|
| | Provisions not recognized for tax purposes | Allowances for operating receivables | Tax loss | Value adjustments of merchandise inventories | Difference between tax recognized and business depreciation | Revaluation of available- for-sale financial assets and derivatives | Other | Total |
| Balance as at January 1, 2017 | 2,039 | 3,937 | 11,632 | 8 | 2,802 | 347 | 2,763 | 23,528 |
| Foreign exchange differences | 6 | - | 43 | 4 | 21 | - | 1 | 75 |
| Recognized in profit or loss | 200 | 23 | 16,518 | 64 | 876 | 9 | 2,082 | 19,771 |
| Recognized in other comprehensive income | 23 | - | (551) | 75 | - | - | - | (453) |
| Balance as at December 31, 2017 | 2,268 | 3,961 | 27,641 | 151 | 3,699 | 356 | 4,845 | 42,921 |
| Foreign exchange differences | 0 | - | 2 | 0 | 1 | - | 0 | 4 |
| Recognized in profit or loss | 35 | (30) | (2,969) | (41) | 484 | - | (1,884) | (4,404) |
| Recognized in other comprehensive income | 8 | - | - | - | - | - | - | 8 |
| Balance as at December 31, 2018 | 2,311 | 3,930 | 24,675 | 111 | 4,184 | 356 | 2,962 | 38,529 |

Deferred tax assets

| in EUR thousand | Poslovni sistem Mercator d.d. | | | | | | | |
|--|--|--|---------------|--|---|--|--------------|---------------|
| | Provisions not recognized for tax purposes | Allowances for operating receivables | Tax loss | Value adjustments of merchandise inventories | Difference between tax recognized and business depreciation | Revaluation of available- for-sale financial assets and derivatives | Other | Total |
| Balance as at January 1, 2017 | 1,788 | 3,931 | 9,681 | - | 2,739 | 1,743 | 1,336 | 21,218 |
| Foreign exchange differences | - | - | - | - | - | - | - | - |
| Recognized in profit or loss | 209 | 1 | 17,296 | - | 5 | 1,362 | 737 | 19,611 |
| Recognized in other comprehensive income | 18 | - | - | - | - | - | (663) | (645) |
| Balance as at December 31, 2017 | 2,015 | 3,932 | 26,977 | - | 2,744 | 3,105 | 1,411 | 40,184 |
| Foreign exchange differences | - | - | - | - | - | - | - | - |
| Recognized in profit or loss | 5 | (28) | (2,957) | - | 36 | - | (1,909) | (4,854) |
| Recognized in other comprehensive income | 10 | - | - | - | - | - | - | 10 |
| Balance as at December 31, 2018 | 2,030 | 3,904 | 24,020 | - | 2,780 | 3,105 | (499) | 35,340 |



Mercator Group

In 2018, companies of Mercator Group recognized both liabilities and deferred tax assets. Deferred tax liabilities (through profit or loss) decreases the tax bases of the companies in 2018, while deferred tax asset increases it.

Deferred tax assets and liabilities in the balance sheet are not offset.

Poslovni sistem Mercator d.d.

In 2018, the company Poslovni sistem Mercator d.d. recognized both liabilities and deferred tax assets. Deferred tax liabilities (through profit or loss) decreases the tax bases of the company in 2018, while deferred tax asset increases it.

Deferred tax assets and liabilities in the balance sheet are not offset.

20. Assets held for sale

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|-----------------|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Land | 50,378 | 37,753 | 50,378 | 35,913 |
| Buildings | 98,061 | 79,393 | 98,061 | 59,290 |
| Total | 148,439 | 117,146 | 148,439 | 95,203 |

Mercator Group

As at December 31, 2018, the Mercator Group disclosed EUR 148,439 thousand of non-current assets in assets held for sale related to Slovenian market. As real estate monetization is underway, the Mercator Group reclassified land and buildings subject to monetization and intended for sale in 2019 in line with IFRS 5.

Poslovni sistem Mercator d.d.

As at December 31, 2018, the company Poslovni system Mercator d.d. disclosed EUR 148,439 thousand of non-current assets in assets held for sale related to Slovenian market. As real estate monetization is underway, the Mercator Group reclassified land and buildings subject to monetization and intended for sale in 2019 in line with IFRS 5.

21. Inventories

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Merchandise | 242,356 | 238,179 | 117,252 | 117,899 |
| Materials | 4,422 | 3,853 | 494 | 388 |
| Work in progress | 8 | 2 | - | - |
| Finished goods | 997 | 850 | - | - |
| Decrease: revaluation adjustment of inventories | (37,464) | (32,652) | (13,994) | (13,337) |
| Total | 210,319 | 210,233 | 103,752 | 104,950 |

Mercator Group

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress, and finished products as at December 31, 2018 amounted to EUR 210,319 thousand and remained comparable to the end of the previous year.



The reversal of a revaluation adjustment of inventories is not possible unless these inventories have been sold. An increase in inventory adjustment is recognized in profit or loss account.

The carrying amounts of inventories do not exceed their realizable value. The inventories are not pledged for loans received.

Poslovni sistem Mercator d.d.

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress and finished products as at December 31, 2018 amounted to EUR 103,752 thousand, which is 1.1% less than at the end of the previous period.

The reversal of a revaluation adjustment of inventories is not possible unless these inventories have been sold. An increase in inventory adjustment is recognized in profit or loss account.

The carrying amounts of inventories do not exceed their realizable value. The inventories are not pledged for loans received.

22. Trade and other receivables

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Trade and other receivables | 137,096 | 203,029 | 59,120 | 66,648 |
| Deferred costs | 3,827 | 6,030 | 1,128 | 1,646 |
| Accrued revenues | 21,548 | 19,453 | 2,520 | 3,367 |
| Total trade and other receivables | 162,471 | 228,512 | 62,768 | 71,661 |

Mercator Group

As at December 31, 2018, trade receivables and other receivables of the Mercator Group amounted to EUR 137,096 thousand (2017: EUR 203,029 thousand). The decrease in receivables refers mainly to one-off increase of receivables as at December 31, 2017, due to divestment of MC Belgrade in the amount of EUR 46,140 thousand.

Accrued revenues relate primarily to accrued revenues from commercial contracts with suppliers.

The carrying amounts of all trade receivables and other receivables in all significant amounts are consistent with their fair value. Receivables are valued at amortized cost.

In 2018 the impairments of receivables amounted to EUR 5,449 thousand (2017: EUR 5,340 thousand) Changes in allowances for trade receivables are disclosed in Note 30 (Financial Instruments).

Poslovni sistem Mercator d.d.

As at December 31, 2018, trade receivables and other receivables of the company Poslovni sistem Mercator d.d. amounted to EUR 59,120 thousand (2017: EUR 66,648 thousand).

Deferred costs in 2018 amounted to EUR 1,128 thousand and relate primarily to assets that are collected for property reserve funds and other deferred costs.

Accrued revenues relate primarily to accrued revenues from commercial contracts with suppliers.

The carrying amounts of all trade receivables and other receivables in all significant amounts are consistent with their fair value. Receivables are valued at amortized cost and are not pledged. The amount of insured receivables is disclosed in Note 30 (Financial Instruments).



23. Loans and deposits

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|----------------------------|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Deposits for rent payments | 14,067 | 19,322 | - | - |
| Loans to companies | 7,371 | 7,807 | 2,133 | 126,400 |
| Deposits in banks | 2,088 | 1,851 | - | - |
| Total | 23,526 | 28,980 | 2,133 | 126,400 |

Loans and deposits include:

| | | | | |
|--|--------|--------|-------|--------|
| Non-current/long-term loans and deposits | 18,976 | 24,147 | 2,103 | 99,220 |
| Current/short-term loans and deposits | 4,550 | 4,833 | 30 | 27,180 |

Mercator Group

Loans and deposits at the Mercator Group level as at December 31, 2018, amounted to EUR 23,526 thousand (2017: EUR 28,980 thousand).

Deposits for rent payments relate to long-term paid in advance rents for trade facilities abroad and are charged with interest. They are insured by mortgages on trade facilities. Loans granted to other companies mostly pertain to loans to companies that have built trade facilities; these loans are secured by a mortgage on these facilities. The average interest rate on loans given and deposits is 3.51%.

Poslovni sistem Mercator d.d.

As at December 31, 2018, loans in the amount of EUR 2,133 thousand (2017: EUR 126,400 thousand) relate to short-term loans in the amount of EUR 30 thousand (2017: EUR 27,180 thousand) and in the amount of EUR 2,103 thousand (2017: EUR 99,220 thousand) to long-term loans.

The average interest rate on loans given is 3.51%. The company Poslovni sistem Mercator d.d. has no secured loans given to subsidiaries and no other loans given.

24. Cash and cash equivalents

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Cash in hand | 10,748 | 21,929 | 6,250 | 11,362 |
| Cash in banks | 2,786 | 2,183 | 48 | 274 |
| Total cash and cash equivalents | 13,534 | 24,112 | 6,298 | 11,635 |

Cash in hand includes cash in transit (daily proceeds of retail units), cash in hand, and cheques with maturity up to 90 days.

25. Equity

Nominal capital

Nominal capital of the company Poslovni sistem Mercator d.d. amounts to EUR 254,175,051.39. It is divided into 6,090,943 ordinary registered, no-par value shares (2017: 6,090,943), that are all entered into the Companies Register as at December 31, 2018.



Conditional capital increase

Conditional capital increase Shareholders' Assembly of the company Poslovni sistem Mercator d.d. can adopt a resolution on conditional capital increase on the basis of provisions stated in Article 46 of the Company's Articles of Association; such possibility has not been realized so far.

Own shares

As at December 31, 2018, the company Poslovni sistem Mercator d.d. held 42,192 own shares in the amount of EUR 3,235 thousand (2017: 42,192 own shares, EUR 3,235 thousand).

Reserves

Reserves of the Mercator Group and the company Poslovni sistem Mercator d.d. comprise capital surplus, revenue reserves, fair value reserve and currency translation reserve. None of capital surplus, statutory reserves, fair value reserve and currency translation reserve can be used for payment of dividends or other participation in profit.

Capital surplus as at December 31, 2018 amounts to EUR 6,381 thousand (2017: EUR 207,523 thousand). It includes the excess over nominal value of paid-up shares and surplus that was created as the difference between purchase and sales values of disposed own shares. In 2018, share premium was reduced on the account of covering the balance sheet loss.

Revenue reserves, as at December 31, 2018, amounting to EUR 42,830 thousand on the Mercator Group level (2017: EUR 42,830 thousand) and EUR 16,624 thousand (2017: EUR 16,624 thousand), at the company Poslovni sistem Mercator d.d. include statutory reserves, reserves for own shares and other revenue reserves:

- As at December 31, 2018, the Mercator Group has statutory reserves in the amount of EUR 19,386 thousand, while the company Poslovni sistem Mercator d.d. has statutory reserves in the amount of EUR 13,389 thousand.
- As at December 31, 2018, the company Poslovni sistem Mercator d.d. owned 42,192 own shares in the amount of EUR 3,235 thousand.
- Other revenue reserves as at December 31, 2018 amount to EUR 20,209 thousand at the Mercator Group (the company Poslovni sistem Mercator d.d. has no other revenue reserves). They consist of redistributed residual retained earnings from previous years. They can be used for any purpose, except for own shares reserve

Capital and statutory reserves (tied reserves) can be used in surplus amount to increase the nominal capital from the company's assets and for covering the net loss of the financial year and to cover the carried forward net loss if the revenue reserves for the distribution of profit to the shareholders are not used simultaneously.

Currency translation reserve at the Mercator Group level as at December 31, 2018 amounts to EUR -83,471 thousand which decreased in 2018 by EUR 558 thousand due to the changes in foreign currency because of consolidation of subsidiaries into consolidated financial statements.

Fair value reserve, which as at December 31, 2018 amounts to EUR 194,658 thousand (2017: EUR 200,181 thousand) for the Mercator Group and EUR 143,971 thousand (2017: EUR 149,214 thousand) for the company Poslovni sistem Mercator d.d. includes fair value reserve for buildings and land, which is measured using the revaluation model, fair value reserve regarding available-for-sale financial assets and fair value reserve from actuarial gains or losses arising from creation of provisions for termination benefits upon retirement.

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Property fair value reserve | 199,312 | 205,020 | 148,821 | 154,442 |
| Fair value reserve for available-for-sale financial assets | 57 | 51 | 22 | 19 |
| Fair value reserve for provisions for retirement benefits | (4,711) | (4,891) | (4,871) | (5,248) |
| Total fair value reserve | 194,658 | 200,181 | 143,971 | 149,214 |



Changes in equity in 2018 for the Mercator Group relate to:

- increase in equity for profit in the amount of EUR 1,606 thousand in 2018,
- increase in equity due to the impact of deferred taxes in the amount of EUR 1,347 thousand,
- increase in equity due to foreign exchange translation differences in the foreign subsidiaries in the amount of EUR 558 thousand,
- increase in equity due to sales of revaluated land and buildings in the amount of EUR 402 thousand,
- increase in equity due to provisions for termination benefits in the amount of EUR 329 thousand,
- decrease in equity due to other changes in the amount of EUR 3,118 thousand.

Dividends

In 2019, dividends will not be paid by the company Poslovni sistem Mercator d.d.

As at December 31, 2018, 1,611 shareholders were registered in the Company's share register, which means that the number of shareholders of the Company decreased by 26 compared to December 31, 2017.

Detailed ownership structure is presented in the business part of the annual report.

26. Net earnings/Loss per share

Basic earnings (loss) per share are calculated by dividing the net profit (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of own shares.

| <i>Basic net earnings (loss) per share:</i> | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|-----------------------|---------------|--|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Profit attributable to the shareholders (in EUR thousand) | 1,606 | (184,435) | (10,882) | (203,726) |
| Weighted average number of ordinary shares | 6,048,751 | 6,048,751 | 6,048,751 | 6,048,751 |
| Earnings per share (in EUR) | 0.3 | (30.5) | (1.8) | (33.7) |

| <i>Weighted number of ordinary shares:</i> | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|-----------------------|------------------|--|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Issued ordinary shares as at January 1 | 6,090,943 | 6,090,943 | 6,090,943 | 6,090,943 |
| Effect of own shares | (42,192) | (42,192) | (42,192) | (42,192) |
| Effect of new issue | - | - | - | - |
| Weighted average number of ordinary shares as at December 31 | 6,048,751 | 6,048,751 | 6,048,751 | 6,048,751 |

Since the Mercator Group and the company Poslovni sistem Mercator d.d. do not have any preference shares or convertible bonds, diluted net loss per share is the same as basic net loss per share.



27. Loans received and other financial liabilities

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Long-term financial liabilities | | | | |
| Loans from banks, bonds and commercial paper | 510,629 | 650,229 | 360,043 | 453,277 |
| Loans from subsidiaries and other companies | 20,000 | 23,444 | 20,000 | 24,937 |
| Finance leases | 67,370 | 91,636 | 42,520 | 61,077 |
| Total | 597,999 | 765,309 | 422,563 | 539,291 |
| Short-term financial liabilities | | | | |
| Bank loans, bonds and commercial papers and short-term part of long-term bank loans, bonds and commercial papers | 148,900 | 78,440 | 71,879 | 14,064 |
| Loans from subsidiaries and other companies and short-term part of loans to subsidiaries and other companies | - | 3,270 | 25,349 | 18,220 |
| Current part of finance lease | 37,848 | 34,680 | 32,338 | 29,223 |
| Total | 186,748 | 116,391 | 129,565 | 61,507 |
| Total financial liabilities | 784,746 | 881,700 | 552,128 | 600,798 |

| December 31, 2018 | Mercator Group | Poslovni sistem Mercator d.d. |
|-----------------------------------|----------------|----------------------------------|
| Loans insured by pledged property | 533,190 | 414,026 |

Mercator Group

As at December 31, 2018, pledged property of the Mercator Group amounted to EUR 533,190 thousand.

Poslovni sistem Mercator d.d.

As at December 31, 2018, pledged property of the company Poslovni sistem Mercator d.d. amounted to EUR 414,026 thousand.

| Effective interest rates as at the balance sheet date: | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Bank loans | 3.36% | 3.61% | 3.47% | 3.53% |
| Other loans | 1.95% | 1.97% | 1.81% | 1.84% |

Floating interest rates are mostly interest rates related to EURIBOR. Fixed interest rates are mostly related to borrowings from domestic banks or subsidiaries, with fixed nominal interest rate.



| <i>Finance lease liabilities – minimum lease payments:</i> in EUR thousand | Mercator Group | | | | | |
|--|--------------------------------------|-----------------|--|--------------------------------------|-----------------|--|
| | December 31, 2018 | | | December 31, 2017 | | |
| | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than one year | 47,851 | 1,064 | 46,787 | 34,531 | 2,860 | 31,671 |
| Between one and five years | 48,610 | 2,589 | 46,021 | 69,493 | 4,016 | 65,477 |
| More than five years | 8,756 | 347 | 8,410 | 20,727 | 766 | 19,960 |
| Total | 105,218 | 4,000 | 101,218 | 124,751 | 7,643 | 117,108 |

| <i>Finance lease liabilities – minimum lease payments:</i> in EUR thousand | Poslovni sistem Mercator d.d. | | | Mercator d.d. | | |
|--|--------------------------------------|-----------------|--|--------------------------------------|-----------------|--|
| | December 31, 2018 | | | December 31, 2017 | | |
| | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than one year | 32,338 | 1,015 | 31,323 | 29,223 | 2,212 | 27,011 |
| Between one and five years | 33,763 | 2,567 | 31,197 | 45,271 | 2,651 | 42,620 |
| More than five years | 8,756 | 347 | 8,410 | 15,806 | 587 | 15,219 |
| Total | 74,857 | 3,928 | 70,929 | 90,300 | 5,450 | 84,850 |

Mercator Group

The Group has employed finance lease as a method of financing its major trade facilities in Slovenia and Croatia and some land in Slovenia. Finance leases are signed for periods of 3 to 25 years; the last such lease is to expire in 2027.

Carrying amounts of all financial liabilities approximate their fair values. The share of long-term financial liabilities in total financial liabilities as at December 31, 2018 amounted to 76.2% (2017: 86.8%).

Poslovni sistem Mercator d.d.

The company Poslovni sistem Mercator d.d. has employed finance lease as a method of financing its major trade facilities and land. Finance leases are signed for periods of 3 to 25 years; the last such lease is to expire in 2026.

Carrying amounts of all financial liabilities approximate their fair values. The share of long-term financial liabilities in total financial liabilities as at December 31, 2018 amounted to 76.2% (2017: 86.8%).



28. Provisions

| Mercator Group | | | | | |
|--|---|-------------------|---|-------------------------------|---------------|
| in EUR thousand | Provisions for company reorganization costs | Lawsuits received | Provisions for termination and jubilee benefits | Provisions for other purposes | Total |
| Balance as at January 1, 2017 | - | 2,953 | 23,241 | 624 | 26,817 |
| Creation | - | 1,982 | 2,771 | 6,518 | 11,271 |
| Utilization | - | (17) | (1,532) | (2,286) | (3,835) |
| Reversal | - | (1,403) | (2,365) | (850) | (4,618) |
| Foreign exchange differences | - | 10 | 38 | - | 48 |
| Balance as at December 31, 2017 | - | 3,525 | 22,152 | 4,006 | 29,683 |
| Creation | 697 | 1,551 | 1,902 | 3,615 | 7,766 |
| Utilization | - | (666) | (1,654) | (2,353) | (4,673) |
| Reversal | - | - | (1,498) | (1,138) | (2,636) |
| Foreign exchange differences | - | 1 | 2 | - | 3 |
| Balance as at December 31, 2018 | 697 | 4,411 | 20,904 | 4,131 | 30,143 |

Poslovni sistem Mercator d.d.

| in EUR thousand | Provisions for company reorganization costs | Lawsuits received | Provisions for termination and jubilee benefits | Provisions for other purposes | Total |
|--|---|-------------------|---|-------------------------------|---------------|
| Balance as at January 1, 2017 | - | 2,199 | 20,841 | - | 23,040 |
| Creation | - | 1,350 | 2,456 | 4,334 | 8,139 |
| Utilization | - | - | (1,290) | - | (1,290) |
| Reversal | - | (1,403) | (2,259) | (850) | (4,513) |
| Foreign exchange differences | - | - | - | - | - |
| Balance as at December 31, 2017 | - | 2,146 | 19,748 | 3,484 | 25,377 |
| Creation | 600 | 975 | 1,440 | 1,421 | 4,436 |
| Utilization | - | - | (1,527) | - | (1,527) |
| Reversal | - | - | (1,441) | (1,138) | (2,579) |
| Foreign exchange differences | - | - | - | - | - |
| Balance as at December 31, 2018 | 600 | 3,120 | 18,220 | 3,767 | 25,708 |

Provisions for termination benefits and jubilee benefits were calculated applying the following methods and assumptions:

- the discount rate used in the calculation was taken into account on the basis of the published yields of government bonds and varied between 1.0% and 4.9% between the countries;
- actuarial projected unit credit method taking into account attribution of employment benefits on a straight-line basis;
- actuarial assumptions of mortality, staff fluctuation and average employee age in the companies of the Mercator Group;
- retirement date was calculated on the basis of gender, date of birth, overall period of service as at December 31, 2018;
- in the calculations the discount rate of long-term government bonds is used;
- for the years 2017 and 2018, the rates of increase in average salaries in respect of their forecasts of movements in each country in which the Mercator Group operates are taken into account;



- jubilee benefits are paid under the assumption that the liability arises upon the expiry of a 10, 20, 30 or 40-year employment in the company;
- in the event of part-time contracts, the reason for part-time employment is also taken into account (parenthood, disability) and used appropriately in the calculation of retirement benefits.

Mercator Group

Provisions at the Mercator Group level as at December 31, 2018 amounted to EUR 30,143 thousand (2017: EUR 29,683 thousand). Additionally, provisions for EUR 7,766 thousand were created, provisions for EUR 4,673 thousand were utilized and provisions for EUR 2,636 thousand were reversed.

Provisions for company reorganization costs

As at December 31, 2018, provisions for company reorganization costs amounted to EUR 697 thousand and are related to payments of termination benefits on early retirement.

Lawsuits received

Provisions for lawsuits received as at December 31, 2018 amounted to EUR 4,411 thousand. On the basis of the lawsuits received and the opinion of the legal profession, in 2018 the Mercator Group created additional provisions in total amount of EUR 1,551 thousand.

Severance payments and jubilee benefits

As at December 31, 2018, the amount of provisions for severance payments and jubilee benefits amounted to EUR 20,904 thousand.

Other provisions

Other provisions as at December 31, 2018 amounted to EUR 4,131 thousand. In 2018, they were utilized pursuant to relevant legislation in the amount of EUR 2,353 thousand, to cover the labour costs of persons with disabilities, labour costs of employees helping the persons with disabilities, and investments in property, plant and equipment related to the work of persons with disabilities.

Poslovni sistem Mercator d.d.

As at December 31, 2018, provisions at the level of the company Poslovni sistem Mercator d.d. amounted to EUR 25,708 thousand (2017: EUR 25,377 thousand). Additionally, provisions for EUR 4,436 thousand were created, provisions for EUR 1,527 thousand were utilized and provisions for EUR 2,579 thousand were reversed.

Provisions for company reorganization costs

As at December 31, 2018, provisions for company reorganization costs amounted to EUR 600 thousand and are related to payments of termination benefits on early retirement.

Lawsuits received

Provisions for lawsuits received as at December 31, 2018 amounted to EUR 3,120 thousand. In 2018, provisions for lawsuits in the amount of EUR 975 thousand were created.

Severance payments and jubilee benefits

As at December 31, 2018, the amount of provisions for severance payments and jubilee benefits amounted to EUR 18,220 thousand. In 2018, provisions in the amount of EUR 1,440 thousand were created, provisions in the amount of EUR 1,527 thousand were utilized and provisions in the amount of EUR 1,441 thousand were reversed.

Other provisions

As at December 31, 2018, the company Poslovni sistem Mercator d.d. had EUR 3,767 thousand of other provisions.



29. Trade and other liabilities

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Trade liabilities | 492,053 | 522,221 | 237,255 | 240,951 |
| Payables to employees | 14,502 | 14,541 | 8,491 | 8,788 |
| Liabilities for taxes and contributions | 20,787 | 21,435 | 16,926 | 18,177 |
| Other payables | 23,038 | 28,802 | 13,796 | 17,520 |
| Accrued costs and deferred revenues | 39,724 | 47,137 | 21,432 | 19,197 |
| Total | 590,103 | 634,136 | 297,900 | 304,633 |

| | | | | |
|--|---------|---------|---------|---------|
| Trade and other payables include: | | | | |
| Non-current/long-term liabilities | 926 | 7,174 | 170 | 1,012 |
| Current/short-term liabilities | 589,177 | 626,963 | 297,730 | 303,621 |

Mercator Group

Trade and other liabilities as at December 31, 2018 amounted to EUR 590,103 thousand (2017: EUR 634,136 thousand).

Accrued costs pertain to accrued interest paid on borrowings, rebates granted but not accounted for, and compensations, the costs of unused annual leave and other accrued costs.

Deferred revenue includes particularly deferred revenue for claiming the discounts related to Pika bonus points.

As at December 31, 2018, the Mercator Group does not have any operating liabilities towards the members of the Supervisory Board, while the liabilities towards Management Board members and other employees include recognized undisbursed compensation for December 2018.

Poslovni sistem Mercator d.d.

As at December 31, 2018, trade and other liabilities amounted to EUR 297,900 thousand (2017: EUR 304,633 thousand).

Accrued costs refer to the costs of unused annual leave, superrabates granted but not accounted for and to other accrued costs.

Deferred revenue includes particularly deferred revenue for realization of discounts from collected points.

As at December 31, 2018, the company Poslovni sistem Mercator d.d. does not disclose any operating liabilities to the Supervisory Board members, members of the Management Board and other employees, although it discloses recognized undisbursed compensation for December 2018.

30. Financial instruments

Financial risk management

Risk overview

The Mercator Group and the company Poslovni sistem Mercator d.d. are monitoring and controlling different types of financial risks to which their operations are exposed:

- credit risk;
- risk of payment capability (liquidity risk);



- market risk;
- operational risk due to the Agrokor Group.

Among market risks the Mercator group and the company Poslovni sistem Mercator d.d. manage the interest rate and currency risk. Overall risk management program in the Mercator Group and the company Poslovni sistem Mercator d.d. focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Mercator Group and the company Poslovni sistem Mercator d.d.

This note presents the information on the Group's and the Company's exposure to the risks listed above, as well as the goals, policies, and processes for measurement and management thereof and the Group's and the Company's equity.

Risk management policy

Active risk management at the Mercator Group pursues the objective of timely recognition and response to potential threats by developing appropriate measures to hedge against identified risks or to reduce risk exposure. The parent company manages interest rate, currency and liquidity risks centrally for the entire Mercator Group, whereas credit risks are managed as a rule by subsidiaries. Risk management measures are incorporated into daily operations at all companies of the Mercator Group.

Risk management activities in the Mercator Group are the responsibility of the dedicated Risk Management Council. The council is managing a systematic risk management process which is laid down in the Rules of Procedure for Risk Management. Risk management is a central corporate function managed and coordinated by the company Poslovni sistem Mercator d.d.

Risks are divided into different risk groups. Within each risk group, based on the analysis of the business environment, past business results and plans and estimates for the future, identified risks are defined. Through detailed analysis, the level of risk value is assessed, and on the basis of a single criterion, it is estimated whether the risk is crucial.

For all key risks:

- activities are described that were carried out in the current year for the purpose of managing this risk,
- the planned risk management activities for the following year defined, and
- it is determined whether a higher or a lower exposure to that risk is assessed in the following year compared to the previous year.

The Mercator Group and the company Poslovni sistem Mercator d.d. analyze risk for each individual company and the Mercator Group as a whole. In the case of non-compliance with certain data, an approximation for the entire Mercator Group is made with the data available.

Risks occurring in the process of preparation of financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. are managed by employment of clear and concise accounting practices and their strict implementation, efficient organization of the accounting function, and regular internal and external audits and reviews of internal controls, business processes, and operations.

Pursuant to the Companies Act, audit of financial statements is mandatory for the Mercator Group and the company Poslovni sistem Mercator d.d. The purpose of the audit is to increase the level of trust among the users of financial information. The auditor applies appropriate audit procedures and methods to review the financial statements and passes an opinion as to whether they are compiled in compliance with the appropriate framework of financial reporting in all relevant aspects.

Internal audit has been in operation at the Mercator Group and the company Poslovni sistem Mercator d.d. as an independent support function since 2000. The basic function of internal audit is perpetual development and monitoring of the internal control systems from the aspect of management, or hedging, of all sorts of operating and other risks to which the Mercator Group and the company Poslovni sistem Mercator d.d. are exposed.

Quality performance of the supervisory function by the Supervisory Board of the company Poslovni sistem Mercator d.d. is also supported by the Audit Committee which, among other duties, is in charge of supervising



the operation of the risk management system, internal audit and the internal control system, and takes part in specifying the major auditing areas and proposes the selection of the independent external auditor for the companies of the Mercator Group.

The performance of the Mercator Group and the company Poslovni sistem Mercator d.d. is affected by the entire economic environment both globally and in the markets of Mercator operations. With constantly changing trends, it is crucial for the Mercator Group and the company Poslovni sistem Mercator d.d. to carefully manage the risks that they face in their business operations.

Credit risk

Credit risk is the risk that the Mercator Group and the company Poslovni sistem Mercator d.d. will suffer financial loss if a party to an agreement defers a payment and later does not settle its obligations in full or not at all. Credit risk arises mainly from receivables to wholesale customers and receivables from Pika card.

The exposure of Mercator Group and the company Poslovni sistem Mercator d.d. to credit risk is particularly dependent on the characteristics of individual customers. However, the Group's and the Company's exposure to customers is highly dispersed. In accordance with the adopted policy for each new customer, an analysis of its creditworthiness is performed before the Mercator Group and the company Poslovni sistem Mercator d.d. offer its standard payment terms. The analysis of the credit rating includes external ratings and assessments, if these exist. Limits on purchases, which represent the maximum amount of open positions, are determined for each customer individually. The Group's and the Company's business with customers who do not meet the benchmark credit rating takes place only on the basis of advance payments or subject to appropriate payment insurance.

The carrying amounts of financial assets (receivables and loans) represent the maximum credit exposure.

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|------------------------------|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Trade and other receivables | 162,471 | 228,512 | 62,768 | 71,661 |
| Deposits for rental payments | 14,067 | 19,322 | - | - |
| Loans to companies | 7,371 | 7,807 | 2,133 | 126,400 |
| Deposits in banks | 2,088 | 1,851 | - | - |
| Total | 185,997 | 257,492 | 64,901 | 198,061 |

Trade receivables predominantly derive from wholesale of goods, material, and services. Wholesale customers are dispersed; hence, there is no major exposure to an individual customer. The Mercator Group and the company Poslovni sistem Mercator d.d. are also constantly monitoring customer payment defaults and checks the rating of external customers.

The loans granted by the Mercator Group and the company Poslovni sistem Mercator d.d. to companies are collateralized and it is assessed that the credit risk arising therefrom is low. Additional explanations regarding loans granted are given in Note 23.



| Maximum exposure to credit risk for trade receivables and loans at the reporting date by type of customer: | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|--------------------------|--------------------------|--|--------------------------|
| in EUR thousand | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Retail customers | 7,043 | 12,183 | 5,580 | 7,477 |
| Wholesale customers and related companies | 97,525 | 148,858 | 41,898 | 42,669 |
| Receivables from employees and the government, and other receivables | 32,528 | 42,408 | 11,642 | 16,502 |
| Deferred costs | 3,827 | 4,542 | 1,128 | 1,175 |
| Accrued revenues | 21,548 | 20,941 | 2,520 | 3,838 |
| Loans and deposits | 23,526 | 28,559 | 2,133 | 126,400 |
| Total | 185,997 | 257,492 | 64,901 | 198,061 |

In the category of retail partners, the Mercator Group and the company Poslovni sistem Mercator d.d. included receivables from individuals related to purchases in company retail units with Pika and other cards; the category of wholesale customers and related companies includes all receivables from sale of goods, material, and services, to legal/corporate entities.

Trade receivables are secured with bank guarantees, paid collaterals, cash deposits, prime mortgages, and liabilities to these customers. Among other receivables, the Mercator Group and the company Poslovni sistem Mercator d.d. report receivables from the government, employees, as well as deferred costs and accrued expenses, and loans and deposits granted.

| Security of receivables and loans (in gross amounts, excluding impairment of receivables): | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|--------------------------|--------------------------|--|--------------------------|
| in EUR thousand | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Trade receivables | 243,194 | 241,981 | 70,147 | 70,302 |
| secured receivables | 27,157 | 24,256 | 13,521 | 24,256 |
| unsecured receivables | 216,037 | 217,725 | 56,626 | 46,046 |
| Other receivables | 28,970 | 96,451 | 20,709 | 160,547 |
| Total | 272,164 | 338,432 | 90,856 | 230,849 |

The Mercator Group and the company Poslovni sistem Mercator d.d. monthly form allowances for trade receivables and receivables from sales with the loyalty card on the basis of expected loss model. Expected loss model tells what portion of trade receivables that incurred in a certain time period, will not be paid in the following years. The calculated percentage of outstanding trade receivables of the Mercator Group and the company Poslovni sistem Mercator d.d. applies to all outstanding (overdue and not past due) trade receivables pursuant to the financial reporting standard IFRS 9 – “Financial Instruments; Recognition and Measurement”.



**Ageing of trade receivables and loans
on the reporting date:**

| in EUR thousand | Mercator Group | | | | | | Poslovni sistem Mercator d.d. | | | | | |
|------------------------|-------------------------|--------------|-------------------|------------------------------|--------------|-------------------|-------------------------------|------------|-------------------|------------------------------|--------------|-------------------|
| | Gross December 31, 2018 | | | Adjustment December 31, 2018 | | | Gross December 31, 2018 | | | Adjustment December 31, 2018 | | |
| | 0-30 days | 30-90 days | more than 90 days | 0-30 days | 30-90 days | more than 90 days | 0-30 days | 30-90 days | more than 90 days | 0-30 days | 30-90 days | more than 90 days |
| Bank guarantee | 4,232 | 182 | 998 | 2 | 5 | 325 | 3,526 | 119 | 978 | 1 | 5 | 325 |
| Mortgage | 3,668 | 30 | 168 | 183 | - | 110 | 3,521 | 30 | 57 | 182 | - | 3 |
| Bill of exchange | 6,078 | 695 | 718 | 25 | 275 | 58 | 4,107 | 221 | 674 | 9 | 272 | 48 |
| Enforcement draft | 440 | 125 | 177 | - | 1 | 17 | 122 | 32 | 42 | - | - | - |
| Mercator/Agrokor Group | 5,413 | 274 | 44,121 | 196 | 47 | 39,154 | 935 | 179 | 8,238 | 188 | 31 | 7,231 |
| Other | 156,501 | 3,711 | 44,632 | 1,423 | 1,080 | 39,667 | 50,151 | 418 | 17,507 | 532 | 942 | 16,001 |
| Total | 176,332 | 5,019 | 90,813 | 1,830 | 1,407 | 79,332 | 62,362 | 999 | 27,496 | 913 | 1,250 | 23,607 |

**Ageing of trade receivables and loans
on the reporting date:**

| in EUR thousand | Mercator Group | | | | | | Poslovni sistem Mercator d.d. | | | | | |
|------------------------|-------------------------|--------------|-------------------|------------------------------|------------|-------------------|-------------------------------|--------------|-------------------|------------------------------|------------|-------------------|
| | Gross December 31, 2017 | | | Adjustment December 31, 2017 | | | Gross December 31, 2017 | | | Adjustment December 31, 2017 | | |
| | 0-30 days | 30-90 days | more than 90 days | 0-30 days | 30-90 days | more than 90 days | 0-30 days | 30-90 days | more than 90 days | 0-30 days | 30-90 days | more than 90 days |
| Bank guarantee | 5,632 | 496 | 178 | 4 | 402 | 11 | 4,702 | 462 | 166 | - | 402 | - |
| Mortgage | 3,893 | 265 | 877 | 1 | 16 | 803 | 3,745 | 265 | 765 | - | 16 | 696 |
| Bill of exchange | 4,657 | 309 | 106 | - | 3 | 7 | 4,022 | 305 | 105 | - | 3 | 6 |
| Enforcement draft | 279 | 132 | 241 | - | 56 | 224 | 30 | 6 | 68 | - | 1 | 51 |
| Mercator/Agrokor Group | 6,365 | 812 | 43,843 | 1 | 46 | 37,809 | 823 | 90 | 7,973 | - | - | 6,045 |
| Other | 225,057 | 3,450 | 41,843 | 6,187 | 187 | 33,829 | 184,377 | 530 | 22,413 | 3,915 | 45 | 17,055 |
| Total | 245,882 | 5,462 | 87,088 | 6,193 | 710 | 72,683 | 197,700 | 1,659 | 31,491 | 3,915 | 467 | 23,854 |



| Changes in revaluation adjustment to receivables and loans: | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|-----------------------|---------------|--|---------------|
| in EUR thousand | 2018 | 2017 | 2018 | 2017 |
| As at January 1 | 79,586 | 80,709 | 28,236 | 26,140 |
| Effect of foreign exchange differences | 157 | 587 | - | - |
| Allowances for receivables during the year | 5,449 | 5,340 | (103) | 9,935 |
| Decrease of allowance for impairment during the year | (2,816) | (3,005) | (811) | (4,554) |
| Final receivable write-off | (2,957) | (4,044) | (1,884) | (3,286) |
| Allowances for receivables recorded through equity | 3,149 | - | 332 | - |
| Balance as at December 31 | 82,568 | 79,586 | 25,770 | 28,236 |

The quality of trade receivables and loans given is rated based on the policies specified by the Risk Management Council. Credit risk is monitored by classifying the trade receivables based on their characteristics.

The company Poslovni sistem Mercator d.d. is providing guarantees to its subsidiaries for borrowing from banks in the amount of EUR 295,845 thousand.

Liquidity risk (payment capability risk)

Liquidity risk is the risk that the Mercator Group and the company Poslovni sistem Mercator d.d. will in the course of their business activities encounter difficulties in settlement of current liabilities which are settled in cash or with other financial assets. In 2018, liquidity risk remains stable due to an argument on the financial restructuring of the debt with the creditor banks and the Mercator Group.

The Mercator Group and the company Poslovni sistem Mercator d.d. actively manage liquidity risk within the framework of the established centralized management of cash. The centralized cash management represents a system based on specifically defined methodology of cash flow planning based on which every company from the Mercator Group makes weekly plans of the daily cash flow for 3 months in advance, which is reflected in the weekly updated short-term consolidation liquidity plan of the Mercator Group;

- standardized daily reporting systems about the cash flow generated on the previous day and the drafting of analyses of deviations from the cash flow plan;
- centralized alignment at various decision-making levels, meaning that an appropriate amount of cash is always available at the company to repay its liabilities.

| As at December 31, the Group and the Company had access to the following liquidity lines: | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|--------------------------|--------------------------|--|--------------------------|
| in EUR thousand | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Cash and cash equivalents | 13,534 | 24,112 | 6,298 | 11,635 |
| Standby revolving credit lines | 25,469 | 15,224 | 18,086 | 9,489 |
| Total | 39,003 | 39,336 | 24,384 | 21,124 |

One of the most important elements of the final agreement in the context of financial restructuring, based on the consistency of the cash flow available for servicing the debt with financial liabilities, is the elimination of refinancing risk, which increases financial stability.



Following is an overview of the contractual maturity of liabilities and estimated interest expenses. The future contractual due date of the principal and interest is given based on the loan agreements as at December 31, 2018.

| <i>Contractual maturity of liabilities and estimated interest expenses in 2018</i> | Mercator Group | | | | | | | | | | | |
|---|--------------------------------------|------------------------------|-----------------------|-----------------|-----------------------|-----------------|-------------------|-----------------|-------------------|-----------------|---------------------|-----------------|
| | Total as at December 31, 2018 | | Up to 6 months | | 6 to 12 months | | 1-3 years | | 3-5 years | | Over 5 years | |
| in EUR thousand | Carrying amount | Contractual Cash flow | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest |
| Non-derivative financial liabilities | | | | | | | | | | | | |
| Loans from banks, bonds and commercial paper | 659,529 | 703,325 | 105,924 | 11,195 | 46,493 | 10,254 | 507,111 | 22,347 | - | - | - | - |
| Borrowings from related and other companies | 20,000 | 20,000 | - | - | - | - | 20,000 | - | - | - | - | - |
| Finance leases | 105,218 | 109,218 | 33,539 | 567 | 14,311 | 497 | 32,208 | 1,707 | 16,402 | 883 | 8,756 | 347 |
| Trade and other payables and current tax liabilities | 590,103 | 590,103 | 587,268 | - | 1,143 | - | 1,523 | - | 165 | - | 4 | - |
| Total | 1,374,849 | 1,422,646 | 726,732 | 11,763 | 61,948 | 10,751 | 560,842 | 24,054 | 16,567 | 883 | 8,760 | 347 |

| <i>Contractual maturity of liabilities and estimated interest expenses in 2017</i> | Mercator Group | | | | | | | | | | | |
|---|--------------------------------------|------------------------------|-----------------------|-----------------|-----------------------|-----------------|-------------------|-----------------|-------------------|-----------------|---------------------|-----------------|
| | Total as at December 31, 2017 | | Up to 6 months | | 6 to 12 months | | 1-3 years | | 3-5 years | | Over 5 years | |
| in EUR thousand | Carrying amount | Contractual Cash flow | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest |
| Non-derivative financial liabilities | | | | | | | | | | | | |
| Loans from banks, bonds and commercial paper | 736,821 | 813,332 | 39,997 | 13,040 | 41,026 | 12,352 | 250,460 | 43,047 | 405,338 | 8,072 | - | 1 |
| Borrowings from related and other companies | 20,128 | 20,128 | 128 | - | - | - | 20,000 | - | - | - | - | - |
| Finance leases | 124,751 | 132,394 | 7,077 | 852 | 27,455 | 2,008 | 44,342 | 2,491 | 25,152 | 1,525 | 20,727 | 766 |
| Trade and other payables and current tax liabilities | 634,137 | 634,210 | 601,390 | 73 | 18,586 | - | 11,657 | - | 8,072 | - | 2,504 | - |
| Total | 1,515,837 | 1,600,064 | 648,592 | 13,966 | 87,066 | 14,360 | 326,458 | 45,538 | 438,562 | 9,597 | 23,231 | 767 |



| <i>Contractual maturity of liabilities and estimated interest expenses in 2018</i> in EUR thousand | Poslovni sistem Mercator d.d. | | | | | | | | | | | |
|---|-------------------------------|-----------------------|----------------|--------------|----------------|--------------|----------------|---------------|---------------|------------|--------------|------------|
| | Total as at December 31, 2018 | | Up to 6 months | | 6 to 12 months | | 1-3 years | | 3-5 years | | Over 5 years | |
| | Carrying amount | Contractual Cash flow | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest |
| Non-derivative financial liabilities | | | | | | | | | | | | |
| Loans from banks, bonds and commercial paper | 431,922 | 470,267 | 57,019 | 8,544 | 14,859 | 8,143 | 360,043 | 21,658 | - | - | - | - |
| Borrowings from related and other companies | 45,349 | 46,093 | 3,500 | 399 | 21,849 | 344 | 20,000 | - | - | - | - | - |
| Finance leases | 74,857 | 78,786 | 28,506 | 539 | 3,832 | 476 | 21,024 | 1,684 | 12,740 | 883 | 8,756 | 347 |
| Trade and other payables and current tax liabilities | 297,900 | 297,900 | 296,906 | - | 75 | - | 911 | - | 5 | - | 4 | - |
| Total | 850,028 | 893,045 | 385,931 | 9,482 | 40,615 | 8,963 | 401,978 | 23,342 | 12,744 | 883 | 8,760 | 347 |

| <i>Contractual maturity of liabilities and estimated interest expenses in 2017</i> in EUR thousand | Poslovni sistem Mercator d.d. | | | | | | | | | | | |
|---|-------------------------------|-----------------------|----------------|--------------|----------------|---------------|----------------|---------------|----------------|--------------|---------------|------------|
| | Total as at December 31, 2017 | | Up to 6 months | | 6 to 12 months | | 1-3 years | | 3-5 years | | Over 5 years | |
| | Carrying amount | Contractual Cash flow | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest | Redemption | Interest |
| Non-derivative financial liabilities | | | | | | | | | | | | |
| Loans from banks, bonds and commercial paper | 467,341 | 524,217 | 7,032 | 8,328 | 7,032 | 8,569 | 115,613 | 33,065 | 337,663 | 6,913 | - | - |
| Borrowings from related and other companies | 43,157 | 44,057 | 1,500 | 386 | 16,720 | 382 | 24,937 | 132 | - | - | - | - |
| Finance leases | 90,300 | 95,751 | 4,469 | 515 | 24,754 | 1,698 | 28,306 | 1,587 | 16,965 | 1,063 | 15,806 | 587 |
| Trade and other payables and current tax liabilities | 304,633 | 304,633 | 286,048 | - | 18,585 | - | - | - | 6,913 | - | - | - |
| Total | 905,431 | 968,657 | 299,049 | 9,228 | 67,091 | 10,649 | 168,856 | 34,785 | 361,542 | 7,977 | 15,806 | 587 |



Market risks

Market risk is a risk that is common to the entire class of assets and liabilities. Market risk is deemed to exist when there is probability that the value of investments or financial assets in a certain period of time will decrease due to changes in economic environment or other events affecting the market.

Interest rate risk

The interest rate risk of the Mercator Group and the company Poslovni sistem Mercator d.d. stems from financial liabilities. Financial liabilities expose the Group and the Company to the interest rate risk of cash flow.

The Mercator Group and the company Poslovni sistem Mercator d.d. are exposed to interest rate risk as their liabilities and assets include such liabilities and assets that are sensitive to changes in interest rates, which means that some of the financial liabilities are linked to the variable interest rate EURIBOR. EURIBOR is changing on a daily basis as it is subject to market fluctuations; this can lead to increased finance expenses for the Mercator Group and the company Poslovni sistem Mercator d.d. Consequently, the Group and the Company are managing and controlling the increase of finance expenses in an appropriate centralized manner.

| Exposure to interest rate risk: in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|--------------------------|--------------------------|--|--------------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Fixed rate financial instruments | | | | |
| Non-current and current financial assets | 23,526 | 28,980 | 2,133 | 126,400 |
| Non-current and current financial liabilities | (89,544) | (70,559) | (67,669) | (65,947) |
| Total | (66,019) | (41,579) | (65,537) | 60,452 |
| Floating rate financial instruments | | | | |
| Non-current and current financial assets | - | - | - | - |
| Non-current and current financial liabilities | (695,202) | (811,141) | (484,459) | (534,851) |
| Total | (695,202) | (811,141) | (484,459) | (534,851) |

Sensitivity analysis of the fair value of financial instruments at a fixed interest rate

The Mercator Group and the company Poslovni sistem Mercator d.d. do not have financial instruments at fixed interest rates, measured at fair value through profit or loss, nor derivative financial instruments designated to hedge fair value. The change in the interest rate on the reporting date would thus not affect the net profit.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.



| Cash flow sensitivity analysis for variable rate instruments in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|--|---|---|--|----------------------------|
| | Net profit or loss 100 bp increase | Net profit or loss 100 bp decrease | 100 bp increase | 100 bp decrease |
| 2018 | | | | |
| Floating rate of financial instruments | (6,952) | 6,952 | (4,845) | 4,845 |
| Cash flow sensitivity (net) | (6,952) | 6,952 | (4,845) | 4,845 |
| 2017 | | | | |
| Floating rate of financial instruments | (8,111) | 8,111 | (5,349) | 5,349 |
| Cash flow sensitivity (net) | (8,111) | 8,111 | (5,349) | 5,349 |

Currency risk

Mercator Group

The Group's operations in the international environment necessarily involve exposure to currency risk. The Group is facing currency risk in the markets of Serbia and Croatia; exposure to risk has somewhat decreased on these two markets according to estimate.

In case of an increase in exposure to this type of risk, the Mercator Group has prepared a general policy of risk management that involves the following two steps:

- constant monitoring of macroeconomic background against which the movement of a particular exchange rate is taking place, and the related macroeconomic aspects and trends;
- adapting the operations based on the general trends and expectations, towards lesser exposure to currency risk.

In case of increased risk, the Mercator Group will decide with regard to implementation of any further measures based on the estimated level of exposure; needless to say, such measure will only be implemented following a thorough analysis and with consideration of the »cost-benefit« principle. The type of measure will depend on its appropriateness or viability, the nature of exposure, planned Group operations, and anticipated economic effects. There are no effective instruments to hedge currency risk in the markets where Mercator is operating; therefore, the Group is currently primarily using the so-called natural hedging or matching.

| The Group's exposure to foreign currency risk was as follows: Dec. 31, 2018: in EUR thousand | Mercator Group | | |
|--|-----------------------|------------------|-----------------|
| | HRK | RSD | BAM |
| Trade and other receivables | 11,713 | 82,953 | 5,188 |
| Available-for-sale financial assets | 42 | - | - |
| Inventories | - | 75,551 | 10,977 |
| Cash and cash equivalents | 136 | 3,762 | 1,870 |
| Financial liabilities | (100,763) | (119,051) | (35,367) |
| Trade and other liabilities | (13,667) | (234,610) | (18,022) |
| Financial position statement exposure | (102,539) | (191,395) | (35,353) |
| Sales | - | 708,585 | 107,072 |
| Purchase | - | (553,868) | (86,109) |
| Estimated transaction exposure | - | 154,717 | 20,963 |
| Forward exchange contracts | - | - | - |
| Net exposure | (102,539) | (36,678) | (14,390) |



The Group's exposure to foreign currency risk was as follows: Dec. 31, 2017:

| in EUR thousand | Mercator Group | | |
|--|-----------------------|------------------|-----------------|
| | HRK | RSD | BAM |
| Trade and other receivables | 15,177 | 133,642 | 9,665 |
| Available-for-sale financial assets | - | - | - |
| Inventories | 571 | 74,320 | 10,677 |
| Cash and cash equivalents | 162 | 8,463 | 1,766 |
| Financial liabilities | - | (68,451) | (34,384) |
| Trade and other liabilities | (18,721) | (257,204) | (22,970) |
| Financial position statement exposure | (2,810) | (109,229) | (35,247) |
| Sales | - | 719,003 | 112,390 |
| Purchase | - | (571,251) | (90,342) |
| Estimated transaction exposure | - | 147,752 | 22,048 |
| Forward exchange contracts | - | - | - |
| Net exposure | (2,810) | 38,524 | (13,198) |

As at December 31, 2018, the Mercator Group does not hold any derivative financial instruments for currency risk hedging (forward exchange contracts).

The following significant exchange rates applied during the year: **Average exchange rate** **Reporting date spot date**

| Units per 1 EUR | 2018 | 2017 | 2018 | 2017 |
|-----------------|-------------|-------------|-------------|-------------|
| HRK | 7.42 | 7.46 | 7.41 | 7.44 |
| RSD | 118.34 | 121.38 | 118.43 | 118.66 |
| BAM | 1.96 | 1.96 | 1.96 | 1.96 |

Poslovni sistem Mercator d.d.

The company Poslovni sistem Mercator d.d. is not exposed to currency risk, as it does not have significant receivables or liabilities denominated in foreign currencies.

Operating risk

Financial performance and results of operations

The financial performance and financial result of the company Poslovni sistem Mercator d.d. and the Mercator Group as of December 31, 2018 and for 12 months ended this date demonstrated net loss in the amount of EUR 10,882 thousand (for the company Poslovni sistem Mercator d.d.) and net profit in the amount of EUR 1,606 thousand (for the Mercator Group), respectively, and operating profit EUR 35,948 thousand (for the company Poslovni sistem Mercator d.d.) and consolidated profit in the amount of EUR 38,343 thousand (for the Mercator Group). The company's current liabilities outreached current assets by EUR 108,593 thousand and consolidated by EUR 242,019 thousand.

At the same time as discussed in Business report the normalized EBITDA of the company Poslovni sistem Mercator d.d. for the reporting period increased from EUR 71,254 thousand for year 2017 to EUR 79,704 thousand for year 2018 and for the Mercator Group from EUR 90,631 thousand to EUR 107,458 thousand. The Group has liquidity reserves available in the amount of EUR 25,469 thousand as per December 31, 2018. The improved liquidity results from the positive cash flow from operating activities, optimized working capital management, especially in improving the management of inventories of merchandise and faster recovery of outstanding receivables. A cash flow forecast prepared by company Poslovni sistem Mercator d.d. for the following 12 months indicates that the Company and the Group will have sufficient funds to meet its obligations when they fall due.



Company Poslovni sistem Mercator d.d. estimates that the company Poslovni sistem Mercator d.d. and the Mercator Group is able to meet its current liabilities by performing its regular business operations.

Business risk arising from uncertain economic outlook of Agrokor d.d.

During the first half of the year 2018, the uncertainty in relation to Agrokor continued, however from the beginning of the second half of 2018 a series of new events unfolded, which reduced the level of uncertainty for future financial performance of Agrokor and its subsidiaries, except Mercator Group, including:

- 1) The court ruling of July 6, 2018 confirmed the Settlement Plan of Agrokor;
- 2) On October 26, 2018, The High Commercial Court of Zagreb through its Council passed a ruling whereby they refused and dismissed all appeals lodged by the creditors to the Ruling of the Commercial Court of Zagreb dated July 6, 2018 confirming the Settlement Plan of Agrokor adopted by the creditors in the Extraordinary Administration Procedure at the voting hearing held on July 4, 2018.
- 3) Pursuant to the resolution of the Commercial Court of Zagreb of March 1, 2019 and Cl. 17.1 of the Settlement Plan, the Extraordinary Administrator of the debtor Agrokor d.d., pronounces April 1, 2019 as the Implementation Commencement Date on which implementation of the restructuring measures and the settlement steps envisaged by the Settlement Plan will occur.

For the purpose of assessment of Mercator Group exposure to the risk arising from Agrokor Group the following matters have been considered by company Poslovni sistem Mercator d.d.:

1) Exposure to the risk from Business operations with Agrokor d.d., and its subsidiaries

Mercator Group is involved in the normal course of business operations with Agrokor Group which continued in 2018 and beyond. The exposure of Mercator Group to the business risk related to Agrokor Group financial performance is limited by the proportion of turnover with Agrokor Group and the volume of relative outstanding accounts.

The share of revenues generated from operations with Agrokor Group is relatively insignificant and amount to EUR 15,873 thousand or 0.73% of total consolidated revenue for year 2018. Gross amount of trade receivables from Agrokor Group as of December 31, 2018 amount to EUR 45,581 thousand.

Simultaneously with relatively insignificant operations with Agrokor Group, additional business risk mitigating factor is restrictive conditions provided in the financial restructuring agreement as of year 2014. The agreement requirements include, but are not limited with: requirement to manage all the operations with Agrokor Group companies on the »arm's length basis«, restrictions on entering other than normal course of business operations, restriction on equity, debt and own operations, restrictions on assets and business management (including disposal of assets and change of business focus), restriction on assets distribution from Mercator Group to Agrokor Group and other restrictions.

Further to the enactment of Croatian law on Extraordinary management proceedings in companies of systematic significance on May 6, 2017, the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (ZIČUDSP) came into effect in Slovenia. On May 18, 2017, an extraordinary Management Board member of the company Mercator was appointed pursuant to the ZIČUDSP, to be responsible exclusively for the management of transactions with the majority shareholder Agrokor and its subsidiaries. The purpose of the Act in relation to Mercator is mainly to:

- prevent any decisions by majority shareholder which are harmful for Mercator,
- restrict any corporate guarantees, loans or similar
- prevent any assumption of debt owed by Agrokor or its subsidiaries by Mercator and
- make sure that all the transactions between Mercator and Agrokor are on arm's length basis

Based on the report prepared by on a quarterly basis by the extraordinary Management Board member of the company Poslovni sistem Mercator d.d. has complied with the commitments regarding transactions with the company Agrokor d.d. and the companies affiliated to it.

The Settlement Plan, among other things, foresees that, as of April 1, 2019, Agrokor will retain its existing ownership in Mercator as part of the so-called "Remaining Assets" (as defined in the Settlement Plan). The Remaining Assets, i.e. Mercator, will be transferred by agreement between the Trustee and the "new Agrokor"



or Fortenova (Fertenova is the new name of the company that will replace Agrokor d.d.) to the latter, when circumstances will allow it.

2) Risk of compliance with financial debt agreement commitments

As disclosed in Business report, Mercator Group net financial debt as of December 31, 2018 amounts to EUR 771,212 thousand.

The terms of financial debt agreements comprise several provisions directly linked to the state and condition of Agrokor Group and its financial performance, including cross-default, change of control and material adverse effect provisions.

Cross default conditions were triggered by implementation of law on *Extraordinary management proceedings in companies of systematic significance* in year 2017. An agreement with majority of lenders was reached that this clause does not affect the ability of Mercator Group to meet its financial obligations. The waiver on this condition was received from lenders on April 13, 2017. The waiver is still valid.

Change of control clause has not been triggered as of the reporting date and date of the approval of financial statements.

In assessment of the risk of default clause discussed above the company Poslovni sistem Mercator d.d. has considered the following factors:

- Mercator is, both for cashflow and EBITDA, one of the most significant entities within the Agrokor Group.
- It would be economically irrational for the Trustee and Fortenova to agree to transfer Mercator to Fortenova without there being an agreement with the Lenders under the Financial restructuring agreement in relation to the Change of Control.
- Without any arrangement in relation to the Change of Control, we consider it is unthinkable to conclude that an informed decision can be taken to initiate the transfer of Mercator from Agrokor to Fortenova in circumstances where a material operating subsidiary (i.e. Mercator) is immediately facing a prepayment of all amounts owing to the Lenders under the CTA and related Finance Documents.
- Company Poslovni sistem Mercator d.d. has reached a very advanced stage in the process of negotiation of a pre-emptive amendment to the *Change of Control* and can be re-initiated at a short notice.

Company Poslovni sistem Mercator d.d. has the assumption that stakeholders in both Agrokor Group and Mercator Group will be highly incentivized to avoid a situation that requires immediate and full prepayment of the main debt facilities of Mercator Group as this will be immediately value destructive for all stakeholders.

Conclusion

Company Poslovni sistem Mercator d.d. acknowledges that there are still certain risks arising from Agrokor Group uncertain future perspective described above and is aware of risks which can influence the ability of the company Poslovni sistem Mercator d.d. to continue operating as an ongoing Company.

However, the company Poslovni sistem Mercator d.d. has a view that, in light of the imminent implementation of the Settlement plan, the risks arising from Agrokor have been materially reduced. In addition, the Mercator Group is rigorously following the business plan and has a proven track record in operational improvements and significant deleveraging driven to a great extent by successful sale and lease back projects. It continues to maintain adequate internal and external resources and adequate risk mitigation measures in place to continue in operational existence.

Capital management

The policy of the Mercator Group and the company Poslovni sistem Mercator d.d. is oriented to achieving adequate amount of capital so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Management Board therefore monitors on an ongoing basis the return on capital and capital structure.



The capital structure of the Mercator Group and the company Poslovni sistem Mercator d.d. is the ratio between equity and net financial debt of the Group and the Company.

| Ratio between equity and net financial debt: in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|---|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Financial liabilities | 784,746 | 881,700 | 552,128 | 600,798 |
| Less: | | | | |
| Cash and cash equivalents | 13,534 | 24,112 | 6,298 | 11,635 |
| Net financial debt | 771,212 | 857,588 | 545,830 | 589,163 |
| Equity | 479,525 | 478,401 | 414,106 | 423,159 |
| Ratio between equity and net financial debt | 1:1.61 | 1:1.79 | 1:1.32 | 1:1.39 |

As at December 31, 2018, the company Poslovni sistem Mercator d.d. held 42,192 own shares (2017: 42,192 own shares).

Fair Values

| Fair Values in EUR thousand | Mercator Group | | | |
|---|----------------|--------------------|---------------|-----------|
| | Dec. 31, 2018 | | Dec. 31, 2017 | |
| Carrying amount | Fair Value | Carrying amount | Fair Value | |
| Trade and other receivables | 162,471 | 162,471 | 228,512 | 228,512 |
| Current tax assets | 258 | 258 | 244 | 244 |
| Loans and deposits | 23,526 | 23,526 | 28,980 | 28,980 |
| Available-for-sale financial assets | 393 | 393 | 391 | 391 |
| Cash and cash equivalents | 13,534 | 13,534 | 24,112 | 24,112 |
| Fixed rate bank borrowings | (89,544) | (89,544) | (70,559) | (70,559) |
| Floating rate bank borrowings | (502,615) | (502,615) | (566,474) | (566,474) |
| Loans from subsidiaries and other companies | (87,370) | (87,370) | (118,350) | (118,350) |
| Finance leases | (105,218) | (105,218) | (126,316) | (126,316) |
| Trade and other liabilities | (590,103) | (590,103) | (634,136) | (634,136) |

| Fair Values in EUR thousand | Poslovni sistem Mercator d.d. | | | |
|---|-------------------------------|--------------------|---------------|-----------|
| | Dec. 31, 2018 | | Dec. 31, 2017 | |
| Carrying amount | Fair Value | Carrying amount | Fair Value | |
| Trade and other receivables | 62,768 | 62,768 | 71,661 | 71,661 |
| Current tax assets | - | - | - | - |
| Loans and deposits | 2,133 | 2,133 | 126,400 | 126,400 |
| Available-for-sale financial assets | 261 | 261 | 259 | 259 |
| Cash and cash equivalents | 6,298 | 6,298 | 11,635 | 11,635 |
| Fixed rate bank borrowings | (67,669) | (67,669) | (65,947) | (65,947) |
| Floating rate bank borrowings | (321,733) | (321,733) | (340,317) | (340,317) |
| Loans from subsidiaries and other companies | (87,869) | (87,869) | (104,234) | (104,234) |
| Finance leases | (74,857) | (74,857) | (90,300) | (90,300) |
| Trade and other liabilities | (297,900) | (297,900) | (304,633) | (304,633) |

Based on the calculation of fair value, financial instruments are divided into three levels:

Level 1: quota (stock) prices for assets or liabilities;

Level 2: assets or liabilities not included within Level 1, the value of which is determined directly or indirectly based on comparable market data;

Level 3: assets or liabilities, the value of which is not based on active market basis.



| in EUR thousand | Mercator Group | | | | Poslovni sistem Mercator d.d. | | | |
|-------------------------------------|-------------------|---------|-----------|-----------|----------------------------------|---------|-----------|-----------|
| | December 31, 2018 | | | | December 31, 2018 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale financial assets | - | - | 393 | 393 | - | - | 261 | 261 |
| Loans and deposits | - | - | 23,526 | 23,526 | - | - | 2,133 | 2,133 |
| Trade and other receivables | - | - | 162,471 | 162,471 | - | - | 62,768 | 62,768 |
| Financial liabilities | - | - | (784,746) | (784,746) | - | - | (552,128) | (552,128) |
| Trade and other liabilities | - | - | (590,103) | (590,103) | - | - | (297,900) | (297,900) |

| in EUR thousand | Mercator Group | | | | Poslovni sistem Mercator d.d. | | | |
|-------------------------------------|-------------------|---------|-----------|-----------|----------------------------------|---------|-----------|-----------|
| | December 31, 2017 | | | | December 31, 2017 | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Available-for-sale financial assets | - | - | 391 | 391 | - | - | 259 | 259 |
| Loans and deposits | - | - | 28,980 | 28,980 | - | - | 126,400 | 126,400 |
| Trade and other receivables | - | - | 228,512 | 228,512 | - | - | 71,661 | 71,661 |
| Financial liabilities | - | - | (881,700) | (881,700) | - | - | (600,798) | (600,798) |
| Trade and other liabilities | - | - | (634,136) | (634,136) | - | - | (304,633) | (304,633) |

31. Operating lease

Minimum lease payments pertaining to operating lease are as follows:

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|----------------------------|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Less than one year | 43,645 | 56,544 | 5,206 | 8,084 |
| Between one and five years | 147,942 | 191,662 | 16,764 | 26,029 |
| More than five years | 110,056 | 142,580 | 17,922 | 27,826 |
| Total | 301,643 | 390,785 | 39,892 | 61,939 |

32. Capital commitments

Capital expenditures (investment into property, plant and equipment) agreed upon and specified in contracts and agreements, which were not yet recognized in financial statements as at the statement of financial position date:

| in EUR thousand | Mercator Group | | Poslovni sistem Mercator d.d. | |
|-------------------------------|------------------|------------------|----------------------------------|------------------|
| | Dec. 31, 2018 | Dec. 31, 2017 | Dec. 31, 2018 | Dec. 31, 2017 |
| Property, plant and equipment | 1,556 | 6,836 | 1,495 | 2,439 |



33. Related-party transactions

The company Poslovni sistem Mercator d.d. has a controlling owner or shareholder. The biggest owner is Agrokor d.d. holding 69.57% of total equity.

The management personnel

The related persons of the Mercator Group are management personnel and related companies. The management personnel include members of management and members of the supervisory boards in the companies of the Mercator Group. At the end of 2018, the management personnel did not own any shares of the company Poslovni sistem Mercator d.d. Members of the supervisory boards of subsidiaries of the Mercator Group do not receive any payments for the purpose of performing supervision in subsidiaries, so the amounts presented refer only to the parent company. In 2018, no member of the management personnel and Supervisory Board of Poslovni sistem Mercator d.d. did receive any remuneration for the performance of tasks in its subsidiaries (disclosure in accordance with Article 294 of the Companies Act).

Gross compensations to Management Board members and Supervisory Board members paid in 2018 in the parent company Poslovni sistem Mercator d.d. are shown in the following tables (disclosure in accordance with Article 294 of the Companies Act and Annex C of the Corporate Governance Code for Public Limited Companies).

Compensation of the Management Board of the company Poslovni sistem Mercator d.d. in 2018

| Name and surname | Function | Fixed renumeration - gross (1) | Variable remuneration – gross | | | Deferred income (3) | Severance pays (4) | Bonuses (5) | Refund payment – (claw-back) (6) | Total gross (1+2+3+ +4+5+6) | Total net |
|------------------|-----------------------------------|-----------------------------------|--------------------------------|-------------------------------|--------------|------------------------|-----------------------|----------------|-------------------------------------|-----------------------------------|----------------|
| | | | based on quantitative criteria | based on qualitative criteria | Total (2) | | | | | | |
| Tomislav Čizmić | President of the Management Board | 373,103 | - | - | - | - | - | 41,575 | - | 414,678 | 133,481 |
| Draga Cukjati | Member of the Management Board | 244,187 | - | - | - | - | - | 13,168 | - | 257,355 | 103,490 |
| Igor Mamuza | Member of the Management Board | 274,502 | - | - | - | - | - | 17,980 | - | 292,482 | 109,529 |
| Gregor Planteu | President of the Management Board | 237,408 | - | - | - | - | - | 6,847 | - | 244,255 | 103,571 |


Compensation of the Supervisory Board and Committees of the company Poslovni sistem Mercator d.d. in 2018

| Name and surname | Function | Function-related payments – gross per year (1) | Attendance fees of SB and committees – gross per year (2) | Total gross (1+2) | Total net | Commuting allowances |
|--------------------|---|---|--|----------------------|-----------|----------------------|
| Ante Ramljak | President of SB until February 28, 2018 | - | - | - | - | - |
| Damir Kuštrak | Member of SB and AC until April 16, 2018 | - | 285 | 285 | 207 | - |
| Teo Vujčić | Member of SB until April 4, 2018 | - | - | - | - | - |
| Fabris Peruško | Member of SB from June 12, 2018 | - | 285 | 285 | 207 | - |
| Matej Lahovnik | Vice-president of SB, Member of SB, Member of AC, President of HR | 36,000 | 5,225 | 41,225 | 29,983 | - |
| Irena Weber | Member of SB from June 12, 2018 | - | 285 | 285 | 207 | - |
| Ivica Mudrinić | Member of SB, Member of HR | 27,000 | 2,912 | 29,912 | 21,755 | - |
| Sergei Volk | Member of SB from June 12, 2018 | 9,950 | 1,656 | 11,606 | 8,441 | - |
| Vladimir Bošnjak | Member of SB, President of AC | - | 855 | 855 | 622 | - |
| Vesna Stojanović | Member of SB, Member of HR | 27,000 | 2,200 | 29,200 | 21,237 | - |
| Matjaž Grošelj | Member of SB | 18,000 | 1,375 | 19,375 | 14,091 | - |
| Jože Lavrenčič | Member of SB | 18,000 | 1,375 | 19,375 | 14,091 | - |
| Sergeja Slapničar | Extraordinary Member of AC until August 30, 2018 | 5,976 | 1,100 | 7,076 | 5,146 | - |
| Aleksander Igličar | Extraordinary Member of AC from August 31, 2018 | 2,900 | 275 | 3,175 | 2,309 | - |

SB = Supervisory Board AC = Audit Committe HR = Human Resource Committee

Compensation of the Supervisory Committee of the company Poslovni sistem Mercator d.d. in 2018

| Name and surname | Function | Function-related payments – gross per year (1) | Attendance fees of SB and committees – gross per year (2) | Total gross (1+2) | Total net | Commuting allowances |
|------------------|----------|---|--|----------------------|-----------|----------------------|
| Filipović Nenad | - | 18,000 | 481 | 18,481 | 13,441 | - |



Transactions with related parties in the Agrokor Group

| in EUR thousand | Mercator Group | | | | Poslovni sistem Mercator, d.d. | | | |
|--------------------------------------|----------------|-------------|-------------|----------------|--------------------------------|--------------|--------------|----------------|
| | Receivables | Liabilities | Loans given | Loans received | Receivables | Liabilities | Loans given | Loans received |
| Mercator Group companies: | | | | | | | | |
| M – Energija d.o.o. | - | - | - | - | 10 | 35 | - | 75 |
| Mercator – BH d.o.o. | - | - | - | - | 244 | 29 | - | 9,629 |
| Mercator – CG d.o.o. | - | - | - | - | 14 | 21 | - | 7,098 |
| Mercator – H d.o.o. | - | - | - | - | 2,733 | 194 | 2,103 | - |
| Mercator – S d.o.o. | - | - | - | - | 2,005 | - | - | - |
| Mercator Emba d.d. | - | - | - | - | 97 | 397 | - | 3,500 |
| Mercator IP d.o.o. | - | - | - | - | 70 | 2,391 | - | 5,047 |
| Total | - | - | - | - | 5,174 | 3,069 | 2,103 | 25,349 |
| Agrokor Group companies: | | | | | | | | |
| 360 Marketing d.o.o. | - | 76 | - | - | - | - | - | - |
| A007 d.o.o. | 71 | - | - | - | - | - | - | - |
| Adriatica net d.o.o. | - | - | - | - | - | - | - | - |
| Agkor d.o.o. | - | - | - | - | - | - | - | - |
| Agrokor AG Zug | 397 | - | - | - | 397 | - | - | - |
| Agrokor d.d. | 3,953 | - | - | 20,000 | 3,953 | - | - | 20,000 |
| Agrokor-Energija d.o.o. | - | - | - | - | - | - | - | - |
| Agrokor-trgovina d.o.o. | 2,038 | 1 | - | - | 1,861 | 1 | - | - |
| Agrokor-Zagreb d.o.o. Grude | - | 14 | - | - | - | - | - | - |
| Angropromet d.o.o. | - | 141 | - | - | - | - | - | - |
| Atlas d.d. | - | - | - | - | - | - | - | - |
| Belje d.d. (+ Belje Agro-vet d.o.o.) | 151 | 3 | - | - | 151 | 3 | - | - |
| Dalmarina d.o.o. | - | - | - | - | - | - | - | - |



| | | | | | | | | |
|--|--------|--------|---|---|------|-----|---|---|
| DB Kantun Veleprodaja d.o.o. | - | - | - | - | - | - | - | - |
| Dijamant a.d. | 438 | 7,448 | - | - | 3 | 855 | - | - |
| Euroviba d.o.o. | - | - | - | - | - | - | - | - |
| Fonyodi Kft. | - | - | - | - | - | - | - | - |
| Frikom Beograd d.o.o.e.l. Makedonija | - | - | - | - | - | - | - | - |
| Frikom d.o.o. | 447 | 5,965 | - | - | - | - | - | - |
| Idea d.o.o. (+ Shutnell Limited Ltd Beojana d.o.o. Beokona d.o.o. Beopana d.o.o. Beosana d.o.o. Beovona d.o.o.) | 22 | 12,687 | - | - | - | - | - | - |
| INIT d.d. Sarajevo | - | - | - | - | - | - | - | - |
| Irida d.o.o. | - | - | - | - | - | - | - | - |
| Jamnica d.d. | 32 | - | - | - | 32 | - | - | - |
| Jamnica d.o.o. Maribor | 66 | 690 | - | - | 66 | 690 | - | - |
| Jolly projekti jedan d.o.o. | - | - | - | - | - | - | - | - |
| Kikindski mlin a.d. | 8 | 888 | - | - | - | - | - | - |
| Kompas d.d. | (19) | 869 | - | - | (19) | 868 | - | - |
| Kompas d.o.o. Poreč | - | - | - | - | - | - | - | - |
| Kompas Nizozemska (+ ID Riva Tours b.v.) | - | - | - | - | - | - | - | - |
| Kompas Poland Sp Zoo | - | - | - | - | - | - | - | - |
| Kompas Prag | - | - | - | - | - | - | - | - |
| Kompas Touristik Espana s.a. | - | - | - | - | - | - | - | - |
| Kompas USA (+ Kollander world Travel) | - | - | - | - | - | - | - | - |
| Konzum d.d. | 35,110 | 1,144 | - | - | 0 | 54 | - | - |
| Konzum d.o.o. Sarajevo | 1,563 | 270 | - | - | - | - | - | - |
| Kor Broker d.o.o. | - | - | - | - | - | - | - | - |
| Krka d.o.o. | - | - | - | - | - | - | - | - |
| Kron a.d. | 0 | - | - | - | - | - | - | - |
| Latere Terram d.o.o. | - | - | - | - | - | - | - | - |
| Ledo d.d. | 228 | - | - | - | 208 | - | - | - |
| Ledo d.o.o. Čitluk | - | 331 | - | - | - | - | - | - |



| | | | | | | | |
|---|-----|-------|---|---|-----|-------|---|
| Ledo d.o.o. Kosovo | - | - | - | - | - | - | - |
| Ledo d.o.o. Ljubljana | 82 | 1,807 | - | - | 82 | 1,805 | - |
| Ledo d.o.o. Podgorica | 1 | 628 | - | - | - | - | - |
| Ledo Kft. Mađarska | - | - | - | - | - | - | - |
| Lovno gospodarstvo Moslavina d.o.o. | - | - | - | - | - | - | - |
| MG Mivela d.o.o. (Jamnica d.o.o. Beograd) | 114 | 2,176 | - | - | - | - | - |
| Mladina d.d. | - | - | - | - | - | - | - |
| Mliječno govedarstvo Klisa d.o.o. | - | - | - | - | - | - | - |
| Mondo tera d.o.o. (BIH) | - | - | - | - | - | - | - |
| Mondo-Tera d.o.o. | - | - | - | - | - | - | - |
| M-profil SPV d.o.o. | - | - | - | - | - | - | - |
| mStart Business Solutions d.o.o. | 15 | 2 | - | - | - | - | - |
| mStart d.o.o. | - | 1,780 | - | - | - | 343 | - |
| Multiplus card d.o.o. | - | - | - | - | - | - | - |
| Napred projekt 52 d.o.o. | - | 1,140 | - | - | - | - | - |
| Nova sloga d.o.o. | 0 | 55 | - | - | - | - | - |
| Pet-prom ulaganja d.o.o. | - | - | - | - | - | - | - |
| PIK BH d.o.o. Laktaši | - | 353 | - | - | - | - | - |
| PIK Vinkovci d.d. (+ Eko Biograd d.o.o. Felix d.o.o. HU-PO d.o.o. Poljoprivreda j.d.o.o. Vinka d.d.) | - | 27 | - | - | - | 27 | - |
| PIK Vrbovec d.d. | 186 | 2,893 | - | - | 135 | 2,620 | - |
| Projektgradnja d.o.o. | - | - | - | - | - | - | - |
| Rivijera d.d. | - | - | - | - | - | - | - |
| Roto dinamic d.o.o. | - | - | - | - | - | - | - |
| Roto ulaganja d.o.o. | - | - | - | - | - | - | - |
| Sarajevski kiseljak d.d. | - | 147 | - | - | - | - | - |
| SK - 735 d.o.o. | - | - | - | - | - | - | - |
| Sojara d.o.o. | - | - | - | - | - | - | - |
| Solana Pag d.d. | 1 | 35 | - | - | 1 | 35 | - |



| | | | | | | | | |
|--|---------------|---------------|----------|---------------|---------------|---------------|--------------|---------------|
| Super kartica d.o.o. Beograd | 410 | 513 | - | - | - | - | - | - |
| Super kartica d.o.o. BH | 0 | 19 | - | - | - | - | - | - |
| Terra Argenta d.o.o. | - | - | - | - | - | - | - | - |
| Tisak d.d. (+ Backstage d.o.o. Tisak Usluge d.o.o. + Tisak InPost) | 8 | 0 | - | - | - | - | - | - |
| TPDC Sarajevo d.d. | - | - | - | - | - | - | - | - |
| Velpro d.o.o. Sarajevo | - | - | - | - | - | - | - | - |
| Velpro-centar d.o.o. | 161 | 1 | - | - | 2 | 1 | - | - |
| Vinarija Novigrad d.o.o. | - | - | - | - | - | - | - | - |
| Vupik d.d. | - | - | - | - | - | - | - | - |
| Zvijezda d.d. | 35 | 26 | - | - | 35 | - | - | - |
| Zvijezda d.o.o. Sarajevo | 2 | 199 | - | - | - | - | - | - |
| Zvijezda RS d. o. o. Laktaši | - | 23 | - | - | - | - | - | - |
| Zvijezda d.o.o. Ljubljana | 64 | 1,801 | - | - | 64 | 1,750 | - | - |
| Žitnjak d.d. | - | - | - | - | - | - | - | - |
| Total | 45,581 | 44,151 | - | 20,000 | 6,970 | 9,052 | - | 20,000 |
| Total all related companies* | 45,581 | 44,151 | - | 20,000 | 12,144 | 12,121 | 2,103 | 45,349 |

*On the basis of the agreed arrangement within the framework of the Lex Agrokor, the outstanding receivables for the related companies of Agrokor may be amended. Most of receivables shown in the table were impaired in 2016 and 2017. As at December 31, 2018, receivables that were impaired in 2016 and 2017 amounted to EUR 37,206 thousand.

Mercator Group

Sales revenue to Agrokor Group companies in 2018 year totals to EUR 15,873 thousand (2017: EUR 27,242 thousand), of which EUR 6,543 thousand refers to sales of goods (2017: EUR 10,591 thousand), and EUR 8,969 thousand to rental income (2017: EUR 10,573 thousand). Total cost from Agrokor Group companies in 2018 year amounts to EUR 71,057 thousand (2017: EUR 82,836 thousand), of which EUR 57,124 thousand refers to costs of goods sold (2017: EUR 64,905 thousand).

**Poslovni sistem Mercator d.d.**

Sales revenue to Agrokor Group companies in 2018 year totals to EUR 1,191 thousand (2017: EUR 4,321 thousand), of which EUR 1,028 thousand refers to sales of goods (2017: EUR 4,201 thousand), and EUR 73 thousand to rental income (2017: EUR 3 thousand). Total cost from Agrokor Group companies in 2018 year amounts to EUR 28,931 thousand (2017: EUR 30,799 thousand), of which EUR 28,437 thousand refers to costs of goods sold (2017: EUR 29,848 thousand).

Revenue from all business activities to subsidiaries in 2018 year totals to EUR 5,447 thousand (2017: EUR 7,564 thousand), of which EUR 1,448 thousand refers to sales of goods (2017: EUR 991 thousand), and EUR 319 thousand to rental income (2017: EUR 449 thousand). Total cost to subsidiaries in 2018 year amounts to EUR 16,797 thousand (2017: EUR 15,475 thousand), of which EUR 12,221 thousand refers to costs of goods sold (2017: EUR 10,965 thousand).

34. Major events after the balance sheet date

In February 2019, the second phase of the monetization project was completed with the sales of ten shopping centers in Slovenia between the company Poslovni sistem Mercator d.d. and companies Supernova. Supernova paid the acquisition price in the amount of EUR 116.6 million. Mercator will in future perform long-term rentals of parts of the center, in which it performs its core activity. The total purchase price was intended to pay the financial liabilities.

In March 2019, the sales procedures for the company Investment Internacional, d.o.o.e.l., Makedonija, was completed. On the Macedonian market of the Mercator Group, it remains present with the company Mercator Makedonija, d.o.o.e.l.



Independent auditor's report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT to the shareholders of Poslovni sistem Mercator, d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the company Poslovni sistem Mercator, d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 30 of the financial statements, which describes the exposure of the Group to the risks that may affect the Group's ability to continue its operations on the going concern basis. As stated in Note 30, events and conditions disclosed indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonom o Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«) in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podrobni opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na <http://www.deloitte.com/si>.

V Sloveniji storitev zagotavlja Deloitte revija d.o.o. in Deloitte svetovalnji d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne držbe za strokovne storitve v Sloveniji, ki nudijo storitve revizije, davčnega, poslovnega, finančnega in pravnega svetovalstva ter svetovalja na področju tveganj, ki jih zagotavlja več kot 100 domačih in tujih strokovnjakov.

Deloitte revija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105 - ID Št. za DDV: SI62560085 - Osnovni kapital: 74.214,30 EUR.

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| Key audit matter Fair value measurement application of revaluation model to land and buildings accounting | How our audit addressed the key audit matter |
|--|---|
| <p>The Group applies revaluation model to measuring land and buildings carrying value items in its books. Total carrying amount of land as of reporting date amounts to EUR 313.1 mln and buildings to EUR 585 mln as disclosed in Note 14.</p> <p>Latest valuation of land and buildings was performed by independent appraiser in 2017 year.</p> <p>Management has assessed that as of 31 December 2018 the fair value of land and buildings has not changed significantly and therefore revaluation as of reporting date is not required following the IAS 16 <i>Property, plant and equipment</i> requirements.</p> <p>The valuation of land and buildings is considered to be a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the judgment associated with determining the fair value.</p> <p>To assess the significance of deviation of fair values from carrying amount the Group employed certified independent appraiser to make a representative sample of land and buildings items and perform valuation of selected items.</p> | <p>Our audit procedures included the assessment whether management judgement is appropriate and whether the IAS 16 and IAS 13 <i>Fair value measurement</i> requirements are met, including</p> <ul style="list-style-type: none"> • Assessment of competence, capabilities and objectivity of management's independent valuer, and verification of the qualifications of the valuer. In addition, we discussed the scope of his work with management. We confirmed that the approaches he used are consistent with IFRSs; • Assessment of whether sample of land and buildings items selected for valuation as of reporting date is appropriate and comprises items which are most representative for the group of assets and have the highest exposure to the market volatility and comprises items from all geographic regions, where carrying amounts of properties is material; • We made use of our internal experts to evaluate whether the valuation approach used by the Group Management expert is appropriate and whether the significant assumptions used are adequate for given purposes. <p>The disclosures pertaining to the land presented in Note 14.</p> |

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and



- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management and Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the Group, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With audit committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide audit committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 12 June 2018. Our total uninterrupted engagement has lasted 6 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 April 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Barbara Žibret-Kralj, certified auditor.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret-Kralj
Certified auditor

*For signature please refer to the original
Slovenian version.*

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 25 April 2019

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INDEPENDENT AUDITOR'S REPORT to the shareholders of Poslovni sistem Mercator, d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company Poslovni sistem Mercator, d.d (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 30 of the financial statements, which describes the exposure of the Company to the risks that may affect the Company's ability to continue as going concern. As stated in Note 30, events and conditions disclosed indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajom Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podrobnejši opis pravne organiziranosti izvršenja Deloitte Touche Tohmatsu Limited in njenih drugih članic je na voljo na <http://www.deloitte.com/si>.

V Sloveniji storitve zagotavlja Deloitte revizija d.o.o. in Deloitte svetovalnja d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited. Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudijo storitve revizije, davčnega, poslovnega, finančnega in pravnega svetovalnja ter svetovalnja na področju tveganj, ki jih zagotavlja več kot 100 domačih in tujih strokovnjakov.

Deloitte revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105 – ID St. za DOV: SI62560085 - Osnovni kapital: 74.214,30 EUR.

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| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| Fair value measurement application of revaluation model to land and buildings accounting | |
| <p>The Company applies revaluation model to measuring land and buildings carrying value items in its books. Total carrying amount of land as of reporting date amounts to EUR 218.8 mln and buildings to EUR 372.3 mln as disclosed in Note 14.</p> <p>Latest valuation of land and buildings was performed by independent appraiser in 2017 year.</p> <p>Management has assessed that as of 31 December 2018 the fair value of land and buildings has not changed significantly and therefore revaluation as of reporting date is not required following the IAS 16 <i>Property, plant and equipment</i> requirements.</p> <p>The valuation of land and buildings is considered to be a key audit matter due to the significance of the balance to the financial statements as a whole, combined with the judgment associated with determining the fair value.</p> <p>To assess the significance of deviation of fair values from carrying amount the Company employed certified independent appraiser to make a representative sample of land items and perform valuation of selected items.</p> | <p>Our audit procedures included the assessment whether management judgement is appropriate and whether the IAS 16 and IAS 13 <i>Fair value measurement</i> requirements are met, including</p> <ul style="list-style-type: none"> • Assessment of competence, capabilities and objectivity of management's independent valuer, and verification of the qualifications of the valuer. In addition, we discussed the scope of his work with management. We confirmed that the approaches he used are consistent with IFRSs; • Assessment of whether sample of land and building items selected for valuation as of reporting date is appropriate and comprises items which are most representative for the group of assets and have the highest exposure to the market volatility and comprises items from all geographic regions, where carrying amounts of properties is material; • We made use of our internal experts to evaluate whether the valuation approach used by the Company Management expert is appropriate and whether the significant assumptions used are adequate for given purposes. <p>The disclosures pertaining to the land and buildings is presented in Note 14.</p> |
| Subsequent measurement of investments in subsidiaries in separate financial statements | |
| <p>Investments in subsidiaries amount to EUR 297.8 mln as of December 31, 2018 in the Company's separate financial statements. The Company recognized EUR 28.3 mln of impairment in investments in subsidiaries in 2018 as disclosed in Note 17.</p> <p>As required by the applicable accounting standards – IAS 36 <i>Impairment of assets</i>, Management conducts annual impairment tests to assess the recoverability of the carrying value of investments. The recoverable amount of investments is determined in accordance with IAS 36 as higher of value in use and fair value less cost of disposal. In the result, fair value less cost of disposal was selected for determination of recoverable amount of investments as of December 31, 2018 year.</p> | <p>Our audit procedures comprised:</p> <p>>> Assessment whether recoverable amount is appropriately determined in accordance with IAS 36 requirements;</p> <p>>> Evaluation whether the approach used by management to determine the fair value and cost of disposal of individual investments comply with the requirements of IAS 36 and whether assumptions used for the assessment of fair value are reasonable and supportable given the current macroeconomic climate and expected future performance;</p> <p>>> Assessment whether information disclosed in the notes to the financial statements is complete and accurate and meets the requirements of applicable financial reporting standards.</p> |



| | |
|---|--|
| <p>Significant Management judgment is involved in determination of appropriate approach to recoverable amount determination and calculation, accordingly, the impairment test of these assets is considered to be a key audit matter.</p> | <p>Relative information disclosed in Note 17</p> |
|---|--|

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With audit committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide audit committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement

Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 12 June 2018. Our total uninterrupted engagement has lasted 6 years.

Confirmation to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25. April 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

**Provision of Non-audit Services**

We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Barbara Žibret-Kralj, certified auditor.

DELOITTE REVIZIJA d.o.o.

Barbara Žibret-Kralj
Certified auditor

*For signature please refer to the original
Slovenian version.*

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 25. April 2019

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CONTACTS MERCATOR.

We are inspired by global success, so we are investing in the future. We encourage talent, reward outstanding achievement, and nurture loyalty.



MERCATOR GROUP

TRADE, SERVICE, AND MANUFACTURING COMPANIES

Slovenia

| | |
|--------------------------------------|--|
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| Telephone: | +386 1 560 10 00 |
| Website: | www.mercatorgroup.si |
| Email: | info@mercator.si |

| | |
|-------------------------------|---|
| Mercator–Velpro d.o.o. | |
| Head office: | Slovenčeva ulica 25, 1000 Ljubljana, Slovenia |

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|---------------------------|--|
| Mercator IP d.o.o. | |
| Head office: | Dunajska cesta 110, 1000 Ljubljana, Slovenia |
| Telephone: | +386 1 234 36 45 |
| Website: | www.mercator-ip.si |
| Email: | info@mercator-ip.si |

| | |
|--------------------------|--|
| M–Energija d.o.o. | |
| Head office: | Dunajska cesta 115, 1000 Ljubljana, Slovenia |
| Telephone: | +386 1 560 62 50 |
| Website: | www.maxen.si |
| Email: | info@maxen.si |

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|-----------------------------|--|
| Mercator Maxi d.o.o. | |
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|---------------------------|--|
| Mercator–Emba d.d. | |
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Serbia

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**Bosnia and Herzegovina**

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| M-BL d.o.o. | |
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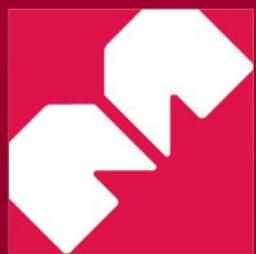
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Makedonia

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