

Pursuant to the Corporate Governance Code, the Management Board and Supervisory Board of Mercator, d.d., adopted on May 10, 2010, and December 14, 2010, the Mercator Group Corporate Governance Policy, and amendments thereto on May 6, 2013, and May 14, 2013; on October 12, 2015, and November 17, 2015; and on September 19, 2016, and November 22, 2016 so that its consolidated text is as follows:

## **CORPORATE GOVERNANCE POLICY OF THE COMPANY MERCATOR, D.D., AND THE MERCATOR GROUP**

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# 1. KEY GOVERNANCE GUIDELINES

Mercator Group is one of the largest corporate groups in Slovenia and in the entire Southeastern European region. Mercator Group's primary and key activity is retail of fast-moving consumer goods. This core activity is extended with offer or supplementary services (technical consumer goods, petroleum products etc.).

Corporate Governance Policy of the company Mercator, d.d. (hereinafter referred to as the Company or the Controlling Company or Mercator), and the Mercator Group (hereinafter referred to as the Corporate Governance Policy) pertains to the Controlling Company and its subsidiaries in Slovenia and abroad, which comprise, along with the Controlling Company, the Mercator Group. Up-to-date composition of Mercator Group is evident from the most recent annual report available on the website at [www.mercatorgroup.si](http://www.mercatorgroup.si) and in the public notification system SEOnet.

Subject to confirmation of the Supervisory Board, the company Management Board shall adopt the Mercator Group Business Strategy which defines the vision, mission, values, and strategic policies and goals of the Mercator Group. The company Management Board shall make sure that all stakeholders are informed of the business strategy and that they participate in its pursuit.

A two-tier corporate governance system is in place at the company, which includes the following governance bodies: Management Board, Supervisory Board, and the Shareholders Assembly. Powers of each body are set forth in the company Articles of Association available on the website at [www.mercatorgroup.si](http://www.mercatorgroup.si) and in the public notification system SEOnet. Other major company bodies include the Audit Committee of the Supervisory Board, whose powers are set forth in Section 8 herein; Internal Audit; and Risk Management Council appointed by the company Management Board and whose task and purpose is to define and implement the risk management policy at the Mercator Group.

Following is a presentation of the key elements of the Mercator Group business strategy:

## Vision

Mercator will be the biggest, the most successful, and the most efficient retailer in the markets of Slovenia, Serbia, and Montenegro.

## Mission

- Happy customers recognize Mercator as the best retailer.
- Motivated employees are the competitive advantage.
- Enjoying trust from all stakeholders.

## Strategy

We are fulfilling five key promises, or propositions, to our customers. Each proposition has a clear purpose and goals:

1. Value for money:

Day in, day out, Mercator fulfils the needs and expectations of its customers, and offers the best value for their money with innovative offer.

2. Local:

Mercator works closely with its environment and continues its local initiatives which are reflected in the most extensive network of stores that are closest to the customers.

3. The best offer:

In addition to the offer of renowned brands, Mercator's private label products offer customers solid quality and competitive pricing. Mercator introduces innovative products and adjusts the offer in each of its stores to customer needs.

4. The ultimate freshness:

Mercator offers its customers the broadest choice of innovative products that are relevant to them, with stable partnership with local and regional suppliers.

5. The best service:

With a friendly and amiable approach, Mercator employees are focused on the customers. With intensified refurbishment of its stores, Mercator offers its customers improved shopping experience in a pleasant ambiance.

The Corporate Governance strategy also includes care for our natural and social environment.

Consistently with its care for the natural environment, clean technology, ecologically sound products, reduction of energy and water consumption, and reduction of waste generation, the company Management Board adopted the Environmental Management Policy and thereby committed to continuous improvement of environment management and prevention of pollution, as well as compliance with legal requirements specified within the adopted "National Energy Efficiency Action Plan for the period 2008–2016" which is harmonized with the European Union guidelines.

Mercator provides donations and sponsorships to humanitarian, cultural, healthcare, educational, scientific, and sports projects and institutions, thus building relationships between people, developing them, and strengthening the activities of local and national relevance in a variety of fields of social life.

## **2. REFERENCE CORPORATE GOVERNANCE CODE**

The company uses the Corporate Governance Code, available in Slovenian and English on the Ljubljana Stock Exchange, d.d., website at [www.ljse.si](http://www.ljse.si) as its reference code.

## **3. GROUPS OF STAKEHOLDERS AND THE STRATEGY OF COMMUNICATION AND COOPERATION WITH THEM**

Business performance and development of the company in a web of interpersonal relationships are also affected by the key interest groups or stakeholders (shareholders, customer/consumers, employees, suppliers/business partners, financial institutions, government).

### **SHAREHOLDERS**

The company observes the principle of equal treatment of all shareholders and allows them to responsibly exercise their rights. The company encourages greater representation of minority shareholders via proxies by offering organized collection of proxy authorizations.

The company nurtures shareholder confidence by regularly notifying the public about all relevant information regarding the company and the Mercator Group (in the public notification system SEOnet, on the corporate website at [www.mercatorgroup.si](http://www.mercatorgroup.si), in press conferences etc.).

The Management Board shall convene the Shareholders Assembly pursuant to effective legislation and the company Articles of Association. Convocation of the Shareholders Assembly shall be announced at least 30 days before the meeting, in the Delo daily paper, the SEOnet electronic public notification system, and on company website at [www.mercatorgroup.si](http://www.mercatorgroup.si).

### **CUSTOMERS/CONSUMERS**

The company's business activities create benefits for the customers/consumers by offering excellent trade services, high-quality goods, and competitive prices. Offer in traditional brick-and-mortar shops is extended by an online store. Mercator customers include retail customers or end users, and wholesale customers.

Mercator's key activities are focused on the following benefits to customers:

- we are a neighbour in the local environment in which we are active,
- we are focused on fresh and local offer,
- focus on the consumer and the best selection of products at affordable prices, we offer the best value for money,
- we offer our customers the best service.

## **EMPLOYEES**

In the trade industry, employees are a priceless asset as they significantly contribute to customer satisfaction, and consequently to achieving of Mercator's business objectives. Mercator is striving to be a company that is friendly to the employees and their families as it is aware of the proven fact that a happy employee is more loyal and especially more efficient at work.

Mercator's activities in human resource management will involve the following:

- making sure the right people are in the right places,
- care for the development of employees,
- motivation and rewards,
- connecting our employees.

At Mercator, communication with the employees takes place in particular by regular notifications on internal websites and in the in-house newsletter.

A company-wide collective labour agreement is signed by the Management Board and representative trade unions of company employees. Moreover, the company Management Board and the Mercator, d.d., Works Council have signed a worker participation in management agreement. In addition, the Management Board holds regular meetings with representatives of both trade unions and the Works Council to discuss the pending and current issues.

## **SUPPLIERS/BUSINESS PARTNERS**

Mercator's suppliers supply trade and non-trade goods and services. Mercator is looking to establish such supplier relationships that will ensure long-term stability and, considering the scope and scale, the best-priced supply sources for trade and non-trade goods and services.

Working with the suppliers and consistently with the needs of the customers, Mercator is developing new products under its own and supplier brands. Mercator is adjusting its offer to the local requirements of respective markets, thus allowing development for smaller growers, producers or manufacturers, while the development of Mercator offer, based on sustainability and environment awareness, encourages local farmers to produce high-quality food.

Creation of supply sources for trade and non-trade goods is based on the procurement policy and provision of compliance of the purchased products with the requirements laid down. In the process, particular care is paid to supplier evaluation and selection,

specification of assortments and information about the items, trade goods pricing, and category management. Each year, Mercator invites its suppliers and business partners to its Marketing Days. The meeting is an opportunity to define additional starting points for Mercator's further development, in addition to presenting Mercator Group's strategic policies, development plans of Mercator's trade companies, and marketing strategy for particular sales programs.

Customs Administration of the Republic of Slovenia, in charge of certification of compliance with the criteria for awarding the AEO status, granted the company Mercator, d.d., the status of an "Authorized Economic Operator". The AEO status means that Mercator is recognized throughout the European Union as a safe and reliable partner in international trade.

## **FINANCIAL INSTITUTIONS**

Financial institutions include financial institutions of control and authority (Bank of Slovenia, Securities Market Agency, Insurance Supervision Agency), deposit financial institutions (commercial banks, savings banks, cooperatives), and non-deposit financial institutions (investment funds, mutual funds, investment companies, pension funds, insurance companies). Mercator's cooperation with financial institutions is correct and transparent.

Each year, the company organizes Mercator banking days that are attended by the invited financial institutions with whom the Group is working. Mercator Group's strategic policies, performance, and annual Business Plan are presented to the representatives of financial institutions, and additional starting points for Mercator's further development are defined.

## **THE GOVERNMENT**

The company ensures compliance of operations with the relevant effective legislation, executive regulations, and internal company acts. The company strives to prevent any breach of legislation, executive regulations, and internal acts before such breach may occur.

## **4. METHODS OF COMMUNICATING THE PARENT COMPANY AND MERCATOR GROUP STRATEGY AND STANDARDS OF GOVERNANCE TO THE SUBSIDIARIES AND SHAREHOLDERS**

Mercator Group subsidiaries are legally independent companies operating consistently with the local legislation, decisions and resolutions of the managerial and governance bodies of the Controlling Company and subsidiaries, and internal acts effective at the Mercator Group.

The Controlling Company Management Board shall be responsible for strategic management of the entire Mercator Group. It shall supervise the operations of all subsidiaries, manage investments into subsidiaries, and assume responsibility for long-term performance of the

Mercator Group as a whole. It shall provide appropriate human resources for the bodies of corporate governance at subsidiaries, appointing managers who are familiar with Mercator Group strategy and corporate governance standards.

The Controlling Company shall provide corporate governance at subsidiaries:

- through attendance at subsidiary shareholders assemblies, and membership in supervisory boards; members of governance bodies at subsidiaries shall not receive any payment or reward for such membership;
- by standardization and unification of rules and procedures in respective fields within the scope of internal acts in the "Mercator Standards" Collection;
- by independence reports developed pursuant to the law by subsidiary management.

The Controlling Company Supervisory Board shall supervise the operations of the entire Mercator Group through Controlling Company Management Board's reports. The Supervisory Board may request from the Management Board at any time a report on operations and performance of a particular subsidiary; however, such reports cannot be requested directly from the management or employees at the relevant subsidiary.

Subject to confirmation of the Supervisory Board, the Controlling Company Management Board shall adopt the Mercator Group Business Strategy which defines the vision, mission, corporate principles, and strategic policies and goals of the Mercator Group.

The Controlling Company shall inform the subsidiaries about the standards of management and governance at Mercator Group and strategic policies for future operations in particular through internal communication and at the meetings of broad management. Methods of communicating these issues to the shareholders are specified in the preceding section herein.

## **5. POLICY ON RELATED PARTY TRANSACTIONS**

The company has two groups of related parties: subsidiaries and managerial staff.

### **TRANSACTIONS WITH SUBSIDIARIES**

Mercator Group's Controlling Company operates by the principles of improving business performance in each subsidiary and the Mercator Group as a whole, even and coordinated development of the Mercator Group, optimum supply of fast-moving consumer goods and services in all markets of Mercator Group's operations, improving competitiveness, efficient allocation and coordination of material flows, harmonized and coordinated procurement and sales at home and abroad, financing current operations and development with common funds, and security, risk and liquidity management, and maximum returns in financial management. In addition to trade operations, the Controlling Company also performs a variety of corporate tasks for Mercator Group companies. Costs of such corporate activities are charged to the Controlling Company.



In transactions between companies within the Mercator Group, the arm's length principle is strictly and consistently applied; hence, reported results of each company actually reflects truly and fairly its business performance.

Mercator Group parent/controlling company shall appoint special task forces to prepare a transfer pricing report for each year. The report is compiled based on a list of transactions effected in the current year between companies of the Mercator Group. The transactions, consistently with the procurement policies of respective companies, are planned in advance; the same applies to pricing policy. Task forces for each type of transactions completed within the Mercator Group shall prepare relevant comparability and arm's length analyses, and the tax treatment of each transaction shall also depend on their results. In this regard, the company is applying the recommendations from the OECD guidelines.

## **TRANSACTIONS WITH MANAGEMENT STAFF**

Management staff includes members of Management Boards and Supervisory Boards at the companies of the Mercator Group. They receive compensation for their work, as specified in the relevant legislation, internal acts, and signed contracts. Rewards received by the management staff are regularly reported in Annual Reports and at Shareholders Assembly meetings.

## **6. SYSTEM FOR IDENTIFYING CONFLICTS OF INTEREST AND EVALUATING INDEPENDENCE OF SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS**

In their work, Supervisory Board members do not depend on the opinion or instructions by shareholders, employees, or company Management Board; rather, they exercise their powers autonomously and independently. All Supervisory Board members shall have the same rights and obligations and they shall be equal in their decision-making, except in the case of a voting stalemate in which case the vote of the chairperson shall decide the outcome.

Management Board Members shall pursue through their work and decision-making the goals of the company and render subordinate to company goals all and any other personal interests or particular interests of any third party.

Supervisory and Management Board members shall inform the Supervisory Board of any conflict of interest that has occurred or could occur in or with regard to performance of their duties. In addition, each Supervisory Board member shall inform the Supervisory Board about her or his membership in Supervisory Boards or Management Boards of any other company. A Management Board member may only accept membership at Supervisory Board or Management Boards of any other company outside the Mercator Group only after notifying in writing the Supervisory Board chairperson about such intent.

In case of a conflict of interest on the part of a Supervisory Board member, the member shall explain the conflict at the Supervisory Board meeting and abstain from voting.

## **7. SUPERVISORY BOARD SELF-ASSESSMENT**

The company Supervisory Board shall perform regular self-assessment to assess its efficiency and the efficiency of the Audit Committee's work. The purpose of such self-assessment is to improve the efficiency of Supervisory Board's and Audit Committee's work and to eliminate any deficiencies.

## **8. SUPERVISORY BOARD COMMITTEES**

Pursuant to the law, the company Supervisory Board appointed an Audit Committee which shall work with north internal and external auditors.

Following are the Audit Committee's key tasks:

- monitoring the process of financial reporting and developing recommendations and proposals for its comprehensiveness and completeness;
- monitoring the efficiency and performance of internal audit and the risk management systems at the company;
- monitoring mandatory audits of annual and consolidated financial statements, in particular the performance of mandatory audit, observing all findings and conclusions of the relevant body;
- reviewing and monitoring the independence of the company annual report auditor, in particularly regarding the provision of additional non-audit services;
- responsibility for the auditor selection procedure, including a proposal to the Supervisory Board of a candidate for the company annual report auditor;
- controlling the validity and accuracy of financial information reported by the company;
- evaluating the composition of the annual report, including the proposal for the Supervisory Board;
- taking part in defining the main fields of auditing;
- taking part in drawing up the agreement between the auditor and the Company;
- reporting to the Supervisory Board about the results of mandatory audit, including an explanation as to how the mandatory audit contributed to the comprehensiveness and completeness of financial reporting, and the role of the Audit Committee in such procedure;
- working with the auditor in auditing the company annual report, in particular by mutually informing about the key issues regarding the audit;
- working with internal audit, in particular by mutually informing about the key issues regarding the audit;
- any other tasks specified by the company Articles of Association or Supervisory Board resolution.

The Supervisory Board may appoint in addition to the Audit Committee one or more committees for individual areas of work within their powers and authorizations. The purpose of such committees shall be to prepare resolution proposals and to oversee the implementation of such resolutions.

## **9. ASSIGNMENT OF RESPONSIBILITY AND POWERS AMONG MEMBERS OF MANAGERIAL AND SUPERVISORY BODIES**

The company is managed by the Management Board autonomously and at own responsibility. The Management Board's work is supervised by the Supervisory Board. In performing their duties, both the Management Board and the Supervisory Board shall work with diligence of a good manager and to the benefit of the company. Delineation of powers and responsibilities between the Management Board and the Supervisory Board shall be consistent with the law and specified in detail in the company Articles of Association which are available at the Company website at [www.mercatorgroup.si](http://www.mercatorgroup.si) and in the SEOnet public notification system.

When adopting major decisions for the company, which could bear a notable effect on the business, financial, or legal position of the company, the Management Board shall inform the Supervisory Board of such decision-making in order to reach mutual consent on the issues at hand. In case of events relevant for the Company operations, performance, management, and governance, the Supervisory Board chairperson may convene a Supervisory Board meeting.

## **10. COMPANY COMMUNICATION AND INFORMATION DISCLOSURE STRATEGY**

Initial announcements and communication of strategic plans, changes, or decisions related to the companies of the Mercator Group shall be the responsibility of the Controlling Company, while other information related to operations shall be the responsibility of respective companies within the Mercator Group.

The Controlling Company shall invest every reasonable effort to announce all relevant information as soon as possible and to maintain confidentiality of such information until its public announcements.

Material information may be available at company website only after public announcement in the public notification system SEOnet.

In communicating their business performance, Mercator Group subsidiaries shall be restricted in that they shall not be allowed to announce or comment the results independently before the results are announced by the Controlling Company.

Mercator shall not comment rumours. Mercator shall respond to any misinformation or insinuations about potential major business events that could affect the stock price or cause material or non-material damage to the company or the Mercator Group by public announcement of relevant facts.

The company has appointed persons in charge of communicating with the public, and clearly defined flow and control of insider information. Moreover the Rules and Regulations on Confidentiality (or protection of trade/business secrets) specify in detail the respective issues regarding information confidentiality.

## **11. PROTECTING EMPLOYEE INTERESTS**

Mercator Group complies consistently with the relevant employment legislation that protects the interests of the employees. In respective countries of Mercator's operations, social partnership is at different development levels. Where such development is at a higher stage, employees are organized in trade unions and Works Councils.

Mercator's key goal is to have motivated and satisfied employees.

Mercator is aware of the importance of employee satisfaction for the attainment of business goals. Therefore, the Mercator Group Human Resource Management Strategy for the Period 2014–2016 was adopted.

In its care for the employees, Mercator:

- ensures worker participation in Company management, pursuant to the relevant legislation and internal acts;
- based on the "Family-Friendly Company" certificate, adopts measures for better work-life balance of its employees;
- provides employee participation in external and internal training courses and e-seminars;
- encourages innovativeness;
- develops inter-generational cooperation and connections;
- helps those in social or financial distress through its Mercator Humanitarian Foundation;
- prevents discrimination and all forms of workplace violence;
- conducts numerous activities within the "Health Promotion" project;
- protects employee dignity at work.

## 12. FINAL PROVISIONS

This Corporate Governance Policy is effective as of the day it is adopted by the Company Management Board and the Supervisory Board. As of that same day, the company Poslovni sistem Mercator and the Mercator Group Corporate Governance Policy as adopted on October 12, 2015, or November 17, 2015, is no longer effective.

The Corporate Governance Policy is available in Slovenian and English on the company website at [www.mercatorgroup.si](http://www.mercatorgroup.si) and in the public notification system SEOnet.

Anton Balažič  
Management Board President

Ante Todorčić  
Supervisory Board Chairman