Acting upon the withdrawal of request for convocation of General Meeting of Shareholders (Shareholders Assembly), submitted by the shareholder FORTENOVA GRUPA d.d. to ensure the attendance of expert collaborators, auditors, and enterprise value appraisers at the Shareholders Assembly session, the Management Board of the company POSLOVNI SISTEM MERCATOR d.d. hereby

cancels

the 30th extraordinary General Meeting of Shareholders (Shareholders Assembly) of the company Poslovni sistem Mercator d.d.,

which was convened based on a request by the majority shareholder FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, Republic of Croatia, to take place on December 6, 2021, at 3.30 p.m. at the company headquarters in Ljubljana, Dunajska cesta 107, and hereby convenes a new General Meeting of Shareholders at a later date, as follows:

Pursuant to Articles 18 and 19 of the Articles of Association of the company POSLOVNI SISTEM MERCATOR d.d., Article 295, Paragraph 3, of the Companies Act (Zakon o gospodarskih družbah-1), Rules and Regulations of the Ljubljana Stock Exchange (Ljubljanska borza d.d.), and based on a request by the shareholder FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, Republic of Croatia, dated November 19, 2021, and based on the company Management Board resolution dated November 19, 2021, the Management Board hereby convenes the

30th extraordinary Shareholders Assembly

to take place on December 23, 2021, at 3.30 p.m.
at the company headquarters in Ljubljana, Dunajska cesta 107

I. AGENDA AND PROPOSALS OF RESOLUTIONS

1. Opening of the assembly, verifying quorum, election of the shareholders assembly bodies

RESOLUTION PROPOSAL:

Pavle Pensa, attorney at law from Ljubljana, shall be elected Chairman of the Shareholders Assembly.

Explanation of the resolution proposal:

Pursuant to the company Articles of Association, the company Shareholders Assembly shall be presided over by a Chairperson elected by the shareholders upon proposal by the party convening the Assembly.

2. Squeeze-out of minority shareholders

RESOLUTION PROPOSAL:

"*2.1 The Shareholders Assembly shall peruse the Report on Requirements for Transfer of Shares and Appropriateness of the Amount of Cash Consideration for Minority Shareholders, prepared by the main shareholder, i.e., the company FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, Republic of*

*Croatia ("**Main Shareholder**"), and the Report on Appropriateness of Cash Consideration, prepared by the auditor PIT Leitner d.o.o.*

2.2 The Shareholders Assembly shall be informed that the Main Shareholder of the company POSLOVNI SISTEM MERCATOR d.d., Dunajska cesta 107, 1000 Ljubljana ("**the Company**"), holds 5,594,167 shares of the Company with symbol MELR, which corresponds to 90.005% (rounded to three decimal places) share in the share capital of the Company, taking into account the 42,192 treasury shares held by the Company, pursuant to Article 384, Paragraph 2, in relation to Article 528, Paragraph 2 of the Companies Act (ZGD-1).

2.3 All Company shares that are not treasury shares or shares held by the Main Shareholder, i.e., 621,261 MELR shares held by minority shareholders of the Company on the day of entry of this resolution into the Court Register ("**Minority Shareholders**"), shall be transferred to the Main Shareholder in exchange for consideration in the amount of EUR 36 per one MELR share ("**Cash Consideration**") on the day when this resolution is entered into the Court Register.

2.4 Pursuant to Article 23 of the Book-Entry Securities Act (ZNVP-1), the Main Shareholder shall transfer the Cash Consideration to KDD d.o.o.:

- if the Company shares held by Minority Shareholders are free of any encumbrances, for the account of Minority Shareholders, or,

- if Company shares held by Minority Shareholders are encumbered with a pledge, for the account of the pledgee and/or pledgees to the benefit of whom the pledge is entered in the central register of book-entry securities operated by KDD d.o.o., on the share or shares held by a Minority Shareholder or Minority Shareholders on the day of entry of the resolution on the transfer of shares to the Main Shareholder into the Court Register.

2.5 The Main Shareholder shall, immediately after the entry of this resolution into the Court Register, pay the Cash Consideration to the Minority Shareholders. ERSTE&STEIERMÄRKISCHE BANK d.d., Jadranski trg 3a, Rijeka, Croatia, shall be jointly and severally liable for the payment of the Cash Consideration pursuant to Paragraph 2 of the Article 385 of the Companies Act (ZGD-1)."

Explanation of the resolution proposal:

Considering the rule of Article 528, Paragraph 2 of the Companies Act (ZGD-1), in relation to Article 384, Paragraph 2 of ZGD-1, with regard to determining the share of shares held by the Main Shareholder, the share of the Main Shareholder in the share capital of the Company corresponds to 90.005% (round to 3 decimal places). The Main Shareholder therefore proposes that the Shareholders Assembly of the Company decides in favour of the transfer of shares held by the remaining Minority Shareholders to the Main Shareholder, in exchange for appropriate cash consideration. Squeeze-out of the minority shareholders from the Company is regulated in Articles 384 to 388 of the Companies Act (ZGD-1).

In a company, where the shareholder structure is such that a single shareholder holds more than 90% of voting rights in the company, minority shareholders are formally entitled to exercise their property and management rights with regard to shares, whereby they are de facto prevented to exercise the latter due to shareholder structure. Because of this, the law considers minority shareholders as persons who no longer hold a meaningful management interest, but do have a property interest. This starting point is also considered with regard to squeeze-out of minority shareholders from a company, in which such property interests of the minority shareholders are protected by the requirement that the Main Shareholder pay them an adequate consideration, i.e., a fair price for the shares of the shareholders being squeezed-out.

Pursuant to Article 385, Paragraph 2 of the ZGD-1 and considering the provisions of Article 556, Paragraphs 5 and 6 of the ZGD-1, the Main Shareholder offers to the Minority Shareholders whose shares are to be transferred to the Main Shareholder as a result of the squeeze-out, EUR 36 per each Company share. For the purpose of the squeeze-out, the Main Shareholder has obtained a valuation of the Company, compiled by KPMG d.o.o., from which it may be derived that the consideration of EUR 36 per Company share is at the upper end of the valuation range of the Company.

Such cash consideration also reflects the asset value and profitability of the Company, and represents an equitable cash consideration for the transfer of shares from Minority Shareholders to the Main Shareholder.

Pursuant to Article 386, Paragraph 2 of the ZGD-1, the Main Shareholder compiled a Report on Requirements for Transfer of Shares and Appropriateness of the Amount of Cash Consideration for Minority Shareholders that shall be reviewed by the auditor, the company PIT Leitner d.o.o.

Resolutions for agenda items 1 and 2 were proposed by the shareholder FORTENOVA GRUPA d.d.

II. INFORMATION FOR THE SHAREHOLDERS

Access to Shareholders Assembly Documentation, proposed resolutions including explanations, and information on the Shareholders Assembly

The following materials for the General Meeting of Shareholders (Shareholders Assembly), referred to in Article 297.a, Paragraph 2, and Article 386, Paragraph 3, of the Companies Act (ZGD-1), shall be available for perusal to any shareholder at the company seat every business day from the announcement of the Shareholders Assembly convocation to the day of the Shareholders Assembly session, from 9 a.m. to 2 p.m.:

1. Resolution proposal on transfer of shares
2. Annual Reports of the company Poslovni sistem Mercator d.d. for the business years 2018, 2019, and 2020
3. Written report by the Main Shareholder on the assumptions regarding the transfer of shares and appropriateness of cash consideration (Article 386, Paragraph 2, of the Companies Act (ZGD-1))
4. Auditor's Report on the appropriateness of cash consideration offered by the Main Shareholder (Article 386, Paragraph 2, of the Companies Act (ZGD-1))
5. Appraisal report by the company Poslovni sistem Mercator d.d. compiled by the enterprise appraiser Mojca Janko of the company KPMG, poslovno svetovanje, d.o.o.

All documents, except for documents under item 5, and all other materials for the General Meeting of Shareholders (Shareholders Assembly), shall be available from the day of announcement of Shareholders Assembly convocation on the website of the company Poslovni sistem Mercator d.d. at http://www.mercatorgroup.si, and the website of the Ljubljana Stock Exchange (Ljubljanska borza, d.d.) at (http://seonet.ljse.si), while the Shareholders Assembly convocation will also be posted on the AJPES website (http://ajpes.si). Upon shareholder's request, a copy of all documents specified in items 1 through 4 of the preceding paragraph shall be delivered free of charge no later than on the following business day (Article 386, Paragraph four, of the Companies Act (ZGD-1)).

Every shareholder is entitled to assert at the Shareholders Assembly their right to information pursuant to Article 305, Paragraph one, of the Companies Act (ZGD-1).

Information referred to in Article 296 of the Companies Act (ZGD-1), Paragraph 3, and in-depth information on the rights of the shareholders with regard to submitting any requests for additional agenda items, counterproposals to proposed resolutions, and shareholder rights to information (Article 298, Paragraph one, Article 300, Paragraph one, and Articles 301 and 305 of the ZGD-1) are also published on the company website.

Requests and proposals by the shareholders

Shareholders whose combined shareholdings amount to one twentieth (five percent) of share capital, may request in writing in seven days after the convocation of the Shareholders Assembly an additional item of the agenda. A written proposal of the resolution on which the Shareholders Assembly should vote/decide, or an explanation of the agenda item in case no resolution is to be adopted with regard to a particular agenda item, shall be attached and presented with the request. Pursuant to Article 298, Paragraph three of the Companies Act (ZGD-1), the company Management Board shall announce those additional agenda items that are requested by the shareholders no later than seven days after the announcement of Shareholders Assembly convocation. The shareholders may submit the requests for additional items of the agenda to the company by electronic mail, to the address skupscina@mercator.si.

The shareholders may submit, in writing, resolution and election proposals to each item of the agenda. A shareholder proposal will only be announced by the company Management Board in the same way as this convocation, if it is submitted to the company within seven days after the convocation of the Shareholders Assembly, complete with a reasonably justified proposition, along with the statement that the shareholder/proposing party will counter the proposal by the shareholder FORTENOVA GRUPA d.d. and that she or he intends to convince other shareholders to vote for her/his proposal. Pursuant to Article 301 of the Companies Act (ZGD-1), the shareholder shall not be required to justify an election proposal. The shareholder's proposal shall be announced and communicated in the way provided by Article 296 of the Companies Act (ZGD-1) only if the shareholder has submitted a reasonably justified proposal within seven days after the announcement of the Shareholders Assembly convocation. The shareholders may also submit the resolution and election proposals to the company by electronic mail, to the address skupscina@mercator.si.

Requests for additional agenda items and resolution or election/voting proposals submitted by electronic mail shall be sent as a scanned image file attached to the e-mail message. The image file shall include a handwritten signature of the natural person; in case of legal persons, such documents shall include the handwritten signature of the company representative as well as the seal of the legal person, if applicable. The company has the right to check the identity of the shareholder or, the person conferring the power of attorney by e-mail, as well the authenticity of the signature.

Shareholder's right to information
Shareholders shall be entitled to raise questions at the Shareholders Assembly and request information on company affairs if such information is required for assessment of agenda items; furthermore, the shareholders may exercise their right to information pursuant to Article 305, Paragraph 1, of the Companies Act (ZGD-1).

Attendance conditions and assertion of voting rights

The Shareholders Assembly may be attended and voted at only by those shareholders who have registered their attendance at the Assembly in such way that the Management Board receives the application no later than by the end of the fourth day before the Assembly session, i.e. on December 19, 2021, and who are entered as shareholders in the central register of dematerialized securities as at the end of the seventh day before the Assembly session, i.e. on December 16, 2021 (cut-off day); if a proxy who is not the final shareholder is entered as the shareholder in the central register, then the shareholders may vote based on proof specified in Article 235.č, Paragraph two, of the Companies Act (ZGD-1), which specifies who is the final shareholder on the cut-off day. To this end, the proxy shall, upon shareholder's request, without hesitation, present to the shareholder on whose behalf such proxy is providing the service of share storage, management, or securities account management, relevant proof.

The application shall be submitted by regular mail to the address Mercator, d.d., Dunajska cesta 107, Ljubljana, Tajništvo pravnega sektorja (Legal Affairs Secretary Office). The applications to the Shareholders Assembly cannot be submitted using electronic means. Only applications with original signatures of the shareholders or their proxies shall be accepted and deemed valid. The Shareholders Assembly Application Form shall be available at the company website, and freely available at the company headquarters in Ljubljana, at Dunajska cesta 107, ground floor, each business day from the day of announcement of the convocation to the day of the Shareholders Assembly convention, from 9 a.m. to 3 p.m.

Each shareholder with the right to attend the Shareholders Assembly may also appoint a proxy to attend the Shareholders Assembly on their behalf and exercise their voting right. The power of attorney/authorization shall be submitted to the company in writing. The power of attorney/authorization shall remain in possession of the company. Proxy voting form shall be available at the company website; it is also freely available at the company headquarters at Ljubljana, Dunajska cesta 107 (ground floor), each business day from the day of announcement of the convocation to the day of the Shareholders Assembly session, from 9 a.m. to 3 p.m. The power of attorney/authorization may also be submitted to the company by electronic mail to the address skupscina@mercator.si, scanned into an image file and attached to the e-mail message. Such document shall include a handwritten signature of the natural person; in case of legal persons, such documents shall include the handwritten signature of the company representative as well as the seal of the person, if applicable. The company shall have the right to verify the identity of the shareholder or the person conferring the power of attorney by e-mail, as well the authenticity of the signature. The shareholders may also revoke the power of attorney/authorization in the same way it was submitted, at any time until the day of the Shareholders Assembly.

Processing of personal data submitted upon registration for the Shareholders Assembly, or by proxy, complete with data from the share register, is inevitably necessary for the organization and execution of the Shareholders Assembly. The company or its contractor providing technical and organizational aspects of the Shareholders Assembly shall process the personal data in compliance with the effective legislation on personal data protection.

The shareholders or their proxies or attorneys shall be obliged to prove their identity upon request by presenting a personal identification document and written authorization/power of attorney; in addition, statutory representatives shall also be required to present an extract from the judicial or business register.

As at the day of Shareholders Assembly convocation, the company has 6,257,610 ordinary registered no par value shares. Pursuant to the relevant legislation, each ordinary share carries one vote for its owner at the Shareholders Assembly. As at the day of Shareholders Assembly convocation, the company has 42,192 treasury shares which do not carry voting rights.

The shareholders are kindly asked to consistently comply upon arrival to the Assembly with all measures intended to reduce the risk of an infection with COVID-19, in accordance with the then relevant regulations and recommendations by the National Institute of Public Health (NIJZ), and to register in the reception office of the Shareholders Assembly 30 minutes before the start of the session, where they will confirm their presence and claim their voting devices by signing the list of present shareholders. The room where the Shareholders Assembly is to take place will be open 30 minutes before the beginning of the session.

The Shareholders Assembly is convened for 3.30 p.m. In case of absence of quorum at such time, the Assembly shall be rescheduled for 4.30 p.m. on the same day at the same place, regardless of the percentage of total share capital represented at the Assembly.

President of the Management Board
Tomislav Čizmić

FORTENOVA GRUPA

FORTENOVA GRUPA d.d.
HR/10000 Zagreb
Marijana Čavića 1

www.fortenovagrupa.hr
tel: +385 1/48 94 111
fax: +385 1/48 94 080

POSLOVNI SISTEM MERCATOR d.d.
Dunajska cesta 107
1000 Ljubljana

and by e-mail to skupscina@mercator.si

Zagreb, November 19, 2021

SUBJECT: WITHDRAWAL OF REQUEST FOR CONVOCATION OF SHAREHOLDERS ASSEMBLY DATED NOVEMBER 2, 2021, AND PROPOSAL FOR CANCELLATION OF SHAREHOLDERS ASSEMBLY

Dear Madam or Sir,

As at the day of this writing, the company FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, Republic of Croatia ("**Fortenova Grupa**") holds 5,594,167 shares of the company Poslovni sistem Mercator d.d. ("the **Company**") with the symbol MELR, representing 90.005% of the Company share capital, and is the main shareholder as defined in Article 384, Paragraph 1, of the Companies Act ("**ZGD-1**").

With regard to the public release of the convocation of the 30th General Meeting of Shareholders (Shareholders Assembly) of the Company, dated November 5, 2021, and the planned 30th General Meeting of Shareholders of the Company, convened for December 6, 2021, at 3.30 p.m. at the company headquarters in Ljubljana, Dunajska cesta 107, we hereby inform you that in view of the requirements from Article 386, Paragraph five, of the Companies Act (ZGD-1), Fortenova Grupa intends to ensure the participation and cooperation of relevant experts (expert collaborators, auditors, and enterprise appraisers) at the Shareholders Assembly session at which decision on transfer of shares held by minority shareholders to the main shareholder will be voted on; considering the current conditions, the presence of such experts cannot be ensured on December 6, 2021.

Regarding the above, the Fortenova Grupa hereby

withdraws

the request by the Fortenova Grupa for the convocation of the Shareholders Assembly, dated November 2, 2021; and

proposes

that the Company Management Board cancels the 30th General Meeting of Shareholders convened for December 6, 2021, at 3.30 p.m. at the company headquarters in Ljubljana, Dunajska cesta 107.

FORTENOVA GRUPA d.d.
HR/10000 Zagreb
Marijana Čavića 1

www.fortenovagrupa.hr
tel: +385 1/48 94 111
fax: +385 1/48 94 080

Please find a new request for convocation of General Meeting of Shareholders (Shareholders Assembly) attached herewith.

Best regards,

Fortenova grupa d.d.

Fabris Peruško, Chief Executive Director

James Pearson, Executive Director

____________________________________ ____________________________________

Appendices:

- Request for convocation of Shareholders Assembly, dated November 19, 2021

Attendance Form

____
(First and last name, or company name of the shareholder)

____
(Address)

____
(Place and postal code)

____
(Unique personal identification number – for natural persons only)*

MERCATOR, d.d.
Office of the legal affairs secretary
Dunajska cesta 107
1000 LJUBLJANA

ATTENDANCE APPLICATION

for the 30th extraordinary shareholders assembly of MERCATOR, d.d.

The undersigned: ____
(First and last name of the shareholder, or first and last name of company representative and company name of the shareholder)

hereby announce

my attendance at the 30th extraordinary Shareholders Assembly of the company MERCATOR, d.d., convened to take place on December 23, 2021, at 3.30 p.m. at the company head offices in Ljubljana, Dunajska cesta 107.

I shall attend the said Shareholders Assembly (circle accordingly):

- in person
- by proxy

Date and place: ___________________

____
(Handwritten signature of the shareholder or their representative, and seal of the legal person, if applicable)

Appendix:
- authorization for representation at the Shareholders Assembly (only for attendance by proxy)
- extract from judicial or business register (for legal persons)

** Unique personal identification number – EMŠO – as a piece of personal information may only be used for the purpose of attendance and exercising the rights at the Shareholders Assembly. By signing this statement, the shareholder agrees to the use and processing of this information for the purposes of the Shareholders Assembly. The shareholder shall have the right to view, copy by hand or machine, amend, edit, block, or delete this information.*

Proxy form

____
(First and last name, or company name of the shareholder)

____
(Address)

____
(Place and postal code)

____
(Unique personal identification number – for natural persons only)*

MERCATOR, d.d.
Office of the legal affairs secretary
Dunajska cesta 107
1000 LJUBLJANA

AUTHORIZATION / POWER OF ATTORNEY

for attendance and exercising the voting right at the 30th extraordinary Shareholders Assembly of MERCATOR, d.d.

The undersigned: ____
(First and last name of the shareholder, or first and last name of company representative and company name of the shareholder)

hereby authorize

____
(First and last name, address, and Unique personal identification number of the proxy)

to attend on my behalf and exercise my voting right at the 30st extraordinary Shareholders Assembly of the company MERCATOR, d.d., convened to take place on December 23, 2021, at 3.30 p.m., at the company head offices in Ljubljana, Dunajska cesta 107, for all shares of the issuer Mercator, d.d., symbol MELR, of which I am the owner. Upon request by the party convening the Assembly, the proxy shall provide proof of his or her identity by presenting a personal identification document.

Date and place: ________________

____
(Handwritten signature of the shareholder or their representative, and seal of the legal person, if applicable)

** Unique personal identification number – EMŠO – as a piece of personal information may only be used for the purpose of attendance and exercising the rights at the Shareholders Assembly. By signing this statement, the shareholder agrees to the use and processing of this information for the purposes of the Shareholders Assembly. The shareholder shall have the right to view, copy by hand or machine, amend, edit, block, or delete this information.*

DOCUMENTATION

for the 30th extraordinary Shareholders Assembly (general meeting of shareholders) of the company Mercator, d.d.

November 2021

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3. Information on shareholder propositions .... page 6

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5. Attendance conditions and assertion of voting right.. page 7

LIST OF APPENDICES

1. Withdrawal of the request for the convocation of the General Meeting of Shareholders (Shareholders Assembly) for December 6, 2021, and request by the company FORTENOVA GRUPA d.d. for the convocation of a new General Meeting of Shareholders (Shareholders Assembly), complete with agenda, resolution proposals, and explanations.
2. Main shareholder's report on minority shareholders squeeze-out
3. Report by independent auditor PIT Leitner, revizijska družba, d.o.o., on appropriateness of cash consideration to be paid out to minority shareholders
4. Annual Reports of the company for the business years 2018, 2019, and 2020
5. Enterprise appraisal report compiled by the company KPMG, poslovno svetovanje d.o.o. (only available at the company headquarters)
6. Cancellation of the initial and convocation of a new General Meeting of Shareholders
7. Shareholders Assembly registration form
8. Proxy form

Materials pertaining to item one of the agenda

OPENING OF THE ASSEMBLY, VERIFYING QUORUM, ELECTION OF THE SHAREHOLDERS ASSEMBLY BODIES

The company FORTENOVA GRUPA d.d. hereby proposes to the Shareholders Assembly of the company MERCATOR d.d. to adopt the following

resolution:

Pavle Pensa, attorney at law from Ljubljana, shall be elected Chairman of the Shareholders Assembly.

Explanation:

Pursuant to the company Articles of Association, the company Shareholders Assembly shall be presided over by a Chairperson elected by the shareholders upon proposal by the party convening the Assembly.

Ljubljana, November 22, 2021

President of the Management Board:

Tomislav Čizmić

Documents pertaining to item two of the agenda

SQUEEZE-OUT OF MINORITY SHAREHOLDERS

The company FORTENOVA GRUPA d.d. hereby proposes to the Shareholders Assembly of the company MERCATOR d.d. to adopt the following

resolution:

2.1 The Shareholders Assembly shall peruse the Report on Requirements for Transfer of Shares and Appropriateness of the Amount of Cash Consideration for Minority Shareholders, prepared by the main shareholder, i.e., the company FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, Republic of Croatia ("Main Shareholder"), and the Report on Appropriateness of Cash Consideration, prepared by the auditor PIT Leitner d.o.o.

2.2 The Shareholders Assembly shall be informed that the Main Shareholder of the company POSLOVNI SISTEM MERCATOR d.d., Dunajska cesta 107, 1000 Ljubljana ("the Company"), holds 5,594,167 shares of the Company with symbol MELR, which corresponds to 90.005% (rounded to three decimal places) share in the share capital of the Company, taking into account the 42,192 treasury shares held by the Company, pursuant to Article 384, Paragraph 2, in relation to Article 528, Paragraph 2 of the Companies Act (ZGD-1).

2.3 All Company shares that are not treasury shares or shares held by the Main Shareholder, i.e., 621,261 MELR shares held by minority shareholders of the Company on the day of entry of this resolution into the Court Register ("Minority Shareholders"), shall be transferred to the Main Shareholder in exchange for consideration in the amount of EUR 36 per one MELR share ("Cash Consideration") on the day when this resolution is entered into the Court Register.

2.4 Pursuant to Article 23 of the Book-Entry Securities Act (ZNVP-1), the Main Shareholder shall transfer the Cash Consideration to KDD d.o.o.:

- ***if the Company shares held by Minority Shareholders are free of any encumbrances, for the account of Minority Shareholders, or,***

- ***if Company shares held by Minority Shareholders are encumbered with a pledge, for the account of the pledgee and/or pledgees to the benefit of whom the pledge is entered in the central register of book-entry securities operated by KDD d.o.o., on the share or shares held by a Minority Shareholder or Minority Shareholders on the day of entry of the resolution on the transfer of shares to the Main Shareholder into the Court Register.***

2.5 The Main Shareholder shall, immediately after the entry of this resolution into the Court Register, pay the Cash Consideration to the Minority Shareholders. ERSTE&STEIERMÄRKISCHE BANK d.d., Jadranski trg 3a, Rijeka, Croatia, shall be jointly and severally liable for the payment

of the Cash Consideration pursuant to Paragraph 2 of the Article 385 of the Companies Act (ZGD-1).

Explanation of the resolution proposal:

Considering the rule of Article 528, Paragraph 2 of the Companies Act (ZGD-1), in relation to Article 384, Paragraph 2 of ZGD-1, with regard to determining the share of shares held by the Main Shareholder, the share of the Main Shareholder in the share capital of the Company corresponds to 90.005% (round to 3 decimal places). The Main Shareholder therefore proposes that the Shareholders Assembly of the Company decides in favour of the transfer of shares held by the remaining Minority Shareholders to the Main Shareholder, in exchange for appropriate cash consideration. Squeeze-out of the minority shareholders from the Company is regulated in Articles 384 to 388 of the Companies Act (ZGD-1).

In a company, where the shareholder structure is such that a single shareholder holds more than 90% of voting rights in the company, minority shareholders are formally entitled to exercise their property and management rights with regard to shares, whereby they are de facto prevented to exercise the latter due to shareholder structure. Because of this, the law considers minority shareholders as persons who no longer hold a meaningful management interest, but do have a property interest. This starting point is also considered with regard to squeeze-out of minority shareholders from a company, in which such property interests of the minority shareholders are protected by the requirement that the Main Shareholder pay them an adequate consideration, i.e., a fair price for the shares of the shareholders being squeezed-out.

Pursuant to Article 385, Paragraph 2 of the ZGD-1 and considering the provisions of Article 556, Paragraphs 5 and 6 of the ZGD-1, the Main Shareholder offers to the Minority Shareholders whose shares are to be transferred to the Main Shareholder as a result of the squeeze-out, EUR 36 per each Company share. For the purpose of the squeeze-out, the Main Shareholder has obtained a valuation of the Company, compiled by KPMG d.o.o., from which it may be derived that the consideration of EUR 36 per Company share is at the upper end of the valuation range of the Company.

Such cash consideration also reflects the asset value and profitability of the Company, and represents an equitable cash consideration for the transfer of shares from Minority Shareholders to the Main Shareholder.

Pursuant to Article 386, Paragraph 2 of the ZGD-1, the Main Shareholder compiled a Report on Requirements for Transfer of Shares and Appropriateness of the Amount of Cash Consideration for Minority Shareholders that shall be reviewed by the auditor, the company PIT Leitner d.o.o.

Ljubljana, November 22, 2021

President of the Management Board:

Tomislav Čizmić

Appendices to item 2 of the agenda

- Main shareholder's report on minority shareholders squeeze-out
- Report by independent auditor PIT Leitner, revizijska družba, d.o.o., on appropriateness of cash consideration to be paid out to minority shareholders of the company MERCATOR d.d.

- Enterprise appraisal report compiled by the company KPMG, poslovno svetovanje d.o.o. (only available at the company headquarters)

INFORMATION FOR THE SHAREHOLDERS

1. Total number of shares and voting rights as at the day of Shareholders Assembly convocation

As at the day of Shareholders Assembly convocation, the company has 6,257,610 ordinary registered no par value shares. Pursuant to the relevant legislation, each ordinary share carries one vote for its owner at the Shareholders Assembly. As at the day of Shareholders Assembly convocation, the company has 42,192 treasury shares which do not carry voting rights.

2. Information on additional items of the agenda

Shareholders whose combined shareholdings amount to one twentieth (five percent) of share capital, may request in writing after the convocation of the Shareholders Assembly an additional item of the agenda. A written proposal of the resolution on which the Shareholders Assembly should vote/decide, or an explanation of the agenda item in case no resolution is to be adopted with regard to a particular agenda item, shall be attached to the request. It shall suffice to send the request to the company no later than seven days after the announcement of Shareholders Assembly convocation.

Pursuant to Article 298, Paragraph three of the Companies Act (ZGD-1), the company Management Board shall announce those additional agenda items that are requested and submitted by the shareholders no later than seven days after the announcement of this Shareholders Assembly convocation.

The shareholders may submit the requests for additional items of the agenda to the company by electronic mail, to the address skupscina@mercator.si. Requests for additional agenda item submitted by electronic mail must be sent as a scanned image file attached to the e-mail message. The image file must include a handwritten signature of the natural person; in case of legal persons, such documents shall include the handwritten signature of the company representative as well as the seal of the person, if applicable. The company has the right to check the identity of the shareholder or, the person conferring the power of attorney by e-mail, as well the authenticity of the signature.

The additional agenda item shall only be discussed at the Shareholders Assembly if it is announced in the same way as the Shareholders Assembly convocation, no later than 14 days before the Shareholders Assembly; otherwise, it shall be discussed at the first subsequent Shareholders Assembly. The Management Board will provide in the same deadline and in the same way an announcement of the consolidated copy of the agenda.

3. Information on shareholder proposals

Shareholders whose combined shareholdings amount to one twentieth (five percent) of share capital, may request in writing in seven days after the convocation of the Shareholders Assembly an additional item of the agenda. A written proposal of the resolution on which the Shareholders Assembly should vote/decide, or an explanation of the agenda item in case no resolution is adopted with regard to a particular agenda item, shall be attached to the request. Pursuant to Article 298, Paragraph three of the Companies Act (ZGD-1), the company Management Board shall announce those additional agenda items that are requested by the shareholders no later than seven days after the announcement of Shareholders Assembly convocation. The shareholders may submit the requests for additional items of the agenda to the company by electronic mail, to the address skupscina@mercator.si.

The shareholders may submit, in writing, resolution and election proposals to each item of the agenda. A shareholder proposal will only be announced by the company Management Board in the same way as this convocation, if it is submitted to the company within seven days after the convocation of the Shareholders Assembly, complete with a reasonably justified proposition, along with the statement that the shareholder/proposing party will counter the proposal by the shareholder FORTENOVA GRUPA d.d. and that she or he intends to convince other shareholders to vote for her/his proposal. Pursuant to Article 301 of the Companies Act (ZGD-1), the shareholder shall not be required to justify an election proposal. The shareholder's proposal shall be announced and communicated in the way provided by Article 296 of the Companies Act (ZGD-1) only if the shareholder has submitted a reasonably justified proposal within seven days after the announcement of the Shareholders Assembly convocation. The shareholders may also submit the resolution and election proposals to the company by electronic mail, to the address skupscina@mercator.si.

Requests for additional agenda items and resolution or election/voting proposals submitted by electronic mail shall be sent as a scanned image file attached to the e-mail message. The image file shall include a handwritten signature of the natural person; in case of legal persons, such documents shall include the handwritten signature of the company representative as well as the seal of the legal person, if applicable. The company has the right to check the identity of the shareholder or, the person conferring the power of attorney by e-mail, as well the authenticity of the signature.

4. Information on the shareholder's right to information

Shareholders shall be entitled to raise questions at the Shareholders Assembly and request information on company affairs if such information is required for assessment of agenda items; furthermore, the shareholders may exercise their right to information pursuant to Article 305, Paragraph 1, of the Companies Act (ZGD-1).

5. Attendance conditions and assertion of voting rights

The Shareholders Assembly may be attended and voted at only by those shareholders who have registered their attendance at the Assembly in such way that the Management Board receives the application no later than by the end of the fourth day before the Assembly session, i.e. on December 19, 2021, and who are entered as shareholders in the central register of dematerialized securities as at the end of the seventh day before the Assembly session, i.e. on December 16, 2021 (cut-off day); if a proxy who is not the final shareholder is entered as the shareholder in the central register, then the shareholders may vote based on proof specified in Article 235.č, Paragraph two, of the Companies Act (ZGD-1), which specifies who is the final shareholder on the cut-off day. To this end, the proxy shall, upon shareholder's request, without hesitation, present to the shareholder on whose behalf such proxy is providing the service of share storage, management, or securities account management, relevant proof.

Each shareholder with the right to attend the Shareholders Assembly may also appoint a proxy to attend the Shareholders Assembly on their behalf and exercise their voting right. The power of attorney/authorization shall be submitted to the company in writing. The power of attorney/authorization shall remain in possession of the company. Proxy voting form shall be available at the company website; it is also freely available at the company headquarters at Ljubljana, Dunajska cesta 107 (ground floor), each business day from the day of announcement of the convocation to the day of the Shareholders Assembly session, from 9 a.m. to 3 p.m. The power of attorney/authorization may also be submitted to the company by electronic mail to the address skupscina@mercator.si, scanned into an image file and attached to the e-mail message. Such document shall include a handwritten signature of the natural person; in case of legal persons, such documents shall include the handwritten signature of the company representative as well as the seal of the person, if applicable. The company shall have the right to check the identity of the shareholder or, the person conferring the power of attorney by e-mail, as well the authenticity of the signature. The shareholders may also revoke the power of attorney/authorization in the same way it was submitted, at any time until the day of the Shareholders Assembly.

Processing of personal data submitted upon registration for the Shareholders Assembly, or by proxy, complete with data from the share register, is inevitably necessary for the organization and execution of the Shareholders Assembly. The company or its contractor providing technical and organizational aspects of the Shareholders Assembly shall process the personal data in compliance with the effective legislation on personal data protection.

The shareholders or their proxies or attorneys shall be obliged to prove their identity upon request by presenting a personal identification document and written authorization/power of attorney; in addition, statutory representatives shall also be required to present an extract from the judicial or business register.

As at the day of Shareholders Assembly convocation, the company has 6,257,610 ordinary registered no par value shares. Pursuant to the relevant legislation, each ordinary share carries one vote for its owner at the Shareholders Assembly. As at the day of Shareholders Assembly convocation, the company has 42,192 treasury shares which do not carry voting rights.

The shareholders are kindly asked to consistently comply upon arrival to the Assembly with all measures intended to reduce the risk of an infection with COVID-19, in accordance with the then relevant regulations and recommendations by the National Institute of Public Health (NIJZ), and to register in the reception office of the Shareholders Assembly 30 minutes before the start of the session, where they will confirm their presence and claim their voting devices by signing the list of present shareholders. The room where the Shareholders Assembly is to take place will be open 30 minutes before the beginning of the session.

The Shareholders Assembly is convened for 3.30 p.m. In case of absence of quorum at such time, the Assembly shall be rescheduled for 4.30 p.m. on the same day at the same place, regardless of the percentage of total share capital represented at the Assembly.

President of the Management Board:

Tomislav Čizmić

FORTENOVA GRUPA

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POSLOVNI SISTEM MERCATOR d.d.

Dunajska cesta 107

1000 Ljubljana

in po elektronski pošti na skupscina@mercator.si

Zagreb, 19. 11. 2021

Delničar FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, Republika Hrvaška (»**Fortenova Grupa**«) na podlagi tretjega odstavka 295. člena Zakona o gospodarskih družbah (»**ZGD-1**«) in določbe tretjega odstavka 18. člena statuta družbe Poslovni sistem Mercator d.d., Dunajska cesta 107, 1000 Ljubljana (»**Družba**«), vlaga naslednjo

ZAHTEVO ZA SKLIC

skupščine delničarjev družbe Poslovni sistem Mercator d.d.

I. Izpolnjevanje pogoja iz 295. člena ZGD-1

Delničar Fortenova Grupa je na datum te zahteve imetnik 5.594.167 delnic Družbe z oznako MELR, kar predstavlja 90,005% osnovnega kapitala Družbe v skladu s 528. členom ZGD-1. Posledično je v skladu z določbo tretjega odstavka 295. člena ZGD-1 in tretjega odstavka 18. člena statuta Družbe upravičen zahtevati, da uprava Družbe skliče skupščino Družbe in na dnevni red tako

POSLOVNI SISTEM MERCATOR d.d.

Dunajska cesta 107

1000 Ljubljana

and via e-mail to skupscina@mercator.si

Zagreb, 19. 11. 2021

Pursuant to the Paragraph 3 Article 295 of the Slovenian Companies Act (“**ZGD-1**”) and provision of the Paragraph 3 Article 18 of the articles of association of the company Poslovni sistem Mercator d.d., Dunajska cesta 107, 1000 Ljubljana (“**Company**”), the shareholder FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, the Republic of Croatia (“**Fortenova Group**”), submits the following

REQUEST FOR CONVOCATION

of the general meeting of shareholders of the company Poslovni sistem Mercator d.d.

I. Fulfilment of conditions under Article 295 of ZGD-1

On the date of this request, Fortenova Group is holder of 5,594,167 shares of the Company with ticker MELR, which represent 90.005% of share capital of the Company pursuant to Article 528 of ZGD-1. Pursuant to the provisions of Paragraph 3 Article 295 of ZGD-1 and Paragraph 3 Article 18 of articles of association of the Company, the shareholder is hence entitled to request that the management board of the Company convenes the general meeting of shareholders of the Company and places on

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sklicane skupščine uvrsti spodaj navedene točke dnevnega reda skupaj s predlogi sklepov.	the agenda the below listed points, together with proposals of resolutions.
II. Predmet zahteve	**II. Subject of the request**
Delničar Fortenova Grupa zahteva, da uprava Družbe v skladu s četrtim odstavkom 295. člena ZGD-1 čimprej, vendar najpozneje v enem mesecu, skliče skupščino, ki mora zasedati najpozneje v dveh mesecih od prejema te zahteve, z dnevnim redom, ki je naveden v tej zahtevi.	The shareholder Fortenova Group requests that pursuant the Paragraph 4 Article 295 of the ZGD-1 the management board of the Company as soon as possible, but no later than in one month, convenes the general meeting, which must be held at the latest in two months after the receipt of this request, with the agenda stated in this request.
Delničar Fortenova Grupa predlaga naslednji dnevni red skupščine in predloge sklepov:	The shareholder Fortenova Group proposes the following agenda and proposals of resolutions:
1. Otvoritev skupščine, ugotovitev sklepčnosti, izvolitev organov skupščine	**1. Opening of the general meeting, establishment of the quorum, election of bodies of general meeting**
PREDLOG SKLEPA:	PROPOSAL OF RESOLUTION:
»Za predsednika skupščine se izvoli Pavle Pensa, odvetnik v Ljubljani.«	“Attorney Pavle Pensa from Ljubljana, shall be elected as the chairman of the general meeting.”
Obrazložitev predloga sklepa	**Reasons for proposal of the resolution**
V skladu s statutom družbe skupščino vodi predsednik, ki ga na predlog sklicatelja izvolijo delničarji.	In accordance with the company’s articles of association the general meeting is to be chaired by the person, nominated by the convening person and elected by the shareholders.

2. Izključitev manjšinskih delničarjev

PREDLOG SKLEPA:

»2.1 Skupščina se seznani s Poročilom o predpostavkah za prenos delnic in primernosti višine denarne odpravnine manjšinskim delničarjem, ki ga je pripravil glavni delničar, družba FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, Republika Hrvaška (»**Glavni delničar**«), in s Poročilom o primernosti denarne odpravnine, ki ga je pripravila revizijska družba PIT Letiner d.o.o.

»2.2 Skupščina se seznani, da je Glavni delničar družbe POSLOVNI SISTEM MERCATOR d.d., Dunajska cesta 107, 1000 Ljubljana (»**Družba**«), imetnik 5.594.167 delnic Družbe z oznako MELR, kar upoštevajoč, da ima Družba 42.192 lastnih delnic ustreza 90,005% (zakroženo na tri decimalna mesta) deležu v osnovnem kapitalu Družbe, v skladu z drugim odstavkom 384. člena v zvezi z drugim odstavkom 528. člena ZGD-1.

2.3 Vse delnice Družbe, ki niso lastne delnice in ki niso v imetništvu Glavnega delničarja, tj. 621.251 delnic MELR katerih imetniki so manjšinski delničarji Družbe na dan vpisa tega sklepa v sodni register (»**Manjšinski delničarji**«), se prenesejo na Glavnega delničarja proti plačilu denarne odpravnine v znesku 36 EUR za eno delnico MELR (»**Denarna odpravnina**«) z dnem vpisa tega sklepa v sodni register.

2.4 V skladu s 23. členom ZNVP-1, mora Glavni delničar Denarno odpravnino nakazati KDD d.o.o.:

- v primeru, da so delnice Družbe v imetništvu Manjšinskih delničarjev

2. Squeeze-out of minority shareholders

PROPOSAL OF RESOLUTION:

“2.1 The general meeting notes the Report about requirements for transfer of shares and appropriateness of the amount of cash consideration for minority shareholders, prepared by the majority shareholder, a company FORTENOVA GRUPA d.d., Marijana Čavića 1, 10000 Zagreb, the Republic of Croatia (“**Majority Shareholder”**), and the Report about the appropriateness of the cash consideration, prepared by the auditor PIT Leitner d.o.o.

2.2 The general meeting notes that the Majority Shareholder of the company Mercator d.d., Dunajska cesta 107, 1000 Ljubljana (“**Company”**), holds 5,594,167 shares of the Company with ticker MELR, which corresponds to 90.005% (round to three decimal places) share in the share capital of the Company, taking into account 42.192 treasury shares of the Company, in accordance with Paragraph 2 of Article 384 in connection with Paragraph 2 of Article 528 ZGD-1.

2.3 All shares of the Company that are not treasury shares or held by the Majority Shareholder, i.e. 621,261 MELR shares held by the minority shareholders of the Company on the day of entry of this resolution in the court register (“**Minority Shareholders**”), are transferred to the Majority Shareholder, Fortenova Group, for consideration in the amount of EUR 36 per one MELR share (“**Cash Consideration**”) on the day when this resolution is entered into the court register.

2.4 In accordance with Article 23 of ZNVP-1, the Majority Shareholder must transfer the Cash Consideration to KDD d.o.o.:

- in case the shares in the Company of the Minority Shareholders are neobremenjene, za račun Manjšinskih delničarjev oziroma,

- v primeru, da so delnice Družbe v imetništvu Manjšinskih delničarjev obremenjene z zastavno pravico, za račun zastavnega upnika oz. zastavnih upnikov, v korist katerih je v centralnem registru nematerializiranih vrednostnih papirjev, ki ga vodi KDD d.o.o., vpisana zastavna pravica na delnici ali delnicah Manjšinskega delničarja ali Manjšinskih delničarjev na dan vpisa sklepa o prenosu delnic na Glavnega delničarja v sodni register.

unencumbered, for the account of the Minority Shareholders or,

- in case the shares in the Company of the Minority Shareholders are encumbered with a pledge, for the account of the pledgee and/or pledgees for the benefit of who the pledge is entered in the central register of book-entry securities operated by KDD d.o.o., on a share or shares of a Minority Shareholder or Minority Shareholders on the day of entry of the resolution on the transfer of shares to the Majority Shareholder in the court register.

2.5 Glavni delničar mora nemudoma po vpisu tega sklepa v sodni register, Manjšinskim delničarjem za vsako pridobljeno delnico Manjšinskih delničarjev plačati Denarno odpravnino. Za izplačilo Denarne odpravnine solidarno odgovarja ERSTE&STEIERMÄRKISCHE BANK d. d., Jadranski trg 3a, Reka, Hrvaška, v skladu z drugim odstavkom 385. člena ZGD-1.

2.5 The Majority Shareholder must, immediately after the entry of this resolution into the court register, pay the Cash Consideration to the Minority Shareholders. ERSTE&STEIERMÄRKISCHE BANK d. d., Jadranski trg 3a, Rijeka, Croatia, is jointly and solidary liable for payment of the Cash Consideration in accordance with Paragraph 2 of Article 385 ZGD-1.

Obrazložitev predloga sklepa:

Upoštevajoč pravilo drugega odstavka 528. člena ZGD-1 v zvezi z drugega odstavka 384. člena ZGD-1 za ugotavljanje deleža delnic, ki pripadajo glavnemu delničarju družbe, znaša delež Glavnega delničarja v osnovnem kapitalu Družbe 90,005% (zaokroženo na 3 decimalna mesta). Glavni delničar zato predlaga da skupščina Družbe odloči o prenosu delnic preostalih Manjšinskih delničarjev na Glavnega delničarja za plačilo primerne denarne odpravnine. Izključitev manjšinskih delničarjev iz Družbe je urejena v členih od 384. do 388. ZGD-1.

Reasons for proposal of the resolution

Considering the rule of Paragraph 2 of Article 528 of ZGD-1 in connection with Paragraph 2 of Article 384 of ZGD-1 with regard to determining the share of shares held by the majority shareholder, the share of the Majority Shareholder in the share capital of the Company corresponds to 90.005% (round to 3 decimal places). The Majority Shareholder therefore proposes that the general meeting of the Company decides on transfer of the shares of the Minority Shareholders to the Majority Shareholder for appropriate cash consideration. Squeeze-out of the minority shareholders from the Company is regulated in Articles from 384 to 388 of ZGD-1.

V družbi, v kateri je delniška struktura takšna, da je posamezni delničar imetnik več kot 90 odstotkov glasovalnih pravic v družbi, so manjšinski delničarji formalno pravno sicer nosilci premoženjskih kot upravljavskih pravic iz delnic, pri čemer pa slednjih zaradi delniške strukture dejansko sploh ne morejo uresničevati. Zaradi navedenega zakonodaja manjšinske delničarje obravnava kot osebe, ki upravljavskega interesa realno niti nimajo več, imajo pa premoženjski interes. To izhodišče je upoštevano tudi pri institutu izključitve manjšinskih delničarjev iz družbe, ki z obveznostjo plačila primerne odpravnine, torej poštene cene za delnice izključenih delničarjev s strani glavnega delničarja dosledno varujejo premoženjske pravice manjšinskih delničarjev.

In a company, where the shareholders' structure is such that a single shareholder holds more than 90% of voting rights in the company, minority shareholders are formally entitled to exercise their property and management rights with regard to shares, whereby they are de facto prevented to exercise the latter due to shareholder structure. Because of this the law considers minority shareholders as persons, who no longer hold a meaningful management interest, but do have a property interests. This starting point is considered also with regard to squeeze-out of minority shareholders from a company, which protects these property interest of the minority shareholder by requiring that the majority shareholder pays them an adequate consideration, i.e. fair price for the shares of squeezed-out shareholders.

Na podlagi drugega odstavka 385. člena ZGD-1 ob smiselni uporabi določb petega in šestega stavka drugega odstavka 556. člena ZGD-1 Glavni delničar kot denarno odpravnino Manjšinskim delničarjem, katerih delnice se zaradi izključitve prenesejo na Glavnega delničarja, ponuja 36 EUR za vsako delnico Družbe. Za namene izključitve manjšinskih delničarjev je Glavni delničar pridobil vrednotenje Družbe, ki ga je izdelal KPMG d.o.o., iz katerega izhaja, da je cena 36 EUR za eno delnico Družbe na zgornjem robu razpona ocenjene vrednosti Družbe.

Pursuant to Paragraph 2 of Article 385 of ZGD-1 and considering with Paragraphs 5 and 6 of Article 556 of ZGD-1, the Majority Shareholder offers to the Minority Shareholders, whose shares are transferred to the Majority Shareholder due to squeeze-out, EUR 36 per each share of the Company. For the purpose of squeeze-out the Majority Shareholder obtained a valuation of the Company, prepared by KPMG d.o.o., from which it follows that the consideration of EUR 36 per share of the Company is on the upper limit of the valuation range of the Company.

Ta denarna odpravnina odraža tudi premoženjsko in profitno stanje Družbe in predstavlja pravično denarno odpravnino za prenos delnic Manjšinjskih delničarjev na Glavnega delničarja.

This cash consideration also reflects also asset value and profitability of the Company and represents equitable cash consideration for transfer of shares from Minority Shareholders to the Majority Shareholder.

Glavni delničar je v skladu z drugim odstavkom 386. člena ZGD-1 izdelal Poročilo o predpostavkah za prenos delnic in primernosti višine denarne odpravnine manjšinskim

In accordance with Paragraph 2 of Article 386 of ZGD-1 the Majority Shareholder prepared a Report about requirements for transfer of shares and appropriateness of the amount of cash consideration for minority shareholders delničarjem, ki ga je pregledal revizor, družba PIT Leitner d.o.o.

that was reviewed by the auditor, a company PIT Leitner d.o.o.

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[Zahteva za sklic podpisna stran / Request for Convocation signature page]

Fortenova grupa d.d.

Fabris Peruško, glavni izvršni direktor / Chief Executive Director

James Pearson, izvršni director/ Executive Director

FORTENOVA GRUPA
DIONIČKO DRUŠTVO
ZA UPRAVLJANJE
-6-

INDEPENDENT AUDITOR'S REPORT on limited assurance for the purpose of determining cash compensation for the minority owners in the event of a squeeze-out of the company MERCATOR D.D.

FORTENOVA GRUPA, dioničko društvo za upravljanje
(here and after the majority shareholder),
Marijana Čavića 1
10000 Zagreb

We have reviewed the determining cash compensation for the minority owners in the event of a squeeze-out in the company POSLOVNI SISTEM MERCATOR d.d., Dunajska cesta 107, 1000 Ljubljana (here and after MERCATOR, d.d.). The cash compensation was set by the majority shareholder - FORTENOVA GRUPA, dioničko društvo za upravljanje, as determined in the Report of the Majority shareholder and the Request for the convocation of the General Meeting of Shareholder of the company Mercator d.d. the squeeze-out of minority shareholders.

The responsibility of the Majority shareholder for the Report

According to the Article 296., 384. and 386. of Slovenian Companies Act (ZGD-1) the majority shareholder (FORTENOVA GRUPA, dioničko društvo za upravljanje) is responsible for the Report of the Majority shareholder and the shareholder minute regarding the squeeze-out of minority shareholders.

Auditor's Responsibility

Our responsibility is to express a conclusion about a limited assurance on determining cash compensation based on the performed procedures and obtained evidence.

We conducted our task of issuing a limited assurance under the International Assurance Engagements Standard 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000), published by the International Auditing and Assurance Standards Board (IAASB). This standard requires planning and performing the task in a way to obtain a limited assurance that nothing has come to the attention that causes to believe that the determining cash compensation for the minority owners could not be equitable, all having regard to the criteria specified below.

Criteria definition

In implementing the procedures of accuracy, adequacy, and completeness of here stated information we have considered the criteria:

- The Report of the Majority shareholder FORTENOVA GRUPA about the transfer of the minority stocks to Majority shareholder in the company MERCATOR d.d. dated on November 2nd, 2021 using the assumptions and arguments for squeeze-out (according to Article 386. Slovenian Companies Act (ZGD-1))
- Is the determining cash compensation for the minority shareholders in the process of a squeeze-out fair according to Article 556. (paragraph 2) and 583. (paragraph 5) of ZGD-1:

1. the equitable cash compensation for the minority owners in the event of a squeeze-out have to take into account the property and profit situation of the company at the moment of the shareholder minutes regarding the squeeze-out,
2. which methods were used to determine the compensation for the squeeze-out,
3. the reason why the application of these methods is appropriate,
4. if more than one method has been applied, the respective cash compensation that would result from the various methods. At the same time, the report must illustrate which weighting has been given to the various methods when determining the proposed cash compensation and the underlying values. Indicate any particular difficulties arising in the valuation.

The decision of determining cash compensation for the minority owners in the event of a squeeze-out was made based on the valuation methodology.

Our independence and quality control

Our company operates in accordance with International Standards on Quality Control (ISQC 1) and based on them maintains a comprehensive quality management system, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

We acted in accordance with the requirements of independence and ethical requirements of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants. The Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Summary of the work done

In this respect we have, among others, conducted the following procedures:

- we have reviewed the Report of the Majority shareholder FORTENOVA GRUPA about the transfer of the minority stocks to Majority shareholder in the company MERCATOR d.d. dated on November 2n^{d}, 2021 including the assumptions and reason for the squeeze-out and all relevant information according to ZGD-1,
- we have reviewed the Valuation Report of 100% share capital of the company Mercator d.d. as of August 31st, 2021 for a squeeze-out of the minority shareholders prepared by KMPG poslovno svetovanje d.o.o. dated November 2nd, 2021;
- we have reviewed the Request for the convocation of the General Meeting Shareholder of the company Mercator d.d. dated November 2nd, 2021, regarding the squeeze-out of minority shareholders, for the appropriate cash compensation.

Our review of determining cash compensation included:

- a complete presentation of the company being valued,
- analytical procedures to check if the statements in the Valuation Report are consistent with the unaudited consolidated financial statements from January – August 2021, the review of audited

annual reports for the past three years for the Group MERCATOR that are the basis of the appropriate cash compensation;

- inquiries and analytical procedures for budgeted financial statements for the Group MERCATOR, plausibility and how up to date they were,
- analysis of the eliminations conducted in the analysis of past performance,
- review of valuation methodology of the Group MERCATOR and determination of terminal value,
- in course of our audit, we examined the business planning to assess its consistency and plausibility of the assumptions made,
- review and analytical procedures of the method, assumptions used to assess its consistency and plausibility of the assumptions made,
- compilation of the peer group companies and transactions, and the appropriateness of the multiplicator.

Limitations

The valuation of the appropriate cash compensation in the event of a squeeze-out is based on the equitable value of the share MERCATOR d.d. The basis is the budgeted financial statements of the GROUP MERCATOR, prepared by the management. Projections are based on assumptions regarding the future movement of specific parameters; therefore, a certain portion of uncertainty is present. We emphasize that future unexpected events may have a material impact on the future business performance of the company. We must emphasize that the realization of the prospective financial information is dependent on the controlling validity of the assumptions on which it is based.

The methodology used for the determination of the cash compensation

In estimating the equitable value of the GROUP MERCATOR the income approach was used, based on DCF methodology. Under DCF, forecasted cash flows are discounted back to the present date, generating the present value for the cash flow stream of the business. Given the fact that the DCF takes into account long-term prospects of the Company, results obtained with this approach properly reflect the present value of the future long-term benefit of the shareholders. Theoretically, it is the most appropriate method to determine the equitable value of the share.

DCF method is based on the analysis of the past financial statements of the GROUP MERCATOR and the projections for the period 2021 -2022 prepared by the management. The projections for the period 2023-2025 were extrapolated by the valuation appraiser.

In September 2021 Mercator has been recapitalized – the valuation was performed as if the recapitalization had already been taken place as at the valuation date (special assumption). The free cash flow to the firm was calculated and discounted by appropriate discount rate (WACC) and the terminal value was estimated under the proper assumption of long-term growth rate.

Projections are prepared from the perspective of the majority owner, consequently, control premium was not applied. As the purpose of the valuation is squeeze-out of minority shareholders, a marketability discount was not applied.

The equitable value of 1 share dated August 31st, 2021, is evaluated in a range on sensitivity analysis between 28 EUR/share and 36 EUR/share.

Based on the valuation assumptions, the business appraisal concluded that the equitable value of 1 share of MERCATOR as of August 31st, 2021, for the purpose of squeeze-out of the minority shareholders to be 36 EUR per share.

The market approach was made as a supplementary method to cross-check the results from DCF:

- Using the comparable companies method, the equitable value of 1 share of MERCATOR as of August 31st, 2021, was estimated in the range between 36 EUR per share and 44 EUR per share.
- Using the comparable transaction method, the equitable value of 1 share of MERCATOR as of August 31st, 2021, was estimated in the range between 41 EUR per share and 58 EUR per share.

The companies used as peer companies may not be perfectly comparable to the MERCATOR as they operate in the segments of the industry and different geographies, economies, and markets. Since the difference in geographies, size, and profitability between the valuated company and the peer companies even with the adjustments cannot be eliminated, the market approach is only used as the supplement method.

Conclusion

Based on the procedures performed and evidence obtained we hereby confirm that the cash compensation of 36 EUR per one share of MERCATOR (listed as MELR) as of August 31st, 2021 is appropriate. The cash compensation set by the majority shareholder - FORTENOVA GRUPA is valid for every minority shareholder that is registered as a shareholder on the date of the shareholder minute.

Restriction of use

Our report can only be used in the process of squeezing-out of minority owners.

PIT LEITNER d.o.o.
Špruha 19, 1236 TRZIN

Urška KIŠ
CERTIFIED AUDITOR

Trzin, 03.11.2021

For signature, please refer to the original Slovenian version.

Majority Shareholder:

FORTENOVA GRUPA dioničko društvo za upravljanje
Marijana Čavića 1
10000 Zagreb
Croatia

Company:

POSLOVNI SISTEM MERCATOR d.d.
Dunajska cesta 107
1000 Ljubljana
Slovenia

REPORT

OF THE MAJORITY SHAREHOLDER ON SQUEEZE-OUT OF MINORITY SHAREHOLDERS

Ljubljana, 2 November 2021

FORTENOVA GRUPA dioničko društvo za upravljanje (short company name FORTENOVA GRUPA d.d.), with registered seat in Zagreb, Croatia, and business address at Marijana Čavića 1, 10000 Zagreb, Croatia, registration number (MBS) 081179147, OIB: 88035992407 (the »**Majority Shareholder**«), represented by chief executive director Fabris Peruško and executive director James Pearson, proposes to the company **POSLOVNI SISTEM MERCATOR d.d.** (short company name MERCATOR, d.d.), with registered seat in Ljubljana, Slovenija, and business address at Dunajska cesta 107, 1000 Ljubljana, Slovenia, registration number 5300231000, tax ID number SI 45884595 (the »**Company**«), that the general meeting of the Company (the »**General Meeting**«) adopts a resolution on transfer of shares of all other shareholders of the Company to the Majority Shareholder in exchange for appropriate cash consideration (the »**Resolution on Squeeze-out**«). In accordance with second paragraph of Article 386 of Companies Act (»**ZGD-1**«)[1], the Majority Shareholder has drawn-up the following report in this regard.

1. LEGAL BASIS FOR TRANSFER OF SHARES

Pursuant to Article 384 of ZGD-1, the majority shareholder who holds shares representing at least 90% of the share capital of a joint stock company, from which treasury shares are deducted, has the right to request that the general meeting of the joint-stock company decides on the transfer of shares of other minority shareholders to the Majority Shareholder for the payment of appropriate cash consideration. The squeeze-out of minority shareholders from the Company is regulated by Articles from 384 to 388 of ZGD-1.

Pursuant to the first paragraph of Article 385 of ZGD-1, the amount of cash consideration must be determined by the majority shareholder by mutatis mutandis application of the provisions of the fifth and sixth sentence of the second paragraph of Article 556 of ZGD-1, according to which the appropriate cash consideration must take into account the asset value and profitability of the company in the moment when the general meeting adopts the resolution on squeeze-out. Interest is paid out on the cash consideration at a fixed interest rate of 5% p.a. from the publication of the resolution on squeeze-out (further claims for damage compensation are not excluded). The management of the company must provide the Majority Shareholder with all necessary information and supporting documents.

The following conditions must be met for squeeze-out of minority shareholders from the Company:

1.1 The majority shareholder must be the holder of shares representing at least 90% of the share capital of the company.

Pursuant to the second paragraph of Article 384 of ZGD-1, the provisions of the second paragraph of Article 528 of ZGD-1 shall apply mutatis mutandis to determine the proportional share of shares belonging to the company's majority shareholder. In accordance with the second paragraph of Article

[1] Official Gazette of the Republic of Slovenia, no. 65/09 – as amended.

528 of ZGD-1, treasury shares are deducted from the share capital when calculating the proportional share of the Majority Shareholder.

At the time of preparation of this report, the Majority Shareholder holds 5,594,167 shares of the Company, which represent 89.398% (rounded to 3 decimal places) share in the registered share capital of the Company. The Company holds 42,192 treasury shares at the time of the preparation of this report, which represents 0.674% (rounded to 3 decimal places) share in its share capital.

Having regard to the rule of the second paragraph of Article 528 of ZGD-1 in connection with the second paragraph of Article 384 of ZGD-1 for determining the proportional share of shares belonging to the Majority Shareholder of the company, the share of the Majority Shareholder represents 90.005% (rounded to 3 decimal places) of the share capital of the Company.

1.2 The Majority Shareholder must propose the adoption of a resolution on the transfer of the shares of minority shareholders to the Majority Shareholder for the payment of appropriate cash consideration.

The Majority Shareholder has requested the convening of the general meeting pursuant to Articles 295 and 296 of ZGD-1.

1.3 The Majority Shareholder must submit a statement of the bank pursuant to the second paragraph of Article 385 of ZGD-1 to the Company.

The Majority Shareholder has submitted a statement of bank ERSTE&STEIERMÄRKISCHE BANK d. d., Jadranski trg 3a, Rijeka, Croatia, pursuant to the second paragraph of Article 385 of ZGD-1 dated 29. 10. 2021 to the Company together with the request for convening of the General Meeting. The copy of this statement of the bank is an appendix to this report of the Majority Shareholder.

1.4 The appropriateness of the amount of cash consideration offered by the Majority Shareholder must be reviewed by one or more auditors appointed by the court on the proposal of the Majority Shareholder.

The appropriateness of the amount of the cash consideration offered by the Majority Shareholder was reviewed by auditor, company PIT Leitner, revizijska družba d.o.o., Špruha 19, 1236 Trzin appointed by the District Court in Ljubljana on the proposal of the Majority Shareholder with a decision ref. no. Ng 56/2021 of 27 October 2021 in accordance with second paragraph of Article 386 ofZGD-1. Opinion of the auditor PIT Leitner, revizijska družba d.o.o. on the appropriateness of the amount of the cash consideration dated 3 November 2021 is an appendix to this report of the Majority Shareholder.

1.5 Notice of convening the general meeting, whereupon the decision on the transfer of shares, held by minority shareholders of the Company onto the Majority Shareholder will be made, must be published

Pursuant to Article 296 of ZGD-1 the Majority Shareholder addressed a request to convene the general meeting to the management of the Company. The request contains information on the company name and seat of the Majority Shareholder, as well as the amount of cash consideration, which the Majority Shareholder offers.

1.6 Prior to the general meeting, the shareholders shall be allowed to examine all documents for the general meeting at the Company's head office.

From the day when the General Meeting is convened until including the day of the General Meeting, the management of the Company shall allow any shareholder of the Company to examine all documents for the General Meeting. Pursuant to fourth paragraph of Article 386 of ZGD-1 upon the request of a shareholder a copy of the proposal for a resolution to transfer shares, this report by the Majority Shareholder and auditor's report on the appropriateness of the amount of cash consideration shall be provided to him free of charge, no later than on the business day following such request

1.7 The management of the Company must file an application for registration of the Resolution on Squeeze-out to transfer shares.

After the registration of this resolution in the court register the Majority Shareholder is, on basis of power of attorney included in the adopted Resolution on squeeze-out, authorised to file an order and conclude an agreement for the transfer of shares from the accounts of the minority shareholders onto the account of the Majority Shareholder at the central securities clearing corporation.

2. REASONS TO EXCLUDE MINORITY SHAREHOLDERS

In a company, where the capital ratio is such that the individual shareholder holds more than 90 percent of the voting rights in the company, the minority shareholders *de iure* holders of property and managerial rights from the shares, whereas they are unable to effectively exercise the latter due to the ownership structure. Considering the above, the legislation considers minority shareholders as persons who no longer have an effective managerial interest, while still holding the property interest. This starting point is also considered in the institute of the squeeze-out of the minority shareholders from the company, where the property rights of minority shareholders are robustly protected through the obligation of the Majority Shareholder to pay appropriate consideration, i.e., the price for the shares of the excluded shareholders.

Main goals of the squeeze-out of minority shareholders from a Company are:

2.1 Managing the Company with only one shareholder will be easier, cheaper, and more efficient; this way, with the participation of the Majority Shareholder, it will be easier for the Company to assume business risks without transferring them to minority shareholders.

2.2 Assumption of responsibility and overall risks in the management, supervision and administration of this activity in the event of expected other institutional changes, 2.3 Taking responsibility for diversifying risks, managing the capital structure and ensuring adequate profitability to ensure the long-term existence of this activity,

2.4 The proposed squeeze-out allows minority shareholders to transfer their shares at a price that represents an appropriate cash consideration for their shares

3. JUSTIFICATION OF THE APPROPRIATNESS OF CASH CONSIDERATION

Pursuant to second paragraph of Article 385 of ZGD-1 and the provisions of fifth and sixth sentence of second paragraph of Article 556 of ZGD-1 applied mutatis mutandis the Majority Shareholder offers EUR 36 for each share of the Company as a cash consideration to the minority shareholders.

Majority Shareholder determined the consideration for the share transfer at the amount of EUR 36 per share on basis of opinion of the certified business appraiser, KPMG d.o.o., which issued its opinion that the market value of 100 % of the Company's capital share ranges between EUR 28 per share and EUR 36 per share on basis of valuation rules in the event of share transfer from the minority shareholders to the Majority Shareholder (asset value and profitability of the Company). The Majority Shareholder offers appropriate cash consideration for the share transfer to the minority shareholders in the amount of EUR 36, which is at upper edge of the estimated value range.[2]

Pursuant to second paragraph of Article 386 of ZGD-1 the appropriateness of the cash consideration offered by the Majority Shareholder, was assessed and confirmed also by the auditor, company PIT Leitner, revizijska družba d.o.o., Špruha 19, 1236 Trzin, which was appointed by the court following the Majority Shareholder's proposal.

Pursuant to second paragraph of Article 23 of the Book-Entry Securities Act (ZNVP-1, »Zakon o nematerializiranih vrednostnih papirjih«) the Majority Shareholder will execute the pay out of the appropriate cash consideration through central securities clearing corporation, i.e., KDD - Centralna klirinško depotna družba, d.o.o.

FORTENOVA GRUPA dioničko društvo za upravljanje

Chief executive director and member of the Management Board	Executive Officer
Fabris Peruško	James Pearson

[2] The amount of the offered cash consideration, EUR 36 per share, is also not lower than the price per share at which the Majority Shareholder has thus far acquired the Company's shares firstly based on agreements with previous shareholders, and then on the basis of a mandatory takeover bid and finally on the basis of non-cash contributions for the increase of the share capital.

ANNUAL REPORT 2018

Mercator

moj najboljši 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.

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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 steadying 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 perspective[1]: 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

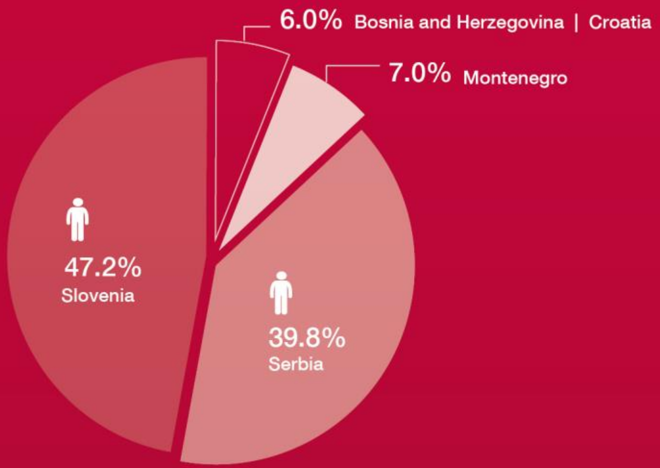
1.8 million
of active card holders

5 million customers per week

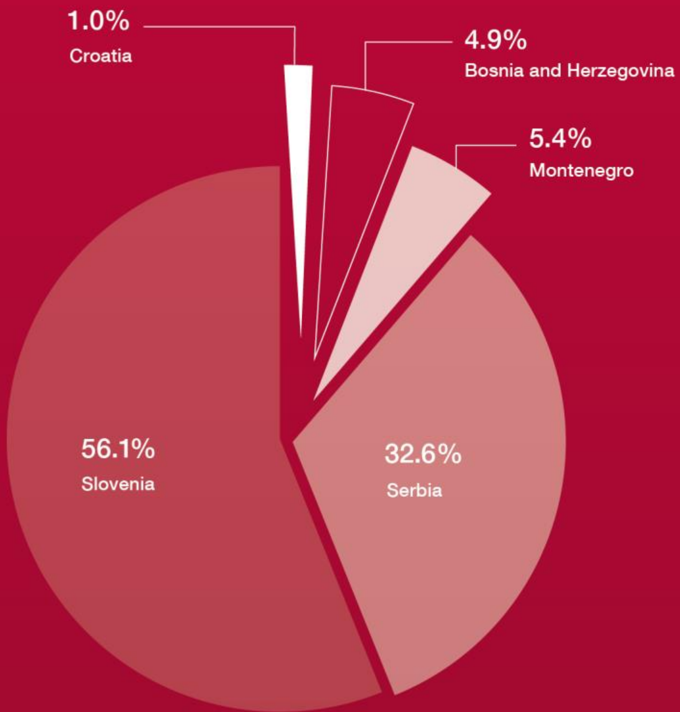
1,051
of stores

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	Number of employees as at Dec. 31	20,354	20,801	20,310	-2.4%
	Number of employees (FTE)	18,646	18,664	18,847	1.0%
PRODUCTIVITY AND VALUE ADDED	(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

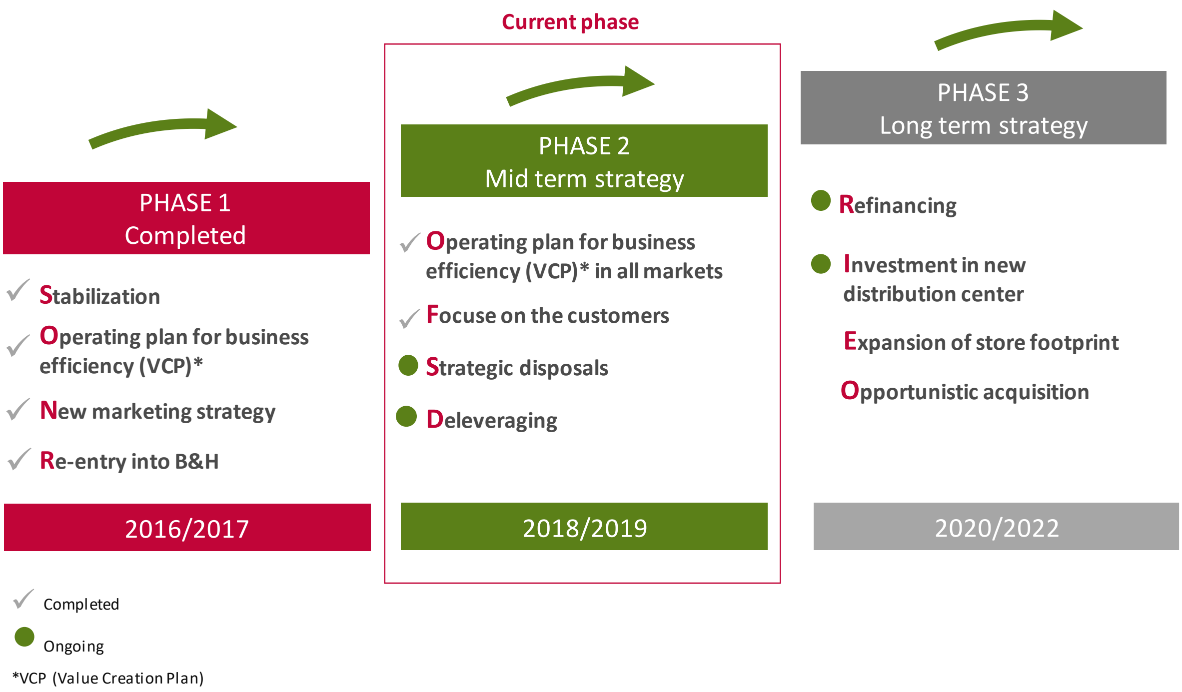
Mercator will be the best local retailer in every market of its operations.

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:

Profitable growth
Strengthening the market position with positive performance at existing retail units, a growing market share, and improved customer perception.

New store concept and refurbishments
Development of new store concepts and program of refurbishments or updates to the small and large format stores.

Cost optimization
Optimizing the costs by using the cost control system in all markets.

Cash flow
Optimized working capital management and real estate monetization.

Brand differentiation
Projects for celebrating Mercator's 70th anniversary, improvement of digital services for the customers, focus on local goods, value for money, price perception, and services at the stores.

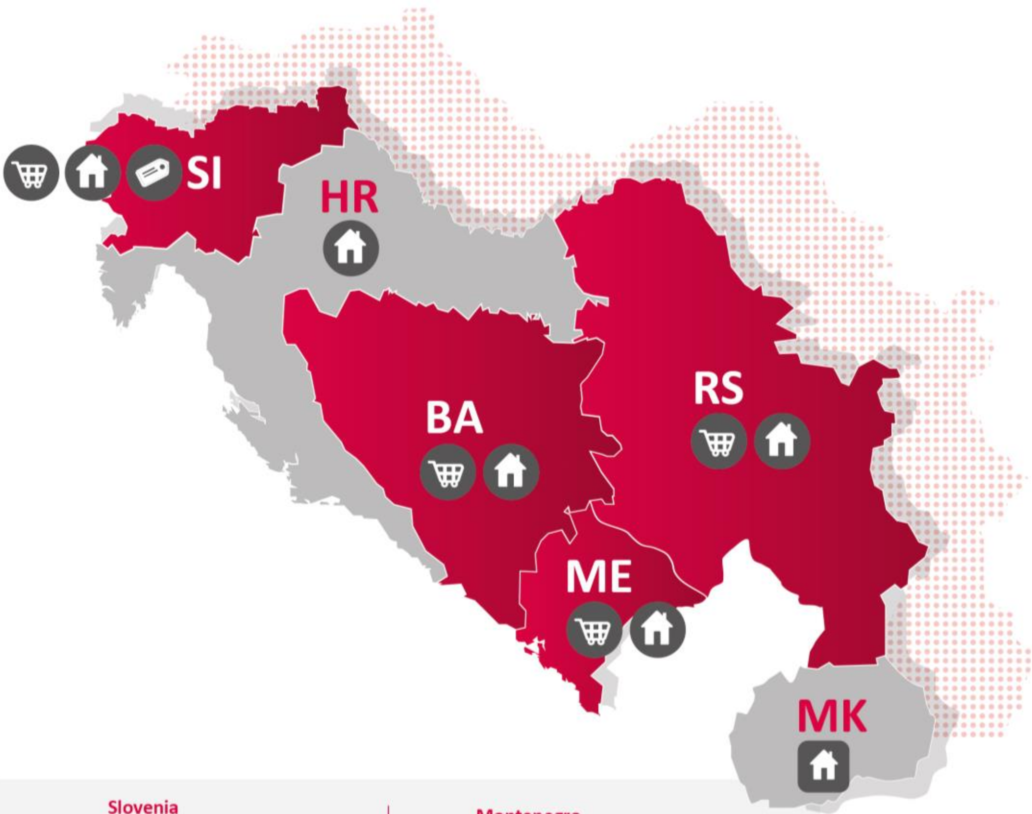
Employees
Providing employees for in-demand categories, motivation/incentives, training and education, and strengthening of employee responsibility.

[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.



Slovenia

Poslovni sistem Mercator d.d.
Mercator-Velpro d.o.o. (100.0 %)*
Mercator IP d.o.o. (100.0 %)
Mercator-Emba d.d. (100.0 %)
M-Energija d.o.o. (100.0 %)
Mercator Maxi d.o.o. (100.0 %)*
Platinum-A d.o.o. (100.0 %)*
Platinum-B d.o.o. (100.0 %)*
Platinum-C d.o.o. (100.0 %)*
Platinum-D d.o.o. (100.0 %)*

Serbia

Mercator-S d.o.o. (100.0 %)

Montenegro

Mercator-CG d.o.o. (100.0 %)

Bosnia and Herzegovina

Mercator-BH d.o.o. (100.0 %)
M-BL d.o.o. (100.0 %)*

Croatia

Mercator-H d.o.o. (99.8 %)

Macedonia

Mercator Makedonija d.o.o.e.l (100.0 %)*
Investment Internacional d.o.o.e.l (100.0 %)*

Mercator operations

Mercator real estate

Other operating activities

* The company does not conduct business operations.

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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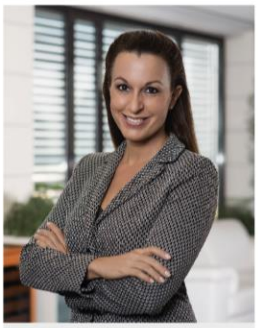
Facebook	*www.facebook.com/mercator*	
Twitter	*www.twitter.com/mercator_sl*	
LinkedIn	*www.linkedin.com/company/335027*	
Instagram	*@mercatorslovenija*	
Youtube	www.youtube.com/user/mercatorslo	

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 moje znamke

Serbia VREDNO JE ZAJEDNO

Montenegro moji brendovi

Bosnia and Herzegovina moji brendovi

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.

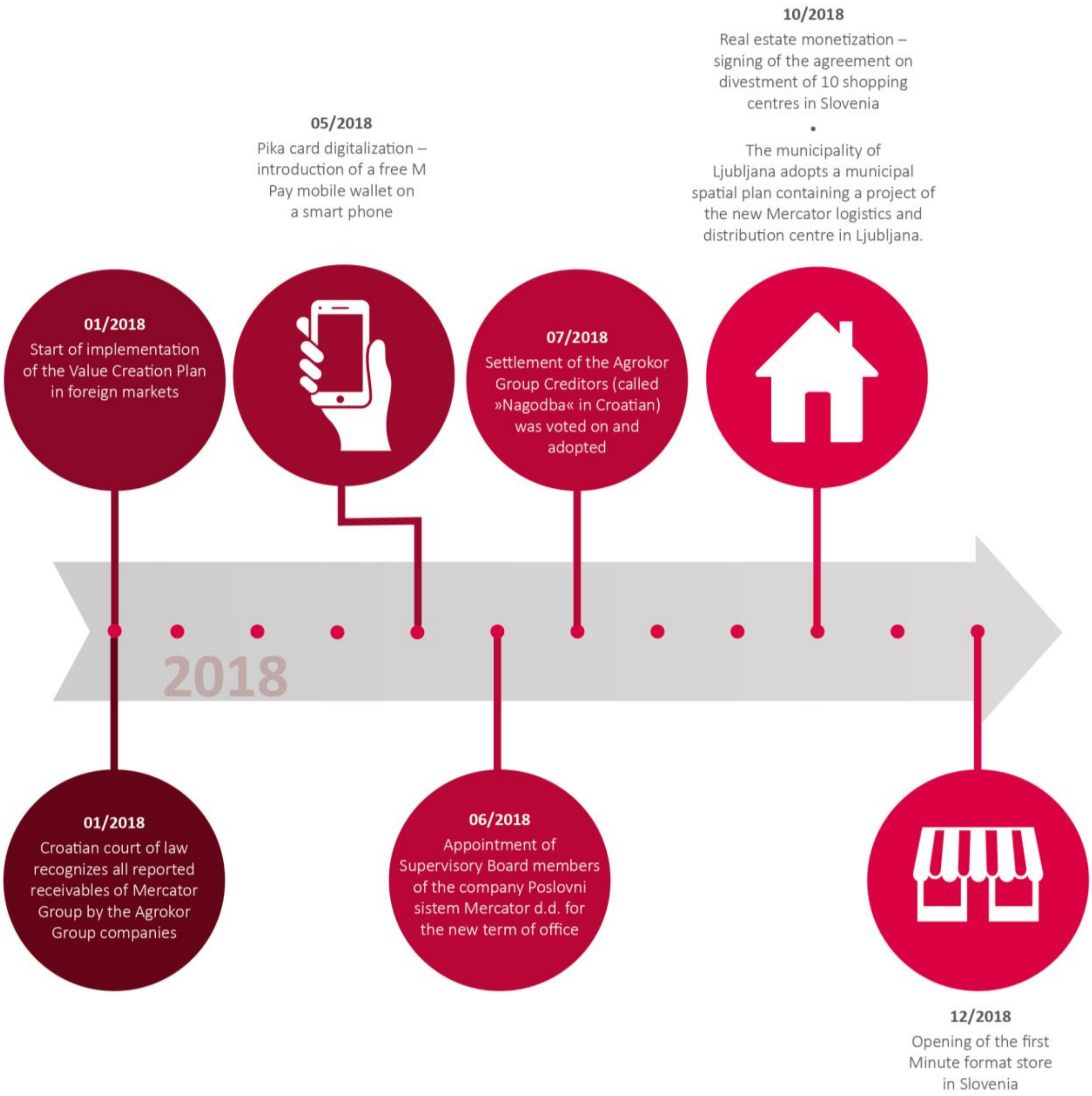
Home products

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).


PRIZNANJE ZA SPODBUJANJE ZAPOSLENIH

MERCATOR, d.d. Izvršno področje M TEHNIKA

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 **Dnevnica**, 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 (ZIČUDSP) 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	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
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 appointmet to position	Completion/ end of term	Repre-sentative	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.

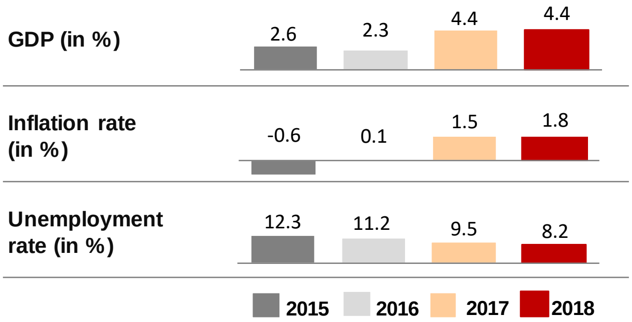
Food is becoming the main theme of communication, appearing in all digital media (blogs, websites, recipes, recommendations, opinions). The key task of a modern retailer is to enable the customer simple shopping anytime and anywhere.

Consumer confidence improved throughout the region in 2018, but it still lags behind the European average[3]. 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 operations[4]

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).

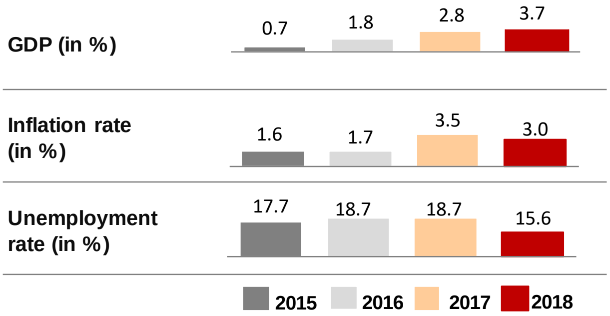
year is a result of a drop in oil price. For the most part of 2018, higher prices of petroleum products and food contributed to the growth of the consumer price index, in addition to services; in December, the contribution of the former decreased considerably, and the inflation rate decreased as a result.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

Effect of market situation on consumption: consumer confidence[5] 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 market[6]).

Market share

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 2018[7]. 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]

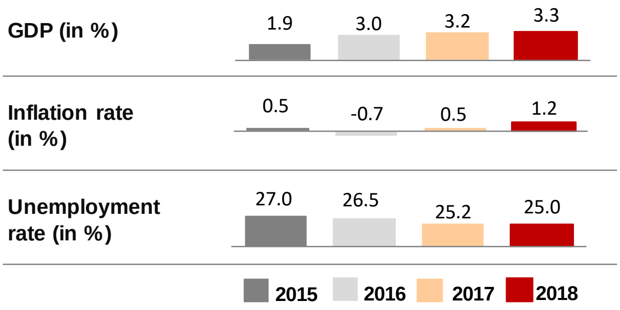
Market share

[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

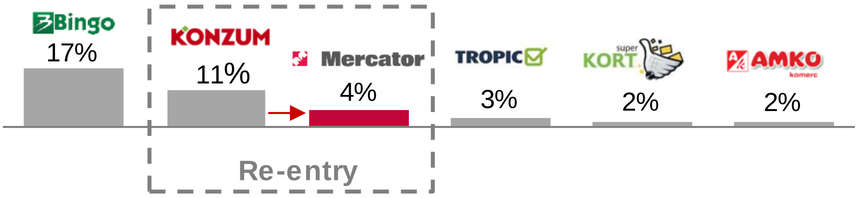
Bosnia and Herzegovina

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%.

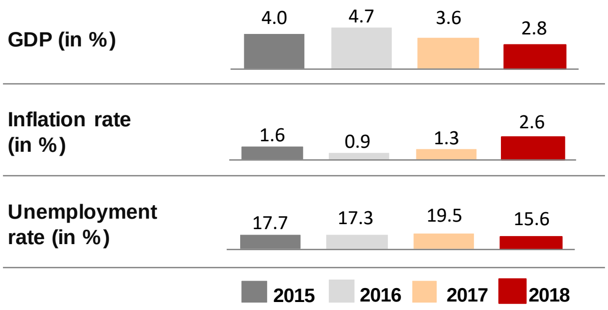


Competitive environment: the market of Bosnia and Herzegovina is highly diversified. The largest retailers include Bingo, Konzum and Mercator.[9]



Market share

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]

Market share

[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 m^2, 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

Slovenia

Retail units 465
- Markets: 397
- Supermarkets: 46
- Hypermarkets: 22

Serbia

Retail units 321
- Idea Markets: 248
- Idea Supermarkets: 35
- Roda: 30
- Roda Megamarkets: 6
- Mercator Hypermarkets: 2

Bosnia and Herzegovina

Retail units 77
- Markets: 50
- Supermarkets: 16
- Hypermarkets: 11

Montenegro

Retail units 117
- Markets: 115
- Mega Markets: 2

Composition of units as at December 31, 2018

COUNTRY	SLOVENIA	SERBIA			MONTE-NEGRO	BOSNIA AND HERZEGO-VINA	MERCATOR GROUP		
	Mercator	Mercator	Roda	Idea	Idea	Mercator			
STORE FORMAT	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	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 Active card holders: **685 thousand**		Mercator M Tehnika MAXEN MAXIMALNA ENERGIJA
Serbia Active card holders: **725 thousand**		Mercator iDEA RODA
Montenegro Active card holders: **75 thousand**		iDEA
Bosnia and Herzegovina Active card holders: **285 thousand**		Mercator

*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

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 Šiška. The year 2018 was wrapped up with activation and SMS (text message) sweepstakes "Collect My Brands, Drive an RV", which included 10 winners of a 10-day rental of an Adria recreational vehicle.

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.

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 Ognjišče, 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 Sparking 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 operations[11]

[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 the 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.

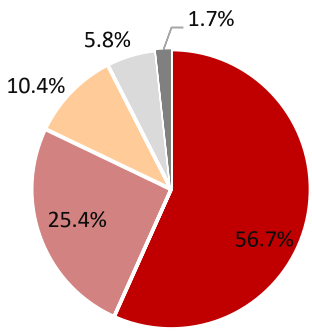
Following are Mercator's key goals in real estate management:

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%**

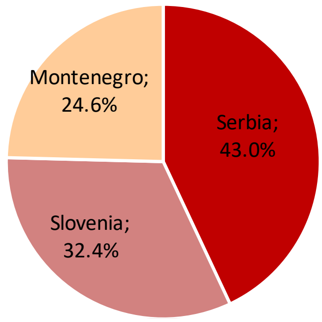


Investment into refurbishment existing units accounted for 55.1% of total investments; expansion of new retail units represented 15.5%; IT investments accounted for 20.6%; investments into distribution centres accounted for 3.9%; and the remaining 4.9% was invested in non-trade activities.

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 ared in 2018 by markets



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

	Gross retail area (in m²)		
	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 m^2

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 m^2

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 m^2

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

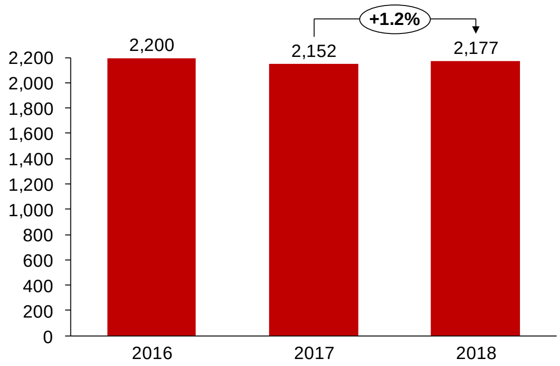
In 2018, a total of **122 stores** were newly opened or refurbished at the Mercator Group level.

● ● ● ● Performance analysis in 2018

Sales revenue

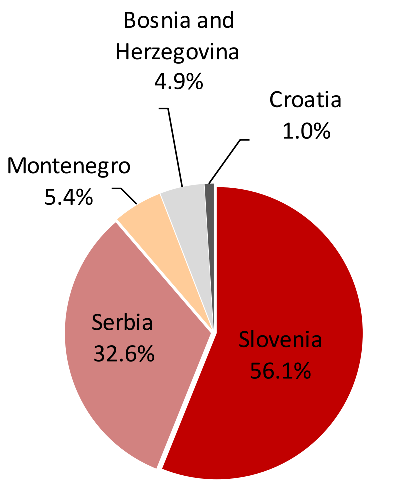
In 2018, Mercator Group **sales revenues** amounted to **EUR 2,177.2 million**, which is 1.2% more than in 2017. The new strategy, new store concept, store refurbishments, and improved competitiveness of services have been yielding positive results in Mercator Group's core activity. Re-establishment 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.

Sales revenue
(in EUR million)



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 Velpro 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%

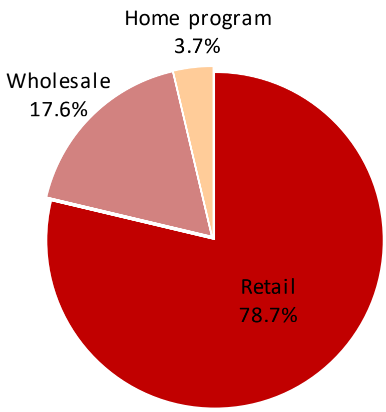
In 2018, Mercator Group **sales revenue from retail increased by 3.2%** relative to the year 2017.

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.

Sales revenue by programs in 2018 (in %)



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 Velpro 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.

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 Sveta 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.

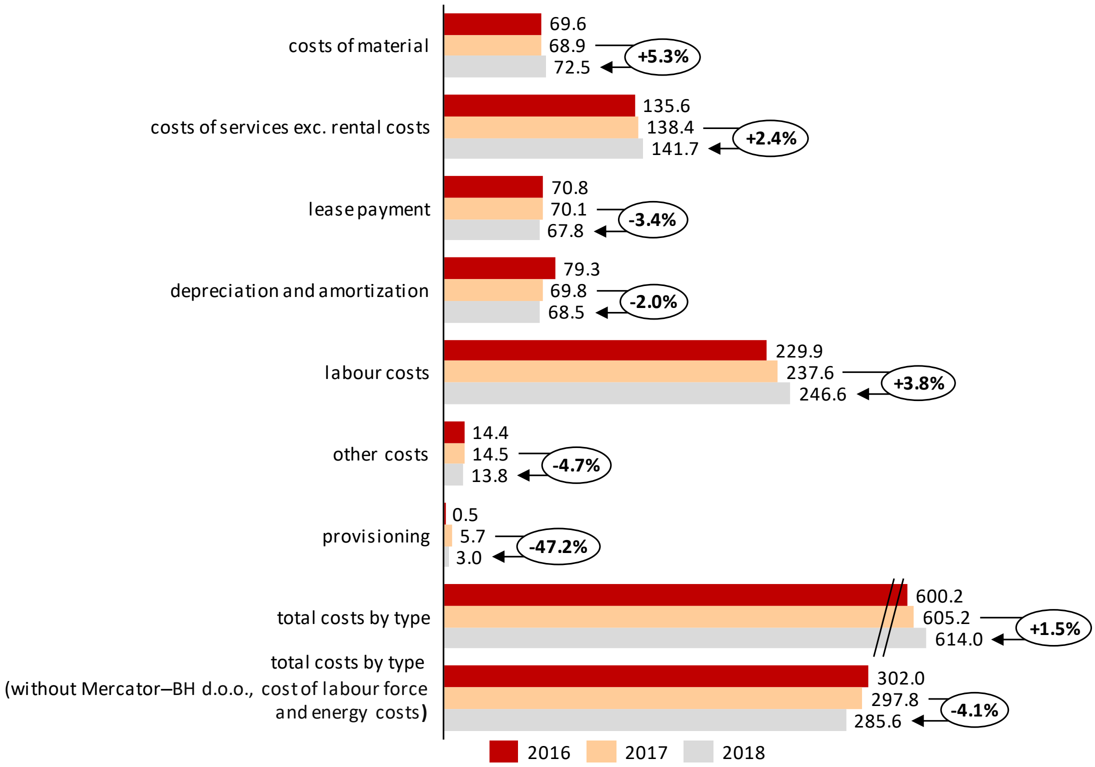
Change of costs by type 2018 / 2017

+1.5%

Change of costs by type

(without Mercator—BH d.o.o., cost of labour force and energy costs) 2018/ 2017

-4.1%



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.

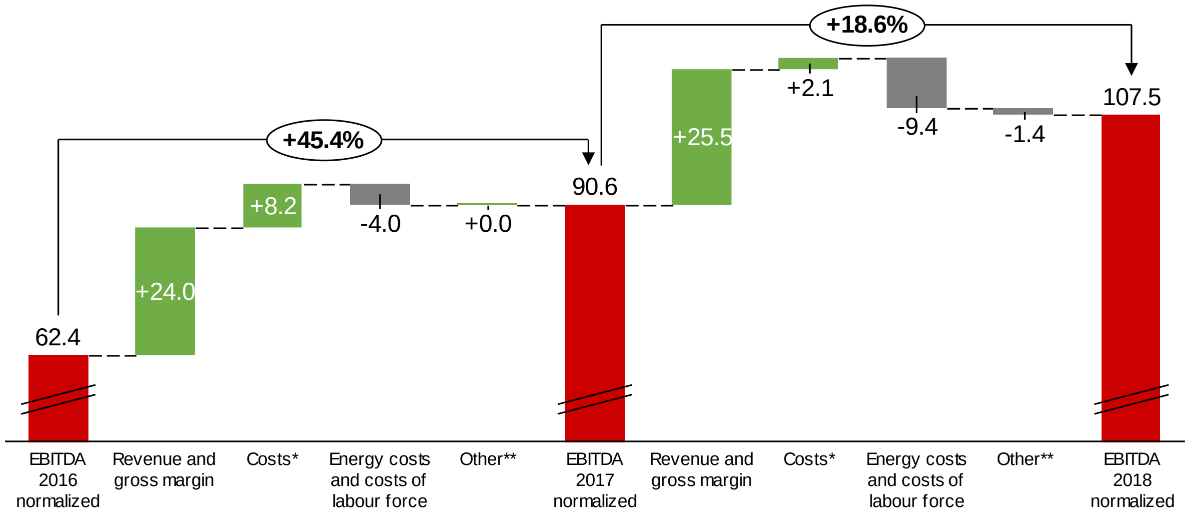
Review of non-recurring business events in the period 2016–2018

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.	In our estimate, the corporate governance risk will be **lower** in 2019 relative to 2018.  **lower** equal higher

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.  lower equal **higher**

Activities planned to mitigate the risk

- 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.  lower **equal** higher

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.  lower **equal** higher
Activities planned to mitigate the risk	

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:

- 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%**

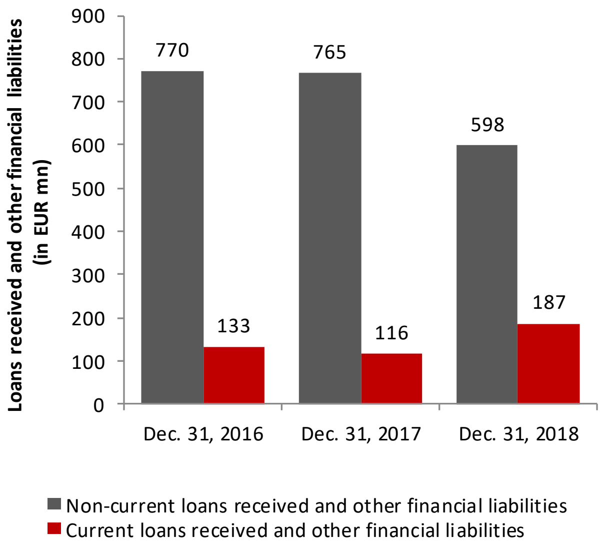
Financing costs

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.

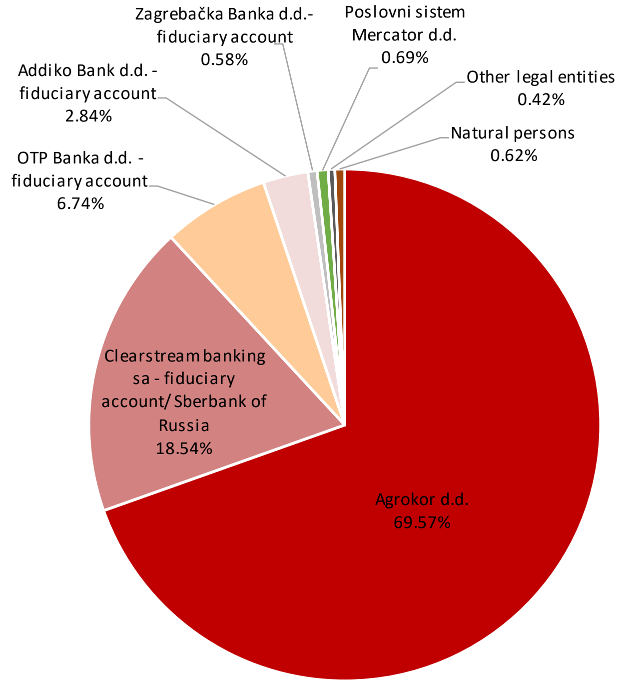
Mercator share and investor relations

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.

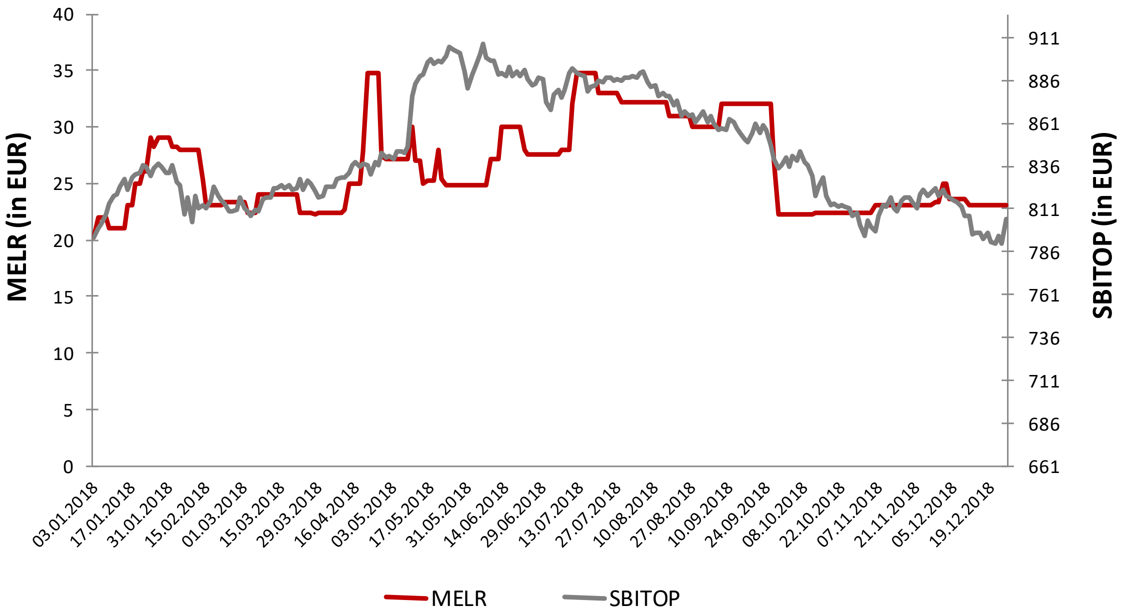
Shares held by Management and Supervisory Board members as at December 31, 2018

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 shareholders[12]

	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

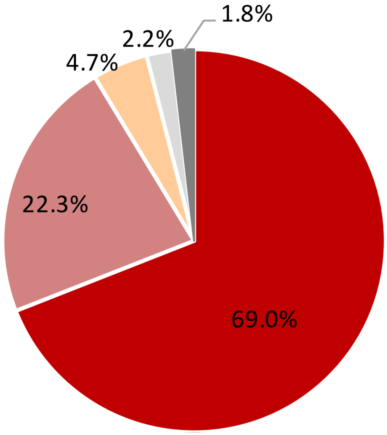
Taxes are of key importance for economic and social development. **At Mercator Group, we comply with the effective tax legislation in all countries of our operations, the international regulations, and with the sound taxation practices based on the principles of sustainability and corporate social responsibility**. 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.

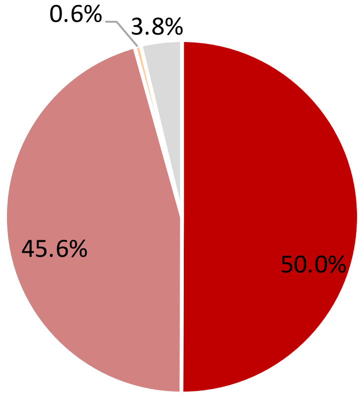
Corporate income taxes – these are taxes related to profits of the company, such as: corporate income tax, tax on profit, withholding tax, tax after withholding.

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 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.

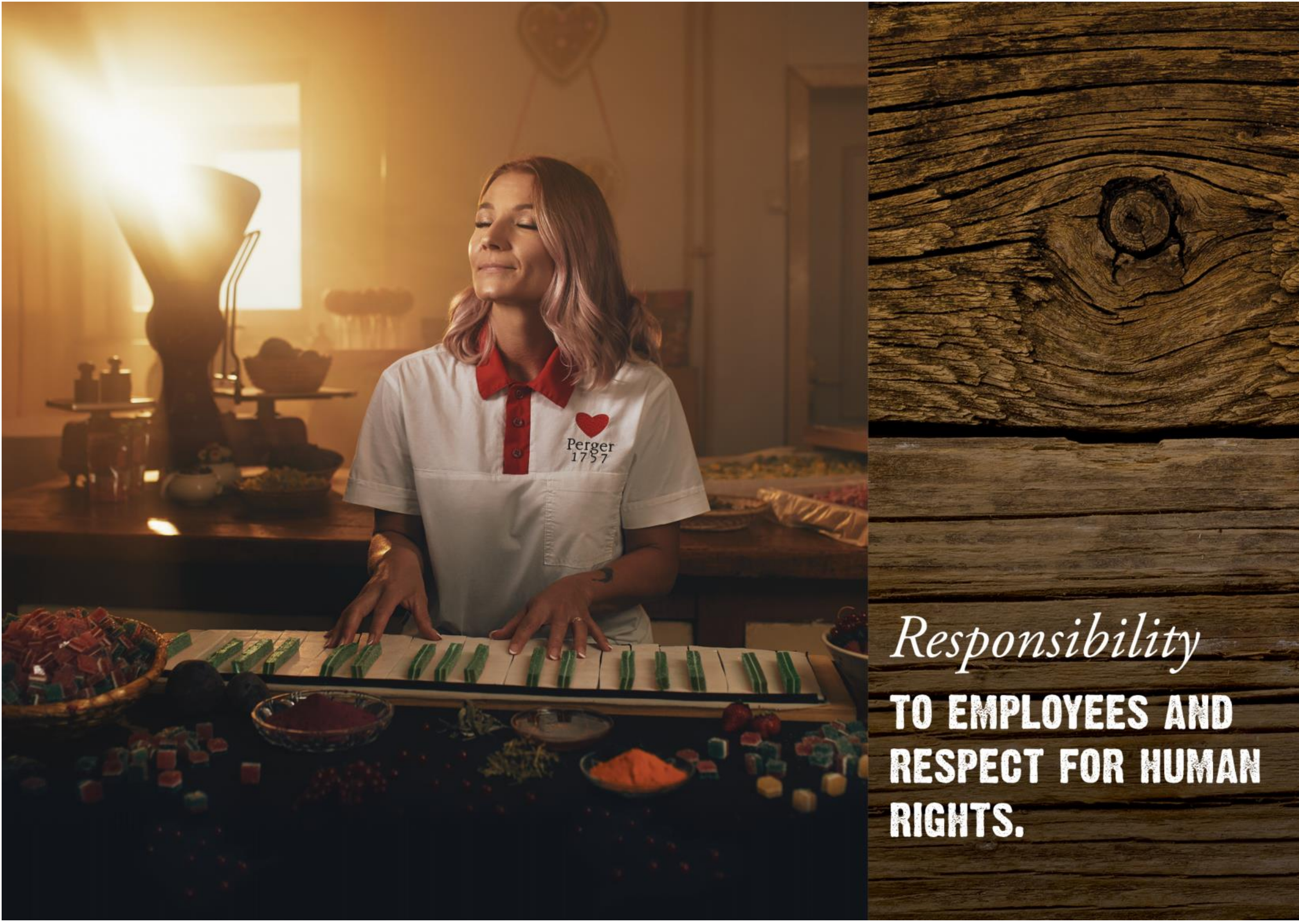
Approach to governance and the corporate governance systems are presented in more detail based on the Corporate Governance Code for Listed Companies in the Corporate Governance Policy of the company Mercator d.d. and the Mercator Group, which is publicly available at the company website at www.mercatorgroup.si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

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.



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.

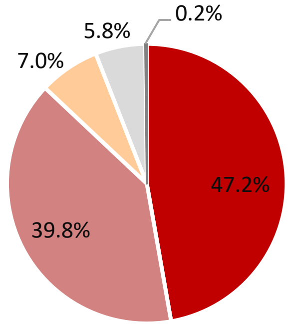
At the company Mercator–BH d.o.o., a number of **new internal acts** were adopted as of September 18, 2018, regulating the areas of company operations, salary accounting, systematization, and performance appraisal. The goal is to improve organization and systematization of jobs at the operational units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

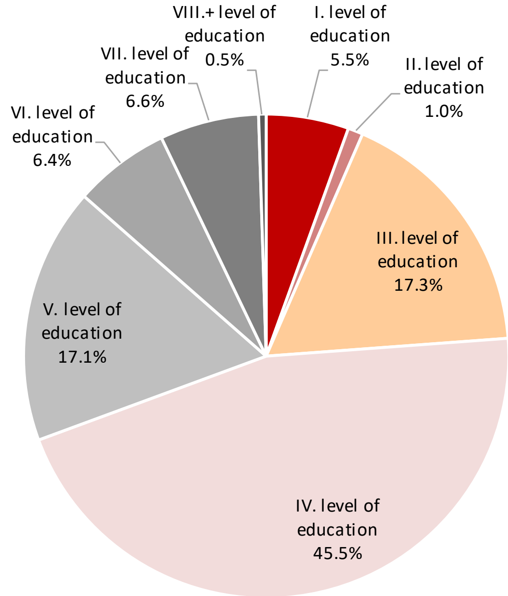
In 2018, Mercator employed more female than male employees: 68.7% of employees were women and 31.3% were men. Compared to the preceding year, the number of male employees increased by 6.6% and the number of female employees decreased by 6%.

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.

Actual level of education (% of employees)
December 31, 2018



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%).

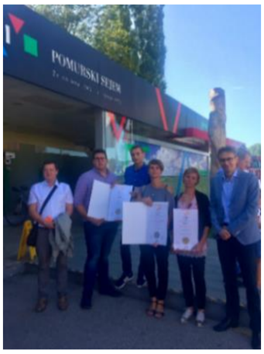
As at December 31, 2018, average age of employees in the company Poslovni sistem Mercator d.d amounted to 44.2 years, in Croatia 42.6 years, in Bosnia and Herzegovina 40.7 years, in Serbia 40.0 years and in Montenegro 38.2 years.

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.

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 Tuhelj. 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.

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.

Environmental policy

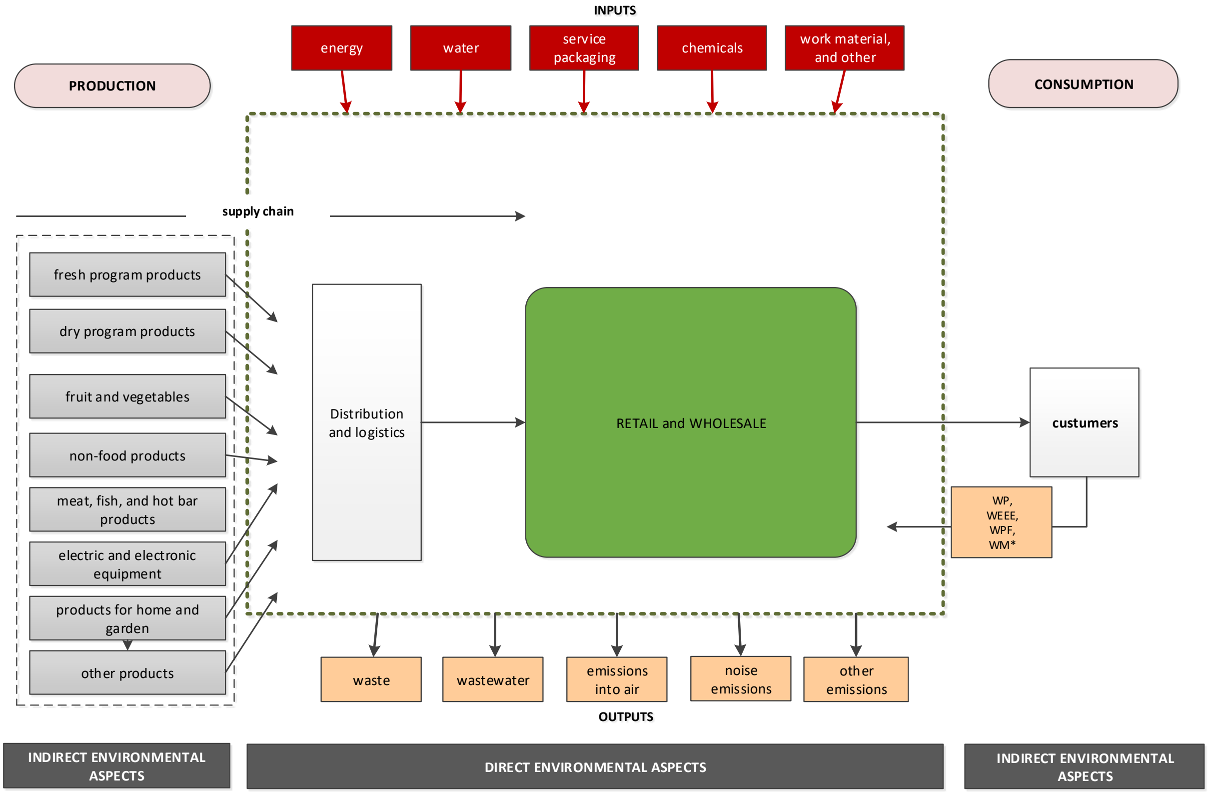
ENVIRONMENTAL *policy*

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.

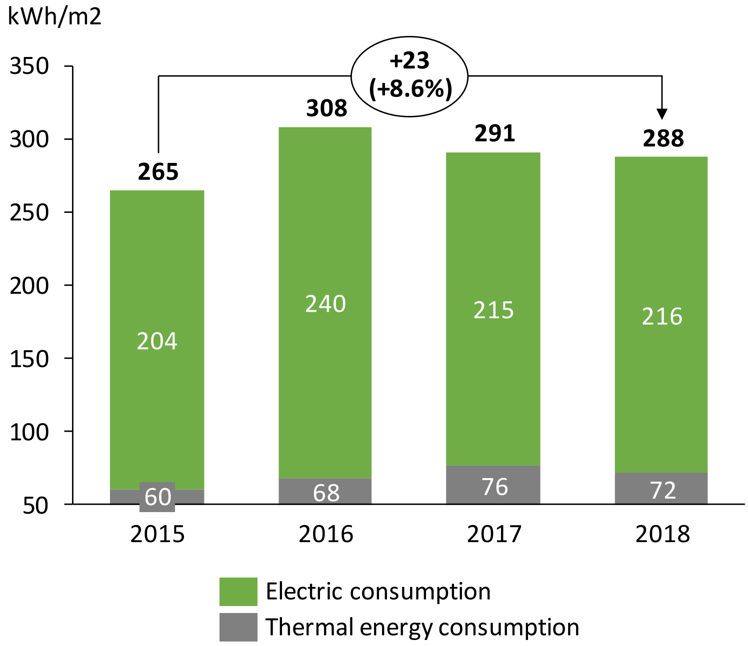
Energy efficiency

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 CO_2; specific emission was 179 kg of CO_2/m^2;
- **electric energy consumption** amounted to 487,173 thousand kWh; specific power consumption stood at 216 kWh/m^2.

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 integrated 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.

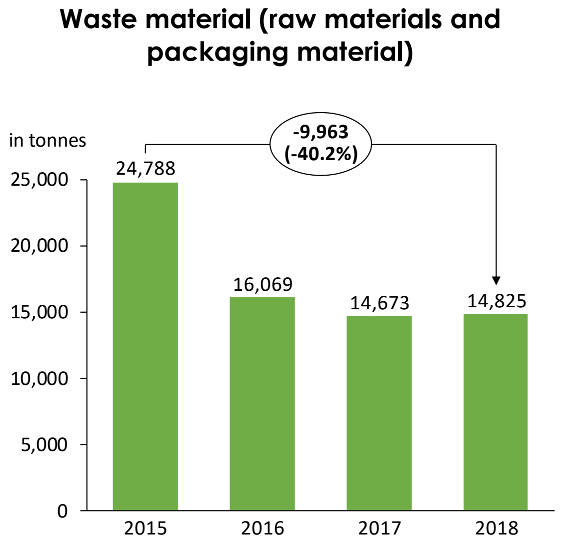
Waste and raw material management activities in the Slovenian market:

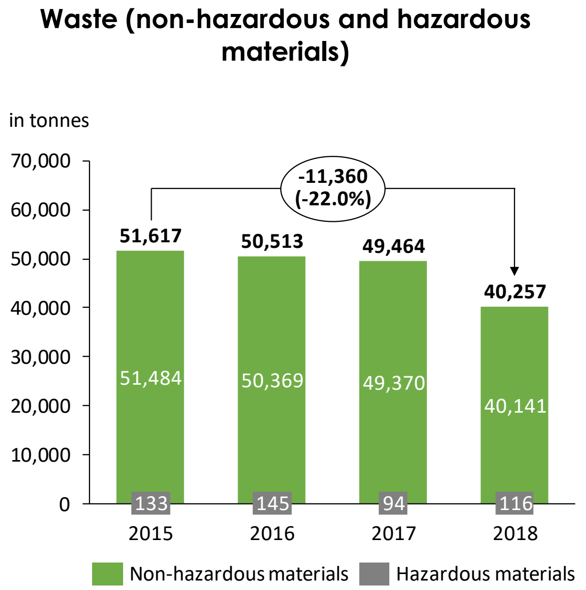
- In order to attain the medium-term plan of **reducing the amount of mixed municipal waste by 10%**, we optimized at the company Poslovni sistem Mercator d.d. the volume of waste bins at 9 units and provided more suitable waste bins for small waste packaging and biological waste, thus increasing the 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 CO_2 emissions, consumption of 150 m^3 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:

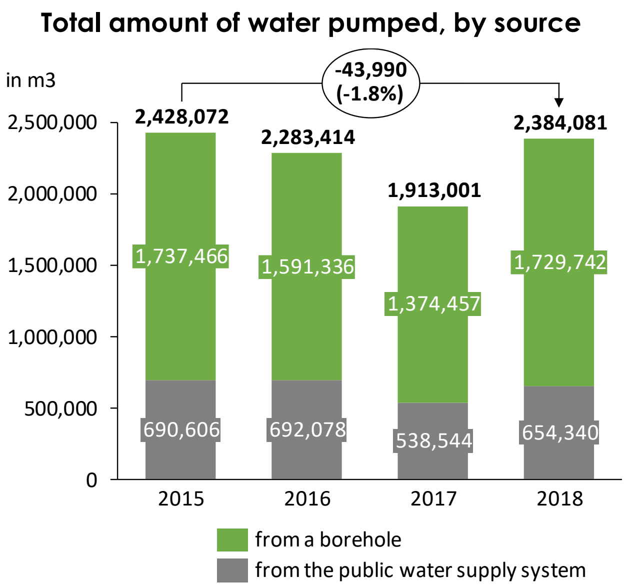
- Consistently with the legislative changes in the Republic of Serbia, **plastic shopping bags have to be charged in 2018**. Before the ban on free plastic shopping bags, the company **Mercator–S d.o.o.** used 11.5 million plastic shopping bags per month; after the ban, their amount dropped to 4 million, 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.:



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.

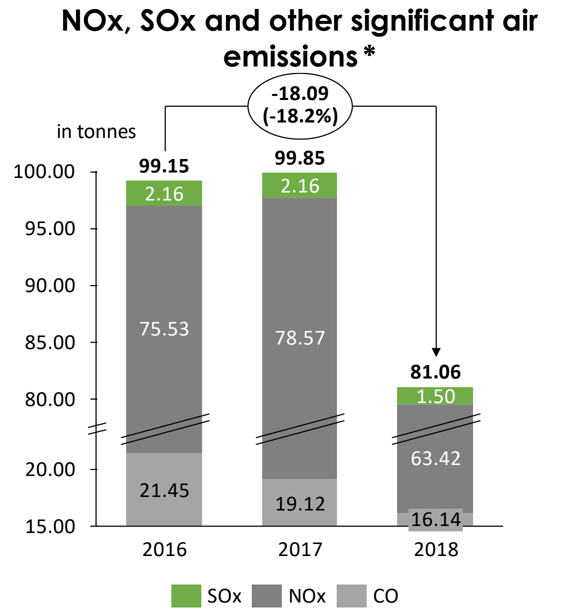
Emissions into atmosphere and ozone depleting substances

Slovenia

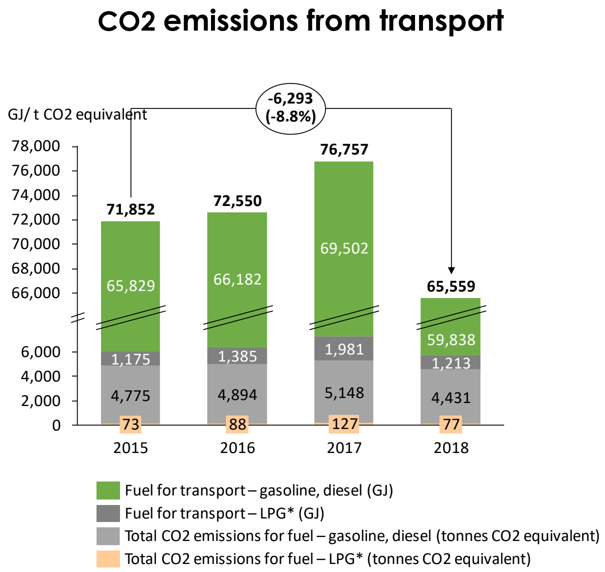
In Slovenia, the following activities related to emissions into atmosphere and ozone depleting substances were carried out in 2018:

- 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.:



* Due to changes in methodology, and for comparability, data is only presented for the period 2016–2018.



* LPG (Liquefied petroleum gas)

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.

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 Kalemegdan 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 and 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

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.

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

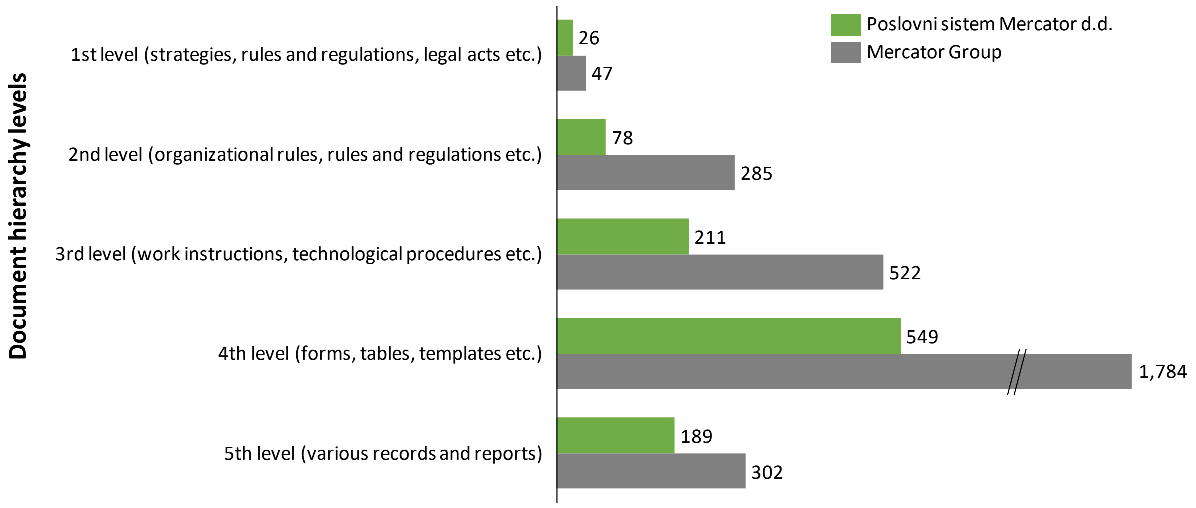
There are 16 certified management systems maintained at Mercator Group companies. In 2018, the company Poslovni sistem Mercator d.d. obtained a new certificate Select Quality for Fruit, while the company Mercator–Emba d.d. discontinued the certification of the ISO 9001 system and obtained the new SWA 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



Source: Mercator Slovenia Collection

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.

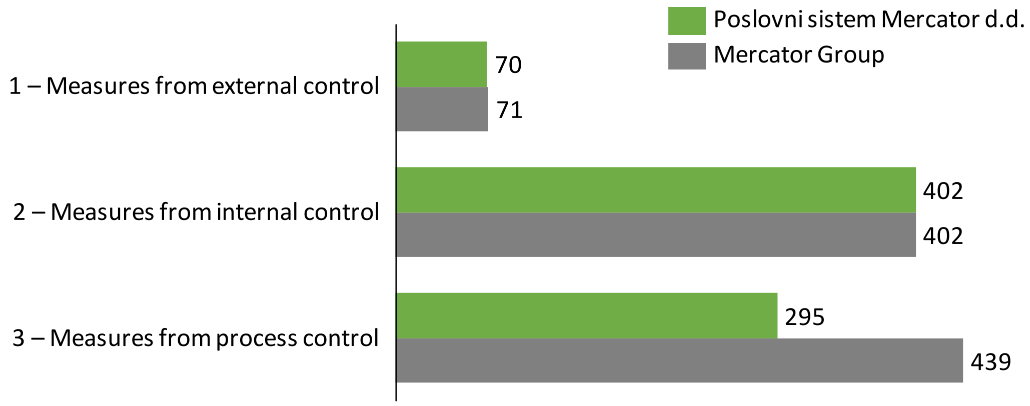
Management of the continuous improvement system

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.

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	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	25				
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.

		Skupina Mercator		Poslovni sistem Mercator d. d.	
in EUR thousand	**Note**	**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.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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

	Mercator Group										
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	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**

	Mercator Group										
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	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 following[13]:

	Poslovni sistem Mercator d.d.	
in EUR thousand	**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.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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)**
Adjustments:				
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:

	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR thousand	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)**
Adjustments:						
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	**49,874**	**17,519**	**67,393**	**49,957**	**2,242**	**52,199**
Change in inventories	9,775	(17,519)	(7,744)	12,310	(2,242)	10,068
Change in trade and other receivables	15,788	(15,987)	(199)	30,006	(27,150)	2,856
Change in trade and other payables, and provisions	26,259	-	26,259	(11,097)	-	(11,097)
Interest expenses	(29,584)	29,584	-	(16,417)	16,417	-
Tax paid	(1,876)	-	(1,876)	-	-	-
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 valuated 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 is Poslovni sistem Mercator d.d. 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.

l) 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.

<u>Determining whether an arrangement includes a lease</u>
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 As at January 1, 2019	Poslovni sistem Mercator d.d. 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 revalution 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.

	Slovenia		Serbia		Croatia		Bosnia and Herzegovina		Montenegro		Total		Eliminations		Mercator Group - consolidated	
in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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**

Investments in property, plant and equipment shown in the context of investments refer to:	**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**

Decreases in property, plant and equipment relate to:	**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.

If land was disclosed at historical cost, the amounts would be as follows:	**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

The carrying amount of property, plant and equipment under financial leases amounts to:	**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

	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR thousand	**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	Recapita-lization	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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 in 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	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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:	**Mercator Group**			**Poslovni sistem Mercator, d.d**		
	2018			**2018**		
in EUR thousand	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:	**Mercator Group**			**Poslovni sistem Mercator, d.d**		
	2017			**2017**		
in EUR thousand	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:*	Poslovni sistem Mercator d.d.	
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.

Movements in deferred taxes:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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:	Mercator Group				
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: **Poslovni sistem Mercator d.d.**

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 — Mercator Group

in EUR thousand	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 — Poslovni sistem Mercator d.d.

in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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.

Basic net earnings (loss) per share:	**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)**

Weighted number of ordinary shares:	**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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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.

Finance lease liabilities – minimum lease payments:	Mercator Group					
	December 31, 2018			December 31, 2017		
in EUR thousand	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**

Finance lease liabilities – minimum lease payments:	Poslovni sistem Mercator d.d.					
	December 31, 2018			December 31, 2017		
in EUR thousand	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 expires 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 expires 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 Dec. 31, 2018	Mercator Group Dec. 31, 2017	Poslovni sistem Mercator d.d. Dec. 31, 2018	Poslovni sistem Mercator d.d. 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 of 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.

The maximum exposure to credit risk at the reporting date:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	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:	Mercator Group						Poslovni sistem Mercator d.d.					
	Gross December 31, 2018			Adjustment December 31, 2018			Gross December 31, 2018			Adjustment December 31, 2018		
in EUR thousand	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:	Mercator Group						Poslovni sistem Mercator d.d.					
	Gross December 31, 2017			Adjustment December 31, 2017			Gross December 31, 2017			Adjustment December 31, 2017		
in EUR thousand	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.

Contractual maturity of liabilities and estimated interest expenses in 2018	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**

Contractual maturity of liabilities and estimated interest expenses in 2017	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**

Poslovni sistem Mercator d.d.

Contractual maturity of liabilities and estimated interest expenses in 2018	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	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**

Poslovni sistem Mercator d.d.

Contractual maturity of liabilities and estimated interest expenses in 2017	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	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:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR thousand	**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	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Net profit or loss		Net profit or loss	
	100 bp increase	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:	Mercator Group		
in EUR thousand	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:	Mercator Group		
in EUR thousand	**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 (Fortenova 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:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR thousand	**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	**Mercator Group**			
	Dec. 31, 2018		**Dec. 31, 2017**	
in EUR thousand	**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	**Poslovni sistem Mercator d.d.**			
	Dec. 31, 2018		**Dec. 31, 2017**	
in EUR thousand	**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 December 31, 2018 Level 1	Level 2	Level 3	Total	Poslovni sistem Mercator d.d. December 31, 2018 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 December 31, 2017 Level 1	Level 2	Level 3	Total	Poslovni sistem Mercator d.d. December 31, 2017 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 Dec. 31, 2018	Dec. 31, 2017	Poslovni sistem Mercator d.d. 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 Dec. 31, 2018	Dec. 31, 2017	Poslovni sistem Mercator d.d. 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 Commit 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

	Mercator Group				Poslovni sistem Mercator, d.d.			
in EUR thousand	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 subsidiaires 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 subsidiaires 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 autitor's report

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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 Opinon

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.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement application of revaluation model to land and buildings accounting	
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. Latest valuation of land and buildings was performed by independent appraiser in 2017 year. 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 in not required following the IAS 16 *Propety, plant and equipment* requirements. 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. 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.	Our audit procedures included the assessment whether management judgement is appropriate and whether the IAS 16 and IAS 13 *Fair value measurement* requirements are met, including • 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. The disclosures pertaining to the land presented in Note 14.

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 on25 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 Opinon

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.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement application of revaluation model to land and buildings accounting	
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. Latest valuation of land and buildings was performed by independent appraiser in 2017 year. 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 in not required following the IAS 16 *Propety, plant and equipment* requirements. 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. 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.	Our audit procedures included the assessment whether management judgement is appropriate and whether the IAS 16 and IAS 13 *Fair value measurement* requirements are met, including • 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. The disclosures pertaining to the land and buildings is presented in Note 14.
Subsequent measurement of investments in subsidiaries in separate financial statements	
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. As required by the applicable accounting standards – IAS 36 *Impairment of assets*, 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.	Our audit procedures comprised: >> Assessment whether recoverable amount is appropriately determined in accordance with IAS 36 requirements; >> 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; >> Assessment whether information disclosed in the notes to the financial statements is complete and accurate and meets the requirements of applicable financial reporting standards.

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.	Relative information disclosed in Note 17

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

<u>Appointment of the Auditor and the Period of Engagement</u>
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.

<u>Confirmation to the Audit Committee</u>
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.
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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

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Website:	+386 1 476 68 12
Email:	info.maxi@mercator.si

Mercator–Emba d.d.	
Head office:	Tržaška cesta 2c, 1370 Logatec, Slovenia
Telephone:	+386 1 759 84 00
Website:	www.mercator-emba.si
Email:	info@mercator-emba.si

Serbia

Mercator–S d.o.o.	
Head office:	Temerinski put 50, 21000 Novi Sad, Serbia
Telephone:	+381 214 888 400
Website:	www.mercatorcentar.rs
Email:	office@mercator.rs

Montenegro

Mercator–CG d.o.o.	
Head office:	Put Radomira Ivanovića 2, 81000 Podgorica, Montenegro
Telephone:	+382 20 449 006
Website:	www.idea.co.me
Email:	info@mercator.me

Bosnia and Herzegovina

Mercator–BH d.o.o.	
Head office:	Blažuj bb, 71000 Sarajevo, Bosnia and Herzegovina
Telephone:	+387 33 286 130
Website:	www.mercator.ba
Email:	info@mercator.ba

M–BL d.o.o.	
Head office:	Aleja Svetog Save 69, 78 000 Banja Luka, Bosnia and Herzegovina

REAL ESTATE COMPANIES

Croatia

Mercator–H d.o.o.	
Head office:	Ljudevita Posavskog 5, 10360 Sesvete, Croatia
Telephone:	+385 (1) 6572 201
Email:	info@mercator.hr

Slovenia

Platinum–A d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

Platinum–B d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

Platinum–C d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

Platinum–D d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

Makedonia

Mercator–Makedonija d.o.o.	
Head office:	Ulica 50. divizije 24A, 1000 Skopje, Makedonia

Mercator
moj najboljši sosed

Annual report **2019**

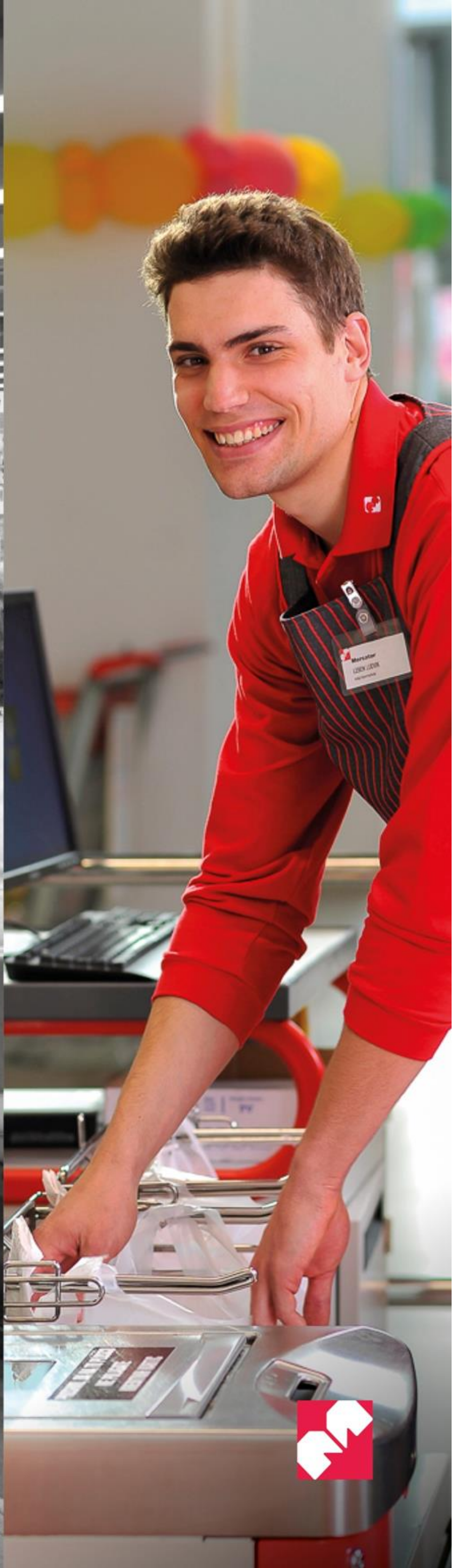
MUZEJ NOVEJŠE ZGODOVINE SLOVENIJE

author: Svetozar Busić


maxi
maxi
GOURMET MARKET

MUZEJ NOVEJŠE
ZGODOVINE SLOVENIJE

author: Rudi Paškulin



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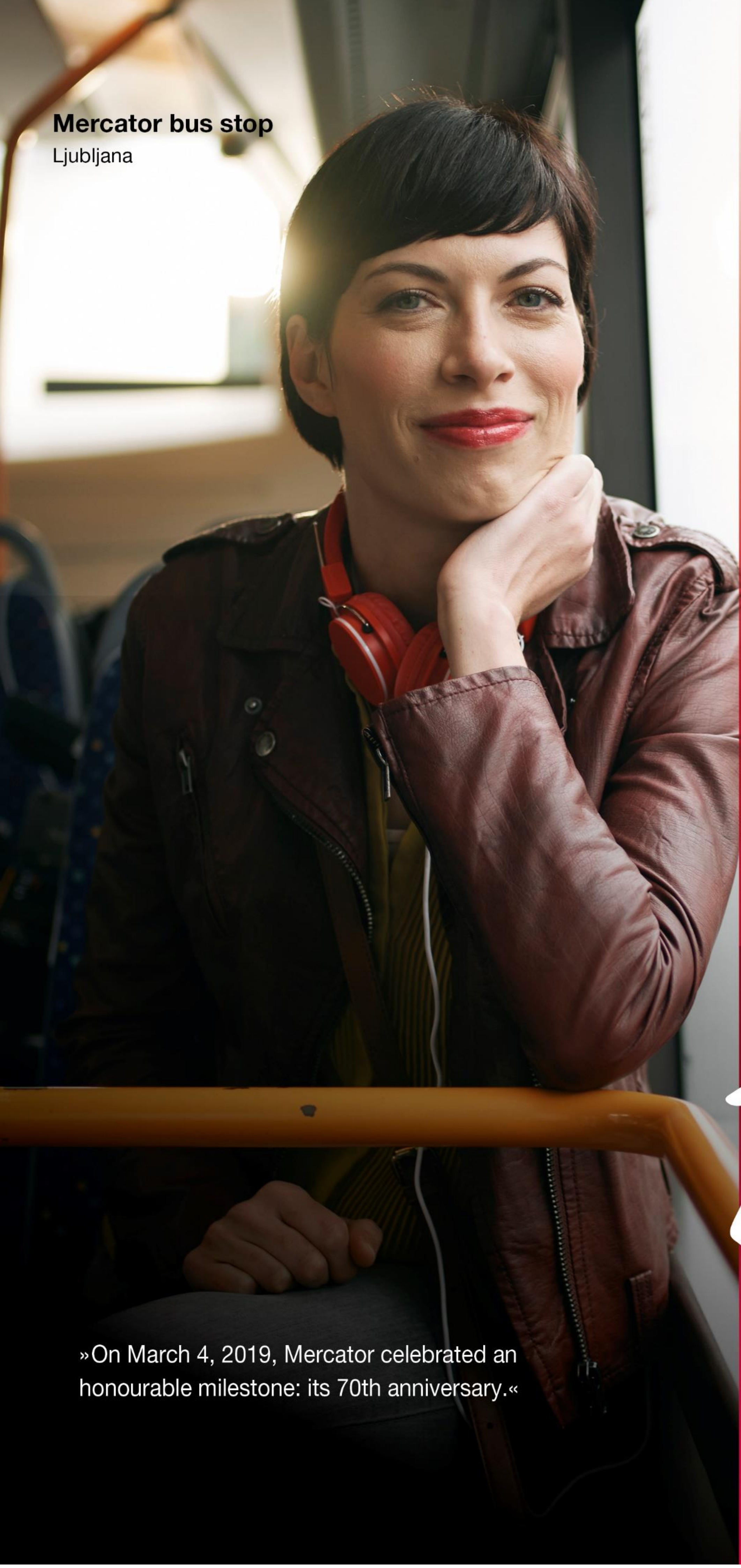


Mercator bus stop
Ljubljana

»On March 4, 2019, Mercator celebrated an honourable milestone: its 70th anniversary.«

1. Introduction

Report by the President of Management Board

In the year when Mercator celebrated its 70th anniversary, it again proved it is a successful company of systemic importance, the largest retailer in Slovenia and the region. Positive trends were seen in revenue, EBITDA, as well as in the bottom line. Thus, Mercator is proving that the pursuit of its business strategy has been yielding positive results.

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

In 2019, Mercator Group realized 1.8 % growth of comparable sales revenue by reaching EUR 2.1 billion. Group’s normalized EBITDA (including IFRS 16 effect) was higher by 60.5% and realized net profit for the year of EUR 4.7 million. Additionally, Mercator Group significantly decreased net debt/EBITDA normalized ratio from 7.2x to 5.2x.

Mercator Group successfully continued with the realisation of its business strategy, and the execution of financial and business restructuring. On top on accomplishing its objectives regarding net debt/EBITDA ratio, we additionally improved the maturity profile of our financial liabilities. Transaction that involved sale of ten shopping centres in Slovenia was completed, and the proceeds were used for repayment of financial liabilities. Divestment of Roda Centre New Belgrade was also completed, and the proceeds were also used for repayment of financial liabilities and trade payables.

In the last two fiscal years, Mercator Group has achieved a business turnaround, despite the complex business environment in which the Group operates. The Group is continuing with financial restructuring and increasing its performance. Mercator Group continues with investments into its network development and new store concepts and it is the leader in digitalization and at least a step ahead of the competition. We have successful and long-term cooperation with our local and regional suppliers through our regional commercial platforms My brand and We love local.

Mercator Group has also successfully completed super-senior facility refinancing, which is proof that the confidence of banks into Mercator's stability and development opportunities are increasing significantly. In late May of 2019, Mercator Group companies and VTB Bank (Europe) SE signed the contract documentation for refinancing of the Mercator Group's super-senior facility in the amount of EUR 80 million at considerably better terms. Moreover, the company Mercator–S d.o.o. and AIK Bank signed contractual documentation for refinancing the Serbian Deal on the restructuring of the financial debt of the company Mercator–S d.o.o., in the total amount of EUR 90 million.

At Mercator Group's second strategic conference called Opportunities of the Future we presented our key achievements, which fulfilled our forecasts and predictions presented in the Conference year before along with the plans of future development. More than 2,000 employees and our key business partners attended this esteem event.

We continued with refurbishment programme focusing on differentiation elements as our competitive advantage. Immense success was the implementation of Mercator’s Minute store format which was finished

with highlight of the year - the opening of new Maxi Gourmet Market store in Ljubljana as a new flagship store in gourmet food store segment.
Mercator Group has consolidated its position in of its operations, and it is ready for the new development cycle that will pave the way for its future growth and development. The Supervisory Board has already approved the largest investment in Mercator Group's history – the construction of a logistics and distribution centre in Ljubljana. The new logistics centre will be the foundation of business efficiency and the Group's further development.

It is strategically important to successfully complete the process of transfer Mercator's shares to the Fortenova grupa, d.d. and thus provide Mercator with a stable owner which will support Mercator's growth in the future.
Mercator's Management Board will pursue its efforts towards all stakeholders to support a successful and prompt transfer to Fortenova Grupa.

Finally, let me add the following: I write this letter during a declared epidemic, in emergency conditions and in a time of uncertain future. I simply cannot ignore this fact. I wish to thank again to all employees for their effort, not only in 2019, but also for the work they have done in these extraordinary circumstances. Courage, commitment and solidarity which they have shown are rare and exquisite values in are in the fundament of our company.

Recent conditions will bring continuous changes. Respond to this change should be strategic, concrete and fast. We have to adjust our business model and move towards digital communication and process digitalization. This crisis will permanently change consumer behaviour.

The competence of a retailer to manage omnichannel sales, various technology and communication channels has became a key component of success and competitive advantage.

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

Ljubljana, April 24, 2020

Supervisory Board Report

Pursuant to the legislation and company Articles of operations of the company Poslovni sistem Mercator d.d. as Mercator Group's controlling company were supervised in 2019 by a Supervisory Board that met at six regular sessions and three correspondence sessions in the course of the year.

As at December 31, 2019, the Supervisory Board consisted of capital representatives Sergei Volk, Miodrag Borojević, Paul Michael Foley, Fabris Peruško, Matej Lahovnik and Ivica Mudrinić; and of labour representatives Vesna Stojanović, Jože Lavrenčič and Veljko Tatić.

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

- Based on their respective statements of resignation dated May 10, 2019, the terms of office of Supervisory Board members Irena Weber and Vladimir Bošnjak were terminated on June 5, 2019, and the four-year term of office of the labour representative Matjaž Grošelj expired on May 20, 2019. Therefore, the Works Council of the company Poslovni sistem Mercator d.d. elected Veljko Tatić as a new Supervisory Board member.
- At the 26th regular Shareholders Assembly of the company Poslovni sistem Mercator d.d., held on June 5, 2019, the following Miodrag Borojević and Paul Michael Foley were appointed as Supervisory Board members upon proposal by the majority shareholder.

Major Supervisory Board resolutions

In 2019, 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 2018, and confirmed the wording of the Supervisory Board Report on the 2018 Annual Report audit.
- The Supervisory Board approved the conclusion of documents with financial partners regarding the restructuring of the super-senior facility, and reviewed the report on super-senior facility refinancing.
- 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, 2018, to January 31, 2019; from February 1, 2019, to April 30, 2019; from May 1, 2019, to July 31, 2019; and from August 1, 2019, to October 31, 2019.
- The Supervisory Board adopted the proposal for appointment of the company auditor.
- The Supervisory Board approved the agenda for the 26th Shareholders Assembly (AGM) of the company Poslovni sistem Mercator d.d.
- The Supervisory Board was presented the business results of the Mercator Group and the company Poslovni sistem Mercator d.d. for the periods, 1–3, 2019; 1–6, 2019; and 1–9, 2019.
- The Supervisory Board was presented the Internal Audit Report for the year 2019.
- The Supervisory Board changed the name of the Monetization Committee to Strategy and Finance Committee, and appointed two additional members to this Committee.
- The Supervisory Board adopted the report on real estate monetization and on the final stage of divestment of ten shopping centres in Slovenia.
- The Supervisory Board was presented the information about the project to construct a logistics and distribution centre in Slovenia.
- The Supervisory Board approved the five-year strategy for the Mercator Group and the company Poslovni sistem Mercator d.d., and the Business Plan for the year 2020.

Activities of the Audit Committee

As at December 31, 2019, the composition of the Audit Committee was as follows: Miodrag Borojević (Audit Committee chair since June 6, 2019), Matej Lahovnik (Audit Committee member), and Aleksander Igličar (Audit Committee member and independent expert on accounting and auditing).

In 2019, the Audit Committee held eight sessions, of which four were regular meetings and four were correspondence sessions. At these sessions, the Committee addressed the following issues:

- 2019 annual plan for the internal audit department;
- Annual Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2018;
- report by the independent certified auditor on the progress and findings of the second stage of the audit of Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2018;
- offers for auditing services for the Mercator Group and the company Poslovni sistem Mercator d.d.;
- quarterly reports of the Mercator Group and the company Poslovni sistem Mercator d.d. in the year 2019;
- activities for reviving the whistleblowing system called »Say It Out Loud« (»Povejmo«).
- Internal Audit report for the period 1–12, 2019;
- measures regarding the recommendations from the independent audit of the internal auditing function at the company Poslovni sistem Mercator d.d.;
- five-year strategy for the Mercator Group and the company Poslovni sistem Mercator d.d., and the Business Plan for the year 2020.

Human Resource Committee

As at December 31, 2019, the Human Resource Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. had the following members: Matej Lahovnik (chair), Ivica Mudrinić (member), and Vesna Stojanović (member). The Human Resource Committee held four meetings in 2019.

Strategy and Finance Committee

As at December 31, 2019, the Strategy and Finance Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. had the following members: Paul Michael Foley (chair), Matej Lahovnik (member), Sergei Volk (member), Miodrag Borojević (member) in Ivica Mudrinić (member). The Committee held four meetings in 2019.

Semiannual and Annual Report for 2019

At their session held on September 25, 2019, The Supervisory Board was presented the non-audited Semi-annual Business Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–6, 2019. 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 23, 2020, the Supervisory Board discussed the audited non-consolidated and consolidated annual report for the year 2019, audited by the audit firm PricewaterhouseCoopers 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 22, 2020. 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 24, 2020, the audit firm 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 Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2019, and confirmed it unanimously at the session held on April 23, 2020.

In 2019, Mercator Group generated a net profit in the amount of EUR 4,666 thousand.

In 2019, the company Poslovni sistem Mercator d.d. generated a net loss in the amount of EUR 13,807 thousand. The company proposes not to offset the distributable loss in the amount of EUR 13,807 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.
Lahovnik Matej

Ljubljana, April 23, 2020

1.7 milion
of active customer
loyalty card holders.

Over 2,000 different products included in the **We Love Local** campaign, and over 5,700 products in the **My Brand** project.

EUR 176 million
of paid taxes, contributions, and charges.

985 retail and
170 franchise stores.

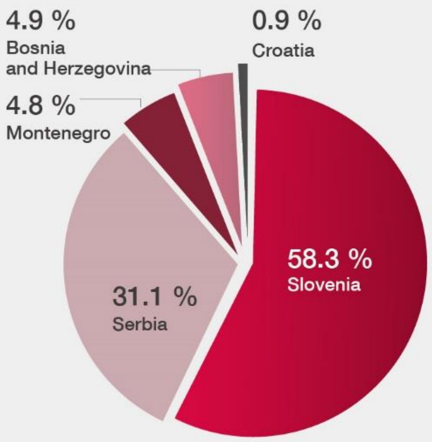
24 new units and
113 refurbished or updated units in 2019.

Development and implementation of the new **Minute** store concept in Slovenia.

EUR 172 million
of normalized EBITDA in 2019.

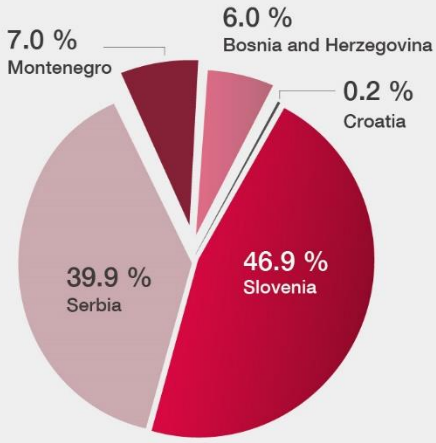
EUR 4.7 million
of net profit for the year 2019.

Total financial liabilities decreased by **EUR 152 million** in 2019.



> EUR 2.1 billion of sales revenue

Customers at our stores complete **5 million** shopping sessions per week.



~20.000 employees

Mercator employees account for every 300th job.

Performance highlights of Mercator Group

		Mercator Group business		
		2019	**2018**	**Change 2019/2018**
INCOME STATEMENT	(in EUR 000)			
	Sales revenue[1]	2,138,739	2,101,381	1.8%
	Sales revenue from retail[2, Δ]	1,693,485	1,656,578	2.2%
	Net profit for the year	4,666	1,606	190.5%
	EBITDA normalized[3, 4, Δ]	172,453	107,458	60.5%
STATEMENT OF FINANCIAL POSITION	(in EUR 000)			
	Total assets as at Dec. 31	2,003,868	1,897,770	5.6%
	Equity as at Dec. 31	438,974	479,525	-8.5%
	Net financial debt as at Dec. 31[Δ]	899,247	769,672	16.8%
	Net financial debt as at Dec. 31 (w.o. IFRS 16 Leases)	586,944	769,672	-23.7%
CASH FLOWS	(in EUR 000)			
	Net financial debt / equity as at Dec. 31[Δ]	2.0	1.6	27.6%
	Net financial debt / EBITDA normalized[3, 5, Δ]	5.2x	7.2x	-27.2%
	(in %)			
	EBITDA normalized / sales revenue[3,Δ]	8.1	5.1	2.9 p.p.
OTHER INDICATORS (INVESTMENTS, EMPLOYEES,PRODUCTIVITY, VALUE ADDED AND SHARE)	Capital expenditure[Δ] (in EUR 000)	35,438	29,905	18.5%
	Number of employees as at Dec. 31	19,963	20,310	-1.7%
	Number of employees based on hours worked	18,396	18,847	-2.4%
	Productivity per employee in retail (in EUR 000) [2, Δ]	121.1	115.4	5.0%
	Value added per employee in retail (in EUR 000) [2, Δ]	28.0	26.3	6.8%
	Market value per share as at Dec. 31 (in EUR)	19.0	23.0	-17.4%
	Market capitalization as at Dec. 31 (in 000 EUR)	115,728	140,092	-17.4%
	Number of companies in the Group as at Dec. 31	16	17	-5.9%

[1] In 2018, sales revenue is adjusted and present only the net margin earned on arrangements from Transit sales.
[2] For comparability across periods, retail revenue for the year 2018 is adjusted for the effect of transfer of the operations of leased Velpro centres to Roda Mega retail facilities in Serbia.
[3] Data for the year 2019 includes implementation of the new IFRS 16 Leases, while the data for the year 2018 is presented without the effect of this standard that has been in effect since January 1, 2019. The presentation is consistent with the selected method of implementation of the IFRS 16 Leases, i.e. the modified retrospective approach – retroactive use with cumulative effect, which is also used by most large enterprises with an extensive portfolio of leased commercial premises.
[4] Data is presented without the effect of IFRS 16 Leases. Adjusting for monetization in Slovenia, EBITDA normalized for the Mercator Group for the year 2019 would have amounted to EUR 114.0 million.
[5] Net financial debt/EBITDA normalized without IFRS 16 Leases is 5.6x.
[Δ] Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

Business strategy

VISION

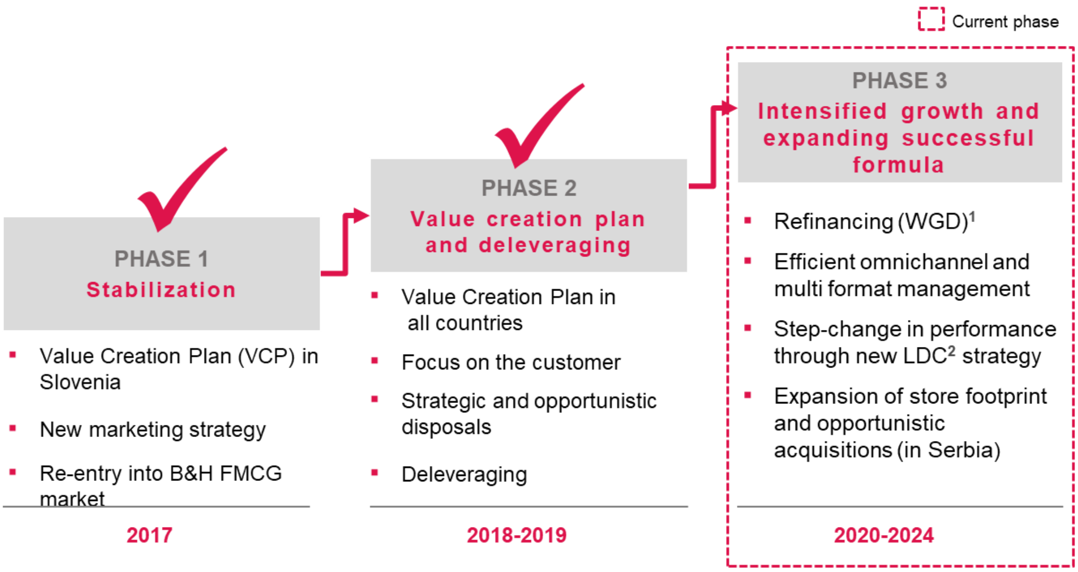
Mercator is the best local retailer offering cutting-edge store concepts in every market of its operations.

MISSION

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

STRATEGY

At the end of 2019, Mercator Group renovated a long-term strategy and started to consistently implement it across all key processes at the Mercator Group. The strategy was developed for the period until the year 2024.



[1] Refinancing of Super-Senior facility and Serbian deal (SD) have already been achieved in 2019.
[2] LDC (Logistics distribution center)

Value Creation Plan for business efficiency

In 2019, the Value Creation Plan was executed in all markets of Mercator Group's operations, and it included 120 initiatives[1], of which 59 were in Slovenia, 24 in Serbia, 20 in Bosnia and Herzegovina, 11 in Montenegro, and 6 in Croatia. Implementation of initiatives was monitored consistently and we responded with corrective measures in case of any deviations. By the end of 2019, we successfully completed 87% of all initiatives. In December 2019, we defined the initiatives for the year 2020 as a part of the planning process. There are 57 planned initiatives in the market of Slovenia, 28 in Serbia, 17 in Bosnia and Herzegovina, 15 in Montenegro, and 4 in Croatia.

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

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

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

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

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

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

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

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

[1] An initiative is s cluster of independent activities and/or mutually related or intertwined activities that are meticulously planned in order to attain a certain key goal, or which affect a number of key goals, and which have a clearly specified responsible person and completion timeline/deadline.

Introduction and organization

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.

Mercator Group compositions as at December 31, 2019

Branch Offices: As at December 31, 2019, Mercator Group companies did not have any branch offices.

Other Organizations: The company Poslovni sistem Mercator d.d. is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees. The company Mercator–S, d.o.o., is the founder of the Mercator Solidarity Foundation (Fundacija solidarnosti Mercator) in Serbia; the company Mercator–CG d.o.o., is the founder of the Mercator Solidarity Foundation (Fundacija solidarnosti Mercator) in Montenegro, and the company Mercator–BH d.o.o., is the founder of the Mercator Solidarity Fund (Fundacija solidarnosti Mercator) in Bosnia and Herzegovina. The mission of all three international foundations is to provide solidarity aid to employees in respective companies, who are in social or financial distress.

Presentation of the parent company of Mercator Group

Company name	Poslovni sistem Mercator d.d.
Company head office	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT tax code	SI45884595
LEI (Legal Entity Identifier)	549300X47J0FW574JN34
Company share capital as at December 31, 2019	EUR 254,175,051.39
Number of shares issued and paid-up as at December 31, 2019	6,090,943
Share listing	Ljubljanska borza, d. d., offical market, prime market, symbol MELR

Contact

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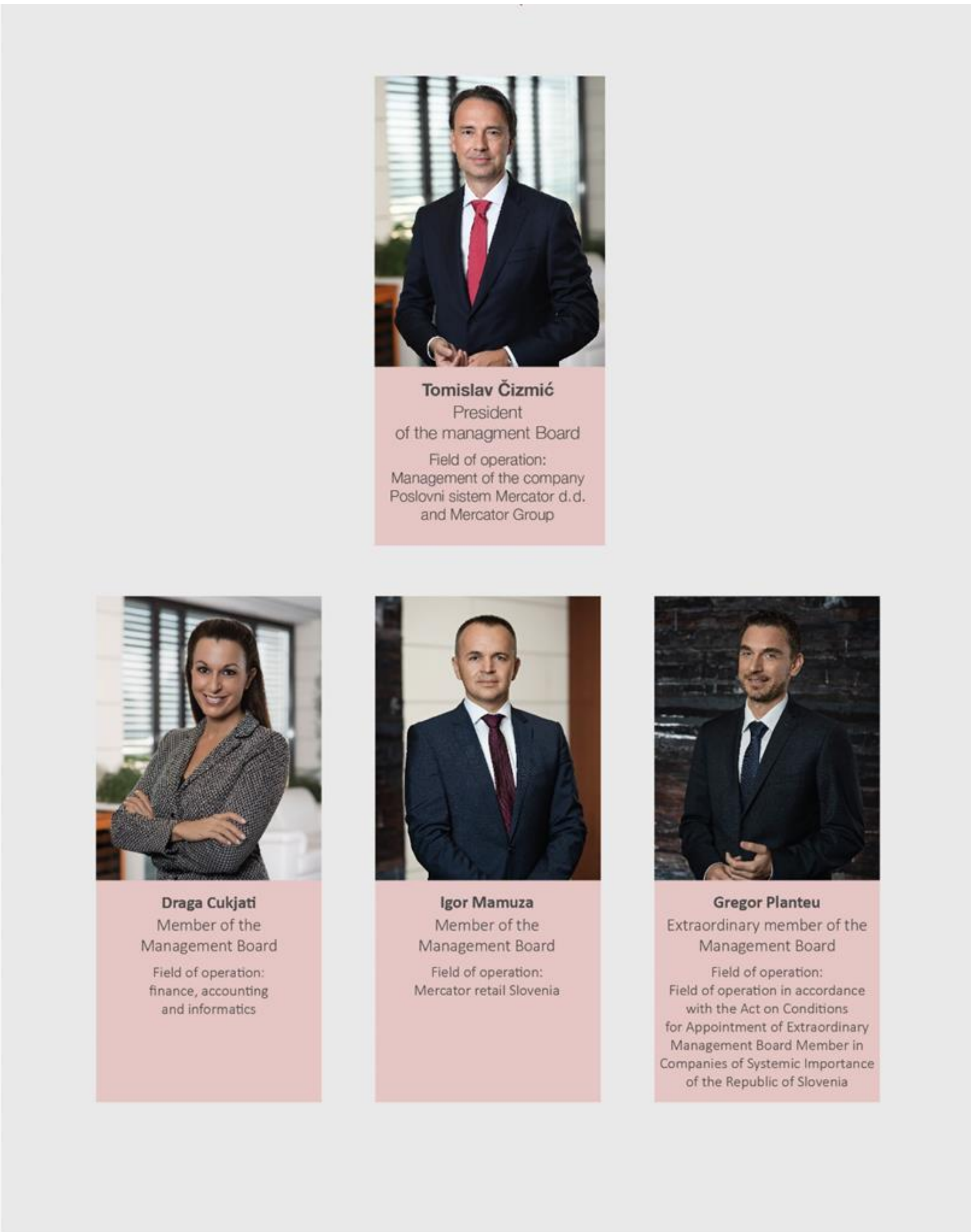
Website	*www.mercatorgroup.si*
Facebook	*www.facebook.com/mercator*
Twitter	*www.twitter.com/mercator_sl*
LinkedIn	*www.linkedin.com/company/335027*
Instagram	*@mercatorslovenija*
Youtube	www.youtube.com/user/mercatorslo

Organization of the parent company of Mercator Group as at December 31, 2019

The Management Board represents the company. It manages its business independently and at own responsibility. As at December 31, 2019, the Management Board of the company Mercator d.d. consisted of four members: President of the Management Board, two members, and the extraordinary member.



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 2019, we continued the **My Brands** (»Moje znamke«) campaign, which includes forging links with suppliers and creating a joint story and new offer for our customers, in foreign markets of our operations. This long-term strategic platform for joint development in the region allows joint marketing activities, the broadest offer of local brands, and development of special offer for the customers. The campaign already includes over 5,700 products and 230 suppliers.

Slovenia **Serbia** **Montenegro** **Bosnia and Herzegovina**

Our broad sales assortment is upgraded with local products within the campaign **We Love Local** (»Radi imamo domače«) and **Taste of my place** (»Ukusi moga kraja«). Thus, we are pursuing the vision of being the best local retailer in all markets of our operations. The campaign already includes over 170 local suppliers and 2,000 items in all markets of our operations. Annually, we sell EUR 1.1 billion worth of goods by local and regional suppliers, which is 62.5% of total Mercator Group retail revenue.

We Love Local campaign and special brand line Taste of my place

Offering the latest store concepts to our customers

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. We are pursuing the shopping trends by developing the concepts **Organic** and **Minute**, which are adapted to the new shopping habits of our customers. In addition to independent store formats, the Minute concept is also integrated into the existing stores in the form of **Minute Departments**.

Minute and Organic store formats, and Minute Departments at existing stores

Developing a new assortment with a changing lifestyle

Consistently with the needs and the changing lifestyle of our consumers, we have developed our own offer of convenience products Minute, Bio Zone, and Free Zone. Mercator's assortment already includes **49** private labels (store brands) with over **3,000** products. Particular emphasis is placed on development of private labels that contribute differentiation for the customers and are consistent with the customers' lifestyles. In terms of convenience offer, we continued to develop the **Minute »to-go«** offer in 2019. This includes sandwiches, salads and other dishes, including some innovative ones, which are ready for immediate consumption. These account for nearly 30% of total sales for the Minute line that includes a total of 290 products, of which 70 are »to-go« products. From the aspect of pursuit of trends, the line of organically grown products **Bio Zone** is also very important. It is consistent with the wellness and healthy diet lifestyle. This line, too, is continuously expanded with new products; to date, there are 192. Responding to the increasing needs of our customers for gluten-free diet, we have developed our own line of gluten-free products called **Free Zone**; today, it includes 23 products.

In 2019, we enriched our offer by refreshing the assortment of pre-packed Mercator cheese and meats. Moreover, we also developed an entire ice cream line called **Gelatissimo**; the products are made by a renowned Slovenian company. There are 21 of these products. Also enriching our offer is the high-quality and entirely revised line of nuts and dried fruit called **Garden Good** (29 products), and the line of fruit juices and beverages called **My Day** (»Moj dan«) (17 products), which are also mostly made by a prominent Slovenian manufacturer. New products were also introduced to expand or update the Finesse and Dulcetti lines of sweets, Hrusty line of savoury snacks, and many others. Also new is the line of baking products, called **Sweet Chef**.

Our own offer of Minute, Bio Zone, Free Zone, My Day, Garden Good, Sweet chef, Gelatissimo, Finessse and Dolceti products

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** with the new Minute store concepts.

Mercator real estate

Real estate is a separate business field at the Mercator Group, since the extent of our real property ownership 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 is the owner of buildings with a combined total value of EUR 1.1 billion (this includes buildings for our own business activities, as well as investment property and land).

Mercator wholesale

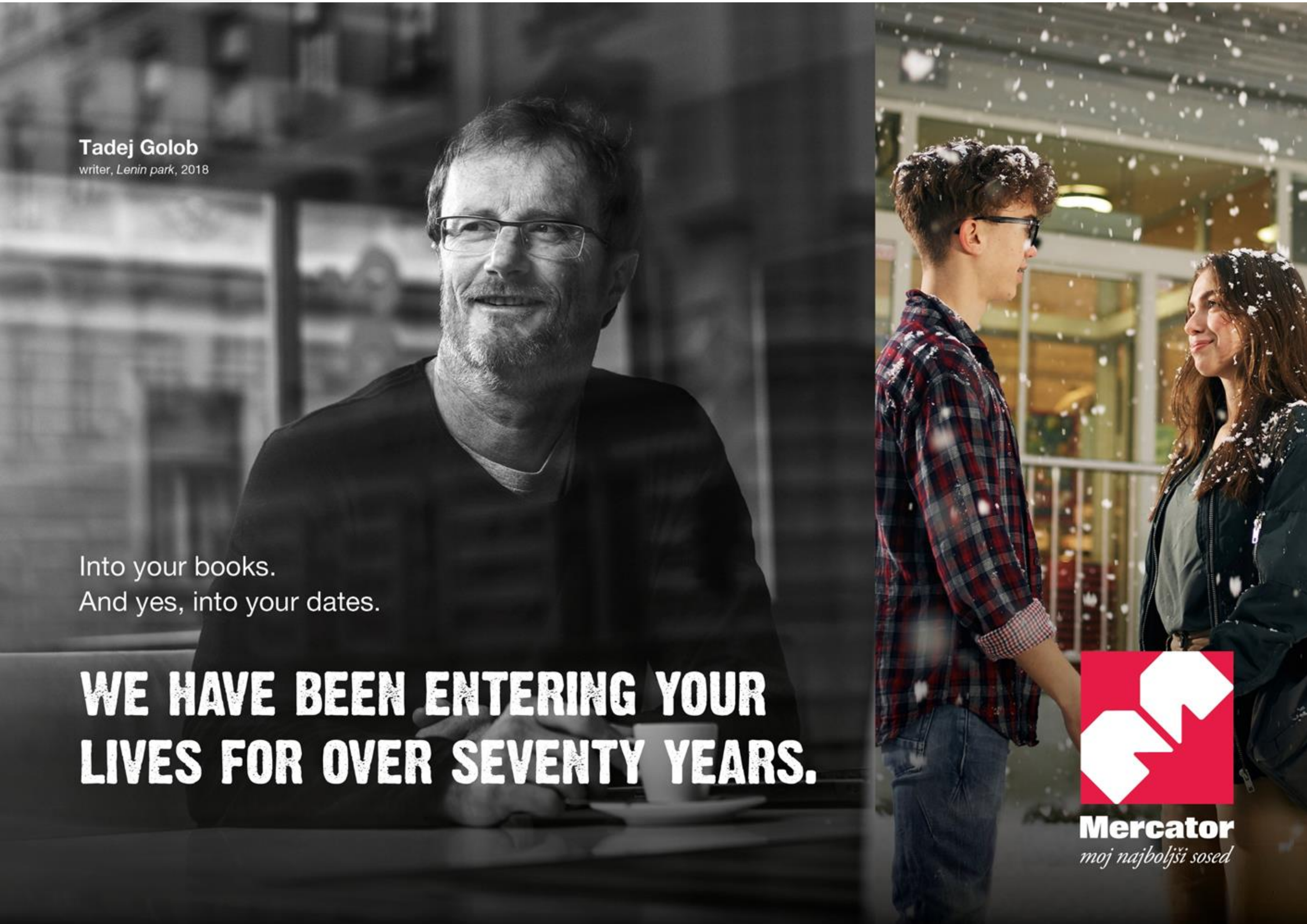
In 2019, wholesale business segment set ambitious goals in all segments of sales, which were also defined in particular activities of VCP initiatives. A total of 32 franchise stores were refurbished, to which we also offered our know-how and support in the implementation of sound practices. V the HoReCa segment, we signed 150 new recipients/tenants. We implemented the WMS – Warehouse Management System at all C&C units in 2019, which allows managing our assortment and locations, and thus contributes to more optimal organization of our work and to decrease of delivery failures. Moreover, we launched the Route Master project that will allow more efficient work of our sales travelers in the field.

Home products

The M Tehnika (technical consumer goods) retail units across Slovenia offer products for home and landscaping at favourable payment terms. The offer includes small and major home appliances, consumer electronics, tools and accessories, construction and gardening equipment and machinery, products for a cosy home and ambient, kitchen cabinetry of Slovenian origin, and landscaping products for a well-kept environment. The offer of traditional stores is rounded off by the **M Tehnika online store** that offers over 17,000 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 recent 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. With our approach of upgrading our service, we are looking to offer our customers all-around services for their needs during construction, renovation, or decoration of their homes.

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**.


Tadej Golob
writer, Lenin park, 2018
Into your books.
And yes, into your dates.
WE HAVE BEEN ENTERING YOUR LIVES FOR OVER SEVENTY YEARS.
Mercator
moj najboljši sosed

1949
Incorporation of the company **Živila**, headquartered in Ljubljana.

1951
The first printed price list.

1953
The company Živila goes international and they need a new name. The name **Mercator** is selected in a public naming contest. The name is derived from Latin and translates as "merchant".

1963
The first issue of the Mercator newsletter.

1987
Introduction of the M Club and introduction of Mercator coupons.

1994
Opening of the first **Cash&Carry** unit.

1998
Opening of the first Mercator Centre in Koper, and introduction of the Mercator Pika customer loyalty card.

1999
Introduction of private label and launch of the first Slovenian online store offering fast-moving consumer goods.

2000
Mercator has 13,208 employees and starts expanding to foreign markets.

2007
The first Tik Tak self-service checkout machine.

2009
Customers complete 16 million shopping sessions per month at Mercator.

2013
Introduction of the **Click and Collect** service.

2017
IGD ranks **Mercator Šiška** in Ljubljana among 15 best stores in the world.

2018
Introduction of the M Pay service – contactless mobile wallet.

2019
Mercator celebrates its 70th anniversary.

Review of key events

Changes in parent company governance

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

Real estate monetization

In 2019, Mercator Group successfully continued its real estate monetization process in the markets of Slovenia and Serbia. On October 12, 2018, the company Poslovni sistem Mercator d.d. and Supernova companies **signed an agreement on the sale of ten shopping centres in Slovenia**. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator will take on long-term lease the parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities. At the end of 2019, the company Mercator–S d.o.o. successfully completed the divestment process for the **Roda Centre New Belgrade**, with purchase price of EUR 22.5 million. The proceeds are intended for repayment of financial liabilities and trade payables.

Refinancing of Mercator Group's debt

In late May of 2019, Mercator Group companies and VTB Bank (Europe) SE signed the contract documentation for **refinancing of the Mercator Group's super-senior facility**. The new (refinanced) super-senior facility, amounting to EUR 80 million, at considerably better terms, is an important part of the pursuit of Mercator's long-term strategy. Consistently with the contract, the transaction was conducted at the end of June 2019.

In December 2019, the company Mercator–S d.o.o. and AIK Bank signed contractual documentation for **refinancing of the Serbian Deal on the restructuring of the financial debt of the company Mercator–S d.o.o.** from the year 2014 and other short-term loan agreements, in the total amount of EUR 90 million. The new loan was taken out for a period of five years, and it is an important building block in the pursuit of our long-term strategy. Refinancing was completed on December 27, 2019, while refinancing of other short-term borrowings was completed in January 2020. Completion of refinancing in all markets of Mercator Group operations is proof that the confidence of banks into Mercator's stability and development opportunities are increasing significantly.

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

At the end of 2019, we carried out a tender to select a building designer to develop project documentation and procedures for obtaining the building permit for the construction of the new **Mercator logistics and distribution centre** in Ljubljana, while an independent consultant prepared the selection of relevant technology. The new logistics and distribution centre will bring about a number of positive changes: better-stocked stores for the customers, lower logistics costs, higher efficiency and profitability, and improvement of business processes that will relieve the employees in retail, wholesale, and logistics of considerable amount of workload. The investment was also approved by the Supervisory Board at their session held on December 5, 2019.

Events related to the developments at the Agrokor Group

In March 2019, 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, 2018, to January 31, 2019, was released, followed by another such report in July for the period from February 1, 2019, to April 30, 2019, another one in September for the period from May 1, 2019, to July 31, 2019, and another one in December for the period from August 1, 2019, to October 31, 2019. 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.

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

- **Mercator's conference The Opportunities of the Future**

In February, the second Mercator Group strategic conference **Opportunities of the future** took place in Ljubljana. The main purpose of the two-day conference was to present Mercator's position in the previous year and to present a development strategy. The first day of the conference was intended for Mercator employees to whom the Management Board presented the key aspects of operations and plans for Mercator's successful future development; the second day was intended for suppliers and other major business partners. Both events was attendet by more than 2,000 participants. Representatives of key national and regional suppliers gathered at the event, and welcomed with their active participation the structural, business, and financial changes completed by Mercator over the last two years. The strategic conference Opportunities of the Future is becoming a central event of the year for Slovenia and the broader region. Its purpose is of course in-depth cooperation with Mercator as Slovenia's and the region's largest retailer, and creation of new business opportunities through cooperation between suppliers.

- **Update of the Maxi store in Ljubljana**

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

Major events following the end of the financial period

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

In early February, the Management Board responded to the crisis situation and appointed a **crisis task force** that on a daily basic analyzes and coordinates **six key areas**: safety of its employees, safety of customers, safety of supply chain, managing revenue growth, corporate social responsibility, and liquidity management. Several scenarios have been analyzed, and a number of measures for planning and management of liquidity, supply flows, costs, and investments were implemented. Similar measures are in force in other countries where Mercator Group operates.

In this situation, we care for the **health and safety of our employees and customers**. Therefore, we have implemented preventive measures that include providing, installing, and making available appropriate protective equipment (gloves, disinfectants etc.), providing appropriate technical equipment, installing additional barriers at checkout counters to protect both the employees and the customers, equipping our stores with additional instructions for customers, as well as communicating regularly and continuously with our employees and customers and providing information to them. Despite the lack of human resources, we are conducting all activities in compliance with the relevant labour and employment legislation. Since the work of our employees in these extraordinary circumstances his highly challenging, the Mercator Group Management Board has adopted a resolution on a bonus for work in extraordinary conditions, which will increase the base salaries of all workers in operations by 30%.

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

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

We did not neglect our corporate social responsibility either in the current situation. We donated Minute products to hospital staff, and we donated water and sandwiches to truck drivers waiting at border crossings. Working with the Slovenian Ski Association, we were joined by ski jumpers and their coaches in supporting the delivery of products purchased via the online store, thus making sure more people stay at home.

We have been able to ensure all this, because we prepared for the crisis in a timely, organized, and responsible manner. By normalizing the conditions and providing ample stock at our stores, our customer's trust in us has improved further.

Awards and other achievements

In March, the trade company **Mercator celebrated 70 years of business in Slovenia**.

The campaign **Mercator Private Labels – You Are What You Eat** received the **German Design Award** as a successful marketing project.

In February, the Superbrands organization presented awards to the best brands in their respective local markets. Mercator was among the **Superbrands 2018** award recipients in Slovenia.

In March, **Effie Slovenia 2018** awards were presented. Effie is a marketing communication efficiency award presented to ideas that actually work. Mercator received two Effie diplomas for the campaign project **»I am well«** and **»My Brands«**.

The TV show Slovenia's Little Chef that Mercator team co-created with the POP TV station, won the **2nd place in the international competition of TV shows organized by the media associations NATPE and CEETV**

Six Mercator pastry and fine bakery products made at the Kranjski kolaček (Kranj Cupcake) pastry shop/plant of the company Mercator IP d.o.o. received **golden award for excellent quality** presented by the Chamber of Agricultural and Food Producing Companies within the Slovenian Chamber of Commerce and Industry.

Traditional Slovenian potica (sweetbread), made at the pastry shop Kranjski kolaček at the company IP d.o.o. received the **»traditional speciality guaranteed« certificate** from the authorized certification company Bureau Veritas.

At the **57th international agriculture and food fair Agra**, Mercator products of the **Minute** brand won medals for the fourth consecutive year. This year, the medals were presented to 13 products.

The Nutrition Institute presented the **Innovation of the Year 2019** award to three superior products of **Mercator's Minute quick meal line**. The awarded products are a result of our local knowledge and new product development at the company IP Mercator d.o.o.

In October 2019, **M Tehnika** received the **trustworthy online retailer title** presented by the portal ceneje.si.

On the SiOL online portal, the **Maxim restaurant** was ranked a the very top among the best restaurants in Ljubljana. It was also ranked among the best restaurants in Ljubljana according to the prestigious guide Gault&Millau .

Serbian Consumer Union presented the **Protected consumer award to retail units Idea, Roda markets, and Mercator hypermarkets**, thus confirming the highest quality level of service.

On the »Succeed with Quality« forum in Serbia, organized by Quality Austria, the company **Mercator–S d.o.o. received the »Success Champion« award** for continuous business process development.

The Montenegrin Chamber of Commerce presented the **award for improvement of managerial profession in Montenegro** to **Ivan Karadžić**, executive director of the company Mercator–CG d.o.o. The award was presented by Milo Đukanović, president of Montenegro.

Independent trade union PPDIVUT in Bosnia and Herzegovina presented to the company **Mercator–BH d.o.o.** the **award for development and promotion of social dialogue**. The award was presented to the most successful social partners for the year 2018.

International rating company Bisnode presented **the »AA« certificate of excellence to the company Mercator–BH d.o.o.** The rating places the company Mercator–BH d.o.o. at the very top of Bosnia's economy, and puts it on an equal footing with many other companies in the European Union.

Online portal Posao.ba Sarajevo ranked the company Mercator–BH d.o.o. **among the** 100 best employers **in Bosnia and Herzegovina**.

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 2019 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 for the year 2019 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 Management Board and the Supervisory Board are aware of the importance of heterogeneity of composition of all supervisory and managerial bodies, as it has a profound effect on efficiency. We are, in fact, convinced that the current composition of Mercator's Supervisory Board and Management Board reflects our attitude to the importance of diversity in terms of personal traits, experience from a range of fields, age, education, as well as international background. However, it is also a fact that Mercator is in the stage of transition to a new corporate group. This is also the reason why we can only expect the development and execution of more concrete policies and guidelines for further work of bodies and all (human resource management) procedures at the Mercator Group after the transfer is completed. We shall therefore continue these planned activities after Mercator is transferred to the new corporate group.

Statement of corporate governance and compliance with the Code (Recommendations 5.7 and 14.4): External audit of the Corporate Governance Statement and external audit of Supervisory Board operation for the year 2019 were not carried out due to the events and developments regarding the majority shareholder Agrokor d.d., and the start of transfer of the company Poslovni sistem Mercator d.d. to the new company Fortenova Grupa d.d. The company Poslovni sistem Mercator d.d. shall commission the audit at a later time.

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 26th regular Shareholders Assembly, and at the 26th regular Shareholders Assembly, the company Poslovni sistem Mercator d.d. provided information about the work experience of the proposed 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): Considering 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 (labour representatives and Supervisory Board members who are foreign citizens) 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 2019, Management Board member receipts only included the fixed part, while the decision on the variable part of the reward to Management Board members is subject to Supervisory Board decision that is made 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 can also be attended by the Supervisory Board members of the company Poslovni sistem Mercator d.d.

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, and Rules of Procedure for the Strategy and Finance 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 (general meeting) 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 Corporate Governance 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.

The internal audit report on page 28, we decribed the operation of the internal audit.

Structure of the company shareholders as at December 31, 2019

Shareholders	Country	Number of shares	Share
Agrokor d.d.	Croatia	4,237,376	69.57 %
Clearstream banking sa – finduciary account / Sberbank of Russia	Luxembourg	1,129,058	18.54 %
OTP Banka d.d. – finduciary account	Croatia	410,339	6.74 %
Addiko Bank d.d.- finduciary account	Croatia	172,755	2.84 %
Other		141,415	2.31 %
Total		**6,090,943**	**100.0 %**

Legal transaction 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 (ZIČUDSP) 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. Pursuant to the Act, the District Court in Ljubljana appointed on May 18, 2017, upon proposal by the Government of the Republic of Slovenia, **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.;
- prevents, pursuant to the Act specified above, any financial draining of the company Poslovni sistem Mercator d.d. by its majority shareholder Agrokor d.d.;

President of the Management Board, two 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 2019, reports were released for the following periods: in March 2019 for the period from November 1, 2018, to January 31, 2019; in June 2019 for the period from February 1, 2019, to April 30, 2019; in September 2019 for the period from May 1, 2019, to July 31, 2019; and in November 2019 for the period from August 1, 2019, to October 31, 2019. 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 between the company Poslovni sistem Mercator d.d. and the company Agrokor d.d. comply with the principles of diligence, prudence, 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 2019, which lists all legal transactions executed by the company in 2019 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 2019 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 to anything to its disadvantage. Moreover, the company did not perform or omit any action at the initiative or in the interest of such companies.

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. The most recent external audit of the internal audit function was conducted at Mercator in 2018.

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 2019, internal audit conducted 13 internal audits. Audits were conducted in purchasing and category management, retail, wholesale, store equipment management, marketing, personal data protection, and risk management.

Corporate social responsibility is viewed by Mercator Group as a cornerstone of Mercator Group's further 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.

Mercator Group recognize importance of internal audit and therefore in 2020 additional enhancements of the team will be done, by employment of additional internal auditors.

External 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.

Bodies of corporate governance

Company rules on appointment of members of managerial and supervisory bodies and changes to the Article of Accociation

As at December 31, 2019, the company Poslovni sistem Mercator d.d. was managed by a four-member Management Board consisting of three regular members (President and two members) and the 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 the duration of which is dependent on 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.

The Shareholders Assembly decides on any changes to the Articles of Association with a three-quarter qualified majority of the share 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

[2] https://www.mercatorgroup.si/en/corporate-social-responsibility/

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 share 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 to be voted on.

Shareholders' voting right shall be exercised in proportion to the share of the company's share 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 5, 2019, the 26th regular Shareholders Assembly took place with 95.79% of total shares bearing voting rights present. The Shareholders Assembly included a presentation of the 2018 Annual Report and the Supervisory Board Report on the audit results for the 2018 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 audit firm. The Shareholders Assembly appointed the audit firm PricewaterhouseCoopers d.o.o. as the company auditor. The Shareholders Assembly was informed about the resignations of two Supervisory Board members (Irena Weber and Vladimir Bošnjak) and about the expiry of the term of office of labour representative in the Supervisory Board Matjaž Grošelj who was replaced in the Supervisory Board by Veljko Tatić; the Shareholders Assembly elected two new Supervisory Board members (Miodrag Borojević and Paul Michael Foley). The company Articles of Association were amended at the Shareholders Assembly (Article 36, Section 1, item 11).

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, Strategy and Finance 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, 2019, the composition of the Audit Committee was as follows: Miodrag Borojević (Audit Committee chair since June 6, 2019), Matej Lahovnik (Audit Committee member), and Aleksander Igličar (Audit Committee member, independent expert on accounting and auditing). The activities of the Audit Committee are aimed at further improvement of performance of the supervisory function at the company.

The **Strategy and Finance Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. as founded in 2018 under the name Monetization Committee; at the Supervisory Board session held on June 6, 2019, it was renamed to Strategy and Finance Committee. As at December 31, 2019, it had the following composition: Paul Michael Foley (Committee chair), Sergei Volk, Ivica Mudrinić, Matej Lahovnik and Miodrag Borojević. The most important task of the Strategy and Finance Committee is to analyze specific development issues and to consult the Supervisory Board.

The **Human Resource Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. was founded on June 15, 2017, and it currently has the following members: Matej Lahovnik (chair), Ivica Mudrinić and Vesna Stojanović. 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	SKB d.d.
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 (until October 2019)
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	Slopak, d.o.o.

Supervisory Board

First and last name Gender Function	First appoint. to position	Comple-tion/ end of term	Represe-nt ative	Attend. at committee sessions	Nationali.	Year of birth	Education	Professional profile	Ind. pursuant to Article 23 of the Code	Occurre-nce of conflict of interests in the fiscal year	Membership in supervisory boards of other companies	Membership at Committees President/ Member	Attend. at committ.s essions
Sergei Volk male Member	2018	2022	C	9/9	Russian	1969	Master of business administration, specializing in finance	banking	YES	NO	Fortenova Grupa d.d., Croatia	SF (member)	3/4
Miodrag Borojević male Member	2019	2023	C	5/5	Croatian	1968	BS electrical engineering, MA management	management	YES	NO	Fortenova Grupa d.d., Croatia	AC (Presid.) SF (member)	4/4 4/4
Paul Michael Foley male Member	2019	2023	C	5/5	British	1958	secundary education	retail	YES	NO	Fortenova Grupa d.d., Croatia; PJSC Magnit, Russia, Bel Willesden, Belarus; BIM Birlesik Magazalar, Turkey; Voli Trade d.o.o., Montenegro	SF (member)	4/4
Fabris Peruško male Member	2018	2022	C	8/9	Croatian	1973	MA, MBA, BS electrical engineering	economy	NO	NO	Fortenova Grupa d.d., Croatia; Agrokor d.d., Croatia	-	-
Matej Lahovnik male Deputy chairman/ Member	2012	2022	C	9/9	Slovenian	1971	PhD in management and organization	management	YES	NO	-	AC(member) HR(Presid.) SF (member)	8/8 4/4 4/4
Ivica Mudrinić male Member	2014	2022	C	9/9	Croatian	1955	BS electrical engineering	competencies from all segments of management or business administration	YES	NO	Fortenova Grupa d.d., Croatia; Rochester Institute of Technology, Croatia	HR(member) SF (member)	4/4 4/4
Irena Weber female Member	2018	2019	C	3/4	Croatian	1973	BA economics	finance	YES	NO	-	-	-
Vladimir Bošnjak male Member	2017	2019	C	3/4	Croatian	1973	BA economics, MBA	investment banking, finance, mergers and acquisitions, accounting	NO	NO	-	AC (President)	3/3

to be continued

C = representative of Capital; E = representative of Employees; AC = Audit Committee; HR = Human Resource Committee; SF = Strategy and finance Committee continued

First and last name Gender Function	First appoint. to position	Comple-tion/ end of term	Represe-nt ative	Attend. at committee sessions	Nationali.	Year of birth	Education	Professional profile	Ind. pursuant to Article 23 of the Code	Occurre-nce of conflict of interests in the fiscal year	Membership in supervisory boards of other companies	Membership at Committees President/ Member	Attend. at committ.s essions
Vesna Stojanović female Member	2013	2021	E	9/9	Slovenian	1957	administration clerk	human resources	YES	NO	-	HR (Member)	4/4
Veljko Tatić male Member	2019	2023	E	5/5	Slovenian	1964	sales manager,	retail	YES	NO	-	-	-
Jože Lavrenčič male Member	2017	2021	E	9/9	Slovenian	1979	economist, VI level of education	retail	YES	NO	-	-	-
Matjaž Grošelj male Member	2015	2019	E	3/3	Slovenian	1969	sales manager, VI level of education	logistics	YES	NO	-	-	-

C = representative of Capital; E = representative of Employees; AC = Audit Committee; HR = Human Resource Committee; SF = Strategy and finance Committe

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
Aleksander Igličar male Audit Committee	8/8	Slovenian	MS economics	1962	accounting and finance	Iskra Mehanizmi Holding d.d., Slovenia; Slovenska tiskovna agencija (from December 2019)

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 and the Supervisory Board include one female employee/representative. Since the Mercator Group is currently in the stage of transitioning to a new corporate group, we will only be able to develop and execute more concrete policies and guidelines for further work of the relevant bodies and all (human resource management) procedures after the transfer is completed. 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 2019, we continued to implement the Value Creation Plan in all markets of our operations. Thus, we are improving the level of corporate governance and exchange of the best practices within the Mercator Group.

Anton Pibernik
Architect, co-author of Maxi department store.

»Many successful stories came together to create the Mercator we know today; Mercator that has grown over 70 years from a small wholesaler company to the largest retailer in Southeastern Europe.«

2. Business report

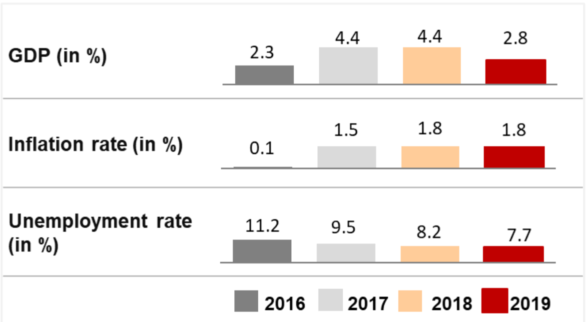
Effect of economic conditions and competition on operations

Towards the end of the year, signs of stabilization appeared in the international environment, as the negative risks become somewhat less pronounced. Short-term indicators of economic activity and expectations were stable in the last few months. The Economic Sentiment Index and the Purchasing Managers Index (composite index) for the euro zone have not worsened for several months. It is particularly encouraging that the decrease in processing industry indicators, seen over the last several months, has stopped, especially in Slovenia's most important trade partner Germany where the decrease was the most intense. In December, improvement of conditions in the international environment was also a result of the partial consensus on the trade agreement between the USA and China, and improved changes of a Brexit with a deal. Brexit does not directly affect Mercator Group operations or performance.

Consumer confidence improved throughout the region in 2019, but it still lags behind the European average[3]. Employment possibilities, financial security and willingness to spend had a positive impact in this respect. The consumers are primarily concerned about their own health, work-life balance, rising costs of living, and security of employment. Macroeconomic conditions were favourable in 2019. Most retailers in all markets continued to expand their retail network.

Key macroeconomic indicators in the markets of Mercator's retail operations[4]

Slovenia



Slowdown in the main trade partners within the euro zone was reflected in lower growth of international trade. Increase of employment (activity) and decrease of unemployment in were less intensive in 2019 than they were in 2018; in the first ten months of 2019, active population increased year-on-year by 2.6%. Lack of labour force, with persistently high demand for work, led to further hiring of international workers. In December, year-on-year price level growth rate was 0.4 percentage point higher than in the year before. Contribution of prices of goods increased, which is mostly the result of higher prices of food, especially fruit and meat. Increase in the price of services slowed down at the end of the year, but the rate was still more than twice the price growth rate for goods. The country's rating for 2019 is AA- with a stable outlook.

Effect of market situation on consumption: consumer confidence[5] in Slovenia in 2019 improved, which had a positive effect on private spending. Also contributing positively to consumer confidence were employment possibilities, financial security, and willingness to spend. Twenty-eight 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.

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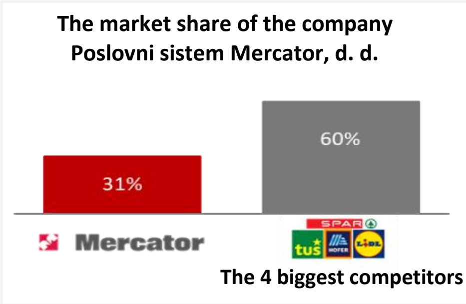
[3] Nielsen: Consumer Confidence Index, Q3 2019, Adriatic.

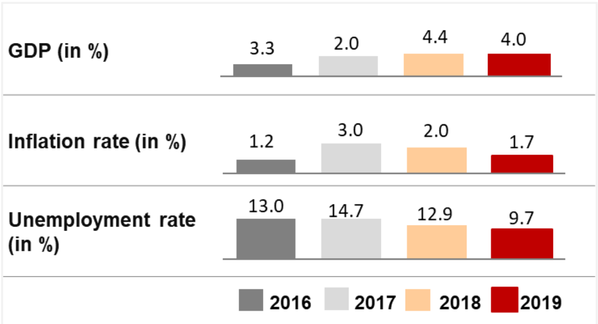
[4] Economic conditions are commented based on the following data sources: UMAR (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), ECB (European central bank), S&P (Standard&Poor's ratings services), statistical offices or respective countries, IMF (International Monetary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

[5] Nielsen: Consumer Confidence Index, Q3 2019, Slovenia.

Competition: 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 90% of the market[6]). Despite the decrease in retail area, we succeeded in increasing our market share by 1.6 percentage point relative to the year 2018, owing to our Value Creation Plan initiatives and development of retail network based on the new Minute store concept.



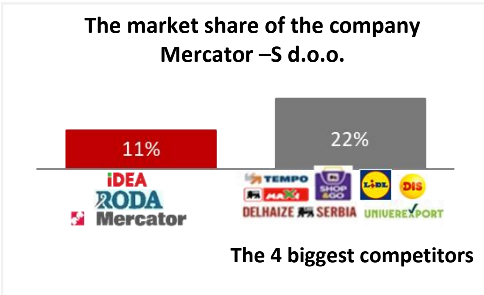
Serbia



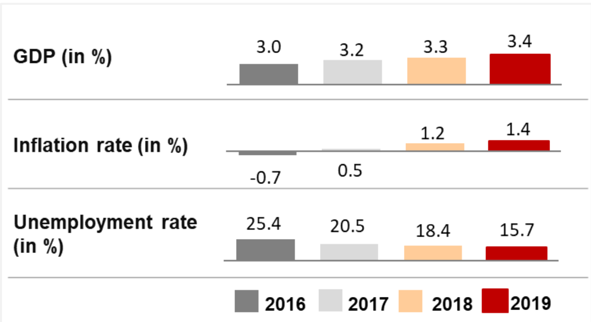
In 2019, Serbian GDP was 4.0%. Unemployment rate decreased to 9.7%. Inflation rate in 2019 was at 1.7%. The country's rating for 2019 is BB+ with a positive outlook.

Effect of market situation on consumption: Consumer confidence in Serbia in 2019 improved.[7] Contributing positively to consumer confidence were employment possibilities, financial security, and willingness to spend. Sixty-eight percent of respondents believe the country is in a recession. Consumers' primary concerns include their own health, security of employment, and work-life balance. They use any surplus income for savings, home improvement, new clothing, and holidays.

Competition: Retail industry is relatively less consolidated (top ten retailers combined account for no more than 42 percent of the market). Due to the expansion of modern retail networks, the share of traditional retail is decreasing. By implementing good practice within Mercator Group, Serbia launched an intensive program of own retail network. Results are evident in the preservation of market share in Serbia. Mercator's competition in Serbia includes international retailers (Delhaize, Lidl) and domestic retail chains (DIS, Univerexport, etc.[8]). In the Serbian market, a considerable market share still pertains to traditional stores (marketplaces, small family-run grocery stores).



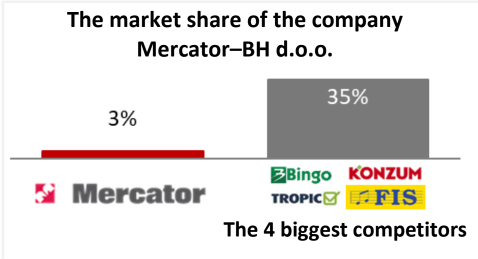
Bosnia and Herzegovina



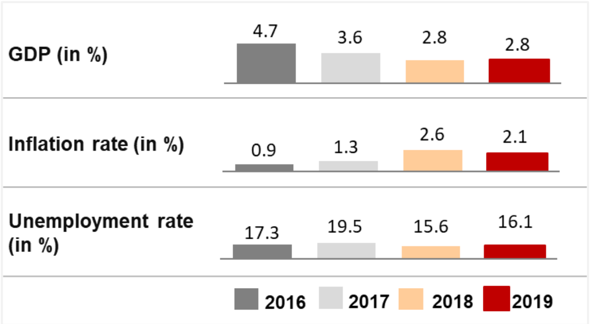
Economic growth rate in 2019 was 3.4%; unemployment rate remains high at 15.7%. The country's rating for 2019 is B with a stable outlook.

[6] Valicon, market share survey, Q4, 2019
[7] Nielsen: Consumer Confidence Index, Q3 2019, Serbia
[8] Internal report, market share mesaurement 2019

Competition: The market of Bosnia and Herzegovina is not consolidated. In 2019, top ten retailers account for less than a half of the market, while the other half pertains to traditional retail. The largest retailers include Bingo, Konzum, FIS and Tropic.[9]

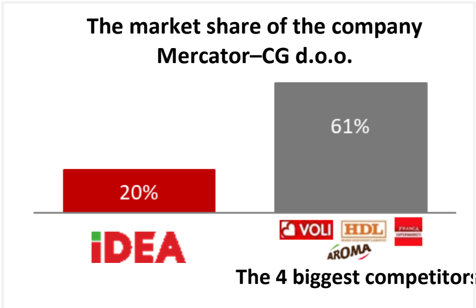


Montenegro



Economic growth in the market of Montenegro in 2019 amounted ot 2.8%, while unemployment rate increased relative to the year before to 16.1%. Inflation rate was at 2.1%. The country's rating for 2018 is B+ with a negative outlook.

Competition: In the Montenegrin market in 2019, the top five retailers accounted for a 81% market share. The largest retailers include Voli Trade, Mercator Idea, HDL, Domaća trgovina and Franca.[10] Despite intensive investments by our competitors and restriction on Sunday opening hours (as of October 2019), the company Mercator–CG d.o.o. succeeded in neutralizing such negative effects by implementing the Value Creation Plan initiatives.



[9] Market share data is based on internal sources.
[10] Market share data is based on internal sources.

Store Formats

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

Focus on the consumer is the key in all markets of our operation. We wish to offer our consumers the best products and services, and a modern shopping environment in as many locations as possible. In addition to introducing modern technological solutions, intensive development of new store concepts is becoming increasingly important, highlighting **convenience, speed of shopping** and the offer of **healthy and locally made products**.

In 2019, we invested especially into into refurbishment of the existing retail network; in addition, we also constructed some new facilities. A total of **24 new units** were opened in Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina, while a total of **109 units were refurbished or had their layouts updated**; of these, **42 units** were located in Slovenia. The refurbished Mercator stores afford customers a more pleasant shopping environment, while category structures and new services are adapted to the most recent trends.

Slovenia

V In 2019, we were placed great stress in Slovenia on the expansion of the **Minute store network** and on integrating **Minute departments** into major stores. These stores and departments represent **a new convenience store concept**. They offer quick shopping, **grab & go offer** that combines **convenience, innovation, modern lifestyle,** offer of products for immediate consumption, i.e. everything a consumer needs in today's frantic pace of everyday. Minute stores are 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 (top up) shopping.

Expansion of the network - Minute unit

The comfort store **Maxi Gourmet Market** certainly stands out among the major stores updated in Slovenia. This store has an exceptional location – the economic and political centre of Ljubljana. It is a recognizable historical, architectural, and cultural point; it is a space to socialize, shop, and enjoy an excellent culinary experience. The comprehensive refurbishment ot the store included both its ambiance and its assortment, with key accents placed on **quality, special products, personal service,** and **culinary novelty**. Particularly exposed are the departments of **fresh program, wine department, organic and special food, We Love Local products, grab & go, and sweets.**


Updated Maximarket store

V A **new supermarket in Mengeš** was opened. Spanning nearly 840m^2, it offers a wide variety of food, with emphasis on fresh produce. The supermarket is an upgrade to the neighbourhood stores, offering a broader and especially deeper offer of fast-moving consumer goods. The supermarkets serve customers on both their daily and weekly shopping sessions as their offer allows all-around shopping with a focus on fresh program and supplementary offer of non-food items.

Newly opened Mengeš supermarket

Foreign markets

Slovenian sound practices and solutions in store format development and assortment management have also been implemented in international markets where we are present with three formats (or banners): **Mercator, Roda and Idea**. In total, we opened 19 new stores in international markets, while 67 were included in the layout update project.

In **Serbia**, we opened 5 new stores and updated the layout of 62 stores. **Two stores** were re-branded from the RODA to IDEA format.

At the **Idea Zvezdara** supermarket, the wine department was additionally set up and labelled. Fresh food departments were refurbished, and walls at the existing location were lined with refrigerated display cabinets. The fruit and vegetables section has new equipment. The parking garage has also been renovated. Supermarkets **Idea Južni Bulevar**, **Idea Bulevar**, and **Idea Oaza** were also refurbished, with great emphasis on fresh produce departments. A change shopping path leads the customers past a large fresh fruit and vegetables department to a richly stocked deli island, self-service bakery section, and other service lines. A wine department is set up next to the checkout zone (cash registers). Moreover, the **Idea Vršac** supermarket was also refurbished, with an expanded store area.



Updated Idea Bulevar supermarket

In **Montenegro**, we newly opened and updated a total of **13 stores**. **The store in Bečići** is the first in this part of Budva. It spans 500 m^2 and it offers a rich assortment of food and non-food fast-moving consumer goods. The assortment is adapted to both the habits of local customers and to tourists who visit this part of the Montenegrin coast every day. The emphasis is on the offer of fresh and quality fruit and vegetables, bakery and deli products, always fresh meat, and basic food products. At the end of the year, two new **Idea**stores were also opened in **Podgorica**. The openings were celebrated with many surprises and discounts.

Idea Donja Gorica

Newly opened store Market Kiseljak

In the market of **Bosnia and Herzegovina**, **4 stores** were refurbished and **2 stores were newly built** in 2019. We ensured appropriate positioning of respective categories at partially refurbished units, added service lines, and ensured labelling according to Mercator standards.

Composition of units by store as at December 31, 2019

Slovenia Mercator M Tehnika

- FMCG retail units 465
  - Markets: 396
  - Supermarkets: 46
  - Hypermarkets: 23
- Wholesale units (Cash & Carry) 13
- Restaurants 7
- Franchise stores 170
- Tehnical program (M Tehnika) 41

Serbia Mercator iDEA RODA

- FMCG retail units 321
  - Idea Markets: 247
  - Idea Supermarkets: 38
  - Roda: 28
  - Roda Megamarkets: 6
  - Mercator Hypermarkets: 2
- Wholesale units (VELPRO) 6

Montenegro iDEA

- FMCG retail units 122
  - Idea Markets : 119
  - Idea Supermarkets: 3

Bosnia and Herzegovina Mercator

- FMCG retail units 77
  - Markets: 60
  - Supermarkets : 10
  - Hypermarkets: 7

MERCATOR GROUP	Gross sales area (in m^2)	Net sales area (in m^2)
FMCG retail units 985	809,575	518,447
Wholesale units (Cash & Carry/VELPRO) 19	56,231	33,663
Restaurants 7	1,690	1,019
Tehnical consumers goods 41	61,720	36,571
Total units under management 1,052	**929,216**	**589,700**
Franchise stores 170	36,123	23,690
TOTAL 1,222	**965,339**	**613,390**

Category management

Slovenia

In 2019, we continued to **actively support domestic suppliers** and **promote Slovenian and local offer** at Mercator stores. Our comprehensive offer was based on quality and introduction of established market trends, taking into account the new legislative guidelines.

Key category management activities remained focused on the pursuit of the following key goals:

- activities in My Brand project;
- monitor competition's pricing for products of renowned brands and private labels, and ensure competitiveness;
- provide and upgrade services at the point of sale, with key stress on our fresh departments;
- efficiently manage the retail area down to the level of each product.
- manage the commodity market products and seasonal products in a quality and prudent way;
- provide appealing offer in sales promotion activities and place particular emphasis on promotion of activities related to the Pika customer loyalty program;
- upgrade the portfolio of quality private label lines and provide the best value for money;
- introduce a number of various non-food products.

Serbia

In 2019, the company Mercator–S d.o.o. started intensive work on the initiatives that result in **differentiation relative to the competition**, by transferring sound and winning practices within Mercator Group. Activities were also focused on **business process improvement** and **business efficiency improvement**. Focus on the customers, expressed with continuous monitoring of competitiveness and enriched local and domestic offer was further strengthened by strong promotion and improvement in the level of services at retail units.

Key activities in 2019:

- activities in My Brand project »Vredno je zajedno«;
- development the assortment of fruit, vegetables, meat, and the bakery section, with emphasis on quality and favourable price, and enrichment of offer with new and locally sourced products;
- price management with a new pricing strategy and pricing competitiveness policy;
- improvement of promotional activities consistently with the planned values for 2019;
- more efficient retail area management;
- process improvement;
- focus on the employees through continuous employee training on fresh food departments and new employee training in the public procurement sector;
- continuing the project Better Together (»Vredno je zajedno«) and the fresh department project, and further development of the »M–Link« supplier portal.

Montenegro

At the company Mercator–CG d.o.o., we were focused on fresh departments in 2019 and on provision of quality offer and services in key departments. As we continued to implement good practice, selecting the optimum assortment at competitive prices, which meets the needs of all customers, was the priority task.

Key activities for attaining the desired goals in 2019:

- activities in My Brand project (»Moji brednovi«);
- monitoring pricing competitiveness for the best-selling products across regions,
- innovative promotional activities for improving the offer within the customer loyalty systems; here, additional investments are required, focused on the suppliers;
- optimal store management with additional exposure of key products and projects, including the seasonal product department.

Bosnia and Herzegovina

In 2019, our key category management activities were focused on the following:

- boosted activities in the fresh departments with enriched offer;
- activities on the My Brands project;
- boosted activities with the Discounts for You project in which we reduced the prices of over 500 products, with support by our suppliers;
- activities for retail units in the Republic of Srpska, with sweepstakes;
- focus on the non-food segment through offer of quality seasonal items, main activities and quality offer at affordable prices;
- reduction of old inventory in the non-food segment;
- introduction of new planograms in key categories;
- introduction of new brands and new partners in the We Love Local project;
- activities and offers for the users of the Pika customer loyalty program.

Marketing and customer loyalty programs

Customer loyalty programs and private label by countries*

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

Marketing

In 2019, we continued our activities to support our business strategy that allows long-term stability and profitable growth. In 2019, we conducted activities to support three key pillars of our business model:

1. **Retail is a local business**: we wish to be the best local retailer in all markets of our operations. Therefore, the goal of our marketing activities is also for customers to perceive Mercator as their local retailer.
2. **Differentiation is the key to success**, and this also pertains to communication with the customer, not merely the offer.
3. **Operational excellence** is a criterion of success for us. The projects that we plan to meet our strategic goals in cooperation with other sectors at the company, from category management to retail, are efficiently carried out in the way that is best for our customers

Retail is a local business

Celebrating **70 years of its existence**, the company Poslovni sistem Mercator d.d. highlighted retail as a local business. This included many activities, both within its corporate social responsibility efforts and communication activities, that addressed the local environment or were derived from the stories of the local environment and the foundations upon which Mercator grew as a retailer. We also highlighted the accounts of what Mercator means to the local environment.

Campaign to celebrate Mercator's 70th anniversary in Slovenia

In early March, Mercator celebrated **70 years since the founding of the Mercator retail company** in Slovenia. To commemorate this occasion, we designed a communication campaign »**Good Deeds**. **For 70 years**.« that explores the path of »the best neighbour's« presence in everyday life.

As a follow-up to the 70th anniversary, we conducted in the spring the **We Like Good Deeds** for the fourth time. The project included 70 stores across Slovenia, and in each one, customers voted to support three local projects.

During the New Year's holiday season, our campaign spread the message that good lies in the little things, open hands, and broad smiles. Those unexpected, which surprise a person and which bring us closer together every day. With the advertising campaign »**Best to all**«, we thus thanked the people who devote their time to spread the good among the people.

Campaign celebrating Mercator's 70th anniversary

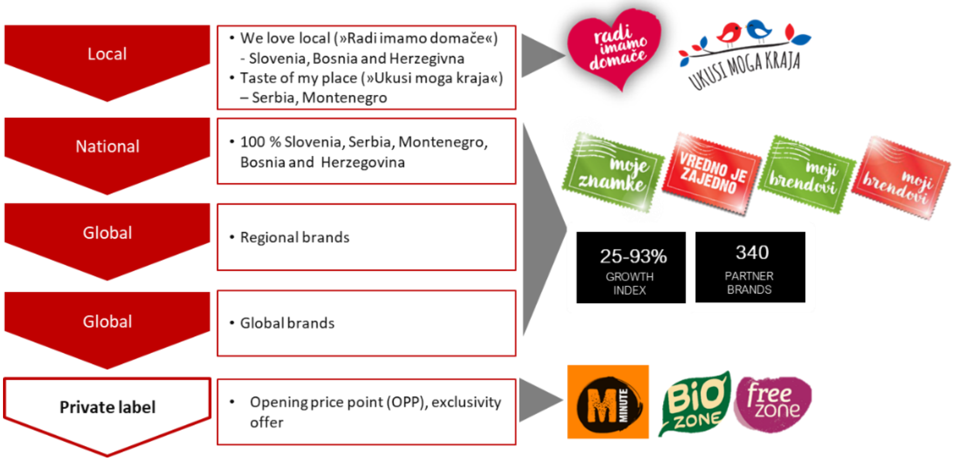
We Like Good Deeds project

Best to All advertising campaign

Differentiation as a competitive advantage

Our differentiation strategy is based on:

a) the broadest offer of local and regional brands,



b) the best customer loyalty program,

c) introduction of new store formats,

d) innovation.

Slovenia

The broadest offer of local and regional brands

We pursue our mission of being the best in this field through two strategic projects:

- With the **»We Love Local«** project, we are focusing on connecting and spreading the awareness that we are closer to each other than we may imagine. In June 2019, we were dedicated to a campaign that included a comprehensive communication campaign that included the slogan »We are closer to each other than we think«, as well as a presentation catalogue and over 300 product tasting or sampling events. A similar project was carried out in Bosnia and Herzegovina. In Serbia and Montenegro, we developed our own label »The Flavours of My Town«. The label is based on development of products with smaller local producers. At the end of 2019, the products from the Flavours of My Town project were also offered to customers at Mercator stores in Slovenia.
- With the »**My Brands«** project, we have been pursuing the goal of partnership and cooperation as we support our local and regional brands. The project was also successfully launched in other Mercator markets, with locally adjusted names.

My Brands project

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

My Brands project and Slovenia's Little Chef

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

My Brands, 3rd wave – In 2019, we prepared cooperation with the technical consumer goods program (products for home and construction, M Tehnika). Upon purchase of My Brands products, the customers took part in SMS sweepstakes with the main prize of EUR 1,000 worth of shopping at M Tehnika. Ten prizes were presented. The activity lasted from early June to mid-August.

My Brands, 4th wave – in August, we kicked off the fourth wave of the project and the Disney Little Chef loyalty program that lasted until October. Suppliers from the My Brands project were included in this part. Upon purchasing a My Brands product, each customer received a sticker for an album with interesting recipes by Disney heroes. The project also included the Disney Little Chef event during the Pika Festival in Velenje, where we were visited by many children and parents. During the activities, all stickers and albums were given away.

My Brands, 5th wave – we continued the activity for the customers, in which every customer who purchased at least 5 My Brands products was presented a **coupon** at the end of the bill for a 50% discount on one of the plush **Disney Junior toys** (Mickey, Minnie, Pluto, or Donald Duck). The activity took place from mid-October until the end of the year.

My Brands and Disney Junior toys

Magical Day at the Tivoli Park

Magical Day and the Pika Festival

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

Russian Fairy Tale

The marketing project Russian Fairy Tale took place in Slovenia at three hypermarkets, at Maximarket, as well as in Banja Luka and Belgrade. The project with an overall 360-degree concept included offering new Russian products at our stores, preparing complementary activities, and an advertisement campaign. The project supports the presentations of more or less renowned global suppliers, which expands the experience in the offer for our customers.

Russian Fairy Tale project

Private label as a tool for differentiation from our competition, with emphasis on quality of offer and consumers' lifestyle

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

- we highlighted the updated and **quality Mercator products**: we introduced two new lines of Mercator cheese and meat produce that received the top quality label from the Faculty of Biotechnology;
- we developed and promoted products of the **Minute convenience line**;
- we developed and promoted products that offer a considerably **better choice for the customer**, or support a **healthy and active lifestyle**, including campaigns highlighting the advantages of the Bio Zone dairy products, new Gelatissimo ice cream, and natural mineral water »O.K.« with added vitamins and minerals;
- we introduced a new line of nuts and dried fruit **Garden Good** and fruit juices and beverages **My Day**.

Updated high-quality products of the Mercator private label, Minute products, and products for a better choice and healthy lifestyle – Bio Zone, O.K., Gelatissimo

The best customer loyalty program and innovation

We are pursuing the goal of becoming the best in customer loyalty program in all our markets.
In all markets combined:

- we serve customers who complete 5 million shopping sessions each week;
- we have over 1.7 million active customer loyalty card users.

New developments – digital stamps

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

Electronic discount stamps

Disney Mali šef aplikacija

Disney Little Chef app

As a part of the 4th wave of My Brands Disney Little Chef campaign, we developed an app that allows the users recipes and access to additional contents and recipes via a video game.

Pika customer loyalty program and transition to a new processing platform

Early in 2019, we migrated to a new Pika processing platform in **Slovenia**, which allows more flexibility of functionalities and process optimization. Thus, the first half of the year was intended for stabilization of the Pika customer loyalty system business processes, in addition to regular Pika activities. At the same time, we continue to digitalize the processes of the Pika customer loyalty system by introducing a virtual account for use with the M Pay service within the Moj M (»My M«) application.

We continued to provide offer tailored even more closely to our customers with **extra Pika points** depending on their conduct and use. We do this continuously by awarding extra bonuses to our loyal customers, based on segmentation.

Pika magazine

In 2019, we issued three Mercator Pika magazines that bring fresh and vivid colours, and especially a number of creative recipes that can either refresh or warm up. Of course, each issue also brings interesting reads, interviews, and especially reading for any occasion.

Pika magazine

Introduction of personalized offer – top 5 offer

Top 5 offer is available to all users of the My M application. It represents the choice of five products from the current weekly flyer that could be of interest to a customer, based on her or his previous shopping (My Top 5), and based on the best-selling products (Mercator's Top 5). Thus, we make it easier to browse through the weekly flyers with fast-moving consumer goods offer, and help co-crate the customer's shopping choice. Customer who do not use the app can receive the personalized recommendation on a weekly basis via e-mail.

Segmentation

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

Serbia

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

Prize game Experience the Fairy

Prize game »Experience the Fairy Tale« - All customers at IDEA Stores were able to participate in the prize draw for 2 trips to Disneyland upon payment with a MasterCard contactless card. The prize competition ran from late July to late August.

Campaign Back to school je cool

In order to offer the customer a line of their own school assortment, we organized a »**Back to school is cool**« campaign within the Roda format, where the main promoters were the influencer Milo and Choda.

Days in Mercatorju

Days at the Mercator hypermarket - In 2019, every second Thursday, shoppers were able to learn about the world of books, comics, music, sports, healthy lifestyles and other interesting areas.

New in Idea, Roda and Mercator Stores - With modern and innovative approaches, we have offered customers in all store formats products that were only available in our stores over a period of time (eg new Pepsi flavor, Mountain Dew drink)

Project Better Together

Projects »Better Together« (»Vredno je zajedno«) and Disney

In this year, we continued our »**Vredno je zajedno**« project (»Better Together«, equivalent to My Brands in Slovenia). To date, we have prepared five waves that included over 60 suppliers. The biggest growth was recorded in non-alcoholic drinks. Sweepstakes were also organized at Idea and Mercator stores. The project included presenting awards in the form of discounts on Disney glasses to customers purchasing products from the »Better Together« project.

»Flavours of My Town« project

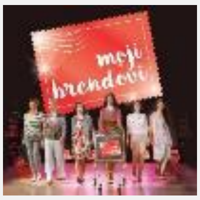
With the **Flavours of My Town** project, we are looking to offer our customers natural, high-quality and flavourful products free from artificial colouring, aromas and preservatives. The project involves traditional Serbian products by local growers and producers whose tradition has been passed from generation to generation. In 2019, there were 207 products in the Flavours of My Town line.

Flavours of My Town

Montenegro

My Brands project

The project was launched in late November 2018, with over 150 brands and more than 600 products taking part in its first part. In early December 2019, we launched a new part of the project.



My Brands and Zdravoljupci (Health Lovers) projects

Health Lovers (»Zdravoljupci«) project

At the end of August, we carried out the **Health Lovers** project that lasted until the end of November. We used seven plush toys, representing fruit and vegetables, to promote healthy nutrition among children.

The Flavours of my Town project

Flavours of My Town project

Products included in the **Flavours of my Town** project are prepared based on traditional Montenegrin procedures and recipes, and made exclusively by local small growers and producers. In 2019, the line already included 90 products.

Bosnia and Herzegovina

My Brands, Our Values project

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

My Brands project

We Love Local project

We Love Local project

Like at other companies, the project is intended to support and include products of mostly small local growers and producers in Mercator stores. The launch of the offer was marketed with the slogan »Good People behind Good Food«.

Real estate management and retail network development

In 2019, 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 in 2019 a total of **24 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.

Successful continuation of the real estate monetization project

In February 2019, the transaction for divestment of ten shopping centres in Slovenia was completed; at the end of 2019, the divestment process for the Roda Centre in New Beograd in Serbia was successfully completed.

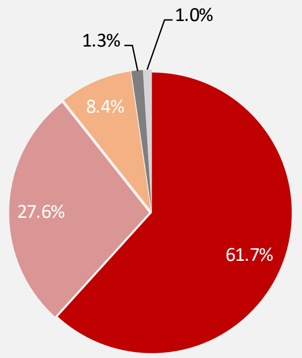
Following are Mercator's key goals in real estate management:

Investment and divestment

In 2019, Mercator Group investment into property, plant, and equipment (CAPEX) amounted to EUR 35.4 million. Of the total investment amount, 61.7% was used for investments in Slovenia and 38.3% was used for investments in international markets.

Capital expenditure in 2019 by markets

	Capital expenditure in 2019 (in EUR 000)	Structure (in %)
Slovenia	21,881	61.7%
Serbia	9,775	27.6%
Montenegro	2,960	8.4%
Bosnia and Herzegovina	472	1.3%
Croatia	350	1.0%
Total	**35,438**	**100.0%**

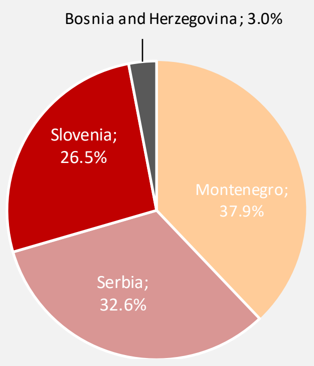


Capital expenditure in 2019 by market

Investment into refurbishment and update existing units accounted for 55.7% of total investments; IT investments accounted for 15.5%; expansion of new retail units represented 13.0%; investments into distribution centres accounted for 11.6%; and the remaining 4.2% was invested in non-trade activities.

In 2019, Mercator Group newly acquired **12,801 m^2 of gross store area**. All new gross area was acquired by operating lease.

In 2019, Mercator Group **divested property, plant, and equipment worth EUR 152.4 million**, of which EUR 151.5 million pertains to the divestment of property (real estate) and EUR 0.9 million pertains to plant and equipment.



Share of new usable areas in 2019 by market

Summary of total gross retail area as at December 31, 2019

	Gross retail area (in m^2)		
	Used for own operations	Leased out	TOTAL
Owned retail area	470,629	343,186	813,815
Leased retail area	458,587	157,718	616,305
Total retail area	**929,216**	**500,904**	**1,430,120**
Owned warehouse capacity	153,464	20,091	173,555
Leased warehouse capacity	56,194	10,508	66,702
Total warehouse capacity	**209,658**	**30,599**	**240,257**
Owned commercial facilities	18,486	3,814	22,300
Leased commercial facilities	7,497	806	8,303
Total commercial facilities	**25,983**	**4,620**	**30,603**
Gross area under management	**1,164,857**	**536,123**	**1,700,980**
- of which owned	642,579	367,091	1,009,670
- of which leased	522,278	169,032	691,310

Overview of newly opened and updated units by markets in 2019

Slovenia

Area of new facilities: 3,399m^2

- Number of new units: 5
- Openings: Market Levstikov trg, Ljubljana; Supermarket Mengeš; Market Sedejev trg, Cerkno; Market Žabja vas, Novo mesto; Market Bršljin, Novo mesto

Refurbishments/layout updates:

- Number of units: 42 fast-moving consumer goods stores, 2 technical consumer goods stores (M Tehnika), 2 wholesale units (Cash&Carry)

Serbia

Area of new facilities: 4,169m^2

- Number of new units: 5
- Openings: Market New Bečej; Supermarket Gerberova, Bečej; Supermarket Leskovac; Market Altina, Belgrade; Market Sremska Mitrovica

Refurbishments/layout updates:

- Number of units: 62

Montenegro

Area of new facilities: 4,848m^2

- Number of new units: 12
- Openings: Market Nikšič, Duklo; Market Podgorica, Centar; Market Pljevlja; Market Sutomore 4, Bar; Supermarket Radanovići, Tivat; Market Bečići; Market Donja Gorica; Supermarket Masline 2, Podgorica; Market Ćemenica 2, Nikšič; Market Vidrovan, Nikšič; Market Kvart, Nikšič; Market Zabjelo 3, Podgorica

Refurbishments/layout updates:

- Number of units: 1

Bosnia and Herzegovina

Area of new facilities: 385m^2

- Number of new units: 2
- Openings: Market Lukavac; Market Kiseljak

Refurbishments/layout updates:

- Number of units: 4

At the Mercator Group level, a total of **24** units were newly opened in 2019, and **113 units** were refurbished or had their layouts updated.

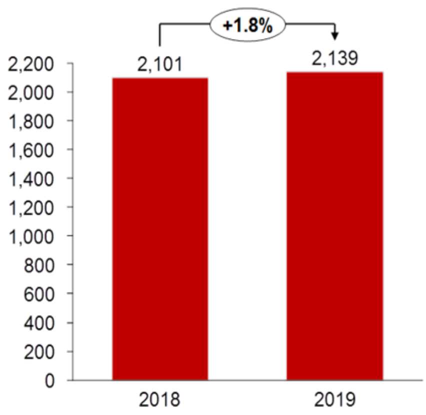
Analysis of key performance in year 2019

Analysis of key performance categories

Sales revenue

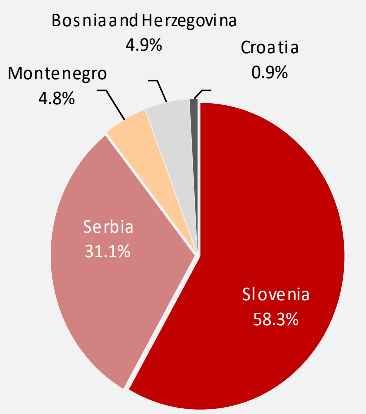
In 2019, Mercator Group comparable **sales revenue** amounted to **EUR 2,138.7 million**, which is 1.8% more than in 2018. The new strategy, new store concept (Minute), store refurbishments, and improved competitiveness of services have been yielding positive results in Mercator Group's core activity. Slovenia and Serbia remain the most important markets for the Mercator Group.

Sales revenue (EUR million)



In 2019, sales revenue in the Slovenian market increased by 3.6% relative to the year before. Growth rates was recorded in FMCG retail (5.2%), which is a result of Value Creation Plan initiatives for the revenue and profit margin part, and initiatives related to new store concept development.

In first half of 2019 sales revenue in Serbian market was heavily influenced by opening by new store areas by our competitors and their aggressive pricing policy. However new VCP initiatives and dedicated cross-country teams managed to successfully turnaround the situation and change trends of sales revenue in 2nd half ending with 1.0% decrease on annual level.



Consolidated sales revenue by markets for 2019 (in %)

In the market of Montenegro, despite investments by competition, smaller sales areas in the first half of the year and the prohibitions of the store operations on Sundays from October 2019, by implementing VCP initiatives a stable level of income was maintained.

In the market of Bosnia and Herzegovina, our revenue increased by 4.7%, which is a result of successful stabilization of retail operations, based on Value Creation Plan initiatives was maintained.

Comparable sales revenue in the market of Croatia increase. However sales revenue were mainly affected by implementation IFRS 16 Leases for sublease agreements resulting in 13.0% decrease of sales revenue.

Retail revenue

The new strategy, new store concept (Minute), store refurbishments, and improved competitiveness of services have been yielding positive results in Mercator Group's core activity. Retail revenue is higher relative to the comparable period of the preceding year in Slovenia and Bosnia and Herzegovina.

in EUR 000	2019	2018	Change 2019/2018
Retal revenue^Δ	1,693,485	1,656,578	2.2%

* Retail revenue in the period 2018 is adjusted for the effect of transfer of the operations of leased Velpro centres to Roda Mega retail facilities in Serbia

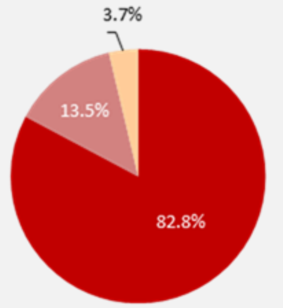
^Δ Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

In Slovenia, **retail revenue increased by 5.2%** in 2019; at the Mercator Group level, retail revenue **increased by 2.2%** relative to 2018.

Structure of sales revenue by Mercator Group programs

Sales revenue structure (in %)	2019	2018
Retail	82.8%	83.1%
Wholesale	13.5%	13.0%
Home products	3.7%	3.8%
Total sales revenue in retail, wholesale and home products*	**100,0%**	**100,0%**

*In addition to retail and wholesale revenue and revenue from sale of technical consumer goods, the Mercator Group also generates revenue from real property, logistics services, and HoReCa activities. Retail revenue in the period 2018 is adjusted for the effect of transfer of the operations of leased Velpro centres to Roda Mega retail facilities in Serbia.



Revenues from sales by programs 2019 (in %)

The structure of sales revenue by respective programs did not change significantly in 2019. FMCG retail accounts for the highest share of revenue with 82.5%. Relative to the year before, this share in comparison to other programs decreased by 0.3 percentage point. In 2019, wholesale revenue increased by 6.4% as a result of focusing on more profitable activities. The share of sales revenue from specialized trade program of home products amounted to 3.7% in 2019.

Expenses by nature

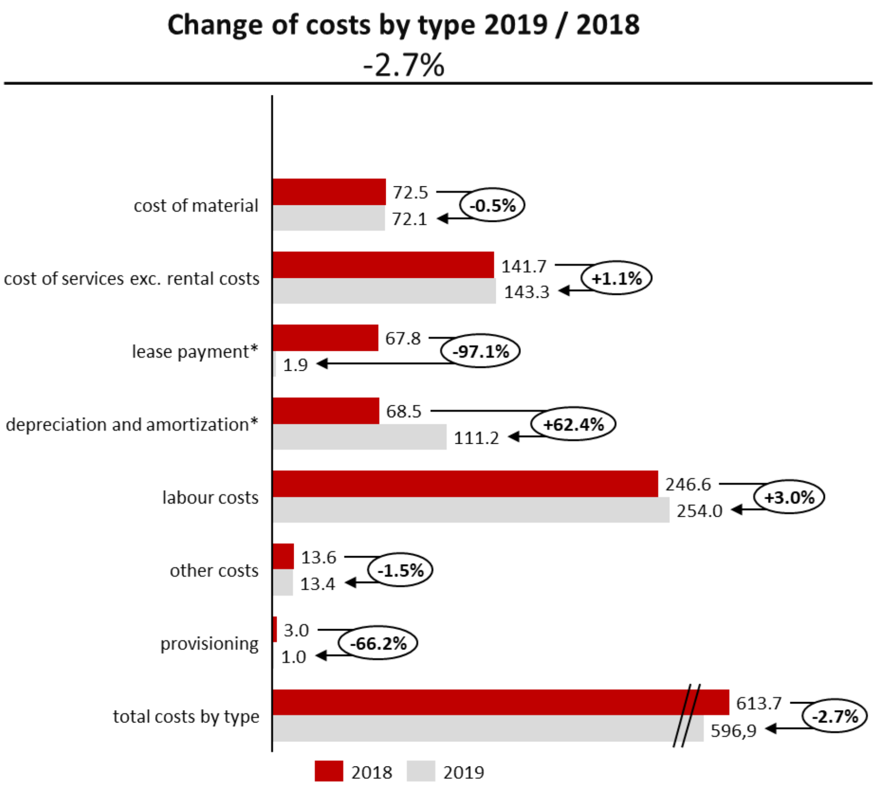
In 2019, total expenses by nature (costs by natural categories) amounted to EUR 596,987 thousand, which is EUR 16,740 thousand, or 2.7%, less than in 2018.

Development by respective types of expenses was as follows:

- **Material costs** in 2019 amounted to EUR 72,146 thousand, which is a decrease of 0.5% relative to the preceding year, and mostly a consequence of lower energy costs in the markets of Slovenia.
- **Costs of services excluding rents** increased in 2019 compared to 2018 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, as a result of the change in the minimum wage legislation. At the level of the entire Mercator Group, these costs amounted to EUR 143,280 thousand.
- **Cost of rent** decreased considerably in 2019 due to the introduction of the new standard IFRS 16 Leases. Relative to 2018, it is lower by 97.1% and it amounts to EUR 1,940 thousand.
- **Labour costs**, amounting to EUR 254,012 thousand, increased in 2019 at the level of the entire Mercator Group by 3.0% relative to 2018. Labour costs increased especially in Slovenia as a result of changes in the minimum wage legislation.
- **Depreciation and amortization expense** at the level of the entire Mercator Group increased from EUR 68,478 thousand in 2018 to EUR 111,235 thousand, or by 62.4%. The cause of the increase is the implementation of the new standard IFRS 16 Leases.
- **Other costs by natural categories and revaluation adjustment to inventory**, which include e.g. environment protection expenses, donations, membership fees etc., amounted to EUR 13,350 thousand in 2019, which is 1.5% less than in 2018.

- **Costs of provisions** in 2019 amounted to EUR 1,024 thousand. This pertains to provisions for litigation risk.

Total costs by natural categories amounted to EUR 597 million in 2019, which is **EUR 16.7 million less** compared to 2018.



* Data in the year 2019 include implementation of the new IFRS 16 standard, while the data in the year 2018 are shown without the impact of this standards, which entered into force on January 1, 2019.

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

Mercator Group **EBIT** (result from operating activities) in 2019 reached EUR 59,415 thousand, which is EUR 21,072 thousand, or 55.0% more than in 2018.

In 2019, **net finance expenses** for the Mercator Group amounted to EUR 48,435 thousand, which is EUR 17,870 thousand more than in the year before, mainly due to the introduction of the new IFRS 16 Leases. interest expenses (for regular and default interest), amounting to EUR 26,849 thousand, account for the largest share of finance expenses.

Mercator Group's **net profit for the year** in 2019 was EUR 4,666 thousand, which is EUR 3,060 thousand more than in 2018, which is result of implementation of VCP initiatives to increase productivity and profitability of revenues, intensive investment in the retail network with new store concepts, cost optimization and transfer of good business practices within the Mercator Group.

Review of non-recurring business events

In 2019, net effects of non-recurring business events at the level of the entire Mercator Group amounted to EUR 1.8 million, while the net effects of non-recurring business events on Mercator Group business results in 2018 amounted to EUR 0.6 million.

The table below summarizes the non-recurring business events in the period 2018–2019 and their effect on EBITDA.

in EUR mn	2019	2018
EBITDA	**170.7**	**106.8**
Normalization effect	**1.8**	**0.6**
- of which net impairment of current assets	1.9	8.7
- of which net impairment of non-current assets	-4.1	-3.4
- of which other one off events	4.0	-4.7
EBITDA normalized	**172.5**	**107.5**
Effect of IFRS 16 Leases	-67.6	-
EBITDA normalized w.o. IFRS 16 Leases	**104.9**	**107.5**
Monetization effect	9.1	-
EBITDA normalized w.o. IFRS 16 Leases and monetization effect	**114.0**	**107.5**

In 2019, **Mercator Group** generated **EUR 172.5 million of normalized EBITDA**.

Assets

Mercator Group's assets as at December 31, 2019, amounted to EUR 2,003,868 thousand, which is 5.6% more than at the end of 2018.

Mercator Group non-current assets as at **December 31, 2019**, amounted to EUR 1,581,592 thousand, which is 16.1% more than at the end of 2018. The value of property, plant, and equipment accounts for the highest share of non-current assets, with 57,9%.

In non-current assets, EUR 352,908 thousand pertains to the right-of-use assets at fair value, which is a new item related to the IFRS 16 Leases and, in terms of substance, represents the lease of property, plant, and equipment.

Mercator Group current assets as at **December 31, 2019**, amounted to EUR 422,276 thousand, which is 21.1% less than at the end of 2018. The cause of decrease is predominantly the completion of the divestment transaction for ten shopping centres in Slovenia (monetization project) in February 2019. The largest items within current assets as at **December 31, 2019**, are inventories (50.0%) and trade and other receivables (38.6%).

Assets of Mercator Group

in EUR 000	31. 12. 2019	31. 12. 2018	Change 31. 12. 2019 / 31. 12. 2018	Share in total assets 2019
Property plant and equipment	915,896	1,074,997	-14.8%	45.7%
Intangible assets	20,548	20,945	-1.9%	1.0%
Investment property	273,006	242,890	12.4%	13.6%
Right of use assets	352,908	-	-	17.6%
Loans/deposits given	13,600	18,976	-28.3%	0.7%
Receivables and investment in financial assets	5,633	4,476	25.9%	0.3%
Total non-current assets	**1,581,592**	**1,362,283**	**16.1%**	**78.9%**
Assets classified as held for sale	0	148,439	-	-
Inventories	211,090	210,319	0.4%	10.5%
Receivables	162,904	158,646	2.7%	8.1%
Loans/deposits given	2,506	3,010	-16.7%	0.1%
Cash and cash equivalents	45,777	15,074	203.7%	2.3%
Total current assets	**422,276**	**535,487**	**-21.1%**	**21.1%**
Total assets	**2,003,868**	**1,897,770**	**5.6%**	**100.0%**

Equity and liabilities

Equity and liabilities of Mercator Group

in EUR 000	31. 12. 2019	31. 12. 2018	Change 31. 12. 2019 / 31. 12. 2018	Share in total equity and liabilities 2019
Equity	**438,974**	**479,525**	**-8.5%**	**21.9%**
Borrowings	471,902	530,629	-11.1%	23.5%
Lease Liabilities	300,260	67,370	345.7%	15.0%
Deferred tax liabilities	11,677	11,670	0.1%	0.6%
Provisions	25,804	30,143	-14.4%	1.3%
Total non-current liabilities	**809,643**	**639,812**	**26.5%**	**40.4%**
Trade and other payables	579,502	590,103	-1.8%	28.9%
Borrowings	96,762	148,899	-35.0%	4.8%
Lease Liabilities	76,100	37,848	101.1%	3.8%
Current tax	2,887	1,582	82.5%	0.1%
Total current liabilities	**755,251**	**778,432**	**-3.0%**	**37.7%**
Total liabilities	**1,564,894**	**1,418,244**	**10.3%**	**78.1%**
Total equity and liabilities	**2,003,868**	**1,897,770**	**5.6%**	**100.0%**

Mercator Group's borrowings and other lease liabilities as at **December 31, 2019,** amounted to EUR 945,024 thousand, which is EUR 160,278 thousand more than at the end of 2018. Mercator Group's net financial debt as at **December 31, 2019**, amounted to EUR 899,247 thousand, which is EUR 129,575 thousand higher than a year earlier. The amount of debt was affected by new liabilities related to lease in the amount of EUR 312,303 thousand, which is a new item related to the IFRS 16 Leases; in terms of substance, it represents liabilities pertaining to lease of assets.

Total trade and other payables as at **December 31, 2019,** amounted to EUR 579,502 thousand, which is EUR 10,602 thousand less than at the end of 2018.

Provisions as at **December 31, 2019**, amounted to EUR 25,804 thousand, which is 14.4% less than at the end of 2018.

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

	31.12.2019	31. 12. 2018
Long-term coverage of non-current assets $^{\Delta}$	78.9%	82.2%
Net financial debt/ EBITDA normalized	5.2x	7.2x

$^{\Delta}$ Alternative measure is presented in more detail in the chapter Alternative performance measures (APM).

As at **December 31, 2019,** long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounted to 78.9%, which is 3.3 percentage points less than as at the end of 2018. The ratio between net financial debt and normalized EBITDA in 2019 amounted to 5.2, which is a considerable improvement over the year 2018 when the indicator was at 7.2. Real estate monetization in Slovenia and Serbia had a positive effect on reduction of debt.

Effect of the new IFRS 16 pertaining to leases

As of January 1, 2019, a new International Financial Reporting Standard Leases (IFRS 16 Leases) came into effect, replacing the previously effective standard IAS 17 Leases. The standard introduces a single model for determination of lease regimes and accounting treatments for both landlords (lessors) and tenants (lessees). It specifies the principles for recognition, measurement, disclosure, and presentation of leases. According to the new IFRS 16 Leases, the previously effective double model of lease accounting is eliminated. Hence, there is no longer a distinction between operating and financial lease, and they are presented in financial statements with a single model.

The IFRS 16 Leases also introduces certain exceptions, such as:

- for short-term leases, i.e. leases shorter than one year;
- for leases in which the asset has a very low value.

Two approaches for transition to the new standard are offered:

- full retrospective approach, presented with the use of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- modified retrospective approach, i.e. retrospective approach with cumulative effect of implementation of this standard, recognized on the date of implementation.

Mercator Group and the company Poslovni sistem Mercator d.d. opted for the modified retrospective approach to application of the IFRS 16 as of January 1, 2019, which means that comparable information for 2018 is not re-calculated or adjusted; rather, all changes resulting from the transition to the new standard are reported as adjustments to the opening balance in the balance sheet as at the day of the start of use of the new standard. Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach.

As of 2019, Mercator Group and the company Poslovni sistem Mercator d.d. amended their effective accounting policies for treatment of business events and their presentation in financial statements, pursuant to the requirements of the IFRS 16 Leases.

The new standard IFRS 16 Leases represents changes in accounting and reporting of leases, which affects the income statement and the statement of financial position.

The table below presents the data for 2019 without and with the effect of the IFRS 16 Leases.

in EUR 000	2019 w.o. IFRS 16 Leases impact	2019 with IFRS 16 Leases impact
EBITDA normalized	104,871	172,453
Net profit for the year	5,055	4,666
Total financial liabilitis	632,721	945,024
Net financial debt/EBITDA normalized	5.6x	5.2x

Operations and performance plans for 2020

Planned operations and performance in 2020

For 2020, Mercator Group is primarily planning to further pursue its development strategy. The key aspects of this pursuit are attainment of revenue growth and business performance within Mercator's efforts to be the best local retailer in all markets of its operations. For the year 2020, Mercator Group is planning revenue of EUR 2.2[11] billion and normalized EBITDA of EUR 110 million (excluding the effect of the IFRS 16 Leases). Growth of costs, especially labour costs, will be a key characteristic of operations and performance in 2020, particularly in the Slovenian market where it will result from the changes in legislation that are to come into effect on January 1, 2020. Next year, Mercator will strengthen its cooperation with local and regional suppliers, and continue to develop new commercial platforms and new and innovative store concepts, mainly convenient store formats.

We acknowledge significant uncertanties that arose in conection with Covid-19 situation. For more details see Chapter Review of key events in Business part of Annual report and Note 35 in Financial part of Annual report.

Investment activities in 2020

Mercator Group's investments for 2020 are budgeted at EUR 44 million, of which 57% will be allocated to investments in Slovenia. The most important investment is the logistics and distribution centre in Ljubljana. According to plans, it should be completed by the end of 2021 and it represents the largest investment in Mercator's history. Apart from the logistics and distribution centre, investments into logistics capacities and network expansion in Serbia are also important. In 2020, Mercator Group is planning to open 28 new stores and update 65 stores in all markets of its operations.

Further deleveraging

In 2020, Mercator Group is planning to further deleverage, or reduce its debt. Deleveraging will have highly positive effects on Mercator Group's business performance and especially its further development.

For 2020, Mercator Group is planning to further pursue its development strategy. The key aspects of this pursuit are attainment of growth and targets within Mercator's efforts to be the best local retailer in all markets of its operations.

[11] Sales revenue is adjusted for net margin presentation of arrangements from Transit sales.

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.

Risk analysis for the year 2019

Based on the risk analysis at Mercator Group for the year 2019, we discussed and completed in 2019 a total of 220 risk mitigation or hedging measures. We monitored their execution on a monthly basis and documented our findings in our reports.

Risk analysis for the year 2020

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

For 2020, we employed systematic analysis to identify and evaluate the risks that could occur in all processes of Mercator Group operations. We revised the risk management system to be consistent with the best practice, and we introduced an efficient method of identifying and prioritizing Mercator's key challenges, which allows us to act in a timely manner and appropriately in our efforts to accomplish our planned goals. Thus, we specified the key risks for each company and the entire 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.

Key risks of the Mercator Group

Following is a presentation of the key risks for the Mercator Group, and the planned activities for their mitigation in 2020.

KEY RISKS IDENTIFIED	RISK DEFINITION	RISK MITIGATION
Inventory management	▪ Merchandise purchasing process is one of the key processes in Mercator. ▪ The vast majority of purchases in automated and centrally managed but there is scope for improvement. ▪ There are suboptimal logistics costs due to inadequate logistics network.	▪ Further centralization and automation of the merchandise ordering process. ▪ Upgrade of inventory management KPI's in the context of overall working capital management KPI's to improve predictability and return on assets invested in inventory. ▪ Building of a new central logistics and distribution center.

Change management and process improvement	▪ In a rapidly changing environment Mercator needs to manage changes effectively and efficiently.
	▪ Although there are 16 certified management systems and continuous improvement system in place in Mercator, the current practices of actual process improvements could benefit from a more structured and consistent approach across the organization.
		▪ Forming a dedicated team for change management and process improvement
		▪ Introduction of a methodology for documented change management (eg lean six sigma) to facilitate the:
		  ▪ prioritization of key processes to be changed,
		  ▪ identification of the key process owners and IT administrators,
		  ▪ discussions with internal/external providers of IT support by detailed process mapping,
		  ▪ HR management by eliminating/minimizing non- value-added activities,
		  ▪ cataloguing of improved processes.

Risk of non-operation of cooling and air-conditioning systems	▪ Refrigeration and air-conditioning systems must be fully operational to ensure the continuity of business processes.	▪ Reviewing the existing maintenance process with more focus on preventive measures. ▪ Proposing and implementing improvements of the existing maintenance process. ▪ Defining criteria for setting maintenance priorities based on agreed criteria. ▪ Preparation of a maintenance plan based on agreed priorities and the implementation of agreed plan.
Provision of security and protection	▪ Risk events coupled with increased cost of security services triggered the need to review the existing security and protection measures in Mercator.	▪ A special team has been formed to review the current situation and propose solutions to improve the cost efficiency and service level of outsources security services.

KEY RISKS IDENTIFIED	RISK DEFINITION	RISK MITIGATION
HR related group of risks	▪ There is shortage of workforce in the labor market which is more pronounced in some industries including the retail industry. ▪ Workforce shortages trigger the need to work on available alternative solutions which bring complexities related to atypical employment practices (workforce provided by workforce Agencies, work of retirees, work of expatriates...). ▪ High share of disabled people employed in retail operations reduces their flexibility to adapt to changing working conditions.	▪ Frequent job announcements in all areas especially for retail, distribution and IT personnel through various HR agencies. ▪ Improved assessment of job candidates and the effectiveness of initial job training . ▪ Recruiting and integration of expatriates with specialist skills. ▪ Introducing additional atypical work practices. ▪ Internal cross functional training . ▪ Cooperation with secondary schools (internships, scholarship, trainings). ▪ Development and fostering of leadership competencies. ▪ Development of the new system of monetary and non-monetary rewards and promotions.
Inadequate IT Infrastructure	▪ IT infrastructure is one of the key risks for business continuity. ▪ Mercator uses a combination of owned and outsources data centers which need to be regularly maintained and/or replaced.	▪ External vendor support (in addition to the in- house IT team) available for all relevant hardware. ▪ Regular replacement (inside life cycle) of hardware for all relevant systems, ▪ High availability (HA) is implemented. ▪ Preparation of new IT Infrastructure strategy for Mercator Group based on hybrid solution (combination of in-house and outsourced solution).
Business continuity and crisis management/Hazards and Catastrophic Loss	▪ The risk of business continuity resulting from health epidemics. ▪ Mercator is facing the risk of a lack of all types of resources (personnel, merchandise, external services...) whereby it needs to keep all the major processes running. ▪ The risk is being manifested in all possible areas (people's health, financial impact, risk of business interruption, ...). ▪ Crisis management has been initiated and is being implemented throughout Mercator group.	▪ Based on the experience gathered during the crisis management in Mercator due to Corona Virus Mercator shall, after the end of the current epidemic, review the relevant existing policies and procedures and prepare an update in order to improve the response and minimise the negative impacts of any future similar event.

Financial management

Stable Financial Operations

As at December 31, 2019, Mercator Group's net financial debt (not taking into account the new IFRS 16 Leases) amounted to EUR 586,944 thousand, which is 23.7% less than as at the end of 2018. Decrease of financial liabilities as at December 31, 2019, was also a result of the completion of transaction and payment of the acquisition price related to the monetization project in Slovenia and Serbia in 2019. Mercator Group's net financial debt (taking into account the new IFRS 16 Leases) as at December 31, 2019, amounts to EUR 899,247 thousand.

The net financial debt to normalized EBITDA ratio decreased from 7.2 at the end of 2018 to 5.2 at the end of 2019.

in EUR 000	31. 12. 2019	31. 12. 2018	Change 31. 12. 2019 / 31. 12. 2018
Non-current borrowings	471,902	530,629	-11.1%
Current borrowings	96,762	148,899	-35.0%
Financial leases*	64,057	105,218	-39.1%
Financial liabilities	**632,721**	**784,746**	**-19.4%**
Cash and cash equivalents	45,777	15,074	203.7%
Net financial debt (without the effect of IFRS 16 Leases)	**586,944**	**769,672**	**-23.7%**
New liabilities related to the new standard IFRS 16 Leases			
New non-current and current lease liabilities*	312,303	n.a.	-
Total lease liabilities related to the new standard IFRS 16 Leases	**312,303**	n.a.	-
Net financial debt (with the effect of IFRS 16 Leases)	**899,247**	**769,672**	**16.8%**
EBITDA normalized	172,453	107,458	60.5%
Net financial debt (with the effect of IFRS 16 Leases)/ EBITDA normalized	**5.2x**	**7.2x**	**-27.2%**

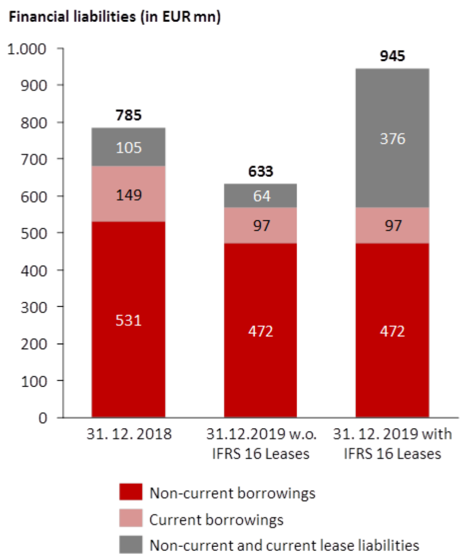
* Items »Financial leases« and »new non-current and current lease liabilities« are presented in Statement of financial position as »Lease liabilities«.

Debt to equity and financial liability ratio

As at December 31, 2019, **Mercator Group** attained a **debt-to-equity ratio of 1:2.05.** The ratio is a quotient between equity and net financial debt.

In recent years, Mercator Group considerably decreased its debt by carrying out the real estate monetization project in Slovenia and Serbia, and by regularly paying off its financial liabilities. In 2019, Mercator Group successfully refinanced both the Group's super senior facility and the Serbian Dean on financial debt restructuring.

The share of long-term financial liabilities in total financial liabilities as at December 31, 2019, was at 81.7% (76.2% as at December 31, 2018), taking into account the introduction of the new IFRS 16 Leases that came into effect as of January 1, 2019. Without the effect of the IFRS 16, the indicator would have been at 81.1%.



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, 2019

As at December 31, 2019, Mercator Group had access to the following liquidity lines or sources[Δ]:

in EUR 000	31. 12. 2019
Cash and cash equivalents	45,777
Standby revolving credit lines*	42,326
Total	**88,104**

* Standby revolving credit lines include undrawn WGD tranche A, undrawn Super Senior, and undrawn cheque factoring.

[Δ] Alternative measure is presented in more detail in the chapter Alternative performance measures (APM).

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.

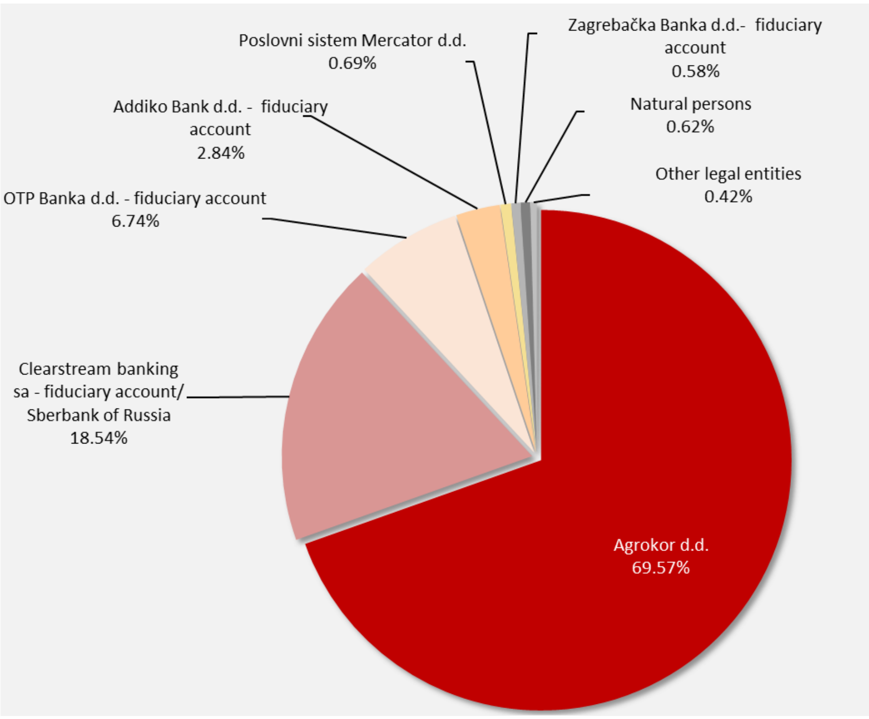
Mercator share and investor relations

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31, 2019:

Code/Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska borza, d. d.
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of own shares	42,192
Number shareholders	1,572

Ownership structure of the company Poslovni sistem Mercator, d.d., as at December 31, 2019



Major Shareholders

As at December 31, 2019, the ten largest shareholders combined owned 97.69% of the company. Key information on the largest shareholders is presented in the chapter Corporate Governance Statement.

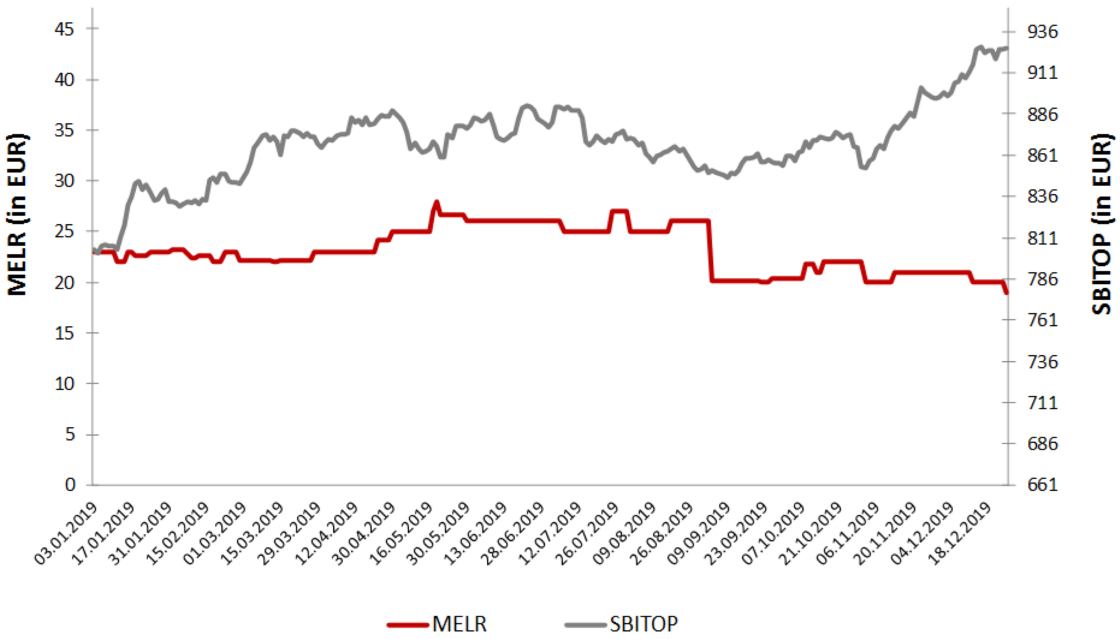
Shares held by Management and Supervisory Board members as at December 31, 2019

As at December 31, 2019, 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, 2019, the share of foreign investors in the company Poslovni sistem Mercator d.d. amounted to **98.67%**, which is 0.01 percentage point less than at the end of 2018.

Movement of closing price per MELR share in the period 1–12, 2019, compared to the movement of the SBITOP index



Key information for the shareholders[12]

In EUR 000	31. 12. 2019	31. 12. 2018	Change 31. 12. 2019/ 31. 12. 2018
Number of shares registered in Court Register	6,090,943	6,090,943	0.0%
Number of own shares	42,192	42,192	0.0%
Market capitalization (in EUR)	115,727,917	140,091,689	-17.4%
Market value of share (in EUR)	19.0	23.0	-17.4%
Book value per share (in EUR)	66.5	68.5	-2.9%
Minimum close rate in the period (in EUR)	19.0	20.2	-5.9%
Maximum close rate in the period (in EUR)	28.0	34.8	-19.5%
Average close rate in the period (in EUR)	23.1	26.4	-12.4%
Earnings per share (in EUR) [Δ]	-2.3	-1.8	-
Price/earnings ratio (P/E)	24.6	86.6	-71.6%
Capital gains yield (in %)	-17.4	14.6	-

Dividend policy

In 2019, the company Poslovni sistem Mercator d.d. did not pay out any dividend.

Own shares

As at **December 31, 2019**, the company Poslovni sistem Mercator d.d. held 42,192 own shares. In the period 1–12, 2019, the company Poslovni sistem Mercator d.d. neither acquired nor disposed of own shares.

Investors

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

Shareholders holding shares of the same class are treated equally and under the same terms by Mercator. Furthermore, they are motivated to actively and responsibly exercise 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. **Book value per share** is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator d.d. as at 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. **Price/earnings per share** 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.

[Δ] Alternative measure is presented in more detail in the chapter Alternative performance measures (APM).

Taxes and other charges

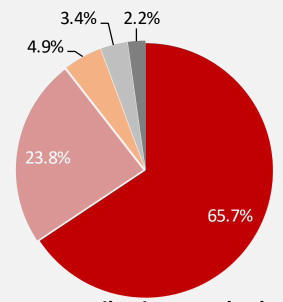
Taxes are of key importance for economic and social development of the entire society or country. **At Mercator Group, we comply with the effective tax legislation in all countries of our operations, the international regulations, and with the sound taxation practices based on the principles of sustainability 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 2019

in 000 EUR	Tax, contributions, and other charges in 2019
Slovenia	115,315
Serbia	41,837
Montenegro	8,576
Bosnia and Herzegovina	5,998
Croatia	3,908
Total	**175,634**



Tax, contributions, and other charges in 2019

In 2019, Mercator Group companies paid a total of EUR 176 million of taxes, contributions, and other charges. Of this amount, EUR 115 million of taxes and other charges were paid in Slovenia (accounting for 65.7% of total Mercator Group tax liabilities), which makes Mercator one of the most important contributor of public finance income in the country.

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.

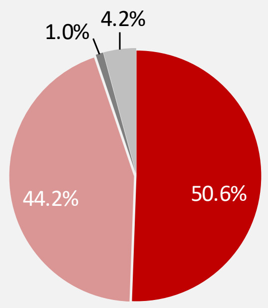
Corporate income taxes – these are taxes related to profits of the company, such as: corporate income tax, tax on profit, withholding tax, tax after withholding.

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 2019

in 000 EUR	Tax, contributions, and other charges in 2019
Personal income tax	88,834
Taxes on goods, services, products	77,673
Corporate income tax	1,707
Other taxes and charges	7,420
Total	**175,634**



Tax, contributions, and other charges in 2019

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 and based on an extension application, the special status of the company was extended to March 2022.

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.

Dan D
PLAC underneath a former
Mercator hypermarket.

»Mercator is the largest employer in Slovenia, and the symbol of Slovenian commerce from the very beginning.«

3.

Non-financial report

Pursuant to the Directive 2014/95/EU of the of the European Parliament and of the Council dated December 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 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.

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.

Business model and governance

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

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.

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

At Mercator Group, we respect our **natural environment** and environmental regulations. Our goal is to protect and improve natural capital in the countries of our business. We strive to prevent or decrease pollution throughout the entire cycle of our products and services, and especially with respect to waste generation, emissions, and use of raw materials and energy.
Environmental policy, effects on the environment, and risks are defined in more detail below, in the chapter »Responsibility to natural environment«.

Our key goal is to have competent, satisfied, and motivated **employees**. 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. **We honour human rights**, we comply with the legislation and relevant norms, and we prohibit any discrimination in the workplace in all countries of our operations. 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. More detailed information on employees and respect for human rights is provided below in the chapter »Responsibility for the employees and respect for human rights«.

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, including **corruption** and **fraud**. Unlawful and unethical conduct is not permissible. The document Binding Guidelines for Operating Compliance lay down the fundamental principles and rules to be observed by the employees in their mutual relations and in relations to customers and third parties with whom they cooperate in their work. At Mercator Group, the standard of zero-tolerance for any form of corruption or fraud applies. More information about our fight against corruption and bribery is presented below, in the chapter »Responsibility to social environment«.

In addition to the said policies, Mercator Group also recognized:
- **diversity policy** presented in more detail in the chapter »Corporate Governance Statement« in the Business Report section of the Annual Report;
- **customer relations policy** that is presented in more detail in the chapter »Responsibility to customers«;
- **social environment policy** that is presented in more detail in the chapter »Responsibility to social environment«;
- **supplier relations policy** that is presented in more detail in the chapter »Responsibility to suppliers«;
- **quality management policy** that is presented in more detail in the chapter »Responsibility for quality«.

As a part of the risk analysis for the year 2020, Mercator Group assessed all risks identified in the risk register. Mercator Group's key **risks** are described and presented in the chapter Risk Management in the Business Report part of the Annual Report.

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 2019 pursuant to the provisions of Article 70.c of the Companies Act (ZGD-1). Mercator Group's non-financial operations are presented later in this chapter.

Ljubljana, April 20, 2020

Tomislav Čizmić
President of the Management Board

Draga Cukjati
Member of the Management Board

Igor Mamuza
Member of the Management Board

Gregor Planteu
Extraordinary Management Board Member

Responsibility for the employees and respect for human rights

Employee policy and respect for human rights

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

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

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.

Employee-related activities and due diligence

In 2019, 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.

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

Health promotion program – We offered our employees vaccination against influenza free of charge; at the healthcare hours, we presented interesting contents and useful healthcare advice (there were 295 participants at 16 healthcare hours).

Responsibility
to employees
and respect for
human rights

Mercator scholarship recipients – Early in the year, we worked with high schools through a number of activities. In February, we took part in open-door days, and we dedicated our efforts to the call for applications for 100 company scholarships. At the moment, we provide scholarship to 70 high-school students who are trained in the programs for salesperson, baker, butcher, pastry chef, and waiter.

Mercator scholarship project

Succession in retail – In November, three groups of participants form across Slovenia successfully completed the 7th generation of Retail Academy. They started their training program in March 2019. There are a total of 53. The training included 11 modules or 11 training days during which the participants honed their competencies required for a good shop manager, and acquired internal knowledge that is necessary for anyone appointed to this important job. The participants also improved their competencies with the assistance of internal coaches. More than a half of participants have already been promoted during their training, and 8 of the already work as shop managers.

Succession in retail project

In October, we also started the selection procedures for participants of the 8th Retail Academy. Employees were again invited to apply via a call for applications; in addition, they could be proposed for selection procedure by their leaders. The first part of the selection process involved 267 candidates. We are planning to start the training in March.

Identifying development opportunities for IT leaders – Consistently with the new organizational structure of the IT and Telecommunications sector, the head of the IT sector worked with the Development and Selection Department to develop a project within which we identified key competences required for successful work of a leader in the sector, and then devised a development program that will help leaders develop their competences. We have already conducted interviews with the leaders, and identified and measured the key competences for the field.

Training in retail – In 2019, the emphasis was on expert knowledge and selling skills for employees in deli, meat, and fish departments. We organized 28 training courses for butchers, fish mongers, and deli servers for a total of 653 employees. Specialized selling skills workshops that we regularly hold in the form of both conventional workshops and visits at retail units were attended by 753 employees in 2019. Moreover, we again organized shop manager training in which over 200 participants refreshed their knowledge of computer science and developed soft skills pertaining to interpersonal relations. IN addition, 59 employees received internal qualification for shop assistant as a part of the stock assistant school in 2019.

Training in retail

Presentation of the Best Internal Instructor, Best Shop Assistant and Best Boss

It is good to be the best – In December, 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 5 employees; the Best Shop Assistant award was received by 36 employees; Best Boss award was presented to 12 employees; Best Store award went to 21 units; and the most prestigious Mercator Award went to a total of 22 recipients in 2019.

Systematization revision project – Responding to the change in the legislation, which resulted in the increase of minimum wage and exemption from all bonuses from the minimum wage as of January 1, 2020, we conducted in 2019 activities to revise our salary system as of January 1, 2020. Employees were presented new employment contracts for signing, effective as of January 1, 2020.

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

School of Cooking Skills – Working with the Ljubljana Biotechnical Centre, we organized in March and April a several-day training course for our employees from the delicatessen department, during which 17 participants learned new cooking skills.

Development dialogue with key employees – In September, we started conducting development dialogues with key employees in all fields of our company's operations. We started with a discussion of work climate, or atmosphere. Twenty interviewers held interviews with a total of 97 key employees at various levels of management. We shall continue the development dialogues in 2020 with a discussion of employee talents.

In 2019, 25 employees at the company retired (6% of all employees), which is the most in any year in the entire company history.

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

Health promotion program – We offer our female employees a gynaecological examination free of charge. Any interested female employee can apply for and have an examination.

High school practical training programs – We offer practical training for the students in shop assistant and butcher programs of secondary vocational school. Practical training takes part at the Idea, Roda, and Mercator units. In the 2019/2020 academic year, we established cooperation with 29 secondary vocational schools in over 20 towns across Serbia; thus, over 280 students will be included in the program. In the dual education program that we conduct in cooperation with the Serbian Chamber of Commerce and Industry, more than 100 high school students are taking part in the 2019/2020 academic year; taking care of them are 25 certified instructors.

Training program for administration employees – Internal training was held for employees working in administration at the company, with the goal of improving cooperation between respective sectors and facilitating business decision-making.

Retail management training program – Third-party training intended for retail directors and heads of the Idea sales are was designed to improve existing knowledge and skills of the employees, and to allow them to use their full potential, as well as use the presented tools in their everyday work.

Wholesale employee training – Two third-party training courses are held in wholesale: field sales skills training is intended for all employees working as sales managers, while field sales management training is intended for all heads of sales and directors of respective regions.

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

Recruitment marketing – Employees and the broad public were informed about the advantages of employment at the company. We have also updated the website at www.mercator.ba, which is now also useful as an additional tool for hiring new candidates.

For 2019, we identified 12 best shop assistants who received cash prizes in January 2020.

Revised website at www.mercator.ba

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

Shop manager training – Shop managers are among key employees for success and motivation of employees in retail. Therefore, we have developed a special development program for them as a part of the Idea Retail Academy. Training that involves topics from a variety of fields is conducted by our internal instructors who are experts on a number of fields. The program includes the induction process and its effect on employee satisfaction, fluctuation and productivity, importance of HACCP, quality control, occupational safety, review of the fields of wholesale and logistics, importance of properly conducted human resource management procedures and documentation management, and presentation of the fields of work in the legal and general affairs sector (legislation, inspection procedures etc.) and accounting (settlement, material accounting).


Training for retail network

Training for retail network – All employees in retail took part in targeted training as 335 cash register operators from all regions took part in the training »Improving the Checkout Zone Service«, while 360 employees of other departments took part in the »Selling Skills« training.


Idea Day and Corporate Value Day

Idea Day and Corporate Value Day – Celebrating the 3rd Idea and corporate value day, a food fair was organized for employees in administration, where the employees cooked traditional meals typical of international cuisines, and employees in retail and logistics were presented with a cake.

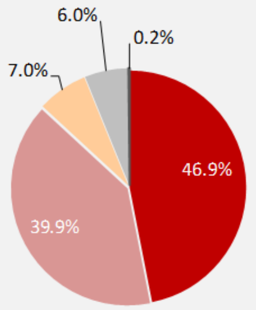
Mercator Humanitarian Foundation

In 2019 in Slovenia, the **Mercator Humanitarian Foundation** provided aid in total amount of EUR 105,686 to 173 employees of the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o. In Serbia, humanitarian aid was provided to 203 employees, in the total amount of EUR 75,466. In Montenegro, 35 employees received total aid of EUR 8,510.

Key performance indicators

Number of employees by Mercator Group markets

Market	Number of employees as at December 31, 2019	Number of employees as at December 31, 2018	Index number of employees Dec 31, 2019/ Dec 31, 2018	Number of employees based on hours worked in the period 1–12 2019
Slovenia	9,355	9,580	97.7%	8,450
Serbia	7,985	8,096	98.6%	7,458
Montenegro	1,393	1,424	97.8%	1,321
Bosnia and Herzegovina	1,197	1,173	102.0%	1,131
Croatia	33	37	89.2%	36
Total	**19,963**	**20,310**	**98.3%**	**18,396**



Number of employees by markets December 31, 2019

As at December 31, 2019, there were 19,963 employees at Mercator Group, of which 10,608, or 53.1%, worked at companies outside Slovenia. The number of employees was the highest in Slovenia with 9,355, and the lowest in Croatia with 33. Compared to 2018, the number of employees increased in 2019 at Mercator–BH d.o.o. (by 2%), while it decreased in all other Mercator Group markets.

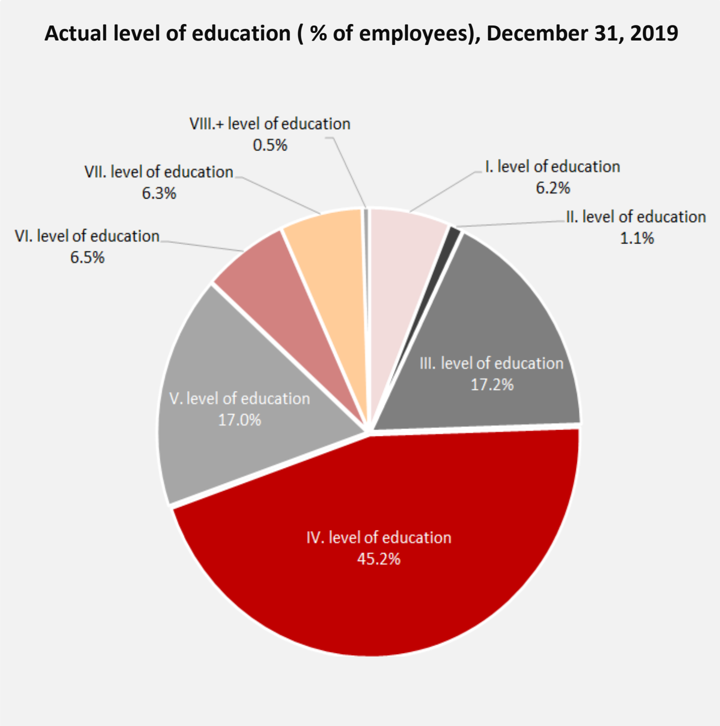
Employees by gender

As at December 31, 2019, Mercator employed more female than male employees: 72.3% of employees were women and 27.7% were men.

Year	Number of employees	Men (in %)	Women (in %)
December 31, 2019	19,963	27.7	72.3
December 31, 2018	20,310	28.1	71.9

Composition of employees by level of education

The most employees – as many as 45% of all employees – at Mercator Group have the 4th level of education, which reflects the Group's core activity of retail. This group is followed by employees with 3rd and 5th level of education with 17.0% and 17.2%, respectively. The lowest share – 0.5% or 105 employees (of which 94 are employed in Slovenia) – pertains to employees with 8th or higher level of education.



Share of employees by type of employment contract

As at December 31, 2019, there were 17,643 Mercator Group employees (or 88.4% of all employees) with a permanent employment contract, of which 9,229 worked in Slovenia (98.7% of employees in this market). The company Mercator–CG d.o.o. had the largest share of employees on fixed-term (temporary) employment contracts (25.7% employees in this market).

Market	Individual contract (in %)	Standard contract (in %)	Permanent contract (in %)	Contract for a fixed period (in %)
Slovenia	0.7	99.3	98.7	1.3
Serbia	0.6	99.4	79.9	20.1
Montenegro	0.1	99.9	74.3	25.7
Bosnia and Herzegovina	0.3	99.7	81.3	18.7
Croatia	6.1	93.9	87.9	12.1
Total	**0.6**	**99.4**	**88.4**	**11.6**

Employment of disabled persons

There are 1,046 persons with disabilities who are employed at Mercator Group, or 5.2% of all employees. Slovenian market has the highest number of employees with disabilities, with 851 or 9.1% of total employees in Slovenia. Of these, 206 are employed at the company Mercator IP d.o.o., which accounts for 51% of employees at this company.

Market	Number of employees	Disabled persons December 31, 2018	Disabled persons December 31, 2018 (in %)
Slovenia	9,355	851	9.1
Serbia	7,985	156	2.0
Montenegro	1,393	1	0.1
Bosnia and Herzegovina	1,197	38	3.2
Croatia	33	0	0.0
Total	**19,963**	**1,048**	**5.2**

Functional training and education

In the period at hand, Mercator Group devoted nearly 120,086 hours to functional training and education that involved 20,065 employees. On average, each participant received 6 hours of education or training.

Market	Number of hours in 2019	Number of participants in 2019	Costs (in EUR)
Slovenia	79,299	13,416	496,601
Serbia	15,812	2,977	113,717
Montenegro	13,218	1,920	32,241
Bosnia and Herzegovina	11,758	1,752	7,361
Croatia	0	0	0
Total	**120,086**	**20,065**	**649,920**

Health-related absenteeism and average age by markets

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. Total health-related absenteeism rate at Mercator Group in 2019 was 3.6%. It was the highest in Slovenia, and the lowest in Croatia. On average, employees are the youngest at the company Mercator–CG d.o.o. where average employee age is 38.8 years, while the highest average age of employees was recorded at the company Mercator–H d.o.o., at 45.9 years.

Market	Health-related absenteeism to the burden of the company in 2019 (in %)	Average age of employees
Slovenia	4.2	44.2
Serbia	3.4	40.7
Montenegro	2.1	38.8
Bosnia and Herzegovina	2.6	40.9
Croatia	0.8	45.9
Total	**3.6**	**42.3**

Responsibility to customers

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-related activities and due diligence

At Mercator, safety and quality are of utmost importance. Therefore, we pay close attention to the quality of our products. We do our best to offer environmentally friendly products and services, and we pace a lot of emphasis on the offer of domestic, local products.

Customer complaints

We always address any customer complaints seriously and responsibly, and they are a source of information and a starting point for improving our offer and our service. We address any complaint or comment and we find the best solution for the customer, while also improving the work process insofar as possible and reasonable.

Customer complaints are received via a number of channels (telephone, e-mail, conventional postal delivery service, Facebook etc.) and collected at our Contact Centre. We coordinate their resolution and provide feedback on the solution as needed. Most frequently, the complaints are lodged via e-mail. We analyze the received complaints and develop proposals for improvements and measures for their pursuit.

Marketing activities related to the offer of local products

In 2019, we continued our project We Love Local, within which we offer genuine produce and products from local farmers, growers and producers. The project involves 179 local suppliers, and the offer already involves over 2,000 local products.

Marketing activities related to the offer of local

Annually, we sell **EUR 1.1 billion worth of goods by local and regional suppliers**, which is **62.5% of total** Mercator Group **retail revenue**.

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 sales unit; employee training; and control of safety and quality of food in open departments.

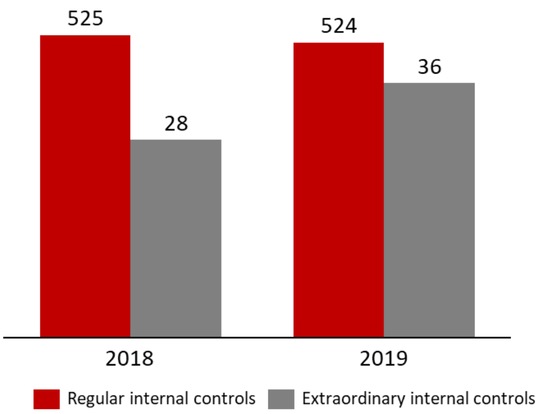
Superior Quality Certificate by the Faculty of Biotechnology

In order to offer safe, compliant, and quality products to consumers, the company Poslovni sistem Mercator d.d., Slovenia conducted the following activities in 2019:

- 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 1,578 private label product samples were analyzed in our in-house laboratory and by third-party institutions;
- we conducted monitoring on 1,821 food samples and swabs from our open departments;
- we recorded 335 samples as a part of national monitoring;
- we carried out 524 regular and at least 36 extraordinary internal controls at our sales units;
- for employees in retail, we held 77 workshops on internal controls according to the principles of the HACCP system (1,333 employees took part in the workshops);
- we successfully completed the audit for marketing organic food, and expanded sales of bulk (non-pre-packed) organic food to cookies, cereal, and grain products;
- we successfully completed the certification audit for the Select Quality scheme for the sale of poultry, beef, and veal, and for the Select Quality scheme for sale of bulk (non-pre-packed) fruit;
- we have been invited by the European Commission to Brussels to attend the annual seminar of the Directorate General for Agriculture and Rural Development, within the B.3 unit Geographical Indications, where we presented the process of identification and management of items labelled with the logos by European agricultural quality schemes (ZOP/PDO – Protected Designation of Origin, ZGO/PGI – Protected Geographical Indication, ZTP/TSG – Traditional Speciality Guaranteed), and the issues regarding obtaining required evidence/certificates for justified use of these logos.

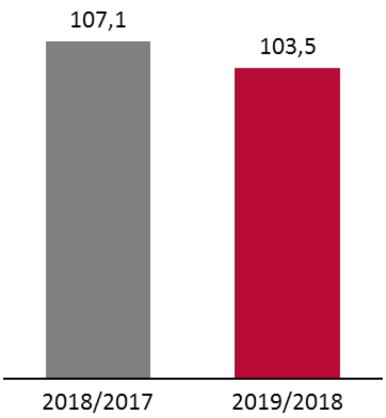
Key performance indicator

- **Regular and extraordinary internal controls**



In order to offer our consumers quality products, we are conducting both regular and extraordinary internal controls. Thus, we conducted 36 extraordinary controls in 2019, which is 28.6% more than in 2018. There were 524 regular controls, which is 0.6% fewer than in the preceding year.

Growth index for transactions completed via modern technologies



Innovations in modern technologies afford quick and easy payment for the customers, as well as new ways of shopping and new shopping experience. Modern technologies allowing retail transactions include:

- online store (Slovenia, Serbia, and Montenegro);
- TikTak self-check-out (Slovenia, Serbia and Bosnia and Herzegovina);
- MScan (Slovenia);
- MPay (Slovenia).

In 2019, the growth index for transactions completed via modern technologies in retail increased by 3.5% relative to 2018.

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

Mercator Group is striving to transition to circular economy in which resources are used prudently and sustainably. In 2019, we successfully implemented, consistently with the changes to the legislation and new European strategies regarding packaging, requirements for reduction of consumption (or phasing out) of lightweight plastic bags. We offered consumers shopping bags and their alternatives that they can reuse as many times as possible in order to reduce the use of natural resources and amount of waste, and thereby reduce negative effects on soil, water, air, climate, and biotic diversity. Our permanent environment protection measures, such as the increase in the volume of recycled waste, and reuse of products and raw materials, contribute to »closing the loop« of product life cycles, and bring benefits for the environment and for the company. 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.

Environment-related activities and due diligence

Mercator's operations directly affect our natural environment. In order for us to sell products, we use natural resources at our stores, such as water, energy, service packaging etc., or the so-called inputs. Moreover, our retail and logistics business activity result in generation of various types of waste, wastewater, noise emissions, emissions into air, greenhouse gas emissions 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.

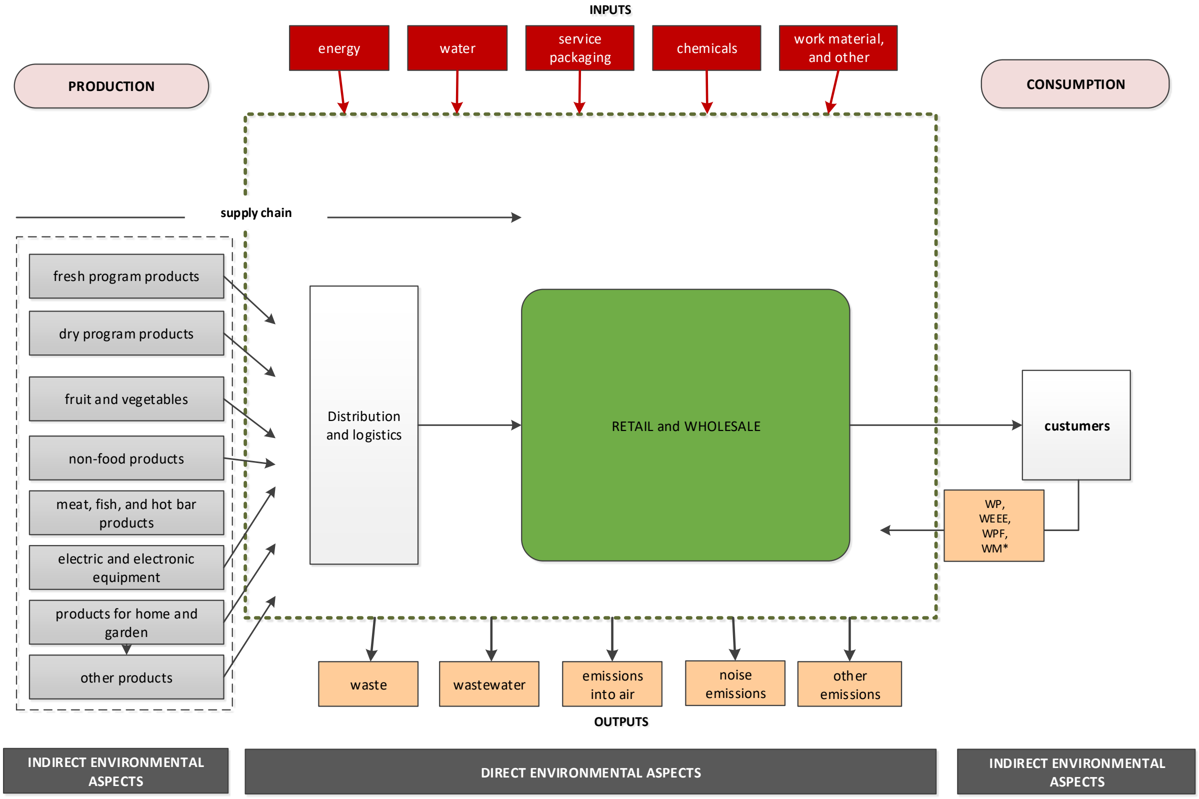
Thus, we are aware at Mercator Group that by conducting our business activity, especially in terms of use of energy and the resulting greenhouse gas emissions, we also contribute to climate change. Consistently with our goal of cutting the use of energy, we are conducting a number of measures and activities.

Mercator Group also affects climate change indirectly via the goods we are offering to our customers. In our offer, we are constantly increasing the share of

Responsibility to natural environment

local products with a shorter supply route, which in turn reduces greenhouse emissions in comparison to products sourced from suppliers farther away. By selecting local products, customers contribute to a lower impact on climate change.

Environmental aspects and effects on the environment in retail and wholesale



*OEM (WP) – waste packaging; OEEO (WEEE) – waste electric and electronic equipment; odp. FFS (WPF) – waste phytopharmaceuticals; odp. zdravila (WM) – waste medications.

It is Mercator Group's goal to **protect, preserve, and improve the natural capital 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 to the environment.

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. External factors also include the challenges presented by climate change and other environmental issues. 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 requirements of the currently effective 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.

Communication

We used our system for internal communication with the employees whose work has significant environmental impact, to the following ends in 2019:

- 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 prepared, updated, and standardized the internal environment protection documents.

Energy efficiency

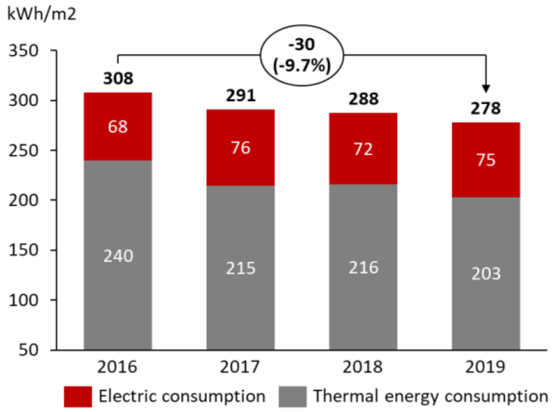
The pace and purpose of exploitation of renewable and non-renewable natural resources are increasingly reducing the ability of our planet to restore the sources of energy on which our welfare and growth depend. Therefore, Mercator Group is making every effort to preserve the natural resources and reduce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

In the period 1–12, 2019, the following applies to the 5 companies of the Mercator Group:

- energy consumption costs amounted to EUR 38,495 thousand;
- carbon dioxide emissions from fuel and energy consumed amounted to 331,620 tons of CO2; specific emission was 176 kg of CO2/m2;
- Electric energy consumption amounted to 458,977 thousand kWh; specific power consumption was 243 kWh/m^2.

Key performance indicator

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



Slovenia

At the company Poslovni sistem Mercator d.d., we are striving to cut our power consumption. In order to attain this goal, the following activities were continued or carried out:

- energy accounting was established for all buildings of the company, measures for efficient use of electric energy are in place at 491 facilities or units, measures for efficient use of heating energy are in place at 214 facilities or unit (all based on the Business Cooperation Agreement in the Implementation of Energy Management);
- we inform our employees on a quarterly basis on the measures for efficient use of energy, and we conduct energy consumption control for individual employees on a monthly basis;
- we are updating our heating system based on the energy policy strategy at 5 locations.

Plans for 2020

In 2020, we shall continue to inform the employees on a quarterly basis about the efficient use of energy. We shall continue to implement measures for efficient use of energy with support of our contractual partner. Efficient use of energy will include continuation of our activities to date, including restoration of heating systems and installation of energy-efficient equipment at some facilities. In addition to restoration of heating systems, we shall also continue to replace lighting systems at our facilities.

Serbia

In 2019, the company Mercator–S d.o.o. conducted the following activities for improvement of energy efficiency:

- replacement of old fluorescent lighting with new LED lighting at 7 facilities;
- carrying out the »retail« project in 30 locations;
- installing an idle current compensation device at 27 facilities.

Plans for 2020

Our main goal is to continue to reduce the overall energy consumption by at least 1% per year. In addition, we are planning to include 14 more facilities in the retail supply project, install idle current compensation devices at 20 more facilities, replace lighting fixtures with LED fixtures at 20 facilities, install the first refrigeration system with C02, and optimize operating parameters of refrigeration chests or display cases at three facilities.

Montenegro

To improve the efficiency of energy use, the company Mercator–CG d.o.o. continued its activities related to guidelines for rational use of electric energy at retail units.

Bosnia and Herzegovina

In 2019, the company Mercator–BH d.o.o. operated consistently with the relevant guidelines:

- continuous efforts for rational use of energy for lighting and refrigeration;
- installation of LED lighting fixtures at four shopping centres;
- adjustment or heating and air conditioning system to outside temperatures;
- finding a strategic supplier of heating oil;
- monthly cost monitoring and development of corrective measures.

Plans for 2020

Further efforts for rational use of energy consumed for lighting and refrigeration, installation of LED lighting fixture in at least 2 facilities, adjustment or heating and air conditioning system to outside temperatures, minimal increase of prices relative to the initially offered prices for electricity distribution, further monthly cost monitoring, and corrective measures

Croatia

In 2019, planned activities regarding the implementation of guidelines consistently with the Manual on Efficient Use of Energy at Retail Units and replacement of energy-inefficient devices with energy-efficient ones.

Plans for 2020
In 2020, we are planning to continue the implementation of measures from 2019:

- replacement of existing energy-inefficient devices with more energy-efficient ones,
- replacement of existing energy-inefficient lighting with LED light fixtures,
- replacement of currently existing inefficient air-conditioning and heating systems with energy-efficient ones.

Sustainable logistics and merchandise supply

Slovenia

Operation of the business field of logistics in 2019 was characterized 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. We have improved our methods and procedures for efficient replenishment (topping-up) of new sales units or existing stores following major refurbishments, which we have introduced already in 2018 and which have considerably simplified and sped up the preparation of new or updated stores for (re)opening and start of operation.

By expanding cross-dock distribution, we have further increased the share of central supply to stores with existing logistics infrastructure, without significantly increasing the merchandise inventory at distribution centres. Such distribution has reduced the number of manual goods ordering transactions at retail stores, as automatic ordering was implemented for this assortment.

We have kicked off the pilot project of distribution on **dollies**. Introduction of these rollers (trays on casters) is particularly suitable for promotional exposures and for regular positioning of best-selling products, since dollies can be simply transported to the point of sale at stores, without additional transferring (e.g. from pallets). When the dolly is empty, the shop assistant simply replaces it. The total annual effect of this new transport packaging is estimated to save 48 thousand working hours at our retail units.


Pilot project of goods distribution on dollies

Serbia

In 2019, changes were introduced in logistics at the company Mercator–S d.o.o., with two goals: improving the stock level at retail units for particular categories, and optimization of distribution. We introduced a change in transport route planning, which improved the quality and accuracy of data required for the process. This, in turn, lead to better use of space in the warehouse dispatch zone and higher level of order fulfilment.
Two new warehouse facilities for cross-dock distribution were set up, which resulted in shorter overall distance covered in the process of supplying the stores. Share of central distribution for fresh meat increased by 10%. At the end of the year, the project of control by weighing of outgoing goods upon leaving the warehouse was introduced, which will improve the level of quality.

Montenegro

At the company Mercator–CG d.o.o., we expanded the assortment at the delicatessen warehouse in 2019 and thus expanded the scope of central distribution. In the fruit and vegetables warehouse, we increased the supply frequency to retail units, which has resulted in better quality of goods at the stores (on the shelves). We also introduced automatic goods ordering in the packed food warehouse, which allowed optimization of the goods ordering process at retail units.

Bosnia and Herzegovina

Logistics processes at the company Mercator–BH d.o.o. were focused in 2019 on activities related to improvement of order fulfilment rate. Despite the decrease in the number of service providers at the distribution centre, we succeeded in increasing the scope of distribution. Contributing the most in this respect was integration of distribution of milk under our private label, which is constantly increasing. Prerequisite for distribution of food of animal origin was met in 2018 when we obtained the veterinary plant control number for our logistics and distribution centre Blažuj. The number of items with central distribution increased by 13 percentage points in 2019. In addition, we provided system support to the goods ordering process, which we continue to develop and optimize.

Waste and raw materials

Slovenia

New shopping bags

Early in 2019, we introduced new shopping bags made of **100% recycled plastics**, consistently with the changes to the relevant legislation. In order to promote reuse of shopping bags, we expanded our shopping bag sales assortment with **100% recycled shopping carts and baskets** and launched **shopping bags made predominantly out of grass**.

Recycled shopping carts and baskets and bags made of grass, recycled paper and cellulose

Comparison of the number of bags sold before the free plastic bag ban indicates that the new shopping bags were met with a positive response by the customers. Thus, sale of conventional plastic shopping bags decreased, while sale of frequent-use (reusable) shopping bags increased somewhat.

Disposable plates and cups made of pure cellulose

In addition to shopping bags, we also introduced environmentally friendly **line of picnic products**. It includes disposable products (i.e. products intended for single use) like cups and plates, made of pure cellulose, with FSC sustainability certificate. The line will replace our line of equivalent plastic products.

Participation in the National Geographic

In 2019, we worked with Fox TV to take part in the National Geographic initiative for decreasing the use of disposable plastic. In a series of messages, we discouraged the use of disposable plastic products and encouraged reuse.

We wish to offer consumers adequate possibilities regarding **the use of their own packaging for deli products**. **Due to legislation and guidelines on food safety that we are obligated to comply with**, we aligned all requirements in advance with the relevant institutions whose obligation it is to provide hygienically sound products for consumers. The project will be fully implemented in 2020.

Waste and raw material management activities in the Slovenian market:

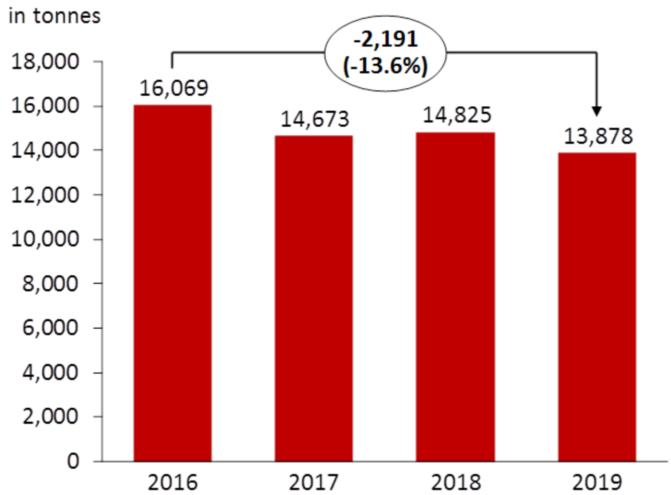
- By relocating our mixed municipal waste press from a closed location to Mercator Centre Kamnik and by installing two additional containers for waste small packaging, this centre has reduced the number of mixed municipal waste by 30%. With this change, employees at the location were encouraged to step up their waste sorting efforts even further.
- At 21 refurbished retail units of the company Poslovni sistem Mercator d.d., we installed waste sorting bins for separate waste collection for the customers.
- We actively **controlled the separate waste packaging collection and sorting** at the units of the company Poslovni sistem Mercator d.d. In order to improve the quality of separately collected waste packaging, we optimized the handling of small waste packaging at our stores.
- 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 (Center za ponovno uporabo, CPU) 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 »**Bring your old batteries**« to promote sorting of e-waste and waste batteries. With this campaign, we also wished to encourage the general population, the customers, and all of us to act more responsibly with these small, but highly hazardous waste, and improve general public awareness of this issue.

Bring your old batteries project

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

- more than 45 thousand tonnes of waste cardboard packaging,
- more than 7 thousand tonnes of waste plastic packaging, and
- more than 9 thousand tonnes of waste wooden packaging.

Key performance indicator
Waste material (raw materials and packaging material)



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:

- In 2019, the company **Mercator–S d.o.o.** sorted, i.e. separately **collected, and recycled 2,754 tonnes of waste paper packaging, and 172 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 50 tonnes of hazardous waste and 88 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 is 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. is non-hazardous waste; only a small fraction of the generated waste is hazardous.
- In 2019, the company **Mercator–BH d.o.o.** worked with the partner Bova to sort, process and recycle over 486 tonnes of cardboard packaging and over 21 tonnes of plastic packaging waste. Outdated electronic equipment was handed over to the authorized waste collection company ZEOS.
- In 2019 the company **Mercator–BH d.o.o.** introduced an alternative reusable shopping bag in order to reduce the use of disposable (single-use) shopping bags. Sales results indicate growing customer awareness.

Reusable bag

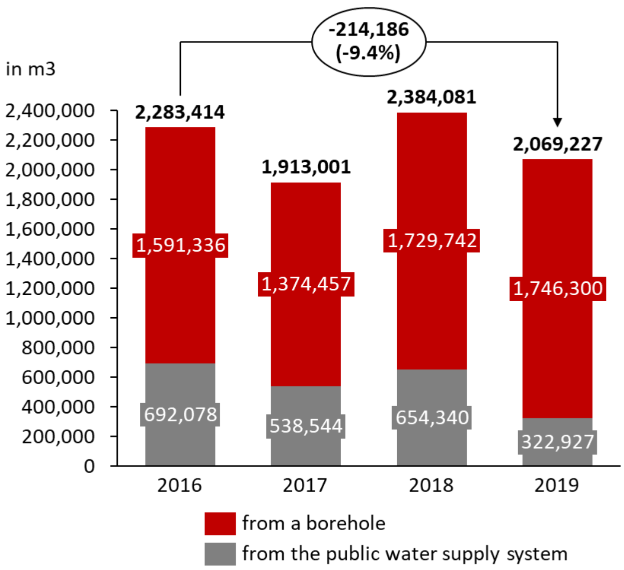
Water and wastewater

Slovenia

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.

Key performance indicator

Total amount of water pumped, by source



Serbia

Wastewater quality is monitored at the company **Mercator–S d.o.o.** consistently with the legislation and the plans for internal wastewater sampling in installed oil and fat skimming devices. In 2019, sampling was conducted 3 times at 55 oil and grease traps. For oil and grease traps in which deviations were detected, all deficiencies were eliminated.

In 2019, the company Mercator–S d.o.o. used 440,850 m3 of drinking (potable) water, which is 6,077 m3 less than in the preceding year.

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 2019:

- 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 8 locations the equipment in the cooling equipment engine room and replaced the freezers on 17 buildings. All newly installed equipment and devices are more environmentally friendly.
- At the Maxi hypermarket, we installed the first CO2 refrigeration system, which is the most ecologically sound refrigeration system.
- We made sure that 129 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 33 freight vehicles with the Euro 6 engine that has a lower environmental impact.

Serbia

At **Mercator–S d.o.o.**, emissions into atmosphere from stationary sources were measured in 2019 at the start and at the end of the heating season at 20 commercial buildings (23 measurement points) 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 have also prepared internal documents regarding chemicals: work processes with chemicals, instructions for handling hazardous chemicals, basic standards for equipping the stores carrying chemicals, rules for positioning of hazardous chemicals at the fast-moving consumer goods program/market program, rules for positioning of hazardous chemicals, biocides, and phytopharmaceuticals at specialized stores offering phytopharmaceuticals (FFS) – for M Tehnika, and guidelines for safe storage of hazardous chemicals in trade operations.

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 one location 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 this location.
- 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

In 2019, twelve noise measurements were conducted. At 7 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.

Responsibility to social environment

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. Our mission is to offer aid to those who need it. We care for the families and individuals in distress.

Social-environment-related activities and due diligence

With our activities related to social environment, we are building and consolidating our company's reputation and promoting the recognition of our own private labels (or store brands). Through the years, Mercator has gradually increased its investment into the local environment through sponsorships and donations, as well as with humanitarian aid to families and individuals in need.

Slovenia

Donations and sponsorships

In 2019, we at Poslovni sistem Mercator d.d. remained loyal to our tradition of prompt response to the needs of the local environments in which we operate, consistently with the slogan of the best neighbour.

We responded to all applications submitted by societies, organizations, clubs, and individuals. In 2019, these numbered over 2,200 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 (Thumbelina) Safe house in Grosuplje, and the Safe House in Pilštanj.

Donated Food project

Humanitarian projects

The **Donated Food** project included 19 major stores across Slovenia. Thus, Lions Club members pick up every evening the food for which the use-by date has not yet expired, and distribute it to families and individuals in social or financial distress. In 2019, we worked with the Slovenian Red Cross to collect over **16,700 donated products** at 56 stores, including flour, rice, pasta, milk, meat produce, canned food, cereals, diapers, hygiene supplies, body care supplies, school supplies etc. In October, we also supported Red Cross' humanitarian campaign **Breadcrumb** (»Drobtinica«) whose goal is to raise as much funding as possible in one day for school funds in respective environments. As a part of the 2019 Breadcrumb project, Mercator donated **3.8 tonnes of bread and bakery products**.

Supporting the Breadcrumb humanitarian campaign

Collecting Slovenian tolars for a good cause with Europa Donna

From January to the start of March 2019, Slovenian association for **fight against cancer** collected old Slovenian tolar banknotes in its humanitarian campaign. Contributing the most to this campaign by the Europa Donna Slovenia Association were Mercator, NLB, and Telekom Slovenia with pink boxes and containers. Special help also came from handball clubs Krim Mercator and Celje Pivovarna Laško which played a humanitarian exhibition match for cancer patients and their loved ones. Pink containers or boxes were also made at 19 ski jumping clubs that thus contributed the collected funds to the ROZA programs of psycho-social support.

Collecting Slovenian tolars for Europa Donna's fight against cancer

Mercator fields three teams in the Business Football League

In 2019, our three football teams proudly represent Mercator in the business football league.

Cultural and educational projects

At Mercator, we also support **cultural institutions and events**. This includes Cankarjev dom, Drama (theatre), Tartini Festival, Festival Ljubljana, Moderna galerija (Modern Gallery) in Kurentovanje (traditional carnival) in Ptuj. We also place a strong emphasis on support to education and offer funding for the Sales summit, Slovenian Marketing Conference, BledCom Conference, Bled Strategic Forum, Slovenian HRM Congress, Sales and Marketing on the Shelves, Trade and Retail Conference, Corporate Governance Conference, and the Portorož Business Conference.

In 2019, Mercator entirely sponsored the construction and equipment for training store at the Secondary Vocational School of Commerce in Maribor.

National competition in sales techniques

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

Sponsoring sports associations, clubs, mass sporting events, and athletes

In sports, we sponsored the Slovenian ski jumping team, Slovenian Olympic Committee, Handball Club Krim Mercator, Handball Club Celje Pivovarna Laško, Football Association of Slovenia, Football Club Maribor, wheelchair basketball team of the Ljubljana Region Society of Paraplegics, stand-up paddle surfer Manca Notar, whitewater kayaker Nejc Žnidaršič, and triathlete Tjaša Vrtačič. In this year, we again supported the mass Hike Along the Barbed Wire of Occupied Ljubljana, stand-up paddling with Manca Notar on Lake Bled, and the final events of the ski jumping season in Planica. A total of 2,100 pre-school children took part in the Lumpi Run at the Ljubljana Marathon event that is also sponsored by Mercator. Among other contestants, 90 Mercator runners ran the 10-, 21-, and 42-km courses.

In June 2019, the Vizore ski jumping centre hosted the 1st ski jumping competition for Mercator Cup in which Mercator took part as the main sponsor. The idea for such cooperation sprang up soon after the Vizore Ski Society won our campaign with our ski jumpers this year. In addition to the competition on the ski jumping hill, there was a lot going on in the pleasant natural ambiance of the Vizore Valley. Youngsters and adult visitors took part in sporting animation events and sampled the delicacies from the local producers.

Stand-up paddling with Manca Notar, Lumpi Run, Ljubljana Marathon, and the Mercator Cup ski jumping

Serbia

Sponsoring mass sporting events, sports clubs and associations

It is Idea's mission to be an active member of the local community in which it operates. As a part of the campaign **Belgrade, the city of your IDEAs**, Idea became the exclusive sponsor of the **Belgrade Marathon**, the largest sporting event in Serbia.

Since Idea is a long-standing sponsor of the **Crvena zvezda Basketball Club**, it joined in 2019 the organization of the socially responsible project **One Team** held by the Basketball Club Crvena Zvezda in cooperation with the Euroleague. The name of the 2019 project is »Play, Run, Have Fun«. and it includes organizing training sessions for children with special needs.

Since we are also the proud sponsor of the **Serbian Basketball Association**, we also organized a project in which we donated 2,000 basketballs to elementary and secondary schools.

Roda is the proud sponsor of the »**Roda 3x3 Serbian Championship**« project, where the best teams in the women's and men's competition are vying for the national title and many other awards. As part of the project, we installed a 3x3 section with 4 shirts, sweaters and other basketball equipment in 4 major stores.

Roda presented new jerseys and insurance for sports injuries to all **Roda Junior League** teams. The teams competing in the top tier league were presented at Trg Republike (Republic Square) in Belgrade.

Humanitarian projects

In 2019, Roda continued to pursue its humanitarian mission and took part in the project **Helping Out with Tamara**, in which we provide aid to many families in Serbia.

As part of the caravan, Idea visited homes for orphaned children and children's hospitals across Serbia, and sought to afford the children the spirit of holidays with the aid of Santa Claus, performances, and gift packages. The caravan included over 2,000 employees who visited over 50 institutions in 23 cities and gave out more than 5,000 packages.

Idea caravan

Montenegro

In 2019, IDEA remains the general sponsor of one of the most popular and widely-viewed TV shows in the country, **Dnevnica**.

We are sponsoring sports associations, clubs, and athletes.

Successful sponsorship of the **Montenegro Basketball Association** continued in 2019. Working with Nikšić Brewery and the Montenegro Basketball Association, we organized sweepstakes called »May the entire nation cheer«. Five main prize winners travelled to China to the Basketball World Championship. We also gave away 1,000 basketballs and 500 jerseys.

Sponsorship of the Montenegro Basketball Association

As proponents of a healthy lifestyle and fair play, we support the development of basketball and popularity of sports among youngsters.

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. This is one of the tournaments in Montenegro with the highest attendance of over 3,000 spectators per tournament.

3x3 Basketball Tournament Montenegro

In 2019, we again sponsored the **Podgorica Marathon** in which several thousand people take part – both the marathon and the cultural and entertainment programs around it.

Anti-corruption and anti-bribery 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. The fundamental purpose of the Guidelines is to underscore the exceptional importance of compliance of operations for the operation of Poslovni sistem Mercator d.d. in the business and broader social environment, and to promote the awareness of all employees about the importance of compliant and fair treatment, and prevention of non-compliance in everyday practice. Compliance of operations is our priority and a competitive advantage. We shall accomplish our goals in a lawful, ethical, transparent, and socially responsible manner. Lawful and ethical operations give rise to a sound corporate culture and consolidate the reputation of our company.

Activities related to corruption and bribery, and due diligence

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. Unlawful and unethical conduct is not permissible.

Compliance of operations means conduct in compliance with the laws and implementing regulations, and the Company's internal acts. Ensuring compliance of operations is predominantly geared towards prevention of any breach of legislation, implementing or executive regulations, and internal acts, to make sure potential breaches do not even occur. One of the key tasks related to operational compliance is continuous information and education of employees. In the process of training and education, adequate understanding of the sense, meaning, and the purpose of a particular internal act is achieved.

Corruption is a result of the lack of moral and ethical values. Due to its negative effects, it requires constant response and prevention. At our company, the standard of zero-tolerance for any form of corruption applies. Corruption can be defined as active corruption that includes offering or giving bribe, or as passive corruption that includes accepting bribe. Corruption will be present as long as both sides take part in it.

We have also established a mechanism for disclosure of disputable practices (whistleblowing system) at the company, called »Say It Out Loud«. In the document titled Policy of Encouraging Responsible and Fair Conduct accurately specifies the procedures regarding reports, protection of confidentiality of the reporting parties, handling of disclosed or reported practices, and responsibilities and powers of everyone involved in the said process. 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.

Responsibility to suppliers

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-related activities and due diligence

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.

Responsibility
to suppliers

Assessment of current fast-moving consumer goods 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 179 local suppliers and 2,022 products.

> By offering the best that the local environment has to offer, we **encourage innovation and success of local farmers and growers** and boost our competitive advantages in terms of differentiation from the 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. Products developed by our employees at Mercator Serbia in cooperation with the local growers under the private label The Flavours of My Town were also offered in Slovenian stores in 2019. Moreover, we are preparing a project in which products from Slovenia, included in the We Love Local project, will be launched in Serbia.

Activities of the We Love Local project

Inclusion of suppliers into the My Brands project

In 2019, 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.

My Brands project

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.

Supplier policy as a part of operational efficiency

Execution of supplier policy has three important roles:

1. It directly affects long-term relations with suppliers and thus the atmosphere created in the market by Mercator as one of the largest customers for local products.
2. It establishes normal conditions for unimpeded supply of food and other goods at our stores.
3. It has an important role in providing »safe food« and other products for the customers.

Execution of business strategy in cooperation with the suppliers

In 2019, operations of the Category Management sector were again focused on pursuit of **Mercator's business strategy** that is based on three key pillars:

1. **Retail is a local business,** meaning that Mercator is striving to be the best retailer in all of its markets, including in Slovenia. Respect and care for the local environment and local suppliers are evident in Slovenia in the following figures and acts:
   - Each year, we purchase over EUR 500 million worth of goods from Slovenian suppliers.
   - We are the only retailer to actively take part in the Vegetable Chain (Association of Slovenian Vegetable Growers).
   - In 2016, a strategic cooperation agreement was signed with the Cooperative Union of Slovenia.
   - Our assortment includes **26,000 Slovenian products**.
   - **76% of private label products** sold in the fresh food categories (dairy products, delicatessen, bread etc.) are **Slovenian** products.
   - We sell **100% Slovenian beef**.
   - We purchase all available Slovenian **pork** in the market. Slovenian self-sufficiency rate for pork is **30%**; the share of Slovenian pork at Mercator is **over 50%**.
   - **94%** of poultry offered is of **Slovenian origin**.
   - **45 %** of all vegetable supply is of Slovenian origin. self-sufficiency rate with vegetables in Slovenia is **below 40%**.

2. **We see our comparative advantage in differentiation,** and differentiation of offer is a key task. In the increasingly harsh competitive conditions in the market, we believe the key to success is especially differentiating our offer relative to the competition. Our primary role is:
   - To provide the broadest offer of local and regional brands.
   - Needless to say, we need to strike the right balance in relation to international brands and private labels, especially those that offer added value for the consumer.

3. **Our operational excellence** is the key for reaching the Group's short-term and long-term goals. In this aspect, **strategic and long-term partnership relations with suppliers** are of key importance. We see one of our advantages in the fact that we are a part of a broader regional group, which means we can search shared purchasing channels across markets in certain categories. At the same time, we can pave the way for Slovenian and regional products, including those that we develop ourselves, to the Group's other markets.

Responsibility to quality

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.

Quality-related activities and due diligence

Management of certified management systems

There are 19 certified management systems maintained at Mercator Group companies. In 2019, the company Poslovni sistem Mercator d.d. obtained a new certificate Forest Stewardship Council – traceability chain (FSC); Mercator–S d.o.o. certified its ISO 10002 Quality Management system – customer satisfaction, and received the Protected Consumer seal. In 2019, three follow-up audits of management systems took place at Mercator–Emba d.d. (International Food Standard – IFS and Supplier Quality Management System – SQMS), and HACCP follow-up audit took place at Mercator–CG d.o.o.

Quality management system in Mercator Group by companies

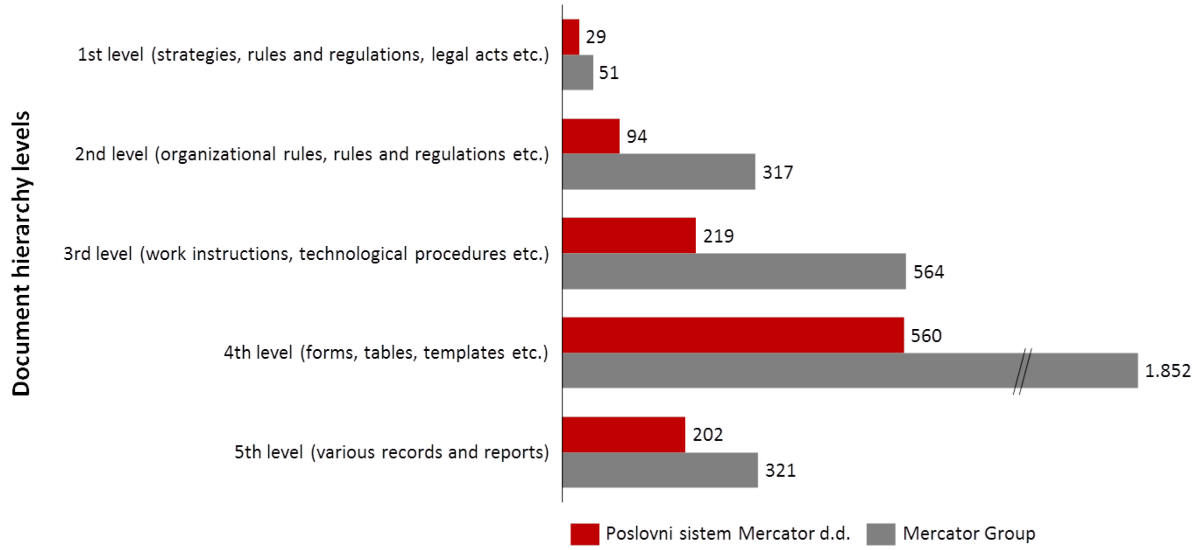
	Poslovni sistem Mercator d. d.	Mercator IP d.o.o.	Mercator–Emba d.d.	Mercator–S d.o.o.	Mercator–CG d.o.o.
ISO 9001 – Quality management system	✓			✓	
ISO 10002 – Quality Management – Customer Satisfaction				✓	
Protected Consumer Seal				✓	
ISO 14001 – Environmental management system	✓			✓	
HACCP – Ensuring food safety				✓	✓
IFS – International Food Standard			✓		
SQMS – Supplier Quality Management			✓		
AEO – Status of an authorized	✓				
Family-Friendly Company	✓	✓			
Organic farming	✓				
Select Quality – fresh meat	✓				
Select Quality – Fruit	✓				
FSC – Forest Stewardship Council – traceability chain	✓				
UTZ – Sustainable cocoa farming			✓		
SWA – Supplier workplace accountability			✓		

Responsibility to quality

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.

Number of valid documents in the Mercator Standards Collection as at December 31, 2019



Source: Mercator Standards Collection as at December 31, 2019

As at December 31, 2019, there were **3,105** valid documents in the Mercator Standards Collection for the entire Mercator Group. In 2019, we posted **522** new or revised documents, while **79** 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.

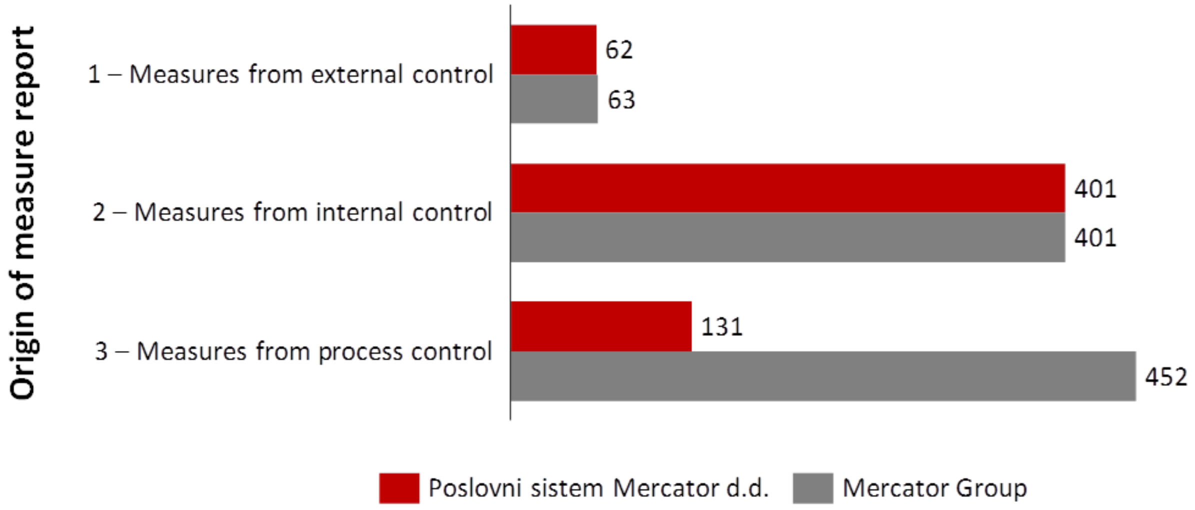
Internal control includes checking the quality of goods, documentation, and conducting business processes in compliance with the requirements of respective forms of internal control, Mercator standards, and good practices. Employees in charge of activities and process administrators control respective 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

Efficient management of business processes is provided through compliance with the requirements of the international quality management systems. Respective management systems have been combined into an integrated management system whose basic requirements are implemented at 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.

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.

Number of measures implemented in 2019, by origin of report



Source: Internal application and measures for 2019

In the non-compliance, recommendations, commendations, and measures management application, we addressed in 2019 at the Mercator Group level a total of **916** 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.

»Mercator is proud of its 70 years of experience and knowledge that are evident in remarkable achievements, palpable growth, and successful development.«

4. Financial report

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 2019, 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 2019.

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 European Union.

The Management Board approves and confirms the Annual Report of the company Poslovni sistem Mercator d.d., and the Mercator Group for financial year 2019.

Ljubljana, April 20, 2020

Tomislav Čizmić
President of the Management Board

Draga Cukjati
Member of the Management Board

Igor Mamuza
Member of the Management Board

Gregor Planteu
Extraordinary 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.

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
ASSETS					
Property, plant and equipment	14	915,896	1,074,997	558,429	654,982
Right of use assets	15	352,908	-	168,723	-
Investment property	17	273,006	242,890	4,081	4,498
Intangible assets	16	20,548	20,945	12,733	12,953
Trade and other receivables	23	4,757	4,083	3,042	2,585
Loans/deposits given	24	13,600	18,976	30	2,103
Investments in financial assets	19	876	393	736	261
Investments in subsidiaries	18	-	-	263,520	297,757
Total non-current assets		**1,581,592**	**1,362,283**	**1,011,293**	**975,139**
Inventories	22	211,090	210,319	111,544	103,752
Trade and other receivables	23	162,810	158,388	66,833	60,183
Current tax assets	20	93	258	-	-
Loans/deposits given	24	2,506	3,010	25,149	30
Cash and cash equivalents	25	45,777	15,074	11,137	6,298
Assets classified as held for sale	21	-	148,439	-	148,439
Total current assets		**422,276**	**535,487**	**214,663**	**318,702**
Total assets		**2,003,868**	**1,897,770**	**1,225,956**	**1,293,841**
EQUITY	26				
Share capital		254,175	254,175	254,175	254,175
Own shares		(3,235)	(3,235)	(3,235)	(3,235)
Reserves		135,243	151,967	142,693	166,977
Retained earnings		53,131	76,470	8,508	(3,811)
Equity attributable to the owners of the company		**439,314**	**479,376**		
Non-controlling interests		(339)	149		
Total equity		**438,974**	**479,525**	**402,141**	**414,106**
LIABILITIES					
Borrowings	28	471,902	530,629	361,993	380,043
Lease liabilities	15	300,260	67,370	83,496	42,520
Deferred tax liabilities	20	11,677	11,670	4,715	3,999
Provisions	29	25,804	30,143	21,152	25,708
Non-current liabilities		**809,643**	**639,812**	**471,356**	**452,269**
Trade and other payables	30	579,502	590,103	300,662	297,900
Borrowings	28	96,762	148,899	30,175	97,228
Lease liabilities	15	76,100	37,848	19,541	32,338
Current tax		2,887	1,582	2,082	-
Current liabilities		**755,251**	**778,432**	**352,459**	**427,466**
Total liabilities		**1,564,894**	**1,418,244**	**823,816**	**879,735**
Equity and liabilities		**2,003,868**	**1,897,770**	**1,225,956**	**1,293,841**

The accompanying notes are an integral part of consolidated and financial statements of the company Poslovni sistem Mercator d.d. 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.

		Mercator Group		Poslovni sistem Mercator d. d.	
in EUR thousand	**Note**	**2019**	**2018**	**2019**	**2018**
Sales revenue	9	2,138,739	2,101,381	1,230,218	1,164,379
Cost of sales	11	(2,036,545)	(2,017,360)	(1,172,652)	(1,101,196)
Administrative expenses	11	(69,669)	(75,118)	(57,421)	(64,610)
Impairment of property, plant and equipment and intangible assets	11	(4,674)	(805)	-	-
Other operating income	10	31,564	30,246	13,235	9,054
Results from operating activities		**59,415**	**38,343**	**13,380**	**7,627**
Finance income	13	3,246	4,136	2,142	8,170
Finance costs	13	(51,681)	(34,701)	(23,347)	(21,722)
Net finance costs		**(48,435)**	**(30,565)**	**(21,204)**	**(13,552)**
Profit or loss before tax		**10,980**	**7,779**	**(7,824)**	**(5,924)**
Tax	20	(6,314)	(6,172)	(5,983)	(4,957)
Net profit (loss) for the year		**4,666**	**1,606**	**(13,807)***	**(10,882)**
Net profit for the year attributable to:					
Owners of the Company		4,645	1,598		
Non-controlling interests		21	8		
Earnings per share					
Basic	27	0.8	0.3		
Diluted	27	0.8	0.3		

The accompanying notes are an integral part of consolidated and financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

*In 2019, the net loss of the company Poslovni sistem Mercator d.d amounted to EUR -13,807 thousand and includes the impairments of investments in subsidiaries in the amount of EUR 23,639 thousand (2018: EUR 28,321 thousand), which are eliminated at the Mercator Group level.

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

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	2019	2018	2019	2018
Net profit/loss for the year		**4,666**	**1,606**	**(13,807)**	**(10,882)**
Other comprehensive income:					
Items that subsequently can not be reclassified to profit or loss		**9,207**	**3,431**	**3,811**	**2,161**
Change in fair value of assets		3,899	1,929	(1,468)	451
Change in fair value of financial assets		555	6	507	3
Remeasurements of post-employment benefit obligations		(279)	180	(144)	377
Deferred tax	20	5,033	1,316	4,915	1,330
Items that may be reclassified subsequently to profit or loss		**(848)**	**558**	**-**	**-**
Foreign currency translation differences		(848)	558	-	-
Total other comprehensive income/(loss) for the year		**8,359**	**3,989**	**3,811**	**2,161**
Total comprehensive income/(loss) for the year		**13,025**	**5,596**	**(9,996)**	**(8,721)**

Total comprehensive income for the year attributable to:		
Owners of the company	13,513	5,586
Non-controlling interests	(488)	9

The accompanying notes are an integral part of consolidated and financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Consolidated statement of changes in equity of the Mercator Group

		Mercator Group												
				Reserves						Retained earnings				
in EUR thousand	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribute. to the control. company owners	Non-control. interests	Total equity
As at January 1, 2018		**254,175**	**(3,235)**	**3,235**	**207,523**	**17,947**	**25,326**	**200,784**	**(84,029)**	**40,819**	**(184,284)**	**478,261**	**140**	**478,401**
Effect of adoption of new IFRS	31	-	-	-	-	-	-	-	-	(4,471)	-	(4,471)	-	(4,471)
As at January 1, 2018		**254,175**	**(3,235)**	**3,235**	**207,523**	**17,947**	**25,326**	**200,784**	**(84,029)**	**36,348**	**(184,284)**	**473,790**	**140**	**473,930**
Net profit/(loss) for the year		-	-	-	-	-	-	-	-	-	1,597	1,597	9	1,606
Other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**1,502**	**558**	**1,929**	**-**	**3,989**	**0**	**3,989**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**1,502**	**558**	**1,929**	**1,597**	**5,586**	**9**	**5,596**
Disposal of land and buildings carried at fair value		-	-	-	-	-	-	(6,888)	-	6,888	-	-	-	-
Transactions with owners directly recognized in equity														
Contributions by and distributions to owners														
Transfer of net loss for the previous year to retained earnings		-	-	-	-	-	-	-	-	(184,284)	184,284	-	-	-
Creation of reserves pursuant to the Management Board decision		-	-	-	-	1,440	(1,440)	-	-	-	-	-	-	-
Coverage of losses pursuant to the Management Board decision	26	-	-	-	(201,141)	-	(12,850)	-	-	213,991	-	-	-	-
Total transactions with owners		**-**	**-**	**-**	**(201,141)**	**1,440**	**(14,289)**	**-**	**-**	**29,707**	**184,284**	**-**	**-**	**-**
Balance as at December 31, 2018		**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**74,873**	**1,597**	**479,376**	**149**	**479,525**

in EUR thousand	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribute. to the control. company owners	Non-control. interests	Total equity
	Mercator Group													
				Reserves						**Retained earnings**				
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**74,873**	**1,597**	**479,376**	**149**	**479,525**
Effect of adoption of new IFRS	4a	-	-	-	-	-	-	-	-	(41,251)	-	(41,251)	-	(41,251)
Other		-	-	-	-	-	-	-	-	(12,325)	-	(12,325)	-	(12,325)
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**21,296**	**1,597**	**425,800**	**149**	**425,949**
Net profit/(loss) for the year		-	-	-	-	-	-	-	-	-	4,645	4,645	21	4,666
Other comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**5,278**	**(339)**	**3,929**	**-**	**8,868**	**(509)**	**8,359**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**5,278**	**(339)**	**3,929**	**4,645**	**13,513**	**(488)**	**13,025**
Disposal of land and buildings carried at fair value		-	-	-	-	-	-	(20,110)	-	20,110	-	-	-	-
Transactions with owners directly recognized in equity														
Contributions by and distributions to owners														
Transfer of net loss for the previous year to retained earnings		-	-	-	-	-	-	-	-	1,597	(1,597)	-	-	-
Creation of reserves pursuant to the Management Board decision		-	-	-	-	1,305	(1,305)	-	-	-	-	-	-	-
Coverage of losses pursuant to the Management Board decision	26	-	-	-	(3,811)	-	2,257	-	-	1,554	-	-	-	-
Total transactions with owners		**-**	**-**	**-**	**(3,811)**	**1,305**	**953**	**-**	**-**	**3,151**	**(1,597)**	**-**	**-**	**-**
Balance as at December 31, 2019		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**

The accompanying notes are an integral part of consolidated and financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

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

in EUR thousand	Note	Poslovni sistem Mercator d.d.									
		Share capital	Own shares	Reserves					Retained earnings		Total equity
				Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	
As at January 1, 2018		**254,175**	**(3,235)**	**3,235**	**207,523**	**13,389**	**-**	**149,214**	**2,584**	**(203,726)**	**423,159**
Effect of adoption of new IFRS	31	-	-	-	-	-	-	-	(332)	-	(332)
As at January 1, 2018		**254,175**	**(3,235)**	**3,235**	**207,523**	**13,389**	**-**	**149,214**	**2,252**	**(203,726)**	**422,827**
Net profit/(loss) for the year		-	-	-	-	-	-	-	-	(10,882)	(10,882)
Other comprehensive income for the year		-	-	-	-	-	-	**1,709**	**451**	-	**2,161**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**1,709**	**451**	**(10,882)**	**(8,721)**
Disposal of land and buildings carried at fair value		-	-	-	-	-	-	(6,952)	6,952	-	-
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net loss for the previous year to retained earnings		-	-	-	-	-	-	-	(203,726)	203,726	-
Coverage of losses pursuant to the Management Board decision	26	-	-	-	(201,141)	-	-	-	201,141	-	-
Total transactions with owners		**-**	**-**	**-**	**(201,141)**	**-**	**-**	**-**	**(2,584)**	**203,726**	**-**
Balance as at December 31, 2018		**254,175**	**(3,235)**	**3,235**	**6,381**	**13,389**	**-**	**143,971**	**7,071**	**(10,882)**	**414,106**

Identified accumulated loss of the company Poslovni sistem Mercator d.d. for 2018 is presented in Note 26 Equity.

in EUR thousand	Note	Share capital	Own shares	Reserves					Retained earnings		Total equity
				Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	
	Poslovni sistem Mercator d.d.										
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**13,389**	**-**	**143,971**	**7,071**	**(10,882)**	**414,106**
Effect of adoption of new IFRS	4a	-	-	-	-	-	-	-	(1,970)	-	(1,970)
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**13,389**	**-**	**143,971**	**5,101**	**(10,882)**	**412,136**
Net profit/(loss) for the year		-	-	-	-	-	-	-	-	(13,807)	(13,807)
Other comprehensive income for the year		-	-	-	-	-	-	**5,262**	**(1,451)**	-	**3,811**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**5,262**	**(1,451)**	**(13,807)**	**(9,996)**
Disposal of land and buildings carried at fair value		-	-	-	-	-	-	(25,736)	25,736	-	-
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net loss for the previous year to retained earnings		-	-	-	-	-	-	-	(10,882)	10,882	-
Coverage of losses pursuant to the Management Board decision	26	-	-	-	(3,811)	-	-	-	3,811	-	-
Total transactions with owners		**-**	**-**	**-**	**(3,811)**	**-**	**-**	**-**	**(7,071)**	**10,882**	**-**
Balance as at December 31, 2019		**254,175**	**(3,235)**	**3,235**	**2,571**	**13,389**	**-**	**123,498**	**22,315**	**(13,807)**	**402,140**

Proposal for coverage of accumulated loss of the company Poslovni sistem Mercator d.d. for 2019 is presented in Note 26 Equity.

The accompanying notes are an integral part of consolidated and financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

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

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	2019	2018	2019	2018
Cash flows from operating activities					
Net profit/loss for the year		**4,666**	**1,606**	**(13,807)**	**(10,882)**
Adjustments for non-cash items:					
Tax	20	6,314	6,172	5,983	4,957
Depreciation and amortization	14,16	111,235	68,478	39,461	32,592
Revalutation of property, intangible assets and investment property	15,16	(12,359)	(2,812)	(103)	-
Impairment of property, intangible assets and investment property	14	4,674	-	-	-
Gains on disposal of property, plant and equipment	16	(2,704)	(13,907)	(2,072)	(2,996)
Write-off and losses of property, plant and equipment	14	2,549	501	2,265	797
Dividends received, gains on disposal of other financial assets	13	(415)	(8)	(729)	(354)
Write-offs from revaluation of financial investments, impairment from disposal of financial assets	13	50	-	23,671	28,321
Net other financial income (expenses)	13	3,605	2,826	1,400	(3,023)
Impairment with expected credit loss model and other financial assets recognised		685	(2,218)	1,016	(868)
Impairment of inventories		7,650	4,812	(1,350)	657
Change in provisions and other changes		(6,467)	(2,558)	(4,898)	920
Net foreign exchange differences	13	(1,178)	(2,945)	8	2
Interest income	13	(1,357)	(945)	(1,107)	(3,165)
Interest expenses	13	47,780	31,636	21,632	20,092
Cash from operating activities before the change of working capital		**164,728**	**90,641**	**71,370**	**67,050**
Change in inventories		(16,176)	(4,898)	(6,442)	540
Change in trade and other receivables		(2,556)	19,260	(3,103)	17,815
Change in trade and other payables, and provisions		11,478	(32,488)	(2,245)	(2,139)
Tax paid		-	-	-	-
Cash from operating activities		**157,473**	**72,514**	**59,581**	**83,267**
Cash flows from investing activities					
Acquisition of property, plant and equipment, investment property and intangible assets	14,16	(35,438)	(29,704)	(20,601)	(15,791)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		152,422	72,021	127,385	13,106
Loans granted	24	-	-	(18,574)	(8,660)
Repayment of loans granted	24	-	-	6,980	5,413
Cash from investing activities		**116,983**	**42,318**	**95,190**	**(5,932)**
Cash flow from financing activities					
Repayment of borrowings	15, 28	(473,548)	(428,208)	(308,973)	(325,924)
Proceeds from borrowings	28	320,884	334,326	186,865	262,200
Interest paid		(45,460)	(31,438)	(20,726)	(18,949)
Principal elements of lease payments		(45,759)	-	(7,096)	-
Cash from financing activities		**(243,883)**	**(125,321)**	**(149,931)**	**(82,672)**
Net increase/decrease in cash and cash equivalents		**30,574**	**(10,489)**	**4,840**	**(5,338)**
Cash and cash equivalents at beginning of the year	25	15,074	25,542	6,298	11,635
Effect of exchange rate fluctuations on cash and cash equivalents		130	20	-	-
Cash and cash equivalents at the end of the year		**45,777**	**15,074**	**11,137**	**6,298**

The accompanying notes are an integral part of consolidated and financial statements of the company Poslovni sistem Mercator d.d. 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 companies in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro and North 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, 2019 comprise the company Poslovni sistem 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. As of April 10, 2017, the ultimate controlling party of Agrokor d.d. is defined in the Act on the Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia.The consolidated financial statements of the Agrokor Group are available at the registered office of Agrokor d.d., Marijana Čavića 1, 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 20, 2020.

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 measured at fair value:

- buildings;
- land;

- investment property;
- financial assets (Note 19).

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. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revision 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 estimates 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 equipment using the cost model as described in Note 3(f)(i) and 5(a). The estimated useful life of property, plant and equipment is disclosed in Note 3(f)(iv).

Certain items of property, plant and equipment (real estate) are held partially for rentals and partially for own business and/or administrative purposes. If the portion of real estate item used for rentals is insignificant and is not separately identifiable from the total real estate object (can not be sold separately), the whole object of real estate is classified as property, plant and equipment.

IFRS does not provide any guidance as to what constitutes an *insignificant* portion for this purpose, therefore the classification requires management judgement in each individual case, taking into consideration the economic nature of the real estate item and relevant legislation to assess whether property item can be disaggregated in smaller portions for sale or not, and whether the portion used for rentals is insignificant to the total object. In practice, the real estate objects cannot be sold separately, because Mercator centers are held partially for rentals and partially for own business. Retail centers (interior of the center, common areas, exterior surfaces) are designed and built in the manner of one owner, and the sale of individual parts would change the purpose and would result in loss of control over the management of the center.

Total fair value of items of land and buildings (real estate) used for both rentals and own business, classified as property, plant and equipment as of December 31, 2019 is EUR 787,101 thousand (should land and buildings be carried at cost, the carrying value as of December 31, 2019 would constitute EUR 992,017 thousand), including approximately EUR 151,077 thousand relative to portion used for rentals.

ii. Investment property

The Mercator Group and the company Poslovni sistem Mercator d.d. measure investment property using the fair value model, as described in Note 5(a).

iii. Business model assessment

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest (SPPI) and the business model test. The Mercator Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Mercator Group and the company Poslovni sistem Mercator d.d. perform continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

iv. Expected credit losses

The Mercator Group and the company Poslovni sistem Mercator d.d. apply simplified model to expected credit losses ('ECL') measurement and determines the lifetime ECL at initial recognition of trade and lease receivables and throughout its lifetime. ECL measured is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. The estimate is based on circumstances and situation that existed at the end of each reporting period. Refer to Note 35 regarding Covid-19 situation that arose after the end of the reporting period.

Details about the group’s policies are provided in Note 3 c) i) *Financial assets.*

v. Investment in subsidiaries

In the financial statements, the company Poslovni sistem Mercator d.d. carries investments in subsidiaries at cost less impairment. Investments are tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries that suffered impairment in previous periods are reviewed for possible reversal of the impairment at each reporting date.

Subsidiaries are those investees that the company controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The company may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the company from controlling an investee.

vi. Impairment of investments in subsidiaries

The company Poslovni sistem Mercator d.d. performs impairment test of its investments in subsidiaries in acordance with IAS 36 *Impairment of assets* requirements. Recoverable amount of investments in subsidiaries, is most sensitive to the achievement of the 2020-2024 budget. Budget comprises forecasts of EBITDA based on current and anticipated market conditions that have been considered and approved by the board. The estimate is based on circumstances and situation that existed at the end of each reporting period. Refer to Note 35 regarding Covid-19 situation that arose after the end of the reporting period.

Major assumptions and sensitivity in respect of recoverable amount is provided in Note 18.

vii. Inventories

Carrying value of inventories is determined as lower of cost and net realizable value. Net realisable value is the net amount that an entity expects to realise from the sale of inventories in the ordinary course of business and is assessed taking into consideration current and expected market conditions, economic environment qualitative characteristics and other factors. No material write down of value of inventory to net realisable value have occured during the periods presented in current financial statements.

Inventory relisable value allowance is determined on the basis as difference between the cost and expected net realizable value of aging stock. Value of the allowance recognized during the periods presented in the financial statements is disclosed in the Notes 11 and 21.

viii. Provisions

Carrying amount of provisions for legal claims settlement is measured as the present value of the future expenditures expected to be incurred upon settlement of these obligations. Due to the associated uncertainty, it is possible that estimates may need to be revised during the following periods as legal case might evolve, changing the expected settlement date and amount. The best estimate of timing and amount of settlement is provided by legal experts and approved by management of the company Poslovni sistem Mercator d.d. Whilst a range of outcomes is possible, the Mercator Group and the management of the company Poslovni sistem Mercator d.d. doesn't expect any significant changes in the amount of the provision recognized as disclosed in Note 28.

Provisions for employees benefits and long-service awards refer to estimated payments of termination and long term post employment 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 which is approved by the 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 nature of its inputs, the liabilities for post-employment benefits are susceptible to changes in the mentioned estimates.

ix. Deferred taxes

Deferred taxes are calculated based on temporary differences applying the balance sheet liability method, using the enacted or substantively enacted 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 credits 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..

x. Leases

Mercator Gorup addressed key judgements regarding to amount of right of use assets and lease liabilities, including the assessment of how reasonably certain it is considered to be that a lease option (extension, termination or purchase) will be exercised, and the determination of an appropriate discount rate *used to* present value the lease liability and to initially measure the right of use asset. With regards to these, the Mercator Group has determined that the lease term will correspond to the duration of the contracts except in cases where the Mercator Group is reasonably certain that it will exercise contractual extension or break options. The discount rate applied is the incremental borrowing rate.

3. Significant accounting policies

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company Poslovni sistem Mercator d.d. and entities controlled by the company Poslovni sistem Mercator d.d. (its subsidiaries) made up to 31 December each year. Control is achieved when the company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with the Mercator Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Mercator Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Mercator Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests.

i. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Mercator Group, liabilities incurred by the Mercator Group to the former owners of the acquiree and the equity interest issued by the Mercator Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Mercator Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the:

i. consideration transferred,
ii. amount of any non-controlling interest in the acquired entity, and
iii. acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired

is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Consideration transferred does not include amounts of settlements regarding pre-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 incurred.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as afinancial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Mercator Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

ii. 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.

iii. Loss of control

After loss of control, 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 Mercator 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 other financial asset, depending on the extent of retained influence.

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. Monetary assets 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-monetary 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 investments in 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 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 non-controlling 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

Financial assets and financial liabilities are recognised in the Mercator Group's statement of financial position when the Mercator Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

i. Financial assets

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Mercator Group and the company Poslovni sistem Mercator d.d. commit to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and thegroup has transferred substantially all the risks and rewards of ownership.

Debt instruments

Debt instruments comprise of trade and other accounts receivable, loans given, long term lease deposits and other relevant financial assets. All debt instrument type financial assets are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within one year term and therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Details about the group's impairment policies and the calculation of the loss allowance are provided in Note 3(l).

Equity instruments

The Mercator Group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Mercator Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment of financial assets at cost
Mercator Group and the company Poslovni sistem Mercator d.d. apply simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables, loans and contract assets have been grouped based on shared credit risk characteristics and the days past due. Mercator Group and the company Poslovni sistem Mercator d.d. have defined categories of risk related to recoverability of receivables with regard to the type of collateral used to secure receivables, and classified the credit loss allowance 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 overdue, 31-90 days overdue, more than 90 days overdue.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The impact of forward looking macroeconomic data on the estimated lifetime expected credit losses was considered immaterial given and positive economic outlook in the upcoming periods,.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery.

Subsequent recoveries of amounts previously written off are credited against the same line item.

ii. 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.

The Mercator Group and the company Poslovni sistem Mercator d.d. classify non-derivative financial instruments as other financial liabilities carried at amortised cost. Such financial liabilities are initially recognised at fair value increased by the transaction costs that are directly attributable and incremental to the origination or issue of debt. Subsequent to 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

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, cash in transit (daily proceeds of retail units) and demand deposit with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, potential credit loss is considered immaterial.

e) Share capital

Ordinary shares
Ordinary shares are an integral part of share capital. Transaction costs directly attributable and incremental to issuing of ordinary shares are recognized as a decrease in equity, net of tax effects.

Repurchase of own shares (treasury shares)
When nominal capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable and incremental transaction costs, net of 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

All items of property, plant and equipment, except for land and buildings, 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 2019, 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 Mercator Group include 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.

Land and buildings are measured in the statement of financial position at their revalued amounts (details of relevant fair value mesurment are disclosed in Note 5), being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses. If the carrying amount of the asset is increased due to revaluation, the increase is recognized in other comprehensive income and accumulated in equity as revaluation surplus. The increase is recognized in profit or loss (income statement), if it eliminates a revaluation decrease of the same asset, which was previously recognized in profit or loss. If the carrying amount of assets is decreased below its historical cost net book value as a result of revaluation, then the decrease is recognized in profit or loss. Decrease is charged directly to other comprehensive income and 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.

Depreciation on revalued buildings is recognised in profit or loss. Upon subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

ii. 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 cost 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.

iii. Depreciation

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 residual value of property, plant and equipment is assessed 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

Land is not subject to depreciation.

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

	2019	2018
Buildings	40 years	40 years
Plant and equipment	2-18 years	2-18 years

g) Intangible assets

i. Goodwill

Goodwill generated upon acquisition of subsidiaries or business 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:

	2019	2018
Brands/labels	unlimited	unlimited
Software and licenses	10 years	10 years

The usefull life of brands and labels can not be determined reliably as the period over which it is available for the entity and volume of relevant economic benefits produced are unlimited, but are impacted among other factors by future economic outlook. Carrying value of brands and labels is tested for impairment annually.

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.

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for the use in the normal course of business or for administrative purposes, it is accounted for as investment property only if an insignificant portion is held for use in the the regular course of business or for administrative purposes. The two parts are accounted separately if they could be sold or leased out under finance lease separately.

Where items of properties are held for more then one purpose, items of real estate are used for both: rentals and own normal course of business, the properties are not separable and can not be sold or leased out in pieces in accordance with local legislative requirements and nature of the business and real estate items (commercial properties, shopping centers). In addition, given the nature of the business, the contribution of own business operations to the total operating results generated by the properties is not insignificant and therefore the whole item of real estate used for both own business and rentals is classified as property, plant and equipment.

As of December 31, 2019 the approximated fair value of rented area in the properties used for both own business and rentals totals to EUR 80,451 thousand in company Poslovni sistem Mercator d.d. and EUR 151,077 thousand in the Mercator Group (2018: EUR 130,354 thousand and EUR 211,395 thousand, respectively). The approximated fair value of rented area is determined in proportion of rented space to the total space of the building. The fair value of relevant buildings as of December 31, 2019 total to EUR 271,466 thousand in company Poslovni sistem Mercator d.d. and EUR 494,406 thousand in the Mercator Group (2018: EUR 381,841 thousand and EUR 640,911 thousand, respectively).

As discussed above, the properties are not separable following the legislative requirements and nature of the business, therefore are classified as property, plant and equipment.

Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Fair value of investment property items is determined by independent certified appraiser in accordance with International Valuation Standard and IFRS as described in Note 5. The assessment of fair value requires significant judgements to determine the appropriate assumptions, including the market rental fees and specific benefits to be granted to lessors adjustments, depending on the type and location of specific property.

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) Leases

Mercator Group and the company Poslovni sistem Mercator d.d. asses whether a contract is or contains a lease, at inception of the contract. Right-of-use asset and a corresponding lease liability are recognised with respect to all lease arrangements in which Mercator Group or/and the company Poslovni sistem Mercator d.d. are the lessees, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Mercator Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by lessee's incremental borrowing rate. Incremental borrowing rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Mercator Group uses third-party yield to maturity rates comparable to the Mercator Group incremental borrowing rates as a starting point, adjusted specifically to the lease term, country, currency and security.

Lease payments included in the measurement of the lease liability comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease payments to be made under reasonably certain extension options are included in the measurement of the liability.

The Mercator Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Mercator Group did not make any such adjustments during the periods presented.

The Mercator Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use related to the real estate, comprising land and buildings classes of underlying assets is subsequently measured applying revaluation model, similar to the property, plant and equipment accounting policy. Applicable methodology of fair-value measurement and frequency of revaluations is disclosed in Note 5(a) Fair value of property, plant and equipment.

Right of use asset meeting the definition of investment property in accordance with IAS 40 is measured at fair value. The revaluation is performed as of each year-end reporting date using methodology as discussed in Note 5(a). Any changes in the fair value of the relevant right-of-use are recognized in the profit or loss when occur.

Other right-of-use assets is measured at cost comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs, if assumed by lease contract or legislative requirements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If management is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Mercator Group and the company Poslovni sistem Mercator d.d., revalue its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use.

The Mercator Group and the company Poslovni sistem Mercator d.d. apply IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Note 3 (l) *Impairment of non-financial assets* policy.

Lessor accounting

Leases for which the Mercator Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Mercator Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Mercator Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Mercator Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Mercator Group applies IFRS 15 to allocate the consideration under the contract to each component.

j) Assets classified as 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 recovered through sale, are classified as held for sale. Immediately before the reclassification as 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 recognized in profit or loss. Gains are not recognized 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 stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts and include handling and warehousing costs directly attributable to the acquisition of the products, and the transport costs incurred in bringing the products to the location.

Methods of costs assignment to individual items of inventories:
- FIFO method for merchandise,
- weighted average method for raw materials and packaging.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. 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 and obsolete inventories are regularly performed during the year on an item-by-item basis. As of year-end net realisable value allowance for aging inventories is estimated on the basis of previous years' experience.

l) Impairment of non-financial assets

As of 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 indication of impairment. If such indicators 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 (a) value in use or(b) fair value less costs of sale. When determining the value in use of an asset, the expected future cash flows are discounted to their present value by using the discount rate before tax that reflects market assessments of the time value of money and risks typically 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 cash inflows from 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 separate testing at operating segment level (i.e. segment level 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 and which are not larger than an operating segment. 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 corporate 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 asset is allocated.

Impairment is recognized 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 subsequently not reversed. In relation to other assets, the Mercator Group and the company Poslovni sistem Mercator d.d. evaluate impairment losses of 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 estimates, 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 so that the carrying amount does not exceed the carrying amount that would have been determined net of accumulated depreciation had no impairment loss been recognized for the asset in prior periods.

m) Employee benefits

i. Long-term employee benefit and post-employement obligations

Long-term employee benefits comprise provisions for jubilee awards, post employment benefits and termination benefits upon termination of employment.

Mercator Group and the company Poslovni sistem Mercator d.d. recognizes provisions for long-term employee benefits arising from corporate and collective agreements and relevant legislation requirements.

Long term employee benefits provisions are determined by independent certified actuary expert and are calculated using the projected unit credit method, that is the method of accounting for benefits in proportion to the work performed since the employment at the company until the anticipated payment of jubilee award or post employment benefit. Provisions are formed in the amount of present value of employee service benefits attributable to current and past periods.

In accordance with IAS 19 *Employee benefits* the actuarial assumptions are taken into account in the calculation, since benefits are contingent upon the employee's future employment in the company, namely:

- Demographic assumptions: mortality, fluctuation and estimated retirement date
- Financial assumptions:
  - the growth of average salaries in each country, the growth of employees' salaries, the growth of fixed amounts and non-taxed amounts of awards,
  - discount rates.

Relevant current and past service costs and interest expense are recognized in the profit or loss when incurred.

In accordance with IAS 19, jubilee awards are classified as other long-term employee benefits, therefore the actuarial remeasurements are recognized in the income statement, while post employment are recognized in other comprehensive income.

The company Poslovni sistem Mercator d.d. and Mercator Group recognise a liability and an expense benefits upon termination of employment, that are classified under IAS 19 as termination benefits, at the earlier of the following dates: when the company or a Group can no longer withdraw an offer of those benefits, according to IAS 10.166 and 167 and when the company or a Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

ii. Short-term employee benefits

Short-term employee benefits comprise provisions for unused days of paid leave.

Provisions for accumulating unused days of paid leave are calculated as the amount of gross gross salary for the period of unused leave outstanding as of reporting date. Due to short term nature, the provision is recognized without discounting effect. Changes in provisions for unused days of paid leave are recognised as operating expenses in the income statement.

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. The amounts received on behalf of third parties are excluded from revenue.

Revenue from sales of goods, products and material is recognized at fair value of the consideration received or receivable, decreased by refunds or rebates for further sales and volume discounts. Revenue is recognized when control over the assets has been transferred to the buyer, when consideration is probable to be collected, the associated costs and sales returns of goods, products and material can be reliably estimated, and when any variable consideration is highly probable not to be reversed.

Transfer of control over the goods as indicated by transfer of risks and rewards depends on assessment of 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. Depending on the amount of purchases and consequently the number of collected points, they can earn from 5 EUR (for 250 collected points) to 210 EUR (for 3,500 collected points). During the year, the company Poslovni sistemi Mercator d.d. allocates potential discounts on the basis of collected points, whereas revenue from unrealised bonus points is alloced based on the experience from previous bonus periods. Despite the fact that the second bonus perios ends on 31 January of the following year, the company Poslovni sistemi Mercator d.d. in this way ensures that recorded revenues match expenditures that were necessary for their realisation.

iii. Revenue from services rendered

Revenue from services are continuously recognized through the period, in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Discounts or rebates and commercial cooperation fees are 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 Mercator 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 fulfilment.

iv. Rental income

Rental income is recognized in profit or loss on a straight-line basis over the lease term. Any related discounts and lease incentives 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 reasonable assurance exists that the Mercator Group or 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 other income 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) Finance income and expenses

Finance income comprises interest on investments, dividend income, gains on the disposal of 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 using the effective interest method. Dividend income is recognized in the income statement as at the day when the shareholder's declare the dividend; 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 costs comprise costs of borrowings, reversal of the discount on provisions and contingencies, and dividend on preferred shares reported in liabilities. Borrowing costs that are not directly attributable to acquisition, construction, or production of an asset, that takes an extended period to get ready for use, are recognized in the income statement using the effective interest method.

Gains and losses from translation of foreign currency monetary balances and transactions are recognized net as finance income or expenses.

r) Corporate income tax

Corporate income tax on profit 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 recognized 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 substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous reporting periods.

vi. Deferred tax

Deferred tax is recognized using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for the purpose of financial reporting and their tax bases. 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.

Deferred tax assets are recognized to the extent it is probable that future taxable profit will be available against which a deductible temporary difference or a tax loss carry forward can be used in the future. Deferred tax assets are decreased by the amount for which it is no longer probable that tax benefit associated with the asset can be utilized in the future.

s) Earnings per share

The Mercator Group 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 does not have any dilutive potential ordinary shares (e.g. preference shares or convertible bonds), diluted earnings per share equal the basic earnings per share.

t) Accounting policies before 1 January 2019

i. 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 costs 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.

<u>Determining whether an arrangement includes a lease</u>
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..

4. Adoption 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 new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU became effective for the current reporting period:

- **IFRS 16 »Leases«** – endorsed by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 »Financial Instruments«** - Prepayment Features with Negative Compensation – endorsed by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 »Employee Benefits«** - Plan Amendment, Curtailment or Settlement – endorsed by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 »Investments in Associates and Joint Ventures«** - Long-term Interests in Associates and Joint Ventures – endorsed by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 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 – endorsed by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 »Uncertainty over Income Tax Treatments«** – endorsed by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 »Financial Instruments«, IAS 39 »Financial Instruments: Recognition and Measurement« and IFRS 7 »Financial Instruments: Disclosures«** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020).

The implementation of the standard **IFRS 16 – Leases** had an impact on the financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. with regard to lease acconting. Explanation related to the implementation of the new standard is disclosed below and in Note 15.

Standards and amendments to the existing standards issued by the IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 »Presentation of Financial Statements« and IAS 8 »Accounting Policies, Changes in Accounting Estimates and Errors«** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 »Presentation of Financial Statements**« - classification of criteria for liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

New standards and amendments to the existing standards issued by the IASB but not yet endorsed by the EU

At present, IFRS as adopted by the EU do not significantly differ from IFRS as issued by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at April 25, 2020 (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 »Regulatory Deferral Accounts«** (effective for annual periods beginning on or after 1 January 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 1 January 2021),
- **Amendments to IFRS 3 »Business Combinations«** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period

beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that 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 deferred indefinitely until the research project on the equity method has been concluded).

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..

The EU carve-out in respect of hedge accounting for the portfolio of financial assets and liabilities, the principles of which have not been fully endorsed yet by the EU did not have any material impact on these financial statements.

a) Impact of initial application of IFRS 16 *Leases*

In the current year, the Mercator Group and company Poslovni sistem Mercator d.d. has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019. The new accounting policies are disclosed in Note 3 i) Leases and in Note 15.

IFRS 16 was adopted from 1 January 2019 using modified retrospective approach with certain simplifications, therefore ,comparatives for the 2018 reporting period have not been restated, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the leased asset and lease liability immediately before adoption date as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. No remeasurements of the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

The associated right-of-use assets for property leases was measured in the amount equal to the lease liability less impairment recognized in accordance with IAS 36 and adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Right-of-use assets that meets the definition of investment properties in accordance with IAS 40 was measured using fair value model. Fair value as of date of initial application was determined by independent certified appraiser as described in the Note 5 a.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses generally on a straight-line basis.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (value not more than 5,000 EUR when new), Mercator Group and the company Poslovni sistem Mercator d.d. have opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within »other expenses« in profit or loss.

In applying IFRS 16 for the first time, the following practical expedients permitted by the standard were applied:

a. applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
b. accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

c. excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
d. using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Mercator Group and the company Poslovni sistem Mercator d.d. have also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the entity relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Impact on Lessor Accounting

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, Mercator Group has reclassified certain of its sub-lease agreements as finance leases.

Mercator Group and the company Poslovni sistem Mercator d.d. did not need to make any other adjustments to the accounting for assets held as lessor as a result of the adoption of IFRS 16.

Financial impact of initial application of IFRS 16

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.8% p.a.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, effect of discounting using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application

Impact on retained earnings as at 1 January 2019

In EUR thousand	Mercator Group	Poslovni sistem Mercator d.d.
Operating lease commitments disclosed as at 31 December 2018	388,962	50,845
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(87,320)	(10,953)
Add: finance lease liabilities recognised as at 31 December 2018	105,218	74,857
(Less): low-value leases not recognised as a liability	(1,940)	(985)
Lease liability recognised as at 1 January 2019	**404,921**	**113,764**
Of which are:		
Current lease liabilities	62,045	20,892
Non-current lease liabilities	342,876	92,871

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Adjustments recognised in the balance sheet on 1 January 2019

In EUR thousand	Mercator Group	Poslovni sistem Mercator d.d.
Property, Plant and Equipment	(83,799)	(82,081)
Investment property	25,472	-
Right of use the assets	356,665	120,715
Deferred tax assets	-	-
Borrowings	(105,218)	(74,857)
Lease liabilities	404,921	113,764
Net impact on retained earnings	(41,251)	(1,970)

Mercator Group

On 1 January 2019 Mercator Group reclassified previously assets under financial leases in the amount of EUR 83,799 thousand from property, plant and equipment to right of use assets.

After initial recognition of right of use assets, part of them in the amount of EUR 25,472 thousand were reclassified to investment property (as finance sub-lease).
Borrowings in the amount of EUR 105,218 thousand were reclassified to lease liabilities (borrowings were related to previous recognised financial leases).
Lease liabilities increased in the amount of EUR 404,921 thousand EUR, which was a consequence of adoption of IFRS 16 in the amount of EUR 299,703 thousand and reclasification of previous recognised financial leases.
Right of use assets increased in the amount of EUR 356,665 thousand, which was a consequence of adoption of IFRS in the amount of EUR 272,886 thousand and reclasification of previous recognised assets under financial leases.
After initial measurement of the right of use assets at cost, Mercator Group applied IAS 36, Impairment of assets to right of use assets at the date of initial application and recognised loss on retained earnings in the amount of EUR 41,251 thousand EUR.
Discounting effect for the right of use assets using the incremental borrowing rate at the date of initial application EUR 87,320 thousand on Mercator Group.

Poslovni sistem Mercator d.d.
On 1 January 2019 Poslovni sistemi Mercator d.d. reclassified previously assets under financial leases in the amount of EUR 82,081 thousand from property, plant and equipment to right of use assets.
Borrowings in the amount of EUR 74,857 thousand were reclassified to lease liabilities (borrowings were related to previous recognised financial leases).
Lease liabilities increased in the amount of EUR 113,764 thousand EUR, which was a consequence of adoption of IFRS 16 in the amount of EUR 38,907 thousand and reclasification of previous recognised financial leases.
Right of use assets increased in the amount of EUR 120,715 thousand, which was a consequence of adoption of IFRS 16 in the amount of EUR 38,633 thousand and reclasification of previous recognised assets under financial leases.
After initial measurement of the right of use assets at cost, the company Poslovni sistem Mercator applied IAS 36, Impairment of assets to right of use assets at the date of initial application and recognised loss on retained earnings in the amount of EUR 1,970 thousand EUR.
Discounting effect for the right of use assets using the incremental borrowing rate at the date of initial application was EUR 10,953 thousand on Poslovni sistem Mercator d.d.

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. The fair value of assets and liabilities are presented in Note 31.

a) Property, plant and equipment

In line with IFRS, Mercator Group and the company Poslovni sistem Mercator d.d. periodically, at least every three to five years, reassesses the fair value of its property, plant and equipment carried at revaluation model: buildings and land. The latest valuation was performed at the end of 2017 year by an external independent certified real estate appraiser 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 appropriateness and suitability of all three methods is always examined considering the use of property and availability of required information: income approach (discounted cash flow or income capitalization method), market approach (method of direct comparability of sales or transactions), and cost approach (reflects the cost to a market participant to construct assets of comparable utility). As a result of analysis of the real estate market and other considerations, and taking into account the purpose of the evaluation and the characteristics of the evaluated property income approach and market approach were used. Where it is sufficient data of transactions or offers carried out with comparable real estate available, comparable transactions method (market approach) was applied, where there is insufficient data for the market approach, or in a case when cash flows are generated by renting the property (investment properties, refer to Note 5 (c) below), income capitalization method (income approach) was used.

IFRS 13 requires the use of valuation techniques for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs. The degree of detail of the disclosure depends on the observability of the inputs used. For this purpose, IFRS 13 establishes a fair value hierarchy that classifies the inputs into three levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

i. Fair value of land, buildings and investment property

The following tables present land, buildings and investment property that are measured at fair value as at 31 December 2019 and as at 31 December 2018:

	Mercator Group			
In EUR thousand	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	-	-	242,864	242,864
Buildings	-	-	544,237	544,237
Investment property	-	-	273,006	273,006
Total as at 31 December 2019			**1,060,106**	**1,060,106**

	Mercator Group			
in EUR thousand	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	-	-	313,163	313,163
Buildings	-	-	621,991	621,991
Investment property	-	-	242,890	242,890
Total as at 31 December 2018	**-**	**-**	**1,178,044**	**1,178,044**

	Poslovni sistem Mercator d.d.			
in EUR thousand	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	-	-	175,854	175,854
Buildings	-	-	325,776	325,776
Investment property	-	-	4,081	4,081
Total as at 31 December 2019	**-**	**-**	**505,711**	**505,711**

	Poslovni sistem Mercator d.d.			
in EUR thousand	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	-	-	218,819	218,819
Buildings	-	-	377,009	377,009
Investment property	-	-	4,498	4,498
Total as at 31 December 2018	**-**	**-**	**600,326**	**600,326**

ii. Valuation tecniques, inputs and assumptions about fair value

Quantitative information about fair value measurements using unobservable inputs:

Segment	Valuation technique	Net book value December 31, 2019	Net book value December 31, 2018	Input	Range
Slovenia					
Retail – FMCG	Income capitalization method	EUR 519,659 thousand	EUR 627,099 thousand	Average monthly rent in EUR per sqm	1.0 – 12.5
				Capitalization rate	7.82% – 9.07%
Retail – Other tenants	Income capitalization method			Average monthly rent in EUR per sqm	1.0 – 15.0
				Capitalization rate	7.82% – 9.32%
Logistics	Income capitalization method			Average monthly rent in EUR per sqm	2.5 – 6.0
				Capitalization rate	9.05% – 9.75%
Office	Income capitalization method			Average monthly rent in EUR per sqm	2.5 – 9.5
				Capitalization rate	8.57% – 9.07%
Croatia					
Retail	Income capitalization method	EUR 309,210 thousand	EUR 280,248 thousand	Average monthly rent in EUR per sqm	3.0 – 13.0
				Capitalization rate	7.24% – 8.74%
Logistics	Income capitalization method			Average monthly rent in EUR per sqm	4.5
				Capitalization rate	8.74%
Serbia					
Retail – FMCG	Income capitalization method	EUR 154,072 thousand	EUR 191,136 thousand	Average monthly rent in EUR per sqm	4.0 – 10.0
				Capitalization rate	8.17% – 8.92%
Retail – Other tenants	Income capitalization method			Average monthly rent in EUR per sqm	6.0 – 13.0
				Capitalization rate	8.17% – 8.92%
Bosnia and Herzegovina					
Retail – FMCG	Income capitalization method	EUR 69,656 thousand	EUR 71,843 thousand	Average monthly rent in EUR per sqm	10.0 – 12.0
				Capitalization rate	8.56% – 9.06%
Retail – Other tenants	Income capitalization method			Average monthly rent in EUR per sqm	10.0 – 17.0
				Capitalization rate	8.56% – 9.06%
Montenegro					
Retail – FMCG	Income capitalization method	EUR 7,509 thousand	EUR 7,718 thousand	Average monthly rent in EUR per sqm	6.0 – 7.0
				Capitalization rate	9.33%
Retail – Other tenants	Income capitalization method			Average monthly rent in EUR per sqm	6.0 – 9.5
				Capitalization rate	9.33%
Total net book value		**1,060,106**	**1,178,044**		

The average monthly rate provided includes the open market rent of each space (not necessarily equal to the current passing rent) of the property, including rental income from office and retail space but including ancillary income from storage, parking, signage, technology and other income divided by square meters of lettable office, retail and storage space.

Sensitivity of measurement to variance of significant unobservable inputs

A decrease in the estimated monthly rent will decrease the fair value. An increase in the capitalization rates will decrease the fair value. There are interrelationships between these rates as they are partially determined by market rate conditions.

Valuation process

The latest valuations of the properties was performed in 2017, on the basis of valuation reports prepared by independent and qualified valuers.

These reports are based on both:

– information provided by the company such as current rents, terms and conditions of lease agreements, service charges, capital expenditure, etc. This information is derived from the company's financial and property management systems and is subject to the company's overall control environment.
– assumptions and valuation models used by the valuers – the assumptions are typically market related, such as market rents, yields and capitalization rates. These are based on their professional judgment and market observation. Generally, for income producing assets a discounted cash flow method is used, for non-core and land the method of direct comparability of sales or transactions is used.

The information provided to the valuers, and the assumptions and the valuation models used by the valuers, are reviewed by the controlling department and the Group Chief Financial Officer ('CFO'). This includes a review of fair value movements over the period.

All the major inputs used in valuations are determined based on available market data:
- Information about recent transactions and offers between market participants for similar items of properties (comparable utility, age, location, use, other factors);
- Market rents applied in direct capitalization method;
- Capitalisation rates.

In 2019, the Mercator Group and company Poslovni sistem Mercator d.d. performed a test evaluation of property on 10% sample and came to conclusion that the fair value of land and buildings have not changed significantly since 2017 year and therefore revaluation is not required. Sample test was performed by independent certified appraiser using the same valuation techniques as to described above and selected sample was representative to different types and geographic locations of properties. If, in the framework of property fair value sample testing, it is concluded that the value of property has significantly changed, the Mercator Group and the company Poslovni sistem Mercator d.d. would have revalued all its land and buildings and reflected it appropriately in its financial statements.

There has been no change to the valuation technique during the year. There has been no transfers of property, plant and equipment and investment property between Level 2 and Level 3 categories during the year.

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

Investment property, including right of use asset meeting the definition of investment property, is measured at fair value subsequent to initial recognition.

Fair value of investment property is determined by independent certified appraiser on the yearly basis. The valuation technique and inputs are the same as for property, plant and equipment and are disclosed in Note 5 (a) above.

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) 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. The fair value of trade and other receivables is categorized as Level 3 in fair value hierarchy.

6. Tax policy

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 claimed:
- 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 2019, the companies recognized and reversed deferred income tax related to the following items:
- differences between accounting 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 investments in financial assets,
- unused tax breaks,
- revaluation of fixed assets to a higher value (revaluation),
- 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.

a) 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 2019, 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 (revaluation),
- tax reliefs,
- calculated, unpaid public income.

The company is obliged to prepare transfer pricing documentation.

b) 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 2019, the company recognized deferred taxes liabilities arising from revaluation to a higher value of fixed assets.

The company is obliged to prepare transfer pricing documentation.

c) 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%.

d) 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 2019, the company recognized deferred tax liabilities arising from differences between accounting and tax-deductible depreciation.

7. Business mergers and reorganization of the Mercator Group

In 2019, no such business events took place in the company Poslovni sistem Mercator d.d. neither in the Mercator Group.

8. Operating segments

Mercator Group

For the requirements of reporting by operating segments, the Mercator Group defined business segments by the countries where the Mercator Group carries out its activities. Operating results of a segment are regularly reviewed by the main operational decision-maker - the President of the Management Board, and are used for decision making, including resources allocation, purposes.

In 2019, 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., which do not carry out business activities.

For selling goods, products and services between the segments market prices are used. Revenues from any one individual customer did not reach 10% of total sales revenues of the Mercator Group.

Mercator Group’s revenues from its major products and services are disclosed in Note 9.

Poslovni sistem Mercator d.d.

During 2019 year the company Poslovni sistem Mercator d.d. operated as a single economic unit within individual geographical segment – Slovenia. It does not disclose its operating segments assets and results of operations in accordance with IFRS 8 *Operating segments* requirements. Operating segments are disclosed on the consolidated level only.

	Slovenia		Serbia		Croatia		Bosnia and Herzegovina		Montenegro		Total		Eliminations		Mercator Group - consolidated	
in EUR thousand	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Assets as at December 31	1,298,257	1,371,032	564,137	458,354	323,681	293,474	122,196	111,319	84,383	64,368	2,392,653	2,298,547	355,552	362,249	2,037,101	1,936,298
Intersegment assets	*(305,543)*	*(304,512)*	*(38,887)*	*(40,263)*	*(632)*	*(150)*	*(3,606)*	*(9,663)*	*(6,885)*	*(7,661)*	*(355,552)*	*(362,249)*	*(355,552)*	*(362,249)*	*-*	*-*
Liabilities as at December 31	863,496	926,799	513,992	357,790	142,976	122,990	72,569	53,889	59,586	30,185	1,652,619	1,491,654	54,492	34,881	1,598,126	1,456,773
Intersegment liabilities	*(30,254)*	*(31,878)*	*(5,081)*	*(72)*	*(18,264)*	*(2,167)*	*(31)*	*(31)*	*(861)*	*(733)*	*(54,492)*	*(34,881)*	*(54,492)*	*(34,881)*	*-*	*-*
Sales revenue	1,266,733	1,222,321	664,708	671,318	19,377	22,147	105,779	101,085	103,472	104,123	2,160,070	2,120,994	21,331	19,613	2,138,739	2,101,381
Intersegment transactions	*(20,738)*	*(19,062)*	*(179)*	*(186)*	*(387)*	*(318)*	*-*	*(38)*	*(14)*	*(492)*	*(21,318)*	*(20,097)*	*(21,318)*	*(20,097)*	*-*	*-*
Cost of sales	(1,206,410)	(1,156,178)	(643,038)	(666,348)	(12,277)	(17,007)	(101,518)	(99,194)	(94,632)	(98,248)	(2,057,875)	(2,036,974)	(21,331)	(19,613)	(2,036,545)	(2,017,360)
Intersegment transactions	*19,882*	*18,126*	*583*	*1,051*	*93*	*93*	*463*	*610*	*297*	*217*	*21,318*	*20,097*	*21,318*	*20,097*	*-*	*-*
Administrative exp. and impairment of property, plant and equip. and intangible assets	(60,792)	(67,024)	(24,692)	(22,576)	(4,511)	(3,185)	(4,880)	(5,927)	(6,122)	(5,532)	(100,997)	(104,244)	(26,654)	(28,321)	(74,343)	(75,923)
Intersegment transactions	*(23,671)*	*(28,321)*	*(3,015)*	*-*	*(18)*	*-*	*-*	*-*	*-*	*-*	*(26,704)*	*(28,321)*	*(26,654)*	*(28,321)*	*(50)*	*-*
Other net operating income	17,206	11,575	2,120	12,809	11,827	4,799	370	919	41	145	31,564	30,246	-	-	31,564	30,246
Interest income	1,458	3,410	271	392	604	44	128	427	230	253	2,690	4,526	1,333	3,581	1,357	945
Intersegment transactions	*(976)*	*(2,979)*	*-*	*-*	*-*	*-*	*(127)*	*(349)*	*(230)*	*(253)*	*(1,333)*	*(3,581)*	*(1,333)*	*(3,581)*	*-*	*-*
Interest expense	(21,779)	(20,170)	(17,519)	(8,219)	(5,324)	(5,599)	(2,766)	(1,069)	(1,732)	(155)	(49,121)	(35,213)	(1,341)	(3,576)	(47,780)	(31,636)
Intersegment transactions	*760*	*863*	*73*	*-*	*507*	*2,714*	*-*	*-*	*-*	*-*	*1,341*	*3,576*	*1,341*	*3,576*	*-*	*-*
Other net finance cost	(675)	3,377	(626)	(1,404)	(257)	2,959	(61)	(31)	(10)	(8)	(1,629)	4,894	384	4,767	(2,012)	127
Intersegment transactions	*23,255*	*23,554*	*3,015*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*26,270*	*23,554*	*26,270*	*23,554*	*-*	*-*
Income tax expense	(6,668)	(5,468)	476	(581)	-	-	-	-	(122)	(123)	(6,314)	(6,172)	-	-	(6,314)	(6,172)
Net profit	**(10,929)**	**(8,156)**	**(18,300)**	**(14,609)**	**9,440**	**4,159**	**(2,948)**	**(3,791)**	**1,125**	**455**	**(21,612)**	**(21,943)**	**(26,278)**	**(23,550)**	**4,666**	**1,606**

Detailed split of sales revenue presented is not easily available as costs for development of the reporting system in such manner would be too high.

As at December 31, 2019, the Mercator Group comprised the following companies (in EUR thousand):

Poslovni sistem Mercator d.d. Slovenia	
Equity	402,141
Net operating profit or loss	(13,807)

Mercator–S d.o.o. Serbia	100.0%
Equity	50,144
Net operating profit or loss	(18,383)

Mercator –H d.o.o. Croatia	99.8%
Equity	180,705
Net operating profit or loss	9,413

Mercator–CG d.o.o. Montenegro	100.0%
Equity	24,797
Net operating profit or loss	1,125

Mercator –BH d.o.o. Bosnia and Herzegovina	100.0%
Equity	49,627
Net operating profit or loss	(2,948)

M–Energija d.o.o. Slovenia	100.0%
Equity	311
Net operating profit or loss	(1,490)

Mercator–Emba d.d. Slovenia	100.0%
Equity	21,437
Net operating profit or loss	2,092

Mercator IP d.o.o. Slovenia	100.0%
Equity	10,872
Net operating profit or loss	2,276

The Mercator Group also includes 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., which are idle and do not perform business activities.

9. Revenue from contracts with customers

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Sale of goods (where the entity is principal)	2,047,372	1,996,875	1,204,732	1,125,884
Transit sales arrangement fees	1,588	1,655	460	861
Sales of services	59,034	74,450	24,930	37,523
Sales of products	30,329	27,940	-	-
Sales of materials	416	461	96	111
Total	**2,138,739**	**2,101,381**	**1,230,218**	**1,164,379**

Mercator Group's and company's Poslovni sistem Mercator d.d. revenue is generated from sales of goods, products and materials and rendering of services. Revenue from sales of goods comprises in-store sales and revenue from other core business activites, while revenue from sales of product is generated by two production firms within the Mercator Group. It is recognized at a point of time when the control of the good has been transferred to customer, generally in-store or upon delivery. Revenues from rendering services comprises rental income and revenue from other services (unused bonuses from loyalty programme – PIKA, commissions from household bills and other payments cards, customs services etc). Revenue from rendering services is recognized over the period when services are provided.

Revenue from sales of goods is presented net of discounts granted to customers.

Under the transit sales arrangements, products are shipped directly from Mercator's vendor to the end customer and Mercator does not obtain control over the goods before or during the transit. Mercator obtains legal title to the goods only momentarily before they are transferred to the end customer. Management applied their judgement in assessing these arrangements and concluded that Mercator in substance merely arranged the sale as an agent. Management therefore decided to present only the net margin earned on these arrangements as revenue from »Transit sales arrangement fees«. The comparative information was restated and management no longer presents the gross transaction amounts as revenue. Mercator refers to Mercator Group or the company Poslovni sistem Mercator d.d., as relevant. In 2019, Mercator Group arranged transit sales with total consolidated gross transaction amounts of EUR 84,542 thousand (2018: EUR 77,461 thousand EUR) and Poslovni sistem Mercator d.d.arranged transit sales with a total gross transaction amounts of EUR 22,461 thousand(2018: EUR 18,391 thousand).

Mercator Group's and company's Poslovni sistem Mercator d.d. offer customers loyalty programme – PIKA. The benefits accumulated by customers from loyalty programmes constitute a performance obligation that is separate from the initial sale. For this reason, a contract liability is recognised in respect of this performance obligation as disclosed in Note 30.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Contract liabilities arising from customer loyalty program	6,480	6,375	6,480	6,375
Total contract liabilities	**6,480**	**6,375**	**6,480**	**6,375**

There were no significant changes in the contract assets and contract liability balances during the reporting period.

10. Other operating income

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	2019	2018	2019	2018
Gain on sale of property, plant and equipment	2,704	13,907	2,072	2,996
Revenue from reversal of provisions	7,491	4,637	5,015	1,776
Other operating revenue	21,369	11,702	6,149	4,282
Total	**31,564**	**30,246**	**13,235**	**9,054**

Mercator Group

Gain on the sale of property, plant and equipment was EUR 2,704 thousand (2018: EUR 13,907 thousand).

Revenue from the reversal and utilization of provisions in the amount of EUR 7,491 thousand (2018: EUR 4,637 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 income in the amount of EUR 21,369 thousand (2018: EUR 11,702 thousand), Mercator Group included income from assets revaluation in the amount of EUR 12,302 thousand, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 1,997 thousand, income from compensation received in the amount of 1,896 thousand EUR, revenue from costs of warnings and lawsuits in the amount of EUR 1,030 thousand, revenue from employment disability benefits in the amount of EUR 1,007 thousand and other operating income in the amount of EUR 3,137 thousand.

Poslovni sistem Mercator d.d.

Gain on the sale of property, plant and equipment amounted to EUR 2,072 thousand in 2019 (2018: EUR 2,996 thousand).

Income from the reversal and utilization of provisions in the amount of EUR 5,015 thousand (2018: EUR 1,776 thousand) refers to the use of assigned assets for disability contributions, legal proceedings and reversal of provisions for termination benefits and jubilee benefits.

Among other operating income the company Poslovni sistem Mercator d.d. discloses income from compensation received in the amount of 1,898 thousand EUR, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 1,013 thousand, revenue from employment disability benefits in the amount of EUR 1,007 thousand, revenue from costs of warnings and lawsuits in the amount of EUR 949 thousand and other operating revenue in the amount of EUR 1,282 thousand.

11. Costs of goods sold, selling costs and administrative expenses

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Depreciation of property, plant and equipment	61,083	65,247	28,704	30,362
Amortization of intangible assets	3,112	3,232	2,330	2,229
Amortization of right of use assets	47,040	-	8,426	-
Labour costs	254,012	246,626	169,099	164,797
Costs of material	72,146	72,540	27,361	28,110
Costs of services excluding rents	143,280	141,726	98,959	95,336
Short-term and low value lease expense (2018: operating leases)	1,940	67,771	985	9,371
Other costs	13,532	13,794	8,583	8,444
Provisioning	1,024	3,032	117	2,058
- of which provisions for executory contracts	-	483	-	483
- of which prov. for jubilee awards and post employment benefits	299	182	-	-
- of which provisions for litigation risks	724	1,671	117	975
- of which provisions for company reorganization	-	697	-	600
Impairment of property, plant and equipment and investment property	4,674	805	-	-
Impairment of subsidiaries and other financial investments	50	-	23,671	28,321
Write-off of property, plant and equipment	376	716	121	396
Loss on sales of property, plant and equipment	2,172	501	2,144	401
Expenses due to impairment with expected credit loss model	685	(2,218)	1,016	(868)
Net realizable value provision for inventories	(182)	(242)	-	-
Other operating expenses	1,814	1,940	608	630
Cost of goods sold	1,504,128	1,477,812	857,947	796,218
Total cost of goods sold, selling costs and administrative expenses	**2,110,888**	**2,093,284**	**1,230,073**	**1,165,805**
- of which cost of sales	2,036,545	2,017,360	1,172,652	1,101,196
- of which administrative expenses	69,669	75,118	57,421	64,610
- of which impairment of property, plant and equipment and intangible assets	4,674	805	-	-

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 IFRS.

Among the costs of services, the Mercator Group in 2019 shows audit costs for auditing the annual report in the amount of EUR 251 thousand. Additionally, EUR 17 thousand were used in the year 2019 for assurance services

EUR 0 thousand EUR for tax consultancy services and EUR 2 thousand for other non-audit services. For auditing the annual report and other assurance services in the year 2018 were used EUR 194 thousand (the amount cannot be divided based on contract), and for other non-audit services were paid EUR 38 thousand.

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.

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.

Among the costs of services, the company Poslovni sistem Mercator d.d. in 2019 shows audit costs for auditing the annual report in the amount of EUR 136 thousand. Additionally EUR 4 thousand were used in the year 2019 for assurance services, EUR 0 thousand for tax consultancy services and EUR 2 thousand for other non-audit services. For auditing the annual report and other assurance services in the year 2018 were used EUR 94 thousand EUR (the amount cannot be divided based on contract), and for other non-audit services were paid EUR 38 thousand.

12. Labour costs

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Gross salaries	186,041	180,887	117,981	115,697
Other pension insurance costs	22,627	22,253	13,548	13,329
- of which defined benefit (DB) pension schemes	19,323	18,958	10,646	10,415
- of which defined contribution (DC) pension schemes	3,304	3,295	2,902	2,915
Health insurance costs	10,026	9,923	8,736	8,547
Other labour costs	35,317	33,563	28,834	27,224
Total	**254,012**	**246,626**	**169,099**	**164,797**
Number of employees as at December 31	19,963	20,310	8,833	9,052

Mercator Group

Labour costs at the Mercator Group level in 2019 amounted to EUR 254,012 thousand (2018: EUR 246,626 thousand).

Among other labour costs, which amounted to EUR 35,317 thousand (2018: EUR 33,563 thousand) in 2019, the Mercator Group classifies reimbursement of meal allowances during work, reimbursement of commute allowances, annual leave allowances and other labour costs.

The total amount of all remuneration of employees of the Mercator Group employed under a contract, that is not subject to the tariff part of the collective agreement, excluding the members of the management of the company Poslovni sistem Mercator d.d., amounted to EUR 8,961 thousand in 2019 (2018: EUR 8,842 thousand).

Poslovni sistem Mercator d.d.

Labour costs at the company Poslovni sistem Mercator d.d. in 2019 amounted to EUR 169,099 thousand (2018: EUR 164,797 thousand).

Among other labour costs, which amounted to EUR 28,834 thousand (2018: EUR 27,224 thousand) in 2019, 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.

The total amount of all remuneration of employees of the company Poslovni sistem Mercator d.d. 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 5,292 thousand in 2019 (2018: EUR 4,997 thousand).

13. Finance income and costs

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Interest income from loans granted	1,357	945	1,107	3,165
Dividends received	415	8	729	354
Other financial income	240	238	299	4,651
Finance income	**2,013**	**1,191**	**2,136**	**8,170**
Borrowings costs	(26,849)	(31,636)	(17,678)	(20,092)
Losses on disposal of investments in financial assets	-	-	-	-
Lease liabilities costs	(20,946)	-	(3,960)	-
Other finance costs	(3,831)	(3,064)	(1,694)	(1,628)
Finance costs	**(51,625)**	**(34,701)**	**(23,332)**	**(21,720)**
Net foreign exchange differences	1,178	2,945	(8)	(2)
Net finance costs recognized in the income statement	**(48,435)**	**(30,565)**	**(21,204)**	**(13,552)**

Mercator Group

The largest share of the finance costsof the Mercator Group represent interest expenses, which amounted to EUR 26,849 thousand in 2019 (2018: EUR 31,636 thousand).

Poslovni sistem Mercator d.d.

The largest part represent interest expenses, which amounted to EUR 17,678 thousand in 2019 (2018: EUR 20,092 thousand).

14. Property, plant and equipment

	Mercator Group				
in EUR thousand	**Land**	**Buildings**	**Equipment and other assets**	**Assets not yet available for use**	**Total**
Gross carrying amount					
As at January 1, 2018	**331,516**	**1,214,922**	**416,976**	**15,704**	**1,979,118**
Additions	-	-	1,053	25,589	26,642
Transfer from assets being acquired	277	8,586	17,121	(29,058)	(3,074)
Disposals, deficit, surplus	(8,914)	(20,233)	(11,771)	(7)	(40,926)
Revaluation	3	34	-	-	36
Impairment	-	-	-	-	-
Translation differences	204	438	264	17	924
Other	(9,922)	(34,463)	(25)	-	(44,410)
As at December 31, 2018	**313,163**	**1,169,284**	**423,619**	**12,245**	**1,918,311**
Accumulated depreciation					
As at January 1, 2018	**-**	**(542,135)**	**(276,089)**	**(1,661)**	**(819,884)**
Depreciation	-	(36,467)	(28,285)	(673)	(65,425)
Transfer from assets being acquired	-	3,074	-	-	3,074
Disposals, deficit, surplus	-	17,414	10,832	-	28,245
Revaluation	-	(2)	-	-	(2)
Impairment	-	-	-	-	-
Translation differences	-	(149)	(144)	(1)	(294)
Other	-	10,972	-	-	10,972
As at December 31, 2018	**-**	**(547,293)**	**(293,686)**	**(2,335)**	**(843,314)**
Carrying amount					
As at January 1, 2018	**331,516**	**672,788**	**140,887**	**14,043**	**1,159,234**
As at December 31, 2018	**313,163**	**621,991**	**129,932**	**9,910**	**1,074,997**
Gross carrying					
As at January 1, 2019	**313,163**	**1,169,284**	**423,619**	**12,245**	**1,918,311**
Transer to right-of-use assets	(37,868)	(39,308)	(2,324)	-	(79,499)
Additions	-	266	922	32,222	33,410
Transfer from assets being acquired	875	8,620	14,552	(28,268)	(4,222)
Disposals, deficit, surplus	(32,973)	(31,016)	(14,533)	(11)	(78,534)
Revaluation	-	-	-	-	-
Impairment	(471)	(1,689)	-	-	(2,160)
Translation differences	127	1,975	1,084	43	3,230
Other	9	(242)	(55)	183	(104)
As at December 31, 2019	**242,864**	**1,107,890**	**423,265**	**16,414**	**1,790,432**
Accumulated depreciation					
As at January 1, 2019	**-**	**(547,293)**	**(293,686)**	**(2,335)**	**(843,314)**
Depreciation	-	(33,804)	(27,282)	-	(61,086)
Transfer from assets being acquired	-	4,222	-	-	4,222
Disposals, deficit, surplus	-	13,320	13,123	-	26,443
Revaluation	-	-	-	-	-
Impairment	-	618	-	-	618
Translation differences	-	(715)	(673)	(6)	(1,394)
Other	-	-	(23)	-	(23)
As at December 31, 2019	**-**	**(563,653)**	**(308,542)**	**(2,340)**	**(874,536)**
Carrying amount					
As at January 1, 2019	**313,163**	**621,991**	**129,932**	**9,910**	**1,074,997**
As at December 31, 2019	**242,864**	**544,237**	**114,723**	**14,073**	**915,896**

in EUR thousand	Land	Buildings	Equipment and other assets	Assets not yet available for use	Total
	Poslovni sistem Mercator d.d.				
Gross carrying					
As at January 1, 2018	**238,106**	**867,570**	**231,758**	**6,139**	**1,343,574**
Additions	-	-	442	12,738	13,180
Transfer from assets being acquired	241	1,167	7,376	(11,850)	(3,065)
Disposals, deficit, surplus	(7,764)	(15,426)	(7,790)	-	(30,980)
Revaluation	3	-	-	-	3
Impairment	-	-	-	-	-
Translation differences	-	-	-	-	-
Other	(11,767)	(59,132)	-	-	(70,900)
As at December 31, 2018	**218,819**	**794,179**	**231,786**	**7,027**	**1,251,812**
Accumulated depreciation					
As at January 1, 2018	**-**	**(430,898)**	**(176,524)**	**-**	**(607,422)**
Depreciation	-	(19,592)	(10,770)	-	(30,362)
Transfer from assets being acquired	-	3,065	-	-	3,065
Disposals, deficit, surplus	-	12,780	7,635	-	20,415
Revaluation	-	-	-	-	-
Impairment	-	-	-	-	-
Translation differences	-	-	-	-	-
Other	-	17,474	-	-	17,474
As at December 31, 2018	**-**	**(417,171)**	**(179,659)**	**-**	**(596,830)**
Carrying amount					
As at January 1, 2018	**238,106**	**436,673**	**55,234**	**6,139**	**736,152**
As at December 31, 2018	**218,819**	**377,009**	**52,128**	**7,027**	**654,982**
Gross carrying					
As at January 1, 2019	**218,819**	**794,179**	**231,786**	**7,027**	**1,251,812**
Transer to right-of-use assets	(37,868)	(39,308)	(1,016)		(78,192)
Additions	-	-	727	18,458	19,185
Transfer from assets being acquired	873	4,546	8,067	(17,705)	(4,220)
Disposals, deficit, surplus	(5,982)	(7,160)	(7,562)	-	(20,704)
Revaluation	-	-	-	-	-
Impairment	-	-	-	-	-
Translation differences	-	-	-	-	-
Other	12	(114)	(1)	214	110
As at December 31, 2019	**175,854**	**752,143**	**232,001**	**7,993**	**1,167,991**
Accumulated depreciation					
As at January 1, 2019	**-**	**(417,171)**	**(179,659)**	**-**	**(596,830)**
Depreciation	-	(18,027)	(10,678)	-	(28,704)
Transfer from assets being acquired	-	4,220	-	-	4,220
Disposals, deficit, surplus	-	4,610	7,142	-	11,752
Revaluation	-	-	-	-	-
Impairment	-	-	-	-	-
Translation differences	-	-	-	-	-
Other	-	-	-	-	-
As at December 31, 2019	**-**	**(426,367)**	**(183,195)**	**-**	**(609,562)**
Carrying amount					
As at January 1, 2019	**218,819**	**377,009**	**52,128**	**7,027**	**654,982**
As at December 31, 2019	**175,854**	**325,776**	**48,806**	**7,993**	**558,429**

Investments in property, plant and equipment shown in the context of investments refer to:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Purchase of land, buildings and equipment	9,263	5,725	4,804	1,334
Refurbishment of existing retail and wholesale units	21,444	17,523	12,547	9,722
Other	2,702	3,394	1,834	2,124
Total	**33,410**	**26,642**	**19,185**	**13,180**

Decreases in property, plant and equipment relate to:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Real estate sales	50,417	11,275	8,449	10,092
Sale of equipment	1,093	581	382	77
Write-offs	581	824	121	396
Total	**52,091**	**12,681**	**8,952**	**10,565**

Mercator Group

As at December 31, 2019, net book value of land, buildings and equipment of the Mercator Group amounted to EUR 915,896 thousand (as at December 31, 2018: EUR 1,074,997 thousand). Investments in property, plant and equipment amounted to EUR 33,410 thousand (2018: EUR 26,642 thousand), while disposals of property, plant and equipment amounted to EUR 52,091 thousand (2018: EUR 12,681 thousand).

Poslovni sistem Mercator d.d.

As at December 31, 2019, net book value of land, buildings and equipment amounted to EUR 558,429 thousand (as at December 31, 2018: EUR 654,982 thousand). In 2019, investments in property, plant and equipment amounted to EUR 19,185 thousand (2018: EUR 13,180 thousand), while disposals of property, plant and equipment amounted to EUR 8,952 thousand (2018: EUR 10,565 thousand).

Had land and buildings been measured at historical cost basis, the net book amounts would be as follows:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Land	340,777	410,172	209,111	262,048
Buildings	651,240	787,794	290,405	399,200

The carrying amount of property, plant and equipment under financial leases amounts to:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Land	37,868	39,697	37,868	39,697
Building	39,308	41,186	39,308	41,186
Equipment	2,324	2,895	1,016	1,198
Total	**79,499**	**83,779**	**78,192**	**82,081**

From 2019 year leased assets are presented as a separate line item in the statement of financial position following IFRS 16 implementation. Please refer to Note 4 and Note 15 for changes in the accounting policy.
The carrying amount of property, plant and equipment pledged as sequrity (including trade payables and financial leasing):

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Land	178,932	178,678	148,878	134,046
Buildings	527,823	564,471	209,535	231,078
Equipment	17,429	12,206	-	-

15. Leases

In the previous year, Mercator Group and company Poslovni sistem Mercator d.d. recognised leased assets and lease liabilities in relation to leases that were classified as *finance leases* under IAS 17, *Leases*. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 4.

Right-of-use assets	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR thousand	Land and buildings	Vehicles and equipment	Total	Land and buildings	Vehicles and equipment	Total
As at January 1, 2019						
Cost	346,316	10,349	356,665	114,878	5,837	120,715
Impairment	(41,251)	-	(41,251)	(1,970)	-	(1,970)
Net book amount	**305,065**	**10,349**	**315,414**	**112,908**	**5,837**	**118,745**
Balance as at December 31, 2019						
Net book amount	**305,065**	**10,349**	**315,414**	**112,908**	**5,837**	**118,745**
Effect of foreign exchange differences	-	-	-	-	-	-
Additions	89,876	5,056	94,932	59,525	3,005	62,531
Disposals	-	-	-	-	-	-
Depreciation charge	(54,408)	(3,030)	(57,438)	(10,805)	(1,749)	(12,553)
Revaluation	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Closing net book amount	**340,533**	**12,375**	**352,908**	**161,629**	**7,094**	**168,723**
Balance as at December 31, 2019						
Cost	436,192	15,405	451,597	174,403	8,842	183,245
Accumulated depreciation	(95,659)	(3,030)	(98,689)	(12,774)	(1,749)	(14,523)
Net book amount	**340,533**	**12,375**	**352,908**	**161,629**	**7,094**	**168,723**

Mercator Group concluded several sale and lease back agreements in 2019. Since all sale and lease back transactions were concluded below market terms (ie. future rents which Mercator will be paying are below current market rents) therefore Mercator Group has accounted in line with IFRS16.101 the difference between purchase price and carrying amount (which also equals fair value) as a prepayment of lease payments.

On October 12, 2018, the company Poslovni sistem Mercator d.d. and companies Supernova signed an agreement on the sale of ten shopping centres in Slovenia. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator took a long-term lease of parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities.

At the end of 2019 the sale of the Roda Center Novi Beograd in Serbia was successfully completed with a purchase price in the amount of EUR 22.5 million and Mercator–S d.o.o. took a long-term lease of part of the centre in which it is conducting its core activity. The amount received will be used to repayment of financial and trade liabilities in 2020.

Investment property right-of-use asset is disclosed in Note 17.

Lease liability	**Mercator Group**	**Poslovni sistem Mercator d.d.**
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2019**
Non-current	300,260	83,496
Current	76,100	19,541
Total lease liability	**376,361**	**103,037**

Maturity analysis	**Mercator Group**	**Poslovni sistem Mercator d.d.**
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2019**
Year 1	76,100	19,541
Year 2	56,380	15,404
Year 3	51,535	12,159
Year 4	48,418	12,050
Year 5	41,014	11,365
Year 6 and onward	102,913	32,519
Total	**376,361**	**103,037**

Amounts recognised in profit and loss	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Depreciation expense on right-of-use assets	(47,040)	(8,426)	(47,040)	(8,426)
Interest expense on lease liabilities	(20,946)	(3,960)	(20,946)	(3,960)
Expense relating to short-term leases & low value items	(1,940)	(985)	(1,940)	(985)
Expense relating to variable lease payments not included in the measurement of the lease liability	-	-	-	-
Income from subleasing right-of-use assets	550	-	550	-

The total cash outflow for leases amount to EUR 66,690 thousand and is presented as cash flow from financing activities. Principal elements of lease payments provided in the statement of cash flow only comprises the repayment of long term lease principal, interest payments are included in interest paid line.

Finance lease liabilities

Starting from January 1, 2019 Mercator Group and company Poslovni sistem Mercator d.d. has implemented IFRS 16 for lease accounting as disclosed in Note 4 and this Note.

Finance lease liabilities – minimum lease payments:	**Mercator Group December 31, 2018**			**Poslovni sistem Mercator d.d. December 31, 2018**		
in EUR thousand	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	37,848	1,064	36,784	32,338	1,015	31,323
Between one and five years	58,613	2,589	56,024	33,763	2,567	31,196
More than five years	8,756	347	8,409	8,756	347	8,409
Total	**105,218**	**4,000**	**101,218**	**74,857**	**3,928**	**70,929**

Operating leases (IAS 17 disclosure)

Future minimum lease payments under non-cancellable operating leases are as follows:

	Mercator Group	**Poslovni sistem Mercator d.d.**
in EUR thousand	**Dec. 31, 2018**	**Dec. 31, 2018**
Less than one year	43,645	5,206
Between one and five years	147,942	16,764
More than five years	110,056	17,922
Total	**301,643**	**39,892**

In line with IFRS 16 Mercator Group and the company Poslovni sistem Mercator d.d. have recognized all relevant lease agreements in balance sheet. Majority of lease agreements are concluded for definite period (in most cases up to 15 years) with an option to extend such leases under prevailing market condition at the time of such extension. The only exception to this are the lease agreements concluded in sale&leaseback transaction with Supernova where the company Poslovni sistem Mercator d.d. has the option to extend lease agreements for another 15 years under the same term's and condition. This potential extension was not recognized in the balance sheet since it is from today's perspective difficult to assess if Mercator would opt for lease extension.

16. Intangible assets

	Mercator Group					Poslovni sistem Mercator d.d.			
in EUR thousand	Goodwill	Trade-marks	Material rights and licenses	Assets not yet available for use	Total	Goodwill	Material rights and licenses	Assets not yet available for use	Total
Gross carrying amount									
As at January 1, 2018	**25,229**	**10,745**	**65,666**	**-**	**101,640**	**1,200**	**48,680**	**-**	**49,880**
Additions	-	-	425	3,105	3,530	-	130	2,479	2,609
Transfer from assets being acquired	-	-	3,085	(3,085)	0	-	2,479	(2,479)	0
Disposals, deficit, surplus	(24,100)	-	(2,195)	-	(26,295)	-	(2,115)	-	(2,115)
Revaluation	-	-	-	-	-	-	-	-	-
Impairment	(1,200)	-	-	-	(1,200)	(1,200)	-	-	(1,200)
Translation differences	71	21	41	-	132	-	-	-	-
Other	-	-	(1)	-	(1)	-	-	-	-
As at December 31, 2018	**-**	**10,766**	**67,022**	**20**	**77,808**	**-**	**49,174**	**-**	**49,174**
Accumulated depreciation									
As at January 1, 2018	**(24,029)**	**(6,984)**	**(48,795)**	**-**	**(79,809)**	**-**	**(36,107)**	**-**	**(36,107)**
Amortization	-	-	(3,232)	-	(3,232)	-	(2,229)	-	(2,229)
Transfer from assets being acquired	-	-	-	-	-	-	-	-	-
Disposals, deficit, surplus	22,900	-	2,195	-	25,095	(1,200)	2,115	-	915
Revaluation	-	-	-	-	-	-	-	-	-
Impairment	1,200	-	-	-	1,200	1,200	-	-	1,200
Translation differences	(71)	(14)	(34)	-	(118)	-	-	-	-
Other	-	-	1	-	1	-	-	-	-
As at December 31, 2018	**-**	**(6,998)**	**(49,865)**	**-**	**(56,863)**	**-**	**(36,221)**	**-**	**(36,221)**
Carrying amount									
As at January 1, 2018	**1,200**	**3,761**	**16,871**	**-**	**21,832**	**1,200**	**12,573**	**-**	**13,773**
As at December 31, 2018	**-**	**3,768**	**17,157**	**20**	**20,945**	**-**	**12,953**	**-**	**12,953**
Gross carrying amount									
As at January 1, 2019	**-**	**10,766**	**67,022**	**20**	**77,808**	**-**	**49,174**	**-**	**49,174**
Additions	-	-	183	2,554	2,737	-	43	2,068	2,110
Transfer from assets being acquired	-	-	2,574	(2,574)	-	-	2,068	(2,068)	-
Disposals, deficit, surplus	-	-	(408)	-	(408)	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-	-
Translation differences	-	96	45	-	142	-	-	-	-
Other	-	-	(94)	-	(94)	-	-	-	-
As at December 31, 2019	**-**	**10,862**	**69,322**	**-**	**80,184**	**-**	**51,284**	**-**	**51,284**
Accumulated depreciation									
As at January 1, 2019	**-**	**(6,998)**	**(49,865)**	**-**	**(56,863)**	**-**	**(36,221)**	**-**	**(36,221)**
Amortization	-	-	(3,112)	-	(3,112)	-	(2,330)	-	(2,330)
Transfer from assets being acquired	-	-	-	-	-	-	-	-	-
Disposals, deficit, surplus	-	-	365	-	365	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-	-
Translation differences	-	(63)	(20)	-	(83)	-	-	-	-
Other	-	-	56	-	56	-	-	-	-
As at December 31, 2019	**-**	**(7,060)**	**(52,575)**	**-**	**(59,636)**	**-**	**(38,551)**	**-**	**38,551)**
Carrying amount									
As at January 1, 2019	**-**	**3,768**	**17,157**	**20**	**20,945**	**-**	**12,953**	**-**	**12,953**
As at December 31, 2019	**-**	**3,802**	**16,746**	**-**	**20,548**	**-**	**12,733**	**-**	**12,733**

Mercator Group

As at December 31, 2019, intangible assets amount to EUR 20,548 thousand (2018: EUR 20,945 thousand) and include rights, patents, licenses, trademarks and investments into software.

The value of intangible assets increased in 2019 due to investments in the amount of EUR 2,737 thousand (2018: EUR 3,530 thousand).

The trademark value as at December 31, 2019 amounts to EUR 3,802 thousand and refers to the trademark Roda in Serbia. The estimated useful life of the trademark is indefinite. On December 31, 2019, it was tested for potential impairment, which was not identified.

Amortization of intangible assets amounts to EUR 3,112 thousand (2018: EUR 3,232 thousand).

Poslovni sistem Mercator d.d.

As at December 31, 2019, intangible assets amount to EUR 12,733 thousand (2018: EUR 12,953 thousand) and include rights, patents, licenses and investments into software.

The value of intangible assets increased in 2019 due to investments in the amount of EUR 2,110 thousand (2018: EUR 2,609 thousand).

Amortization of intangible assets amounts to EUR 2,330 thousand (2018: EUR 2,229 thousand).

17. Investment property

in EUR thousand	Mercator Group	Poslovni sistem Mercator d.d.
Gross carrying amount		
As at January 1, 2018	**358,996**	**9,138**
Disposals, deficit, surplus	(8,489)	(1,110)
Revaluation	19,142	-
Impairment	(15,759)	-
Translation differences	1,295	-
Transfers, reclassification	1,990	-
As at December 31, 2018	**357,175**	**8,028**
Changes in the year		
As at January 1, 2018	**(114,681)**	**(4,300)**
Disposals, deficit, surplus	803	768
Revaluation	2	2
Translation differences	(409)	-
As at December 31, 2018	**(114,285)**	**(3,530)**
Carrying amount		
As at January 1, 2018	**244,316**	**4,838**
As at December 31, 2018	**242,890**	**4,498**
Gross carrying amount		
As at January 1, 2019	**382,647**	**8,028**
Transfer from assets being acquired	1	1
Disposals, deficit, surplus	(621)	(564)
Revaluation	5,835	-
Translation differences	(1,284)	-
As at December 31, 2019	**386,577**	**7,465**
Changes in the year		
As at January 1, 2019	**(114,285)**	**(3,530)**
Disposals, deficit, surplus	183	146
Translation differences	401	-
Transfers, reclassification	129	-
As at December 31, 2019	**(113,571)**	**(3,384)**
Carrying amount		
As at January 1, 2019	**268,362**	**4,498**
As at December 31, 2019	**273,006**	**4,081**

The following amounts were recognized in the income statement with regard to investment property:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Rental income	14,973	14,364	89	111
Direct expenses arising from investment property and generating rental income	(4,916)	(4,884)	(79)	(87)
Total	**10,056**	**9,480**	**10**	**24**

Minimum lease payments receivable on leases of investment properties are as follows:

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Within 1 year	17,880	20,021	8,785	10,542
Between 2 and 5 years	80,234	77,792	43,594	41,239
Later than 5 years	13,567	22,578	11,818	11,474

Mercator Group

The Mercator Group investment property at the Mercator Group level in 2019 amounted to EUR 273,006 thousand (2018: EUR 242,890 thousand).

Poslovni sistem Mercator d.d.

Investment property at the level of company Poslovni sistem Mercator d.d. in 2019 amounted to EUR 4,081 thousand (2018: EUR 4,498 thousand).

Financial liabilities of the company Poslovni sistem Mercator d.d. as at December 31, 2019 are not secured by mortgages on investment property.

18. Investments by the company Poslovni sistem Mercator d.d. in equity of Group companies

in EUR thousand	As at December 31, 2018	Equity interest (%) as at December 31, 2018	Disposals	Impair-ment	As at December 31, 2019	Equity interest (%) as at December 31, 2019
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	-	-	**-**	**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		**-**	**-**	**5,153**	
Abroad:						
Mercator–S, d.o.o., Novi Sad	**102,354**	100.0	-	(20,209)	**82,145**	**100.0**
Mercator–H, d.o.o., Zagreb	**126,599**	99.8	-	-	**126,599**	**99.8**
Mercator–BH, d.o.o., Sarajevo**	**32,771**	56.6	-	(3,430)	**29,341**	**56.6**
Mercator Makedonija, d.o.o.e.l., Skopje	**-**	100.0	-	-	**-**	**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**
	292,605		**(10,599)**	**(23,639)**	**258,368**	
Total equity investments in Group companies	**297,757**		**(10,599)**	**(23,639)**	**263,520**	

*Companies Mercator Makedonija 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.
**The owner of the remaining equity interest is the company Mercator–S, d.o.o.

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 Poslovni sistem Mercator d.d. recoverable amount is assessed in accordance with IAS 36 requirements as the higher of value in use and fair value less cost of disposal.

As of December 31, 2019 the company Poslovni sistem Mercator d.d. carried out the review of impairment indicators of it's investments in subsidiaries. Due to lower performance on the local market (asset based approach used), impairment tests resulted in additional impairment for the current year. Following below planed performance for the reporting period of Mercator–S d.o.o., and Mercator–BH d.o.o., the assessment of recoverable amount of investments in these subsidiaries was performed and impairment loss was recognized accordingly in accordance with IAS 36.

Major drivers of negative financial results of the companies Mercator–S, d.o.o., and Mercator–BH, d.o.o., were high interest expenses from financial borrowings and expenses regarding to lease agreements. Both companies have majority of retail space rented which has impact on income statement through finance costs of lease liabilities and amortization of right of use assets. However, profitability of both companies measured through EBITDAR margin indicator, which excluded above mentioned items, are in line with peers on each market. In current strategy of Mercator Group adopted by Supervisory Board in the December 2019, were introduced additional measures for further business improvement.

The recoverable amount of investment in each subsidiary was determined as higher of value in use and fair value less cost of disposal. Poslovni sistem Mercator d.d. selected assets based approach (as for measurement of recoverable amount), as the Value in use amount is lower, than fair value, less cost of disposal. Based on an asset based approach, the value of investment was determined as net assets value (i.e. the difference between assets and liabilities), adjusted to their individual fair values. Assets are significantly represented by real estate: land and buildings (measured at fair value - Level 3 measurement category), that accounts for 53% from the total assets. The valuation techniques, inputs and assumption used are disclosed in Note 5 in section a) ii).

Other net assets are either monetary assets (cash, loans given, account receivables) and liabilities (loans received, trade account payables) or non-monetary assets (inventory) realisable in short term operating cycle, therefore their carrying values are assumed as reasonable and appropriate approximation of their fair values (categorised as Level 2 fair value measurement category). Cost of disposal is assumed immaterial and therefore are ignored for the impairment test purposes.

The fair value of investments in Mercator−S d.o.o. and Mercator−BH d.o.o. was higher than estimated value in use and therefore was applied as recoverable amount for the impairment test purposes. In the result, impairment loss in the amount of EUR 20,209 thousand and EUR 3,430 thousand respectively was recognized.

19. Non-derivative financial assets

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
As at January 1	**393**	**391**	**261**	**259**
Investments in insurance companies, shares and interests of other companies	101	(1)	57	-
Revaluation	453	3	450	3
Impairments	(71)	-	(32)	-
As at December 31	**876**	**393**	**736**	**261**

Revaluation to fair value for financial assets is recognized in other comprehensive income. Impairment of financial assets is recognized in the income statement. The 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

Financial assets at the Mercator Group level on December 31, 2019, amounted to EUR 876 thousand (2018: EUR 393 thousand).

Poslovni sistem Mercator d.d.

In the company Poslovni sistem Mercator d.d. these assets on December 31, 2019, amounted to EUR 736 thousand (2018: EUR 261 thousand).

20. Taxes

Taxes recognized in profit or loss

Taxes recognized in profit or loss	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Current tax	888	1,673	-	-
Deferred tax	5,426	4,499	5,983	4,957
Tax	**6,314**	**6,172**	**5,983**	**4,957**

Poslovni sistem Mercator d.d.

For 2019, the company Poslovni sistem Mercator d.d. does not disclose current tax liability. The amount of uncovered tax loss as at December 31, 2019 amounts to EUR 101,424 thousand (2018: EUR 122,931 thousand).

Taxes recognized in other comprehensive income

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 recognized directly in the other comprehensive income, deferred tax is credited directly to or against the other comprehensive income.

	Mercator Group			Poslovni sistem Mercator, d.d		
Tax recognized in other comprehensive income:	2018			2018		
in EUR thousand	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	(7,076)	1,340	(5,737)	(6,952)	1,321	(5,631)
Gains/losses recognized in revaluation surplus related to investments in financial assets	6	(0)	5	3	(0)	2
Foreign currency translation differences - foreign operations	190	(33)	156	-	-	-
Provisions for termination benefits	178	10	188	377	10	387
Other changes	-	-	-	-	-	-
Other comprehensive income	**(6,702)**	**1,316**	**(5,386)**	**(6,572)**	**1,330**	**(5,242)**

	Mercator Group			Poslovni sistem Mercator, d.d		
Tax recognized in other comprehensive income:	2019			2019		
in EUR thousand	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	(20,351)	5,052	(15,299)	(26,042)	4,948	(21,094)
Gains/losses recognized in revaluation surplus related to investments in financial assets	525	(98)	427	491	(93)	397
Foreign currency translation differences - foreign operations	(53)	14	(40)	-	-	-
Provisions for termination benefits	(290)	65	(226)	(144)	60	(83)
Other changes	306	-	306	306	-	306
Other comprehensive income	**(19,864)**	**5,033**	**(14,831)**	**(25,388)**	**4,915**	**(20,474)**

Reconciliation to effective tax rate

Reconciliation to effective tax rate:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
Profit or loss for the year	4,666	1,606	(13,807)	(10,882)
Tax	6,314	6,172	5,983	4,957
Profit or loss before tax	**10,980**	**7,779**	**(7,824)**	**(5,924)**
Tax calculated at tax rate 19%	1,002	290	(1,487)	(1,126)
Increase/decrease in income for tax purposes	(1,566)	(436)	(427)	563
Decrease/increase in expenses for tax purposes	3,279	(758)	9,068	(261)
Tax effect of non-deductible expenses	7,259	12,816	7,001	12,470
Tax reliefs	(6,150)	(6,795)	(6,090)	(6,690)
Other reconciliations	2,489	1,055	(2,082)	-
Total tax	**6,314**	**6,172**	**5,983**	**4,957**
Effective tax rate	**58%**	**79%**	**-76%**	**-84%**

In 2019, tax reliefs of the Mercator Group in the amount of EUR 6,150 thousand EUR (Poslovni sistem Mercator d.d.: EUR 6,090 thousand) refers to utilization of unused tax losses, investments in equipment and employment of people with disabilities.

Deferred taxes

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.

Movements in deferred taxes:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
At the beginning of the year – net deferred tax (liabilities)	**(11,670)**	**(8,627)**	**(3,999)**	**(500)**
Foreign exchange differences	41	(24)	-	-
Recognized in profit or loss	(5,426)	(4,496)	(5,983)	(4,957)
Recognized in other comprehensive income	382	157	319	138
Recognized in liabilities	4,996	1,321	4,948	1,321
At the end of the year – net deferred tax assets (liabilities)	**(11,677)**	**(11,670)**	**(4,715)**	**(3,999)**

Deferred tax liabilities:	Mercator Group				
in EUR thousand	Revaluation of property, plant and equipment	Revaluation of investments in financial assets	Depreciation of property, plant and equipment under EUR 500	Differences between tax recognized and business depreciation	Total
Balance as at January 1, 2018	**47,428**	**11**	**1,047**	**3,050**	**51,537**
Foreign exchange differences	30	-	-	(1)	28
Recognized in profit or loss	(29)	-	49	84	103
Recognized in other comprehensive income	(154)	1	3	-	(149)
Recognized under liabilities	(1,321)	-	-	-	(1,321)
Balance as at December 31, 2018	**45,954**	**12**	**1,099**	**3,132**	**50,198**
Foreign exchange differences	(29)	(0)	-	15	(14)
Recognized in profit or loss	(14)	-	49	3	38
Recognized in other comprehensive income	(417)	100	-	-	(317)
Recognized under liabilities	(4,948)	-	-	(48)	(4,996)
Balance as at December 31, 2019	**40,547**	**112**	**1,148**	**3,102**	**44,910**

Deferred tax liabilities:	Poslovni sistem Mercator d.d.				
in EUR thousand	Revaluation of property, plant and equipment	Revaluation of investments in financial assets	Depreciation of property, plant and equipment under EUR 500	Differences between tax recognized and business depreciation	Total
Balance as at January 1, 2018	**38,356**	**4**	**1,025**	**1,299**	**40,684**
Foreign exchange differences	-	-	-	-	-
Recognized in profit or loss	(29)	-	49	83	103
Recognized in other comprehensive income	(129)	0	-	-	(128)
Recognized under liabilities	(1,321)	-	-	-	(1,321)
Balance as at December 31, 2018	**36,877**	**4**	**1,074**	**1,383**	**39,338**
Foreign exchange differences	-	-	-	-	-
Recognized in profit or loss	(14)	-	51	83	121
Recognized in other comprehensive income	(352)	93	-	-	(259)
Recognized under liabilities	(4,948)	-	-	-	(4,948)
Balance as at December 31, 2019	**31,564**	**97**	**1,126**	**1,466**	**34,253**

In 2019, the Mercator Group discloses EUR 4,996 thousand of deferred tax liabilities recognized under liabilities (Poslovni sistem Mercator d.d.: EUR 4,948 thousand) which refers to elimination of fairvalue reserves and deferred tax liabilities from the sale of revaluated fixed assets.

Deferred tax assets	Mercator Group							
in EUR thousand	**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 investments in financial assets**	**Other**	**Total**
Balance as at January 1, 2018	**2,286**	**3,949**	**27,641**	**-**	**3,680**	**3,105**	**2,249**	**42,909**
Foreign exchange differences	0	-	2	-	1	-	0	4
Recognized in profit or loss	52	(30)	(2,957)	-	484	-	(1,941)	(4,393)
Recognized in other comprehensive income	8	-	-	-	-	-	-	8
Balance as at December 31, 2018	**2,346**	**3,919**	**24,685**	**-**	**4,165**	**3,105**	**308**	**38,528**
Foreign exchange differences	2	-	5	-	20	-	1	27
Recognized in profit or loss	(191)	(1,197)	(5,213)	-	1,794	(363)	(218)	(5,388)
Recognized in other comprehensive income	65	-	-	-	-	-	-	65
Balance as at December 31, 2019	**2,222**	**2,721**	**19,477**	**-**	**5,979**	**2,742**	**91**	**33,233**

Deferred tax assets	Poslovni sistem Mercator d.d.							
in EUR thousand	**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 investments in financial assets**	**Other**	**Total**
Balance as at January 1, 2018	**2,015**	**3,932**	**26,314**	**-**	**2,772**	**3,105**	**2,045**	**40,184**
Foreign exchange differences	-	-	-	-	-	-	-	-
Recognized in profit or loss	5	(28)	(2,957)	-	35	-	(1,909)	(4,854)
Recognized in other comprehensive income	10	-	-	-	-	-	-	10
Balance as at December 31, 2018	**2,030**	**3,904**	**23,357**	**-**	**2,807**	**3,105**	**137**	**35,339**
Foreign exchange differences	-	-	-	-	-	-	-	-
Recognized in profit or loss	(222)	(1,197)	(4,086)	-	52	(363)	(46)	(5,861)
Recognized in other comprehensive income	60	-	-	-	-	-	-	60
Balance as at December 31, 2019	**1,868**	**2,707**	**19,271**	**-**	**2,859**	**2,742**	**91**	**29,538**

Mercator Group

As at December 31, 2019 the Mercator Group discloses EUR 33,233 thousand of deferred tax assets, which indicate an decrease by EUR 5,295 in 2019. The biggest share of deferred tax assets arising from unused tax reliefs relates to the company Poslovni sistem Mercator d.d. and can be used without time limitation in future tax periods. Deferred tax assets arising from unused tax reliefs were incurred in the years 2014 and 2017, mainly due to negative one-off business events. In the following years is planned a positive tax base, which may be reduced by the use of tax losses from previous years and consequently the recognized deferred tax assets arising from unused tax reliefs will be eliminated.

In 2019, 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 2019, while deferred tax asset increases it.

Deferred tax assets not recognized through profit or loss pertaining to tax loss (Mercator–S, d.o.o., Mercato–H, d.o.o., and M–Energija, d.o.o.) and impairment of equity investment into subsidiaries in total amount of EUR 31,104 thousand. Deferred tax assets from impairment of equity investment into subsidiaries were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

Deferred tax assets and liabilities in the balance sheet are not offset.

Poslovni sistem Mercator d.d.

In 2019, 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 2019, while deferred tax asset increases it.

Deferred tax assets not recognized through profit or loss, pertaining to the impairment of equity investment into subsidiaries Mercator−S d.o.o. and Mercator−BH d.o.o. amounted to EUR 4,491 thousand. These deferred tax assets were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

Deferred tax assets and liabilities in the balance sheet are not offset.

21. Assets classified as held for sale

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Land	-	50,378	-	50,378
Buildings	-	98,061	-	98,061
Total	**-**	**148,439**	**-**	**148,439**

Land and buildings classified as held for sale are measured at fair value, as cost to sell is insignificant. The fair value of properties was determined by independent certified appraiser as discussed in Note 14.

Mercator Group

As at December 31, 2018, the Mercator Group classified EUR 148,439 thousand of non-current assets in assets held for sale in the framework of real estate monetization strategy in the Slovenian market. Relevant sale and lease back transaction was completed in February 2019 as discussed in Note 15.

Poslovni sistem Mercator d.d.

As at December 31, 2018, the company Poslovni sistem Mercator d.d. disclosed EUR 148,439 thousand of non-current assets in assets held for sale in the framework of real estate monetization strategy in the Slovenian market.

Relevant sale and lease back transaction was completed in February 2019 as discussed in Note 15.

22. Inventories

in EUR thousand	Mercator Group		Poslovni sistem Mercator d.d.	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Merchandise	250,650	242,356	123,775	117,252
Materials	4,438	4,422	413	494
Work in progress	11	8	-	-
Finished goods	1,105	997	-	-
Less: allowance for merchandise impairment	(45,108)	(37,459)	(12,644)	(13,994)
Less: allowance for other inventory impairment	(7)	(5)	-	-
Total	**211,090**	**210,319**	**111,544**	**103,752**

Mercator Group

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress, and finished products as at December 31, 2019 amounted to EUR 211,090 thousand and remained comparable to the end of the previous year.

The reversal of an allowance 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 net 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, 2019 amounted to EUR 111,544 thousand, and remained comparable to the end of the previous year.

The reversal of an allowance for impairment 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.

23. Trade and other receivables

in EUR thousand	Mercator Group		Poslovni sistem Mercator d.d.	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Trade receivables	128,351	137,096	61,477	59,120
Prepaid expenses	13,217	3,827	3,140	1,128
Other receivables	26,000	21,548	5,258	2,520
Total trade and other receivables	**167,567**	**162,471**	**69,874**	**62,768**

Mercator Group

As at December 31, 2019, trade receivables of the Mercator Group amounted to EUR 128,351 thousand (2018: EUR 137,096 thousand).

The carrying amounts of all trade and other receivables in all significant amounts are consistent with their fair value. Receivables are carried at amortized cost.

In 2019 the impairment expense of receivables amounted to EUR 2,115 thousand (2018: EUR 1,981 thousand) Changes in allowances for trade receivables are disclosed in Note 31.

Because of the nature of financial instruments, Mercator Group can divide trade and other receivables to:

(a) total financial trade and other receivables, which in 2019 amounted to EUR 143,433 thousand, and consisted mainly of trade receivables (EUR 128,351 thousand) and
(b) total non – financial trade and other receivables, which in 2019 amounted to EUR 24,134 thousand, and consisted mainly of prepaid expenses (EUR 13,217 thousand) and advances paid for goods and services (EUR 5,189 thousand).

Poslovni sistem Mercator d.d.

As at December 31, 2019, trade receivables of the company Poslovni sistem Mercator d.d. amounted to EUR 61,477 thousand (2018: EUR 59,120 thousand).

Prepaid expenses in 2019 amounted to EUR 3,140 thousand (2018: EUR 1,128 thousand) and relate primarily to assets that are collected for property reserve funds and other prepaid expenses.

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 secured receivables is disclosed in Note 31.

Because of the nature of financial instruments, the company Poslovni sistem Mercator d.d. can divide trade and other receivables to:

(a) total financial trade and other receivables, which in 2019 amounted to EUR 61,913 thousand and consisted mainly of trade receivables (EUR 61,477 thousand) and
(b) total non – financial trade and other receivables, which in 2019 amounted to EUR 7,961 thousand.

24. Loans and deposits

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Deposits for rent payments	2,825	14,067	-	-
Loans to companies	12,527	7,371	25,179	2,133
Deposits in banks	754	548	-	-
Total	**16,106**	**21,986**	**25,179**	**2,133**
Loans and deposits include:				
Non-current/long-term loans and deposits	13,600	18,976	30	2,103
Current/short-term loans and deposits	2,506	3,010	25,149	30

Mercator Group

Loans and deposits at the Mercator Group level as at December 31, 2019, amounted to EUR 16,106 thousand (2018: EUR 21,986 thousand).

Deposits for rent payments relate to long-term paid in advance rents for trade facilities abroad and are charged with interest. In 2019, they decreased to EUR 2,825 thousand due to reclassification to right of use assets in accordance with IFRS 16. The average interest rate on loans given and deposits is 3.51%.

Loans to companies at the Mercator Group level as at December 31, 2019, amounted to EUR 12,527 thousand and includes EUR 10,062 thousand financial receivables to parties within Fortenova Group from financial sublease.

The Mercator Group did not book provisions for deposits in banks, loans to companies, rent payments as expected credit losses are immaterial.

Poslovni sistem Mercator d.d.

As at December 31, 2019, loans in the amount of EUR 25,179 thousand (2018: EUR 2,133 thousand) relate to short-term loans in the amount of EUR 25,149 thousand (2018: EUR 30 thousand) and in the amount of EUR 30 thousand (2018: EUR 2,103 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.

The company Poslovni sistem Mercator d.d. did not booked provisions for deposits in banks, loans to companies, rent payments as expected credit looses are immaterial.

25. Cash and cash equivalents

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31,2018**
Cash in hand	11,293	10,748	5,379	6,250
Cash in banks	34,484	4,326	5,759	48
Total cash and cash equivalents	**45,777**	**15,074**	**11,137**	**6,298**

Cash in hand includes cash in transit (daily proceeds of retail units), cash in hand, and demand deposits.

26. Equity

Share capital

Share 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, non par value shares (2018: 6,090,943), that are all entered into the Companies Register as at December 31, 2019.

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, 2019, the company Poslovni sistem Mercator d.d. held 42,192 own shares in the amount of EUR 3,235 thousand (2018: 42,192 own shares, EUR 3,235 thousand).

Reserves

Reserves of the Mercator Group and the company Poslovni sistem Mercator d.d. comprise reserves for own shares, share premium, legal reserves, other profit reserves, fair value reserves and currency translation reserves. None of capital surplus, legal reserves, fair value reserve and currency translation reserve can be used for payment of dividends or other participation in profit.

Reserves, as at December 31, 2019, amounting to EUR 135,347 thousand on the Mercator Group level (2018: EUR 151,967 thousand) and EUR 142,693 thousand (2018: EUR 166,977 thousand), at the company Poslovni sistem Mercator d.d.:

- As at December 31, 2019, the company Poslovni sistem Mercator d.d. owned 42,192 *own shares* in the amount of EUR 3,235 thousand (2018: EUR 3,235 thousand).
- As at December 31, 2019 the company Poslovni sistem Mercator d.d. has c*apital surplus* in the amount of EUR 2,571 thousand (2018: EUR 6,381 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.
- As at December 31, 2019, the Mercator Group has *legal reserves* in the amount of EUR 20,691 thousand (2018: 19,386 thousand), while the company Poslovni sistem Mercator d.d. has legal reserves in the amount of EUR 13,389 thousand (2018: EUR 13,389 thousand).
- *Other profit reserves* as at December 31, 2019 amount to EUR 11,990 thousand at the Mercator Group (2018: EUR 11,037 thousand), while the company Poslovni sistem Mercator d.d. has no other revenue reserves. Other profit reserves consist of redistributed residual retained earnings from previous years. They can be used for any purpose, except for own shares reserve
- *Fair value reserve,* which as at December 31, 2019 amounts to EUR 180,566 thousand (2018: EUR 195,398 thousand) for the Mercator Group and EUR 123,498 thousand (2018: EUR 143,971 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 investments in financial assets and fair value reserve from actuarial gains or losses arising from creation of provisions for post employment benefits.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Property fair value reserve	184,975	200,052	128,000	148,821
Fair value reserve for investments in financial assets	583	57	512	22
Actuarial gain/loss of post employment benefits	(4,991)	(4,711)	(5,015)	(4,871)
Total fair value reserve	**180,566**	**195,398**	**123,498**	**143,971**

- *Currency translation reserve* at the Mercator Group level as at December 31, 2019 amounts to EUR -83,810 thousand which decreased in 2019 by EUR 339 thousand due to the changes in foreign currency because of consolidation of subsidiaries into consolidated financial statements.

Capital and legal reserves (tied reserves) can be used in surplus amount to increase the share 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.

Non-controlling interest

Non-controliing interest are not material to Group Mercator. Non-controling interest relates for subsidiary Mercator-H d.o.o. in ownership of share capital 0.02%.

Changes in equity in 2018 for the Mercator Group relate to:

in EUR thousand	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserve	Currency trans. reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribu. to the contr. company owners	Non-control. interest	Total equity
As at January 1, 2018	**254,175**	**(3,235)**	**3,235**	**207,523**	**17,947**	**25,326**	**200,784**	**(84,029)**	**40,819**	**(184,284)**	**478,261**	**140**	**478,401**
Effect of adoption of new IFRS	-	-	-	-	-	-	-	-	(4,471)	-	(4,471)	-	(4,471)
As at January 1, 2018	**254,175**	**(3,235)**	**3,235**	**207,523**	**17,947**	**25,326**	**200,784**	**(84,029)**	**36,348**	**(184,284)**	**473,790**	**140**	**473,930**
Net profit/loss for the 2018 year	-	-	-	-	-	-	-	-	-	1,597	1,597	9	1,606
Change in fair value of investments in financial assets	-	-	-	-	-	-	6	-	-	-	6	-	6
Deferred taxes	-	-	-	-	-	-	1,316	-	1,929	-	3,246	-	3,246
Foreign currency translation differences	-	-	-	-	-	-	-	558	-	-	558	0	558
Actuarial gain/loss of post employment benefits	-	-	-	-	-	-	180	-	-	-	180	-	180
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1,502**	**558**	**1,929**	**-**	**3,989**	**0**	**3,989**
Total comprehensive income for the year 2018	**-**	**-**	**-**	**-**	**-**	**-**	**1,502**	**558**	**1,929**	**1,597**	**5,586**	**9**	**5,596**
Disposal of land and buildings carried at fair value	-	-	-	-	-	-	(6,888)	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	**-**	**(201,141)**	**1,440**	**(14,289)**	**-**	**-**	**29,707**	**184,284**	**-**	**-**	**-**
Balance as at December 31, 2018	**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**74,873**	**1,597**	**479,376**	**149**	**479,525**

Changes in equity in 2019 for the Mercator Group relate to:

in EUR thousand	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserve	Currency trans. reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribu. to the contr. company owners	Non-control. interest	Total equity
As at January 1, 2019	**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**74,873**	**1,597**	**479,376**	**149**	**479,525**
Effect of adoption of new IFRS	-	-	-	-	-	-	-	-	(41,251)	-	(41,251)	-	(41,251)
Other	-	-	-	-	-	-	-	-	(12,325)	-	(12,325)	-	(12,325)
As at January 1, 2019	**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**21,296**	**1,597**	**425,800**	**149**	**425,949**
Net profit/loss for the 2019 year	-	-	-	-	-	-	-	-	-	4,645	4,645	21	4,666
Change in fair value of investments in financial assets	-	-	-	-	-	-	525	-	30	-	555	-	555
Deferred taxes	-	-	-	-	-	-	5,033	-	3,899	-	8,932	-	8,932
Foreign currency translation differences	-	-	-	-	-	-	-	(339)	-	-	(339)	(509)	(848)
Actuarial gain/loss of post employment benefits	-	-	-	-	-	-	(279)	-	-	-	(279)	-	(279)
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**5,278**	**(339)**	**3,929**	**-**	**8,868**	**(509)**	**8,359**
Total comprehensive income for the year 2019	**-**	**-**	**-**	**-**	**-**	**-**	**5,278**	**(339)**	**3,929**	**4,645**	**13,513**	**(488)**	**13,025**
Disposal of land and buildings carried at fair value	-	-	-	-	-	-	(20,110)	-	20,110	-	-	-	-
Total transactions with owners	**-**	**-**	**-**	**(3,811)**	**1,305**	**953**	**-**	**-**	**3,151**	**(1,597)**	**-**	**-**	**-**
Balance as at December 31, 2019	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**

Dividends

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

As at December 31, 2019, 1,572 shareholders were registered in the company's share register, which means that the number of shareholders of the company decreased by 39 compared to December 31, 2018.

Detailed ownership structure is presented in the business part of the annual report.

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

Identified accumulated loss for 2018 and 2019 comprises the following:

	Poslovni sistem Mercator d.d.	
in EUR thousand	**2019**	**2018**
Net profit/loss for the year	(13,807)	(10,882)
Retained net profit or loss	-	7,071
Coverage of net loss for the year chargeable to capital surplus	-	3,811
Accumulated loss for the year	**(13,807)**	**-**

As of December 31, 2018 the company Poslovni sistem Mercator d.d. covered the accumulated loss totaling to EUR 10,882 thousand 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 (approved by Shareholders meeting as at June 5,2019). As of December 21, 2019 the accumulated loss in the amount of EUR 13,807 thousand remains uncovered.

27. 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.

Basic net earnings (loss) per share:	Mercator Group		Poslovni sistem Mercator d.d.	
	2019	**2018**	**2019**	**2018**
Profit attributable to the shareholders (in EUR thousand)	4,666	1,606	(13,807)	(10,882)
Weighted average number of outstanding ordinary shares	6,048,751	6,048,751	6,048,751	6,048,751
Earnings per share (in EUR)$^{\Delta}$	**0.8**	**0.3**	**(2.3)**	**(1.8)**

$^{\Delta}$Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

Weighted number of ordinary shares:	Mercator Group		Poslovni sistem Mercator d.d.	
	2019	**2018**	**2019**	**2018**
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 earnings per share are the same as basic earnings per share.

28. Borrowings and loans liabilities

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Long-term financial liabilities				
Loans from banks	451,902	510,629	326,219	360,043
Loans from related parties and other companies	20,000	20,000	35,774	20,000
Lease liabilities	300,260	67,370	83,496	42,520
Total	**772,162**	**597,999**	**445,490**	**422,563**
Short-term financial liabilities				
Bank loans and short-term part of long-term bank loans	88,333	148,900	25,975	71,879
Loans from related parties and other companies and short-term part of loans from related parites and other companies	8,429	-	4,200	25,349
Lease liabilities	76,100	37,848	19,541	32,338
Total	**172,862**	**186,747**	**49,716**	**129,565**
Total financial liabilities	**945,024**	**784,746**	**495,205**	**552,128**

December 31, 2019	Mercator Group	Poslovni sistem Mercator d.d.
Loans secured by pledged property	549,664	353,169

More about pledged assets of the Mercator Group and the company Poslovni sistem Mercator d.d. are disclosed in Note 32 Contingent liabilities.

Effective interest rates as at the balance sheet date:	Mercator Group		Poslovni sistem Mercator d.d.	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Bank loans	3.5%	3.6%	3.2%	3.5%
Other loans	2.0%	2.0%	1.9%	1.8%

Floating interest rates are mostly interest rates related to EURIBOR. Fixed interest rates are mostly related to borrowings from domestic banks or related parties with fixed nominal interest rate.

Mercator Group

The Mercator Group has in the past concluded several leases classified as finance under IAS 16 as a method of financing its shopping centres 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 expires in 2027.

From 2019 year leased liabilities are presented as a separate line item in the statement of financial position following IFRS 16 implementation. Please refer to Note 4 and Note 15 for changes in the accounting policy.

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, 2019 amounted to 81.1% .

Poslovni sistem Mercator d.d.

The company Poslovni sistem Mercator d.d. has employed leases classified as finance under IAS 17 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 expires in 2026.

From 2019 year leased liabilities are presented as a separate line item in the statement of financial position following IFRS 16 implementation. Please refer to Note 4 and Note 15 for changes in the accounting policy.
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, 2019 amounted to 90.2%.

Net debt reconciliation for 2019 (including bank deposits)	**Mercator Group**						**Poslovni sistem Mercator d.d.**					
	Liabilities from financing activities			Other assets			Liabilities from financing activities			Other assets		
in EUR thousand	Borrowings	Financial leases	Sub-total	Cash and cash equivalents	Bank deposits	TOTAL	Borrowings	Financial leases	Sub-total	Cash and cash equivalents	Bank deposits	TOTAL
Net debt January 1, 2019	**679,528**	**105,218**	**784,746**	**15,074**	**21,986**	**747,686**	**477,271**	**74,857**	**552,128**	**6,298**	**2,133**	**543,698**
Cash inflows	320,846	38	320,884	30,703	-	**290,181**	186,826	39	186,865	4,840	18,574	**163,451**
Cash outflows	(432,370)	(41,178)	(473,548)	-	(5,879)	**(467,669)**	(273,197)	(35,776)	(308,973)	-	(6,980)	**(301,994)**
Non-cash increase	259	-	259	-	-	**259**	54,890	-	54,890	-	13,754	**41,136**
Non-cash decrease	(1,079)	(21)	(1,099)	-	-	**(1,099)**	(54,201)	-	(54,201)	-	(2,303)	**(51,899)**
Other non-cash changes	1,480	0	1,480	-	-	**1,480**	580	-	580	-	-	**580**
Net debt December 31, 2019	**568,664**	**64,057**	**632,721**	**45,777**	**16,106**	**570,838**	**392,168**	**39,120**	**431,288**	**11,137**	**25,179**	**394,972**
Recognised on adoption of IFRS 16	-	312,303	312,303	-	-	**312,303**	-	63,917	63,917	-	-	**63,917**
Total	**568,664**	**376,361**	**945,024**	**45,777**	**16,106**	**883,141**	**392,168**	**103,037**	**495,205**	**11,137**	**25,179**	**458,889**

Net debt reconciliation for 2018 (including bank deposits)	**Mercator Group**						**Poslovni sistem Mercator d,d,**					
	Liabilities from financing activities			Other assets			Liabilities from financing activities			Other assets		
in EUR thousand	Borrowings	Financial leases	Sub-total	Cash and cash equivalents	Bank deposits	TOTAL	Borrowings	Financial leases	Sub-total	Cash and cash equivalents	Bank deposits	TOTAL
Net debt January 1, 2018	**757,808**	**126,316**	**884,124**	**25,542**	**22,238**	**836,345**	**510,498**	**90,300**	**600,798**	**11,635**	**126,400**	**462,763**
Cash inflows	334,326	-	334,326	-	-	334,326	262,200	-	262,200	-	8,660	**253,540**
Cash outflows	(407,354)	(20,854)	(428,208)	(10,468)	(252)	(417,488)	(310,481)	(15,443)	(325,924)	(5,338)	(5,413)	**(315,173)**
Non-cash increase	-	-	-	-	-	-	15,818	-	15,818	-	4,424	**11,394**
Non-cash decrease	(3,362)	(245)	(3,606)	-	-	(3,606)	(1,027)	-	(1,027)	-	(131,938)	**130,911**
Other non-cash changes	(1,890)	0	(1,890)	-	-	(1,890)	262	-	262	-	-	**262**
Net debt December 31, 2018	**679,528**	**105,218**	**784,746**	**15,074**	**21,986**	**747,686**	**477,271**	**74,857**	**552,128**	**6,298**	**2,133**	**543,698**
Recognised on adoption of IFRS 16	-	-	-	-	-	-	-	-	-	-	-	-
Total	**679,528**	**105,218**	**784,746**	**15,074**	**21,986**	**747,686**	**477,271**	**74,857**	**552,128**	**6,298**	**2,133**	**543,698**

29. Provisions

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Provisions for company reorganization costs	696	697	600	600
Lawsuits received	1,793	4,411	482	3,121
Provisions for post employment benefits	17,331	16,958	14,591	14,516
Provisions for jubilee awards	3,755	3,946	3,514	3,704
Provisions for other purposes	2,230	4,131	1,965	3,767
Total	**25,804**	**30,143**	**21,152**	**25,708**

Provisions for employee benefits

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Provisions for unused days of paid leave*	5,861	5,496	4,074	3,863
Provisions for jubilee awards	3,755	3,946	3,514	3,704
Provisions for post employment benefits	17,331	16,957	14,591	14,516
Total	**26,947**	**26,400**	**22,179**	**22,084**

* Provisions for unused days of paid leave are part of accrued costs disclosed in Note 30.

Development of provisions for post employment benefits and jubilee payments in Mercator Group	Mercator Group		
in EUR thousand	Provisions for jubilee awards	Provisions for post employment benefits	Total
Provisions as at January 1, 2018	**4,858**	**17,294**	**22,151**
Interest cost	31	160	**191**
Current service cost	308	1,042	**1,350**
Past service cost	9	(25)	**(17)**
Actuarial gains (-) and losses (+)	(601)	(704)	**(1,305)**
Payments during the year	(658)	(933)	**(1,591)**
Exchange rate difference	-	124	**124**
Provisions as at December 31, 2018	**3,946**	**16,957**	**20,904**
Interest cost	32	191	**222**
Current service cost	302	1,122	**1,424**
Past service cost	4	137	**141**
Actuarial gains (-) and losses (+)	85	125	**210**
- due to changes in financial assumptions	175	1,262	**1,437**
- due to changes in demographic assumptions	(543)	(2,022)	**(2,565)**
- due to experience adjustments	453	884	**1,337**
Payments during the year	(613)	(1,213)	**(1,826)**
Exchange rate difference	-	10	**10**
Provisions as at December 31, 2019	**3,755**	**17,331**	**21,086**

Development of provisions for post employment benefits and and jubilee payments in Poslovni sistem Mercator d.d.	Poslovni sistem Mercator d.d.		
in EUR thousand	Provisions for jubilee awards	Provisions for post employment benefits	Total
Provisions as at January 1, 2018	**4,586**	**15,162**	**19,748**
Interest cost	29	108	**138**
Current service cost	287	789	**1,075**
Past service cost	6	(43)	**(36)**
Actuarial gains (-) and losses (+)	(583)	(699)	**(1,283)**
Payments during the year	(621)	(800)	**(1,421)**
Provisions as at December 31, 2018	**3,704**	**14,516**	**18,220**
Interest cost	30	129	**159**
Current service cost	282	834	**1,116**
Past service cost	4	9	**13**
Actuarial gains (-) and losses (+)	82	95	**177**
- due to changes in financial assumptions	162	970	**1,131**
- due to changes in demographic assumptions	(518)	(1,717)	**(2,235)**
- due to experience adjustments	438	842	**1,280**
Payments during the year	(588)	(992)	**(1,580)**
Provisions as at December 31, 2019	**3,514**	**14,591**	**18,105**

The company Poslovni sistem Mercator d.d. and Mercator Group are exposed to long-term employee benefits risks, in particular:

- changes in legislation governing in relation to employment, retirement, contributions and taxes,
- changes in collective and corporate agreements, as well as other internal acts, affecting the type and level of benefits,
- significant changes in amounts to which benefits are related: average salaries in states, salaries of employees, fixed amounts of awards and non-taxable amounts of awards,
- changes in the economic environments – e.g. severance on termination of employment.

Present values of the long-term employee benefits are subject to the following risks:

- all risks to which long-term employee benefits are exposed,
- the difference between the actual experience and actuarial assumptions (mortality, fluctuation – termination of employment, earlier or later retirement, growth rates of wages and non-taxable amounts of awards),
- changes in discount rates used in measurements between different balance sheet dates.

The following actuarial assumptions were taken into account in the calculation of provisions for jubilee awards andpost employment benefits:

- demographic assumptions:
  - expected mortality is determined on the basis of population mortality tables of each country (for RS published from 2007, for Croatia, Serbia and Montenegro from 2010-2012, for Bosnia from 2012-2014), reduced for 10% due to lower mortality of working population,
  - the fluctuation, which means the employee decision to leave a company, is determined linearly descending depending on employee's age, on average 8.5% for Poslovni sistem Mercator d.d. for 2020 and the Mercator Group averages 9.3% for 2020, weighted by the number of employees in each company, the estimated date of retirement is set on the date on which the first condition for retirement is fulfilled, taking into account laws of each country.
- financial assumptions:

- The expected growth of average wages in each country take into account inflation and real growth projections (source: IMF and UMAR); for RS is set according to UMAR projections for 2020 and 2021, from 2022 is set to 3% yearly, for Serbia is long-term set to 3.5% and for Bosnia is long-term set 2.9% yearly,
- Expected increase in employee salaries in Group Mercator takes into account the growth due to inflation, promotions and loading for services (for RS all together is set to 2.7%, for Bosna to 2.8 % yearly)
- the expected growths of fixed amounts and non-taxed amounts of awards take into account the growth in relation to the inflation forecast (UMAR and IMF), from 2022 onwards for RS 2.0% and for Croatia 1.5% yearly, for Montenegro 1.92% yearly)

- the discount rates, which are set taking into account the average weighted liabilities of each company and the yield on government bonds at the reporting date, amount to 0.1% for the Poslovni sistem Mercator d.d. (average wieghted liabilites are 7,6 years) and on average to 0.44 % for the Mercator Group (range between 0.1% and 3.3%), weighted by undiscounted amount of liabilities.

Sensitivity analysis of actuarial assumption changes for Mercator Group

		Mercator Group			
Actuarial assumptions	Change in the assumptions (of p.p.)	Change in present value of obligations			
		jubilee awards as at		post employment benefits as at	
		Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Discount rate	0,5	-104	-107	-694	-676
	-0,5	24	114	234	730
Growth in amounts of benefits basis	0,5	108	112	752	746
	-0,5	-71	-74	-717	-705
Fluctuation of employees	0,5	-111	-114	-719	-702
	-0,5	112	99	586	398

Sensitivity analysis of actuarial assumption changes for Poslovni sistem Mercator d.d.

		Poslovni sistem Mercator d.d.			
Actuarial assumptions	Change in the assumptions (of p.p.)	Change in present value of obligations			
		jubilee awards as at		post employment benefits as at	
		Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Discount rate	0,5	-97	-100	-562	-566
	-0,5	20	106	116	608
Growth in amounts of benefits basis	0,5	100	104	606	620
	-0,5	-66	-69	-581	-589
Fluctuation of employees	0,5	-103	-106	-581	-586
	-0,5	104	92	490	335

Other provisions

Mercator Group				
in EUR thousand	Provisions for company reorganization costs	Lawsuits received	Provisions for other purposes	Total
Balance as at January 1, 2018	**-**	**2,886**	**4,007**	6,892
Creation	697	1,578	2,677	4,952
Utilization	-	113	(2,301)	(2,188)
Reversal	-	(167)	(251)	(418)
Foreign exchange differences	-	1	-	1
Balance as at December 31, 2018	**697**	**4,411**	**4,131**	**9,240**
Creation	-	708	2,715	3,423
Utilization	(2)	(1,599)	(2,490)	(4,091)
Reversal	-	(1,727)	(2,127)	(3,853)
Foreign exchange differences	-	-	-	-
Balance as at December 31, 2019	**696**	**1,793**	**2,230**	**4,719**

Poslovni sistem Mercator d.d.				
in EUR thousand	Provisions for company reorganization costs	Lawsuits received	Provisions for other purposes	Total
Balance as at January 1, 2018	**-**	**2,146**	**3,484**	**5,629**
Creation	600	975	483	2,058
Utilization	-	-	-	-
Reversal	-	-	(199)	(199)
Foreign exchange differences	-	-	-	-
Balance as at December 31, 2018	**600**	**3,121**	**3,767**	**7,487**
Creation	-	117	325	441
Utilization	-	(1,104)	-	(1,104)
Reversal	-	(1,651)	(2,127)	(3,778)
Foreign exchange differences	-	-	-	-
Balance as at December 31, 2019	**600**	**482**	**1,965**	**3,047**

Mercator Group

Provisions at the Mercator Group level as at December 31, 2019 amounted to EUR 25,804 thousand (2018: EUR 30,143 thousand). Additionally, provisions for EUR 6,274 thousand were created, provisions for EUR 5,938 thousand were utilized and provisions for EUR 4,685 thousand were reversed.

Provisions for company reorganization costs

As at December 31, 2019, provisions for company reorganization costs amounted to EUR 696 thousand and are related to payments of termination benefits on early retirement. At this time, Mercator Group can not asses when those provisions will be released as these provisions relates to restructuring of Fortenova Group and were formed based on reorganization that started in Fortenova Group.

Lawsuits received

Provisions for lawsuits received as at December 31, 2019 amounted to EUR 1,793 thousand (December 31, 2018: EUR 4,411 thousand). On the basis of the lawsuits received and the opinion of the legal profession, in 2019 the Mercator Group created additional provisions in total amount of EUR 708 thousand. In 2019 were utilized provisions in the amount of EUR 1,599 thousand and reversed EUR 1,727 thousand provisions.

The total value of lawsuits against Mercator Group as defendant totals to EUR 54,880 thousand (2018: EUR 56,894 thousand) at 31 December 2019. The management estimates that there is a possibility that some of these lawsuits will be lost, and as a result, set aside provisions. The amounts of provisions for lawsuits related are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for lawsuits are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. The recognized provision reflects the management best estimate of the most likely outcome.

Long-term post employment and termination benefits
As at December 31, 2019, the amount of provisions for jubilee and termination benefits amounted to EUR 21,086 thousand (December 31, 2018: EUR 20,904 thousand).

Other provisions
Other provisions as at December 31, 2019 amounted to EUR 2,230 thousand (December 31, 2018: EUR 4,131 thousand).

Poslovni sistem Mercator d.d.

As at December 31, 2019, provisions at the level of the company Poslovni sistem Mercator d.d. amounted to EUR 21,152 thousand (2018: EUR 25,708 thousand). Additionally, provisions for EUR 2,750 thousand were created, provisions for EUR 2,759 thousand were utilized and provisions for EUR 4,546 thousand were reversed.

Provisions for company reorganization costs
As at December 31, 2019, provisions for company reorganization costs amounted to EUR 600 thousand and are related to payments of termination benefits on early retirement. At this time, Mercator Group can not asses when those provisions will be released as these provisions relates to restructuring of Fortenova Group and were formed based on reorganization that started in Fortenova Group.

Lawsuits received
Provisions for lawsuits received as at December 31, 2019 amounted to EUR 482 thousand (December 31, 2018: EUR 3,121 thousand). In 2019, provisions for lawsuits in the amount of EUR 117 thousand were created, EUR 1,104 thousand were utilized and EUR 1,651 were reversed.

The total value of lawsuits against the company Poslovni sistem Mercator d.d. as defendant totals to EUR 2,728 thousand (2018: EUR 5,201 thousand) at 31 December 2019. The management estimates that there is a possibility that some of these lawsuits will be lost, and as a result, set aside provisions The recognized provision reflects the management best estimate of the most likely outcome. The amounts of provisions for lawsuits related are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for lawsuits are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. The recognized provision reflects the management best estimate of the most likely outcome.

Long-term post employment and termination benefits
As at December 31, 2019, the amount of provisions for for jubilee and termination benefits benefits amounted to EUR 18,105 thousand (December 31, 2018: EUR 18,220 thousand). In 2019, provisions in the amount of EUR 2,308 thousand were created, provisions in the amount of EUR 1,656 thousand were utilized and provisions in the amount of EUR 768 thousand were reversed.

Other provisions
As at December 31, 2019, the company Poslovni sistem Mercator d.d. had EUR 1,965 thousand of other provisions (December 31, 2018: EUR 3,767 thousand).

30. Trade and other payables

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Trade payables	495,526	492,728	248,602	237,461
- of which modified trade payables	22,347	12,642	11,881	12,242
Payables to employees	15,045	14,502	8,729	8,491
Liabilities for taxes and contributions	22,823	20,787	18,698	16,926
Other payables	19,347	30,930	5,792	15,474
Accrued costs	17,937	18,335	10,493	10,966
Deferred revenues	8,824	12,821	8,349	8,582
Total	**579,502**	**590,103**	**300,662**	**297,900**
Trade and other payables include:				
Non-current/long-term liabilities	-	-	-	-
Current/short-term liabilities	579,502	590,103	300,662	297,900

Mercator Group

Trade and other payables as at December 31, 2019 amounted to EUR 579,502 thousand (2018: EUR 590,103 thousand).

Trade payables comprise payables for merchandise, goods and services.

As at December 31, 2019 the amount of modified trade payables of Mercator Group as a result of supplier finance arrangements amounted to EUR 22,347 thousand (2018: EUR 12,642 thousand).

One type of these arrangements arises from the ordinary course of business where certain trade payables are contractually deferred. In those cases the original supplier has been paid (on or before the original contractual maturity date) by the new creditor and the new creditor has prolonged the original payment term for the obligor as well. Many of such trade payables are with recourse to the original supplier. The amount of such arrangements with deferred payment is EUR 10,992 thousand. The deferral period of such arrangements concluded in the course of 2019 is less than one year. The other type of these arrangements are concluded between the supplier and the new creditor and Mercator is only notified or has agreed to pay to the new creditor instead of the original supplier. Other than the change of the payee there is no change in payment terms or any other contractual terms. The amount of such arrangements is EUR 11,356 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, 2019, the Mercator Group does not have any operating liabilities due to the Supervisory Board members, members of the Management Board and other key management employees, although it has recognized undisbursed compensation for December 2019.

Because of the nature of financial instruments, Mercator Group can divide trade and other payables to (a) total financial trade and other payables, which as at December 31, 2019, amounted to EUR 495,526 thousand and represent trade payables in the whole amount and (b) total non – financial trade and other payables, which as at December 31, 2019, amounted to EUR 83,975 thousand for the Mercator Group.

Poslovni sistem Mercator d.d.

As at December 31, 2019, trade and other payables amounted to EUR 300,662 thousand (2018: EUR 297,900 thousand).

Trade payables comprise payables for merchandise, goods and services.

As at December 31, 2019 the amount of modified trade payables of Poslovni sistem Mercator, d.d. as a result of supplier financing arrangements amounted to EUR 11,881 thousand (2018: EUR 12,242 thousand).

One type of these arrangements arises from the ordinary course of business where certain trade payables are contractually deferred. In those cases the original supplier has been paid (on or before the original contractual maturity date) by the new creditor and the new creditor has prolonged the original payment term for the obligor as well. The majority of such trade payables are with recourse to the original supplier. The amount of such arrangements with deferred payment is EUR 9,676 thousand. The deferral period of such arrangements concluded in the course of 2019 is less than one year.The other type of these arrangements are concluded between the supplier and the new creditor and Mercator is only notified or has agreed to pay to the new creditor instead of the original supplier. Other than the change of the payee there is no change in payment terms or any other contractual terms. The amount of such arrangements is EUR 2,205 thousand.

Accrued costs refer to the costs of unused annual leave, superrabates granted for and to other accrued costs.

Deferred revenue includes particularly deferred revenue for realization of discounts from collected points.

As at December 31, 2019, the company Poslovni sistem Mercator d.d. does not have any operating liabilities due to the Supervisory Board members, members of the Management Board and other key management employees, although it has recognized undisbursed compensation for December 2019.

Because of the nature of financial instruments, the company Poslovni sistem Mercator d.d. can divide trade and other payables to (a) total financial trade and other payables, which as at December 31, 2019, amounted to EUR 248,602 thousand and represent trade payables in the whole amount and (b) total non – financial trade and other payables, which as at December 31, 2019, amounted to EUR 52,061 thousand for the company Poslovni sistem Mercator d.d.

31. Financial instruments

Financial risk management

Risk overview

The Mercator Group and the company Poslovni sistem Mercator d.d. are monitoring and managing different types of financial risks to which their operations are exposed:

- credit risk;
- risk of payment capability (liquidity risk);
- market risk;
- business risk arising 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 Mercator Group's and the company's (Poslovni sistem Mercator d.d.) exposure to the risks listed above, as well as the objectives, policies, and processes for measurement and management thereof and the Mercator Group's and the company's (Poslovni sistem Mercator d.d.) 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 sistematic 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 that were carried out in the current year for the purpose of managing this risk are described,
- planned risk management activities for the following year are defined, and
- it is determined whether a higher of 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. analyse 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 mitigated by the means of implementation of clear and concise accounting and reporting practices, efficient organization of the accounting function, regular internal and external audits and reviews of internal controls, business processes, and operations effectiveness.

Internal audit has been in operation at the Mercator Group and the company Poslovni sistem Mercator d.d. as an independent support function since year 2000. The basic function of internal audit is perpetual development and monitoring of the internal control sistems from the aspect of management, or mitigation, 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 sistem, internal audit and the internal control sistem, 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 Mercator Group's and the company's (Poslovni sistem Mercator d.d.) exposure to customers default risk 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. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Limits on purchases, which represent the maximum amount of open positions, are determined for each customer individually. The compliance with credit limits by wholesale customers is regularly monitored by line management. The Mercator Group's and the company's (Poslovni sistem Mercator d.d.) 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.

The maximum exposure to credit risk at the reporting date:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Trade and other receivables	167,567	162,471	69,874	62,768
Deposits for rental payments	2,825	14,067	-	-
Loans to companies	12,527	7,371	25,179	2,133
Deposits in banks	754	548	-	-
Total	**183,674**	**184,457**	**95,053**	**64,901**

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 Mercator Group and the company Poslovni sistem Mercator d.d. use a simplification from the general approach for trade receivables which are presented in Note 2(d) iv. and 3 (c) i.

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 24. The Mercator Group and the company Poslovni sistem Mercator d.d. estimates low risk of default, so estimated ECL is not recorded, as it is assumed to be immaterial. Credit risk exposure is low (and not significant).

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, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Retail customers	7,216	7,043	5,260	5,580
Wholesale customers and related companies	96,562	97,525	47,039	41,898
Receivables from employees and the government, and other receivables	24,573	32,528	9,177	11,642
Prepaid expenses	13,217	3,827	3,140	1,128
Other receivables	26,000	21,548	5,258	2,520
Loans and deposits	16,106	21,986	25,179	2,133
Total	**183,674**	**184,457**	**95,053**	**64,901**

In the category of retail customers, 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 prepaid expenses and other receivables , and loans and deposits granted.

Security of receivables and loans (in gross amounts, excluding impairment):	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Trade receivables	150,457	200,949	61,583	70,147
secured receivables	20,624	18,938	15,323	13,521
unsecured receivables	129,833	182,010	46,260	56,626
Unsecured other receivables and loans	74,864	81,083	51,553	20,709
Total	**225,321**	**282,032**	**113,136**	**90,856**

The Mercator Group and the company Poslovni sistem Mercator d.d. applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The credit risk characteristics are mostly determined by the available collateral. Typical collateral types are bank guarantees, mortgages, enforcement notes and promissory notes. The Mercator Group and the company Poslovni sistem Mercator d.d. determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions 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 default rates.

Ageing of trade receivables and loans	Mercator Group									Poslovni sistem Mercator d.d.								
on the reporting date:	Gross December 31, 2019			Credit loss allowance December 31, 2019						Credit loss allowance December 31, 2019			Credit loss allowance December 31, 2019					
in EUR thousand	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL
Bank guarantee	6,852	51	349	3	0.05%	4	7.21%	95	27.26%	6,302	40	344	3	0.05%	4	9.23%	95	27.63%
Mortgage	3,283	123	442	118	3.59%	1	0.49%	280	63.22%	3,182	123	228	117	3.69%	1	0.49%	70	30.77%
Bill of exchange	5,670	934	498	90	1.27%	12	1.38%	64	17.16%	4,104	114	65	86	1.58%	6	5.10%	14	16.18%
Enforcement draft	910	62	319	4	0.43%	1	1.95%	54	16.66%	729	34	59	1	0.15%	1	2.82%	3	5.76%
Mercator/Agrokor Group	40,095	353	5,861	120	9.30%	17	12.30%	655	49.04%	25,722	279	5,412	84	13.89%	16	14.46%	540	51.56%
Other*	112,301	4,375	42,844	2,347	1.88%	115	4.55%	37,668	36.97%	50,405	1,336	14,659	1,840	0.78%	27	5.68%	15,174	33.56%
Total	**169,111**	**5,897**	**50,313**	**2,682**	**3.57%**	**149**	**4.42%**	**38,816**	**38.22%**	**90,442**	**1,926**	**20,767**	**2,131**	**4.59%**	**55**	**6.61%**	**15,896**	**37.99%**

Ageing of trade receivables and loans	Mercator Group									Poslovni sistem Mercator d.d.								
on the reporting date:	Gross December 31, 2018			Credit loss allowance December 31, 2018						Credit loss allowance December 31, 2018			Credit loss allowance December 31, 2018					
in EUR thousand	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL
Bank guarantee	4,231	182	998	2	0.06%	5	4.95%	325	68.29%	3,524	119	978	1	0.06%	5	7.58%	325	69.67%
Mortgage	3,668	30	168	183	10.88%	0	1.15%	110	67.62%	3,521	30	57	182	11.31%	0	1.01%	3	10.30%
Bill of exchange	6,080	695	402	25	0.43%	16	2.41%	49	14.58%	4,109	221	358	9	0.25%	13	6.13%	48	13.54%
Enforcement draft	427	125	177	0	0.05%	1	0.47%	17	7.62%	109	32	42	-	0.00%	-	0.00%	0	0.39%
Mercator/Agrokor Group	15,787	274	54,827	196	16.44%	47	37.66%	39,075	56.13%	5,756	179	8,316	188	44.24%	31	52.75%	7,231	100.00%
Other*	142,978	3,686	47,298	15,705	2.10%	144	3.98%	41,674	33.36%	45,232	420	17,855	282	1.26%	12	3.07%	17,625	35.71%
Total	**173,169**	**4,993**	**103,869**	**16,111**	**3.48%**	**213**	**5.54%**	**81,251**	**45.65%**	**62,250**	**1,001**	**27,606**	**663**	**5.67%**	**61**	**12.98%**	**25,232**	**55.89%**

*The item »Other« includes all unsecured trade receivables from external wholesale custumers.

Details about the group's policies are provided in Note 3 c) i) *Financial assets.*

Changes in* credit loss allowance *to receivables and loans:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR thousand	**2019**	**2018**	**2019**	**2018**
As at January 1	**97,575**	**104,430**	**25,956**	**32,788**
Effect of foreign exchange differences	88	225	-	-
Allowances for receivables during the year	2,115	1,981	2,140	707
Decrease of allowance for impairment during the year	(17,769)	(10,914)	(1,123)	(5,988)
Final receivable write-off	(40,361)	(2,621)	(8,890)	(1,884)
Allowances for receivables recognized through equity upon IFRS 9 initial application	-	4,474	-	332
Balance as at December 31	**41,647**	**97,575**	**18,082**	**25,956**

	Mercator Group							
	Gross				Credit loss allowance			
in EUR thousand	0-30 days	30-90 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2019	4,231	182	998	5,411	2	5	325	332
Effect of foreign exchange differences	5	0	0	5	0	-	0	0
Allowances for receivables during the year	2,799	(1)	-	2,798	2	-	-	2
Decrease of allowance for impair. during the year	(182)	(131)	(649)	(962)	(0)	(1)	(230)	(231)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	6,852	51	349	7,251	3	4	95	102
Mortgage								
As at January 1, 2019	3,668	30	168	3,866	183	0	110	294
Effect of foreign exchange differences	1	0	1	3	0	0	1	1
Allowances for receivables during the year	-	93	273	366	-	0	168	168
Decrease of allowance for impair. during the year	(385)	(0)	-	(386)	(65)	(0)	-	(65)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	3,283	123	442	3,848	118	1	280	398
Bill of exchange								
As at January 1, 2019	5,646	1,017	751	7,414	14	16	95	124
Effect of foreign exchange differences	7	0	0	7	0	0	0	0
Allowances for receivables during the year	22	24	40	86	76	3	4	83
Decrease of allowance for impair. during the year	(5)	(107)	(293)	(405)	-	(7)	(34)	(41)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	5,670	934	498	7,102	90	12	64	167
Enforcement draft								
As at January 1, 2019	427	125	177	729	0	1	17	18
Effect of foreign exchange differences	(1)	(0)	(1)	(2)	(0)	(0)	(0)	(0)
Allowances for receivables during the year	620	2	143	765	4	1	37	42
Decrease of allowance for impair. during the year	(136)	(66)	-	(201)	-	(1)	-	(1)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	910	62	319	1,291	4	1	54	59
Mercator/Agrokor Group								
As at January 1, 2019	18,621	322	43,438	62,381	230	46	39,075	39,350
Effect of foreign exchange differences	8	0	(24)	(16)	(0)	0	(23)	(23)
Allowances for receivables during the year	22,917	177	3,138	26,232	-	-	0	0
Decrease of allowance for impair. during the year	(1,451)	(147)	(3,579)	(5,177)	(110)	(30)	(1,286)	(1,425)
Final receivable write-off	-	-	(37,111)	(37,111)	-	-	(37,111)	(37,111)
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	40,095	353	5,861	46,309	120	17	655	791
Other								
As at January 1, 2019	120,194	3,751	47,826	171,771	15,695	137	41,624	57,457
Effect of foreign exchange differences	625	18	148	791	(6)	1	115	110
Allowances for receivables during the year	27,058	1,020	176	28,254	1,618	17	184	1,819
Decrease of allowance for impair. during the year	(35,576)	(414)	(2,061)	(38,052)	(14,960)	(40)	(1,005)	(16,006)
Final receivable write-off	-	-	(3,245)	(3,245)	-	-	(3,250)	(3,250)
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	112,301	4,375	42,844	159,519	2,347	115	37,668	40,130
Total								
As at January 1, 2019	**207,279**	**5,427**	**93,357**	**306,063**	**16,124**	**205**	**81,246**	**97,575**
Effect of foreign exchange differences	**645**	**19**	**125**	**789**	**(6)**	**1**	**94**	**88**
Allowances for receivables during the year	**53,415**	**1,315**	**3,770**	**58,500**	**1,700**	**22**	**393**	**2,115**
Decrease of allowance for impair. during the year	**(37,735)**	**(864)**	**(6,583)**	**(45,182)**	**(15,135)**	**(78)**	**(2,556)**	**(17,769)**
Final receivable write-off	**-**	**-**	**(40,356)**	**(40,356)**	**-**	**-**	**(40,361)**	**(40,361)**
Allowances for receivables recog. through equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
As at December 31, 2019	**169,111**	**5,897**	**50,313**	**225,321**	**2,682**	**149**	**38,816**	**41,647**

	Mercator Group							
	Gross				Credit loss allowance			
in EUR thousand	0-30 days	30-90 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2018	5,631	496	178	6,304	1	18	55	75
Effect of foreign exchange differences	2	-	-	2	-	-	-	-
Allowances for receivables during the year	(37)	30	820	813	-	-	270	270
Decrease of allowance for impair. during the year	(1,365)	(344)	-	(1,708)	(3)	(14)	-	(17)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	4	-	0	4
As at December 31, 2018	4,231	182	998	5,411	2	5	325	332
Mortgage								-
As at January 1, 2018	3,891	31	856	4,779	193	2	38	232
Effect of foreign exchange differences	-	1	-	1	-	-	-	-
Allowances for receivables during the year	-	-	-	0	-	-	1	1
Decrease of allowance for impair. during the year	(224)	(1)	(689)	(914)	(11)	(1)	(35)	(47)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	1	-	107	108
As at December 31, 2018	3,668	30	168	3,866	183	0	110	294
Bill of exchange								
As at January 1, 2018	5,557	760	138	6,455	25	17	16	57
Effect of foreign exchange differences	1	-	-	1	-	-	-	-
Allowances for receivables during the year	523	7	11	541	-	-	33	34
Decrease of allowance for impair. during the year	(1)	(71)	253	180	-	(1)	-	(1)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	0	0	0	1
As at December 31, 2018	6,080	695	402	7,177	25	16	49	91
Enforcement draft								
As at January 1, 2018	272	131	232	635	-	1	28	30
Effect of foreign exchange differences	1	-	1	2	-	-	-	-
Allowances for receivables during the year	154	26	-	180	-	-	-	-
Decrease of allowance for impair. during the year	-	(32)	(55)	(88)	-	-	(12)	(12)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2018	427	125	177	729	0	1	17	18
Mercator/Agrokor Group								
As at January 1, 2018	113,108	576	54,804	168,488	406	27	38,523	38,955
Effect of foreign exchange differences	9	1	129	140	-	0	117	118
Allowances for receivables during the year	5,605	89	344	6,037	-	13	416	429
Decrease of allowance for impair. during the year	(2,070)	(392)	(450)	(2,912)	(211)	(40)	(6)	(256)
Final receivable write-off	(100,865)	-	-	(100,865)	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	1	46	25	72
As at December 31, 2018	15,787	274	54,827	70,888	196	47	39,075	39,318
Other								
As at January 1, 2018	202,880	4,184	50,989	258,053	17,475	44	47,562	65,081
Effect of foreign exchange differences	376	5	61	443	61	-	47	107
Allowances for receivables during the year	5,815	5	1,643	7,464	6	19	1,223	1,247
Decrease of allowance for impair. during the year	(66,093)	(510)	(2,788)	(69,391)	(3,990)	(8)	(6,582)	(10,580)
Final receivable write-off	-	-	(2,607)	(2,607)	-	-	(2,621)	(2,621)
Allowances for receivables recog. through equity	-	-	-	-	2,154	90	2,046	4,290
As at December 31, 2018	142,978	3,686	47,298	193,961	15,705	144	41,674	57,523
Total								
As at January 1, 2018	**331,338**	**6,179**	**107,196**	**444,713**	**18,100**	**108**	**86,222**	**104,430**
Effect of foreign exchange differences	**390**	**7**	**192**	**589**	**61**	-	**164**	**225**
Allowances for receivables during the year	**12,059**	**157**	**2,818**	**15,035**	**6**	**32**	**1,943**	**1,981**
Decrease of allowance for impair. during the year	**(69,753)**	**(1,350)**	**(3,729)**	**(74,832)**	**(4,216)**	**(64)**	**(6,634)**	**(10,914)**
Final receivable write-off	**(100,865)**	-	**(2,607)**	**(103,472)**	-	-	**(2,621)**	**(2,621)**
Allowances for receivables recog. through equity	-	-	-	-	**2,160**	**137**	**2,177**	**4,474**
As at December 31, 2018	**173,169**	**4,993**	**103,869**	**282,032**	**16,111**	**213**	**81,251**	**97,575**

in EUR thousand	Poslovni sistem Mercator d.d.							
	Gross				Credit loss allowance			
	0-30 days	30-90 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2019	3,524	119	978	4,621	1	5	325	331
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	2,777	-	-	2,777	2	-	-	2
Decrease of allowance for impair. during the year	-	(79)	(634)	(713)	-	(1)	(230)	(231)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	6,302	40	344	6,685	3	4	95	102
Mortgage								
As at January 1, 2019	3,521	30	57	3,608	182	-	3	185
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	-	93	172	264	-	-	67	68
Decrease of allowance for impair. during the year	(339)	-	-	(339)	(65)	-	-	(65)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	3,182	123	228	3,533	117	1	70	188
Bill of exchange								
As at January 1, 2019	4,109	221	358	4,687	9	13	48	70
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	-	-	-	-	76	-	-	76
Decrease of allowance for impair. during the year	(5)	(107)	(293)	(405)	-	(7)	(34)	(41)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	4,104	114	65	4,283	86	6	14	105
Enforcement draft								
As at January 1, 2019	109	32	42	183	-	-	0	0
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	620	2	17	639	1	1	3	5
Decrease of allowance for impair. during the year	-	-	-	-	-	-	-	-
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	729	34	59	823	1	1	3	6
Mercator/Agrokor Group								
As at January 1, 2019	5,756	179	8,316	14,251	188	31	7,231	7,450
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	20,380	166	3,137	23,684	-	-	-	-
Decrease of allowance for impair. during the year	(414)	(66)	-	(481)	(105)	(15)	(649)	(769)
Final receivable write-off	-	-	(6,042)	(6,042)	-	-	(6,042)	(6,042)
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	25,722	279	5,412	31,412	84	16	540	640
Other								
As at January 1, 2019	45,232	420	17,855	63,507	282	12	17,625	17,920
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	5,173	916	8	6,097	1,558	15	414	1,988
Decrease of allowance for impair. during the year	-	-	(359)	(359)	-	-	(18)	(18)
Final receivable write-off	-	-	(2,845)	(2,845)	-	-	(2,848)	(2,848)
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	50,405	1,336	14,659	66,400	1,840	27	15,174	17,042
Total								
As at January 1, 2019	**62,250**	**1,001**	**27,606**	**90,856**	**663**	**61**	**25,232**	**25,956**
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	**28,951**	**1,178**	**3,334**	**33,462**	**1,638**	**17**	**485**	**2,140**
Decrease of allowance for impair. during the year	**(758)**	**(252)**	**(1,286)**	**(2,297)**	**(170)**	**(23)**	**(931)**	**(1,123)**
Final receivable write-off	-	-	**(8,887)**	**(8,887)**	-	-	**(8,890)**	**(8,890)**
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2019	**90,442**	**1,926**	**20,767**	**113,136**	**2,131**	**55**	**15,896**	**18,082**

	Poslovni sistem Mercator d.d.							
	Gross				Credit loss allowance			
in EUR thousand	0-30 days	30-90 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2018	4,702	462	166	5,330	1	18	55	75
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	-	-	812	812	-	-	270	270
Decrease of allowance for impair. during the year	(1,178)	(344)	-	(1,521)	-	(14)	-	(14)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2018	3,524	119	978	4,621	1	5	325	331
Mortgage								
As at January 1, 2018	3,744	31	745	4,520	193	2	38	232
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	-	-	-	-	-	-	-	-
Decrease of allowance for impair. during the year	(223)	(1)	(688)	(912)	(11)	(1)	(35)	(47)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2018	3,521	30	57	3,608	182	0	3	185
Bill of exchange								
As at January 1, 2018	3,706	292	105	4,104	9	14	16	39
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	402	-	-	402	-	-	32	32
Decrease of allowance for impair. during the year	-	(71)	253	182	-	(1)	-	(1)
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2018	4,109	221	358	4,687	9	13	48	70
Enforcement draft								
As at January 1, 2018	23	6	65	94	-	-	-	-
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	86	26	-	112	-	-	-	-
Decrease of allowance for impair. during the year	-	-	(23)	(23)	-	-	-	-
Final receivable write-off	-	-	-	-	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2018	109	32	42	183	-	-	-	-
Mercator/Agrokor Group								
As at January 1, 2018	102,909	90	7,973	110,972	253	21	6,872	7,147
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	4,500	88	343	4,931	-	10	358	368
Decrease of allowance for impair. during the year	(788)	-	-	(788)	(64)	-	-	(64)
Final receivable write-off	(100,865)	-	-	(100,865)	-	-	-	-
Allowances for receivables recog. through equity	-	-	-	-	-	-	-	-
As at December 31, 2018	5,756	179	8,316	14,251	188	31	7,231	7,450
Other								
As at January 1, 2018	53,019	457	20,790	74,266	411	10	24,874	25,295
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	2,210	-	-	2,210	-	2	36	38
Decrease of allowance for impair. during the year	(9,997)	(37)	(1,054)	(11,088)	(129)	-	(5,733)	(5,862)
Final receivable write-off	-	-	(1,881)	(1,881)	-	-	(1,884)	(1,884)
Allowances for receivables recog. through equity	-	-	-	-	-	-	332	332
As at December 31, 2018	45,232	420	17,855	63,507	282	12	17,625	17,920
Total								
As at January 1, 2018	**168,103**	**1,339**	**29,844**	**199,286**	**867**	**65**	**31,855**	**32,788**
Effect of foreign exchange differences	-	-	-	-	-	-	-	-
Allowances for receivables during the year	**7,198**	**114**	**1,155**	**8,467**	-	**12**	**696**	**707**
Decrease of allowance for impair. during the year	**(12,186)**	**(453)**	**(1,512)**	**(14,151)**	**(204)**	**(16)**	**(5,768)**	**(5,988)**
Final receivable write-off	**(100,865)**	-	**(1,881)**	**(102,746)**	-	-	**(1,884)**	**(1,884)**
Allowances for receivables recog. through equity	-	-	-	-	-	-	**332**	**332**
As at December 31, 2018	**62,250**	**1,001**	**27,606**	**90,856**	**663**	**61**	**25,232**	**25,956**

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 as disclosed in the Note 32.

Liquidity 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.

The Mercator Group and the company Poslovni sistem Mercator d.d. manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Mercator Group has at its disposal to further reduce liquidity risk are set out below

Management monitors rolling forecasts of the group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents on the basis of expected cash flows. 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 Mercator Group and the company Poslovni sistem Mercator d.d. had access to the following liquidity lines:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Cash and cash equivalents*	45,777	15,074	11,137	6,298
Standby revolving credit lines$^{\Delta}$,**	42,326	41,056	37,228	31,517
Total	**88,104**	**56,130**	**48,366**	**37,814**

* The item includes also current deposit of companies Mercator–S d.o.o., and Mercator–Emba d.d.
**The item includes undrawn WGD Tranche A, undrawn Super Senior and undrawn factoring of cheques.
$^{\Delta}$Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

Total unused liquidity lines used as of December 31, 2019 were EUR 88,104 thousand (December 31, 2018: EUR 56,130 thousand) by the Mercator Group and was EUR 48,366 thousand (December 31, 2018: EUR 37,814 thousand) by the company Poslovni sistem Mercator d.d. respectively.

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, 2019.

Contractual maturity of liabilities and estimated future interest payments - 2019	Mercator Group											
	Total as at December 31, 2019		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	556,030	631,825	88,482	11,360	51,476	10,358	408,821	14,148	43,644	3,536	1	-
Borrowings from related and other companies	25,026	26,652	9,209	720	6,785	636	9,032	271	-	-	-	-
Lease liabilities	371,100	376,706	43,291	3,419	21,818	3,217	137,129	13,514	118,356	6,195	25,333	4,433
Trade and other payables	572,370	561,149	429,466	-	128,727	-	2,285	-	373	-	297	-
Total	**1,524,526**	**1,596,332**	**570,448**	**15,499**	**208,807**	**14,211**	**557,267**	**27,932**	**162,374**	**9,731**	**25,630**	**4,433**

Contractual maturity of liabilities and estimated future interest payments - 2018	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	659,097	728,023	106,351	12,310	58,175	11,847	513,260	26,079	-	-	1	-
Borrowings from related and other companies	20,000	20,891	3,500	436	8,122	382	8,377	74	-	-	-	-
Lease liabilities	104,994	110,450	31,059	807	6,566	727	35,603	2,333	19,263	1,177	12,503	412
Trade and other payables	590,759	572,069	436,782	-	133,013	-	1,363	-	873	-	37	-
Total	**1,374,849**	**1,431,433**	**577,692**	**13,554**	**205,876**	**12,956**	**558,604**	**28,485**	**20,136**	**1,177**	**12,541**	**412**

Contractual maturity of liabilities and estimated future interest payments - 2019	Poslovni sistem Mercator d.d.											
	Total as at December 31, 2019		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	350,340	373,227	11,453	7,312	14,522	7,082	324,365	8,493	-	-	-	-
Borrowings from related and other companies	39,974	40,808	4,200	282	-	281	35,774	271	-	-	-	-
Lease liabilities	103,037	127,024	12,504	2,268	7,070	2,156	35,458	9,663	27,294	5,554	20,711	4,345
Trade and other payables	302,516	302,516	299,963	-	260	-	1,774	-	323	-	196	-
Total	**795,867**	**843,575**	**328,120**	**9,862**	**21,852**	**9,520**	**397,371**	**18,427**	**27,617**	**5,554**	**20,907**	**4,345**

Contractual maturity of liabilities and estimated future interest payments- 2018	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	
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	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	-	-	-	-	-
Lease liabilities	74,857	78,786	28,506	539	3,832	476	21,024	1,684	12,740	883	8,756	347
Trade and other payables	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**

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 Mercator Group and the company Poslovni sistem Mercator d.d. 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 costs for the Mercator Group and the company Poslovni sistem Mercator d.d. Consequently, the Mercator Group and the company Poslovni sistem Mercator d.d. are managing and controlling the increase of finance costs in an appropriate centralized manner. The risk is managed by the Mercator Group and the company Poslovni sistem Mercator d.d. by maintaining an appropriate mix between fixed and floating rate borrowings. The Mercator Group and the company Poslovni sistem Mercator d.d. do not use derivative financial instruments for the interest rate risk hedging purposes.

Exposure to interest rate risk:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Fixed rate financial instruments				
Non-current and current financial assets	16,106	21,986	25,179	2,133
Non-current and current financial liabilities	105,890	46,472	63,969	68,726
Total	**121,996**	**68,458**	**89,148**	**70,859**
Floating rate financial instruments				
Non-current and current financial assets	-	-	-	-
Non-current and current financial liabilities	462,774	633,056	328,199	408,544
Total	**462,774**	**633,056**	**328,199**	**408,544**

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 2018.

Cash flow sensitivity analysis for variable rate instruments (impact on net profit or loss)	Mercator Group		Poslovni sistem Mercator d.d.	
	2019	2018	2019	2018
in EUR thousand	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp
Floating rate of financial instruments (increase)	4,628	6,331	3,282	4,085
Floating rate of financial instruments (decrease)	-	-	-	-

In outstanding debt facility documents we have floor on Euribor (set at 0.0%) therefore Mercator would not benefit from any future potential decrease of Euribor.

The Mercator Group and the company Poslovni sistem Mercator d.d. do not hold any significant financial instruments measured at fair value through other comprehensive income or other instances that might give rise to profit or loss to be recognized in other comprehensive income due to changes in floating interest rates.

Currency risk

Mercator Group

The Mercator Group's operations in the international environment necessarily involve exposure to currency risk. The Mercator 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 Mercator Group is currently primarily using the so-called natural hedging or matching.

The following tables shows the Mercator Group's exposure to the relevant foreign currencies (currencies with fixed exchange rate to the EUR are not taken into account).

The Mercator Group's exposure to foreign currency risk was as follows: Dec. 31, 2018:	Mercator Group						
in EUR thousand	EUR	RSD	HRK	USD	GBP	PLN	CHF
Trade and other receivables	1,026	-	4	0	-	-	-
Investments in financial assets	-	-	-	-	-	-	-
Cash and cash equivalents	4	44	4	15	2	-	-
Financial liabilities	(66,911)	-	-	-	-	-	-
Trade and other liabilities	(10,904)	(84)	(1,182)	(365)	(47)	-	-
Financial position statement exposure	**(76,785)**	**(40)**	**(1,174)**	**(350)**	**(45)**	**-**	**-**
Sales	353	-	-	16	-	-	-
Purchase	(0)	-	-	(0)	(253)	-	(2)
Estimated transaction exposure	**352**	**-**	**-**	**16**	**(253)**	**-**	**(2)**
Forward exchange contracts							
Net exposure	**(76,432)**	**(40)**	**(1,174)**	**(334)**	**(299)**	**-**	**(2)**

The Mercator Group's exposure to foreign currency risk was as follows: Dec. 31, 2019:	Mercator Group					
in EUR thousand	EUR	RSD	HRK	USD	GBP	PLN
Trade and other receivables	960	-	-	291	9	-
Investments in financial assets	-	-	-	-	-	-
Cash and cash equivalents	28	45	127	19	0	2
Financial liabilities	(77,217)	-	-	-	-	-
Trade and other liabilities	(10,935)	-	(73)	(414)	(30)	-
Financial position statement exposure	**(87,164)**	**45**	**54**	**(105)**	**(21)**	**2**
Sales	728	-	-	-	0	-
Purchase	-	-	(0)	(0)	(200)	-
Estimated transaction exposure	**728**	**-**	**(0)**	**(0)**	**(200)**	**-**
Forward exchange contracts						
Net exposure	**(86,435)**	**45**	**54**	**(105)**	**(220)**	**2**

As at December 31, 2019 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	2019	2018	2019	2018
HRK	7.42	7.42	7.44	7.41
RSD	117.91	118.34	117.38	118.43
BAM	1.96	1.96	1.96	1.96

The following table details the Mercator Group's sensitivity to a +/10% increase and decrease in currency units against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. Impact on equity change is the similar as to the profit and loss after tax.

Mercator Group				
	2019		2018	
change in currency rate	10% Profit or loss after tax	-10% Profit or loss after tax	10% Profit or loss after tax	-10% Profit or loss after tax
EUR	(8,644)	8,644	(7,643)	7,643
RSD	5	(5)	(4)	4
HRK	5	(5)	(117)	117
USD	(11)	11	(33)	33
GBP	(22)	22	(30)	30

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

In 2017, we defined a bold vision for Mercator 2022 of being the leading grocery retail group in our countries of operation based on a focused and healthy core around efficient operations. Through strengthen corporate governance and rigorous pursuit of our Value Creation Plan (VCP) initiatives, we managed to achieve it in large parts of our core businesses already by end of 2019.

For several consecutive years Mercator Group manage to grew in its operations by scaling net sales revenue growth of our winning retail/wholesale model established in the last years, by 1.8% compared to 2018, achieving EUR 2,139 mn in 2019.

In addition to the positive de-leveraging effect, EBITDA growth plus scheduled repayments has also had, we have further enhanced our deleveraging through a series of real estate disposals (including sale and leaseback transactions on some of the assets). These transactions were successfully achieved on market terms and following a thorough competitive process. These transactions were also part of our strategy, which was fully supported by all stakeholders, including our financial creditors. In 2019 Mercator Group decreased net debt (without IFRS 16) by EUR 183 mn compared to 2018.

The Mercator Group has liquidity reserves available in the amount of EUR 88,140 thousand as per December 31, 2019. 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. Further, a cash flow forecast prepared by company Poslovni sistem Mercator d.d. for the following 12 months indicates that the Company and the Group, as of December 31, 2019. will have sufficient funds to meet its obligations when they fall due. However, these forecasts assume no significant deterioration in our markets due to COVID-19, including liquidity in financial markets and financial stability of our suppliers and thus our working capital funding levels. Under our current working capital management model, our current liabilities significantly exceed our current assets and we depend on ability of our suppliers to deliver goods on credit and ability to refinance short-term liabilities.

At the end of 2019 Mercator prepared updated Strategy 2020-2024 where future growth will be built on winning business models that include offer relevant and appealing to customers, long-term partnerships with local and regional suppliers, new store concepts, and enhanced operating excellence and cost efficiency across our businesses which will ensure Mercator Group to be able to meet its current and future liabilities towards all stakeholders. We will work on implementing this strategy despite the macro-economic and other risks and uncertainties caused by COVID-19 after the end of the reporting period. Refer also to Note 35.

Mitigation of business uncertainty arising from the Agrokor restructuring

As for FY17 and FY18, we set out below our current assessment of the impact of the Agrokor restructuring.

Status of the Agrokor restructuring:

Pursuant to the resolution of the Commercial Court of Zagreb of March 1, 2019 and Cl. 17.1 of the Settlement Plan in the Extraordinary Administration Proceedings over Agrokor d.d. et al. (the »**Settlement Plan**«) , the Extraordinary Administrator of Agrokor d.d., pronounced April 1, 2019 as the date on which implementation of the restructuring measures and the settlement steps envisaged by the Settlement Plan started. Pursuant to clause 22.3. *Remaining Assets*i.e. Mercator will be transferred by agreement between the Extraordinary Administrator and Fortenova when circumstances will allow it. Otherwise, the Extraordinary Administrator can defer the transfer of certain assets for a period of up to 3 years from April 2019, at which point the expectation is that Agrokor will be wound up and any remaining assets liquidated.

- The Extraordinary Administrator and Fortenova Group are aware of the consequences of cutting any corners in the transfer of the Mercator shares to Fortenova. In the »2019 9M DR Holders update« (the »**Update**«), Fortenova noted, among other things:necessary competition approval processes (at the EU and local levels) were commenced in August 2019; and
- »The business condition for transfer of shares is that an agreement is reached with Mercator's financial creditors on the continuation of Mercator's existing financial arrangement due to required consent for »Change of control« related to transfer of ownership. Negotiations with core banks to obtain the consent are ongoing.«

The Update also acknowledges further uncertainties in relation to the transfer of Mercator shares by saying »The Slovenian Competition Protection Agency (Javna agencija Republike Slovenije za varstvo konkurence – AVK) passed the decision in September 2019 to impose a fine in the amount of EUR 53,900,000 on Agrokor due to the supposed failure to report the concentration of the companies Agrokor AG and Ardeya Global Ltd. The Extraordinary Administration of Agrokor considers AVK's decision to be completely unsubstantiated. The AVK Decision has not become effective, as an application for court protection against the Decision has been submitted to the AVK and the Extraordinary Administration will continue to fight this decision. The Serbian Commission For Protection Of Competition has initiated an investigation process whether an antitrust approval should have been obtained prior to the transfer of Serbia-based assets. In addition, the President of the Competition authority issued a decision to stop the process of Mercator anti-trust approval until the investigation is resolved. The timeline for that is uncertain.«

Until the final transfer of Mercator shares to Fortenova Mercator remains the asset of Agrokor.

For the purpose of assessment of Mercator Group exposure to specific risks arising from Agrokor/Fortenova Group, we set out below our assessment of Mercator Group's exposure from the point of view of 1) its operations and 2) its financing arrangements:

1) Exposure to the risk from Business operations with Agrokor d.d.,/Fortenova Group and its subsidiaries

Agrokor

As of April 1, 2019 the subsidiary companies of Agrokor were transferred to mirror subsidiary companies of Fortenova Group. As of that date, Mercator Group no longer operates with Agrokor Group, however Mercator d.d. remains a subsidiary of Agrokor d.d. The exposure of Mercator Group to the business risk related to Agrokor Group financial performance is therefore minimal and as of December 31, 2019, revenues generated with Agrokor Group amounted to EUR 1,793 thousand or 0.1% of total consolidated revenue. Along with significantly reduced operations with Agrokor Group, additional business risk mitigating factor are restricitive conditions included in the financial restructuring agreement from the year 2014. The agreement requirements include, but are not limited to: requirement to manage all the operations with Agrokor Group companies on an arms' length basis, restrictions on entering any transactions other then in the ordinary course of business, restrictions on equity, debt and own shares, restrictions on assets and business management (including disposal of assets and change of business focus), restrictions on assets distribution from Mercator Group to Agorokor Group and other restrictions.

As reported in previous years, and following the enactment in Croatia of the law on Extraordinary management proceedings in companies of systematic significance on May 6, 2017, Slovenia enacted the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (the »**ZIČUDSP**«). This law remains in effect and is expected to remain so, at the earliest until the transfer of shares of Mercator from Agrokor to Fortenova Group. The purpose of the Act in relation to Mercator is mainly to: prevent any decisions by majority shareholder which are harmful to Mercator, restrict any corporate gurantees, loans or similar given by Mercator to Agrokor or its subsidiaries, prevent any assumption of debt owned by Agrokor or its subsidiaries by Mercator and make sure that all the transactions between Mercator and Agrokor are on an arms' length basis.

Fortenova

Until the transfer of shares of Mercator from Agrokor to Fortenova Group, Mercator Group companies are not part of Fortenova Group. Consequently, Mercator group accounts are not consolidated into Fortenova group accounts.

Additionally, any collaboration between them, including information sharing, is strictly limited to arm's length dealings as market competitors. In addition to being prudent corporate governance, this is to observe all applicable laws (including without limitation antitrust laws).

The exposure of Mercator Group to the business risk related to Fortenova Group financial performance is not significant. As of December 31, 2019, revenues generated with Fortenova Group amounted to EUR 6,529 thousand or 0.3% of total consolidated revenue.

Regarding the expected transfer of Mercator from Agrokor to Fortenova, we are confident this would strengthen Mercator's existing position even further. Below is a summary of some of important events detailed on the Fortenova website that we believe point towards Fortenova having emerged successfully from the Agrokor restructuring and being a strong potential owner of Mercator.

- Non-core asset disposals: On July 22, 2019 Fortenova Group announced that they started to dispose of non-core real estate. The list of non-core assets initially featured 117 properties owned by the Group's operating companies to be updated and supplemented on an on-going basis by new properties.
- Long-term refinancing: On September 6, 2019 Fortenova Group issued a EUR 1.157 billion bond, thereby successfully concluding the process of refinancing the Super-Priority Facility Agreement (SPFA) dated June 8, 2017.
- Strong results since launch: On November 29, 2019, Fortenova reported that it generated growth of all KPIs over Q1-Q3 2019. The Group's core business (retail and wholesale, food and agriculture) realized EUR 2.6 bn of unconsolidated revenues or 3.5 per cent more compared to the same period last year. At the same time, total unconsolidated operating profit of the core business (net of Mercator) reached EUR 231.7 mn. In a year-on-year comparison, pro forma consolidated revenues of Fortenova Group grew by seven per cent and amount to EUR 2.5 bn for the period Q1-Q3/2019 (net of Mercator) and consolidated operating profit reached EUR 200.3 mn.

2) Risk of compliance with financial debt agreement commitments

As disclosed in the business report, Mercator Group net financial debt as of December 31, 2019 amounts to EUR 586,944 thousand without IFRS 16, and EUR 899,247 thousand with IFRS 16 effect.

The terms of our principal financial debt agreements comprise several provisions directly linked to Agrokor Group. These comprise (i) cross-default, (ii) change of control and (iii) material adverse effect provisions.

(i) Cross default: To proactively address the potential triggering of the cross default resulting from the opening of Agrokor's restructuring proceedings in Spring 2017, we already obtained (in Spring 2017) a waiver from the necessary majority of lenders. The waiver is still valid and there is no expiry date.

(ii) *Change of control*: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered.

(iii) *Material adverse effect:* We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. Indeed, if anything, the three years since the commencement of Agrokor's restructuring have consistently demonstrated the ability of Mercator Group to survive and thrive independently of circumstances affecting the Agrokor Group.

In assessment of the risk of default clause discussed above the company Poslovni sistem Mercator d.d. has considered the following factors:

- Mercator is and remains, both for cashflow and EBITDA, one of the most significant entities within the Agrokor/Fortenova Group.
- Although the 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* with the lenders on the topics which are key for the vast majority of them. The remaining open points are points that require alignment among Fortenova and our lenders, one important such topic being the future position of Mercator and its stakeholders within Fortenova Group.
- As also acknowledged in the Update, it would be economically irrational for the Extraordinary Administrator and Fortenova to proceed with an attempt to transfer Mercator to Fortenova without there being an agreement with our lenders in relation to the Change of Control. We see no indication of an intention to ignore this economic reality.
- 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.
- As is borne out by explicit evidence, Company Poslovni sistem Mercator d.d has the clear working assumption that stakeholders in both Agrokor/Fortenova Group and Mercator Group are 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.

Given the potential delay of the transfer of ownership of Mercator Group to Fortenova Group (i.e. that this could even extend beyond the maturity of the Group's main debt facilities (currently scheduled for June 2021), management is in any event already starting to explore potential refinancing scenarios. This, in any event, further reduces the potential impact of a change of control as this will be a known feature, clearly legislated for in any refinancing documentation. Mercator has a proven track record in recent refinancings. In June 2019, Mercator Group conducted the transaction for refinancing of the Mercator Group`s super-senior facilities amounting EUR 80 mn, and at the end of 2019 the company Mercator–S d.o.o. successfully completed refinancing of the syndicated loan and short term debt in the amount of EUR 90 mn. Completion of refinancing is proof that the confidence of banks into Mercator`s stability are increasing significantly and enables further refinancing of the Mercator Group. However, significant risks related to financial markets liquidity arose in connection with COVID-19 situation after the reporting period and we acknowledge we may face new unforseen and so far unknown or unprecedented challenges.

Conclusion

As noted above, the Group and the Company will need to refinance its debt on or before June 2021, what will be necessary for the Group and the Company maintaining its liquidity. One of the success factors in the process will be clarification of the Group's and the Company's ownership structure. Lack of such resolution may translate to the Group's and Company's ability to obtain finance and as such represents a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as the going concern in the foreseeable future.

However, the company Poslovni sistem Mercator d.d has the clear view that, in light of the successful implementation of the Settlement Plan for the vast majority of companies pertaining to Agrokor group prior to April 1, 2019, the risks arising from Agrokor/Fortenova from this perspective (apart from the transfer of Mercator shares) have been satisfactorily addressed, given that there is a new, clean corporate structure in place, almost a year of operations under the new group, and evidence of a clear long-term strategy (for example, non-core asset disposals and successful placing of a long-term refinancing on market terms). Whilst there is still no clear near-term date for a transfer of Mercator Group to Fortenova Group, Mercator is futher improving its standalone economic viability through higher cash position, significant deleveraging and sucessfuly closed refinancings in 2019.

Capital management

Mercator Group and the company Poslovni sistem Mercator d.d., have complied with all imposed capital requirements during 2018 and 2019.

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 Mercator Group and the company Poslovni sistem Mercator d.d.

Ratio between equity and net financial debt:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Financial liabilities	945,024	784,746	495,205	552,128
Less:				
Cash and cash equivalents	45,777	15,074	11,137	6,298
Net financial debt $^{\Delta}$	**899,247**	**769,672**	**484,068**	**545,830**
Equity	**438,974**	**479,525**	**402,141**	**414,106**
Ratio between equity and net financial debt$^{\Delta}$	1:2.05	1:1.61	1:1.20	1:1.32

$^{\Delta}$Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

As at December 31, 2019, the company Poslovni sistem Mercator d.d. held 42,192 own shares (2018: 42,192 own shares).

Fair Values

Fair Values	Mercator Group			
	Dec. 31, 2019		Dec. 31, 2018	
in EUR thousand	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets carried at amortised cost				
Trade and other receivables	143,433	143,433	143,045	143,045
Loans given and deposits	16,106	16,106	21,986	21,986
Investments in financial assets	876	876	393	393
Cash and cash equivalents	45,777	45,777	15,074	15,074
Total financial assets	**206,193**	**206,193**	**180,498**	**180,498**
Financial liabilities carried at amortised cost				
Fixed rate bank borrowings	105,890	105,890	46,472	46,472
Floating rate bank borrowings	434,345	434,345	613,057	613,057
Loans from subsidiaries and other companies	28,429	28,429	20,000	20,000
Trade and other payables	495,526	495,526	492,728	492,728
Total financial liabilities	**1,064,190**	**1,064,190**	**1,172,257**	**1,172,257**

Fair Values	Poslovni sistem Mercator d.d.			
	Dec. 31, 2019		Dec. 31, 2018	
in EUR thousand	**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
Financial assets carried at amortised cost				
Trade and other receivables	61,913	61,913	54,308	54,308
Loans given and deposits	25,179	25,179	2,133	2,133
Investments in financial assets	736	736	261	261
Cash and cash equivalents	11,137	11,137	6,298	6,298
Total financial assets	**98,966**	**98,966**	**62,999**	**62,999**
Financial liabilities carried at amortised cost				
Fixed rate bank borrowings	63,969	63,969	68,726	68,726
Floating rate bank borrowings	288,224	288,224	363,196	363,196
Loans from subsidiaries and other companies	39,974	39,974	45,349	45,349
Trade and other payables	248,602	248,602	237,461	237,461
Total financial liabilities	**640,769**	**640,769**	**714,732**	**714,732**

Based on the calculation of fair value, financial instruments are divided into three levels:
Level 1: quoted (stock exchange) prices for assets or liabilities at the end of reporting period;
Level 2: the fair value of financial instruments that are not traded in an active market (is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates
Level 3: if one or more of the significant inputs is not based on observable market data, the instrument is included in level 3

	Mercator Group				Poslovni sistem Mercator d.d.			
	December 31, 2019				December 31, 2019			
in EUR thousand	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets	179	-	697	**876**	119	-	616	**736**
Loans and deposits	-	16,106	-	**16,106**	-	25,179	-	**25,179**
Trade and other receivables	-	143,433	-	**143,433**	-	61,913	-	**61,913**
Land and buildings	-		787,100	**787,100**	-	-	501,629	**501,629**
Investment property	-		273,006	**273,006**	-	-	4,081	**4,081**
Financial liabilities	-	(568,664)	-	**(568,664)**	-	(392,168)	-	**(392,168)**
Trade and other payables		(495,526)		**(495,526)**		(248,602)		**(248,602)**

in EUR thousand	Mercator Group December 31, 2018 Level 1	Level 2	Level 3	Total	Poslovni sistem Mercator d.d. December 31, 2018 Level 1	Level 2	Level 3	Total
Financial assets	114	-	278	**393**	74	-	187	**261**
Loans and deposits	-	21,986	-	**21,986**	-	2,133	-	**2,133**
Trade and other receivables	-	143,045	-	**143,045**	-	54,308	-	**54,308**
Land and buildings	-	-	935,154	**935,154**	-	-	595,827	**595,827**
Investment property	-	-	242,890	**242,890**	-	-	4,498	**4,498**
Financial liabilities	-	(679,528)	-	**(679,528)**	-	(477,271)	-	**(477,271)**
Trade and other payables	-	(492,728)	-	**(492,728)**		(237,461)	-	**(237,461)**

The carrying value of financial assets carried ar amortised cost equals their fair value due to short term nature. The carrying value of financial liabilities recognized approximates their fair value.

32. Contingent liabilities

Pledged properties

In line with Mercator Group financial restructuring agreement signed in June 2014 (hereinafter "Finance Documents") companies Poslovni sistem Mercator d.d., Mercator-IP d.o.o., Mercator−Emba d.d., M−Energija d.o.o., Mercator−H d.o.o., Mercator−BH d.o.o., Mercator−CG d.o.o. have signed common transaction security agreements by which all liabilities arising from Finance Documents are being subject of cross-collateralisation meaning that each company is guaranteeing for liabilities of other companies and vise-versa. In addition to this, lenders under Finance Document also have pledges of all material assets of those companies.

Financial liabilities in the framework of Finance Documents as of Dec. 31, 2019: in EUR thousand	Poslovni sistem Mercator d.d.	Mercator – H d.o.o.	Mercator – BH d.o.o.	Mercator – CG d.o.o.	Total
Senior Wider-Group-Deal	258,452	48,474	24,430	4,273	335,630
Super Senior Facility Agreement	70,000	-	-	-	70,000
PIK interest	24,717	4,370	2,232	241	31,560
Total	**353,169**	**52,844**	**26,662**	**4,514**	**437,190**

Financial liabilities in the framework of Finance Documents as of Dec. 31, 2018: in EUR thousand	Poslovni sistem Mercator d.d.	Mercator – H d.o.o.	Mercator – BH d.o.o.	Mercator – CG d.o.o.	Total
Senior Wider-Group-Deal	359,394	64,890	33,200	4,686	462,171
Super Senior Facility Agreement	50,000	-	-	-	50,000
PIK interest	24,717	4,370	2,232	241	31,560
Total	**434,111**	**69,260**	**35,432**	**4,928**	**543,731**

Financial liabilities of the company Mercator –S, d.o.o.	Dec. 31, 2019	Dec. 31, 2018
Loans secured by pledged property	112,474	117,814

Book value of pledged properties by Poslovni sistem Mercator d.d., Mercator−H d.o.o., Mercator−BH, d.o.o., Mercator–CG, d.o.o., Mercator−Emba d.d., Mercator IP d.o.o.

Companies owning the properties and types of assets pledged	Mercator Group (exc. Mercator – S d.o.o.)		Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Real estate	**417,840**	**496,466**	**199,621**	**279,048**
Share pledges owned by Poslovni sistem Mercator, d.d.	**181,328**	**184,758**	**181,328**	**184,758**
Bank Accounts and deposits	**4,998**	**2,093**	-	-
Trade, insurance, lease, intra-group loan and credit card receivables (except for PIKA receivables)	**12,306**	**6,850**	-	-
Non-possessory pledge over tangible assets	**5,892**	**6,999**	-	-
IP rights pledge	-	-	-	-
Promissory notes				
Poslovni sistem Mercator, d.d.	Max. amount = EUR 635,514 thousand	Max. amount = EUR 635,514 thousand	Max. amount = EUR 635,514 thousand	Max. amount = EUR 635,514 thousand
Mercator–H d.o.o.	Max. amount = EUR 98,600 thousand	Max. amount = EUR 98,600 thousand		
Mercator−BH d.o.o.	Max. amount = EUR 44,546 thousand	Max. amount = EUR 44,546 thousand		
Mercator−CG d.o.o.	Max. amount = EUR EUR 6,628 thousand	Max. amount = EUR 6,628 thousand		
Mercator−Emba, d.d.	Max. amount = 3,022 thousand	Max. amount = EUR 3,022 thousand		

Security instruments and properties pledged by Mercator – S d.o.o.for its liabilities

	Mercator – S d.o.o.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018
Real estate mortgage	130,198	160,927
IP Rights pledges	3,795	3,776
Equipment pledge	11,152	4,734
Share pledges	37,468	40,285
Receivables pledges	2,787	2,788
Total	**185,400**	**212,510**

Properties pledged by Poslovni sistem Mercator d.d. for its operating liabilities

	Poslovni sistem Mercator d.d.	
in EUR thousand	Dec. 31, 2019	Dec. 31, 2018
Outstanding amount of pledged operating liabilities	19,166	14,842
Book value of pledged real estate	78,232	81,479

Properties pledged by Mercator – S, d.o.o for its operating liabilities

Financial liabilities of the company Mercator –S, d.o.o.	Dec. 31, 2019	Dec. 31, 2018
Operating payables secured by pledged property	-	-

Guarantees issued

The company Poslovni sistem Mercator d.d. is providing guarantees to its subsidiaries for borrowing from banks.

Corporate guarantees issued to Mercator Group entities as of Dec. 31, 2019:	Poslovni sistem Mercator d.d.				
in EUR thousand	Bank loans	Financial leases	Rent contracts	Suppliers	Total
Mercator-S, d.o.o.	-	-	16,672	-	16,672
Mercator-H, d.o.o.	52,844	24,081	67,900	-	144,826
Mercator-BH, d.o.o.	26,662	-	8,979	-	35,642
Mercator-CG, d.o.o.	4,514	-	133	-	4,647
Mercator−Emba, d.d.	3,008	-	-	-	3,008
M-Energija, d.o.o.	-	-	-	-	-
Total	**87,029**	**24,081**	**93,685**	**-**	**204,795**

Corporate guarantees issued to Mercator Group entities as of Dec. 31, 2018:	Poslovni sistem Mercator d.d.				
in EUR thousand	Bank loans	Financial leases	Rent contracts	Suppliers	Total
Mercator-S, d.o.o.	-	-	16,672	-	16,672
Mercator-H, d.o.o.	69,260	29,023	67,900	-	166,183
Mercator-BH, d.o.o.	35,432	-	8,979	-	44,412
Mercator-CG, d.o.o.	4,928	-	133	-	5,060
Mercator−Emba, d.d.	3,008	-	-	-	3,008
M-Energija, d.o.o.	-	-	-	900	900
Total	**112,628**	**29,023**	**93,685**	**900**	**236,235**

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, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Property, plant and equipment	2,949	1,556	2,281	1,495

Security instruments issued for liabilities of Poslovni sistem Mercator d.d.

Security instruments held by Poslovni sistem Mercator d.d. as of Dec. 31, 2019:	Poslovni sistem Mercator d.d.				
in EUR thousand	Public tender	Supliers	Rent contracts	Duties	Total
Bank Guarantees	58	3.032	-	705	3,795
Promissory notes	1,648	12,919	113	-	14,680
Enforcement notes	-	18,957	-	-	18,957
Total	**1,706**	**34,908**	**113**	**705**	**37,432**

Security instruments held by Poslovni sistem Mercator d.d. as of Dec. 31, 2018:	Poslovni sistem Mercator d.d.				
in EUR thousand	Public tender	Supliers	Rent contracts	Duties	Total
Bank Guarantees	54	7,272	-	705	8,031
Promissory notes	1,547	14,913	62	-	16,523
Enforcement notes	-	22,246	-	-	22,246
Total	**1,601**	**44,431**	**62**	**705**	**46,799**

33. Related-party transactions

The company Poslovni sistem Mercator d.d. has relations with its subsidiaries and other subsidiaries of Agrokor d.d. (controlling shareholder holding 69.57% of shares)

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 2019, 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 of performing supervision in subsidiaries, so the amounts presented refer only to the parent company. In 2019, no member of the management personnel and Supervisory Board of Poslovni sistem Mercator d.d. did receive any remuneration for the performance of duties 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 2019 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 2019 (in EUR)

Name and surname	Function	Fixed remuner. - gross (1)	Variable remuneration – gross			Deferred income (3)	Severance pays (4)	Benefits				Profit sharing (6)	Options and other rewards (7)	Refund payment – (claw-back) (8)	Total gross (1+2+3+4+5+6+7+8)	Total net
			based on quanti. criteria	based on quality. criteria	Total (2)			Refund of work related costs	Insurance premiums	Other	Total (5)					
Tomislav Čizmić	President	304,984	-	-	-	-	-	69,164	260	21,556	90,980	-	2,819	-	398,783	133,744
Draga Cukjati	Member	222,407	-	-	-	-	-	16,477	1,073	3,899	21,449	-	2,819	-	246,675	102,744
Igor Mamuza	Member	244,906	-	-	-	-	-	27,314	258	607	28,178	-	2,819	-	275,904	108,714
Gregor Planteu	Extraordinary Member	225,412	-	-	-	-	-	8,092	256	3,099	11,447	-	2,819	-	239,677	102,744

Compensation of the Supervisory Board and Committees of the company Poslovni sistem Mercator d.d. in 2019 (in EUR)

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 and reimbursement of costs	Insurance premiums	Options and other rewards
Sergei Volk	Member of SB and Member of SF	24,000	5,744	29,744	21,633	-	-	-
Miodrag Borojević	Member of SB, President of AC and Member of SF from June 5, 2019	25,167	3,066	28,232	20,533	-	-	-
Paul Michael Foley	Member of SB and President of SF from June 5, 2019	5,042	4,033	9,075	6,743	-	-	-
Fabris Peruško	Member of SB	10,250	1,110	11,360	8,262	-	-	-
Matej Lahovnik	Vice-president of SB, Member of AC, President of HR and Member of SF	42,000	6,737	48,737	35,447	-	-	-
Ivica Mudrinić	Member of SB, Member of HR and Member of SF	33,000	4,705	37,705	27,422	-	-	-
Irena Weber	Member of SB until June 5, 2019	-	142	142	104	-	-	-
Vladimir Bošnjak	Member of SB and President of AC until June 5, 2019	-	142	142	104	-	-	-
Vesna Stojanović	Member of SB and Member of HR	27,000	2,750	29,750	21,637	-	-	-
Veljko Tatić	Member of SB from May 21, 2019	11,032	1,100	12,132	8,824	-	-	-
Jože Lavrenčič	Member of SB	18,000	1,650	19,650	14,291	-	-	-
Matjaž Grošelj	Member of SB until May 20, 2019	6,968	550	7,518	5,468	-	-	-
Aleksander Igličar	Extraordinary Member of AC	9,000	825	9,825	7,146	-	-	-

SB = Supervisory Board AC = Audit Commit HR = Human Resource Committee SF = Strategy and Finance Committee

Compensation of the Supervisory Committee of the company Poslovni sistem Mercator d.d. in 2019 (in EUR)

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 and reimbursement of costs	Insurance premiums	Options and other rewards
Filipović Nenad	-	7,000	-	7,000	5,091	-	-	-

Transactions with related parties in the Agrokor Group

Transactions of Poslovni sistem Mercator d.d. with subsidiaries (eliminated on the consolidation level)

As for 2019 year and as at December 31, 2019	Transactions						Balances				
in EUR thousand	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Receivables	Liabilities	Lease liabilites	Loans given	Loans received
Mercator–S d.o.o.	562	2	-	-	64	-	1,339	(0)	-	5,000	-
Mercator–H d.o.o.	93	296	-	-	507	-	3,241	59	-	18,194	-
Mercator–BH d.o.o.	423	3	-	-	-	127	139	8	-	-	2,633
Mercator–CG d.o.o.	118	1	-	-	-	230	6	232	-	-	6,381
Mercator–Emba d.d.	20	1,793	-	-	-	135	68	376	-	-	4,200
Mercator IP d.o.o.	597	17,029	266	-	-	208	174	2,842	7	-	6,761
M–Energija d.o.o	52	401	4	1	60	39	116	307	796	1,955	-
Total	**1,866**	**19,525**	**270**	**1**	**632**	**739**	**5,083**	**3,824**	**803**	**25,149**	**19,974**

As for 2018 year and as at December 31, 2018	Transactions						Balances				
in EUR thousand	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Receivables	Liabilities	Lease liabilites	Loans given	Loans received
Mercator–S d.o.o.	567	0	-	-	-	-	2,005	-	-	-	-
Mercator–H d.o.o.	93	302	-	-	2,717	-	2,733	194	-	2,103	-
Mercator–BH d.o.o.	565	38	-	-	1	349	244	29	-	-	9,629
Mercator–CG d.o.o.	28	(0)	-	-	0	253	14	21	-	-	7,098
Mercator–Emba d.d.	275	1,635	-	-	-	61	97	397	-	-	3,500
Mercator IP d.o.o.	606	14,703	247	1	-	164	70	2,391	-	-	5,047
M–Energija d.o.o	199	6	72	-	34	1	10	35	-	-	75
Total	**2,333**	**16,683**	**319**	**1**	**2,753**	**829**	**5,174**	**3,069**	**-**	**2,103**	**25,349**

Transactions with Agrokor d.d. and its subsidiaries

As for 2019 and 2018 year	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR thousand	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses
2019	1,793	8,789	1,629	20	136	-	(20)	6,764	13	20	-	-
2018	16,290	70,485	8,976	6,599	1	33	1,058	26,981	73	121	-	30

Balances open with Agrokor d.d. and its subsidiaris as of reporting date

As at December 31, 2019 and December 31, 2018	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR thousand	Receivables	Liabilities	Right of use receivables	Lease liabilites	Loans given	Loans received	Receivables	Liabilities	Right of use receivables	Lease liabilites	Loans given	Loans received
2019	81	1,323	-	-	-	20,000	39	779	-	-	-	20,000
2018	45,487	43,046	-	-	-	20,000	6,973	9,082	-	-	-	20,000

Terms of transactions with related parties
In determining the prices in transactions with affiliated companies, Mercator Group observes its internal rules and Regulations on transfer pricing, and the arm's length principle as laid down by the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

In the reporting period, *sales* were consistent with the adopted sales and payment terms and conditions for agro and transit (opposite/offsetting transactions that hedge the credit risk due to the possibility of netting, reciprocity of payment terms, agreed mark-up on the purchase price of material), and it was conducted based on the effective purchase and sale agreements for the requirements of agro and transit sales for all customers. Prices of *services* provided by Mercator were based on relevant price lists. The same price list is used for both affiliated and non-affiliated persons/entities. The prices are based on comparable market prices or based on the actual ratio between supply and demand.

Purchase of goods were consistent with the General Terms and Conditions of the Mercator in Procurement of Goods, effective as of January 1, 2017, and as of January 1, 2019, for all suppliers. General Terms and Conditions are a constituent part of the Goods Procurement Agreement signed by the company Mercator with suppliers of goods, non-affiliated and affiliated companies.

In determining or setting the prices for *lease of real estate* to affiliated companies, Mercator observes both market aspects that are relevant in determining the price of lease in relation to non-affiliated parties (arm's length principle) and other comparable circumstances.

Mercator Group manages liquidity on a group level. Since additional borrowing from non-related parties is limited by the MRA, Mercator Group manages liquidity within the group. Subsidiaries which had surplus cash have *given loans* to the parent company Poslovni sistem Mercator, d.d. and companies which required cash were given loans by the parent.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given to or received from Agrokor d.d. and its subsidiaries. Financial guarantees provided by Poslovni sistem Mercator d.d t to its subsidiaries are disclosed in Note 32.

34. Fortenova Group transactions

As of April 1, 2019, the company Fortenova grupa d.d. commenced its operations. The company was founded based on the implementation of the agreement between the Agrokor creditors, and with the intent of transferring to this new company the healthy core operations from the Agrokor Group system. The company Fortenova Grupa and the companies affiliated to it are separate in terms of ownership and management from Agrokor and the parties affiliated to it, and they are not an affiliate party of Agrokor. The company Fortenova Grupa and the companies affiliated to it are also not affiliated to Mercator.

In 2019, Mercator Group and the company Poslovni sistem Mercator d.d. also conducted business with the Fortenova grupa d.d. and its subsidiaries. In order to ensure transparency of Mercator's operations, are below presented the transactions effected with the companies from the Fortenova Group.

Transactions with Fortenova grupa d.d. and its subsidiaries

As for 2019 and 2018 year	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR thousand	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses
2019	6,529	61,987	5,087	59	375	1,659	(3)	23,538	27	59	-	-
2018	-	-	-	-	-	-	-	-	-	-	-	-

Balances open with Fortenova grupa d.d. and its subsidiaris as of reporting date

As at December 31, 2019 and December 31, 2018	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR thousand	Receivables	Liabilities	Right of use receivables	Lease liabilites	Loans given	Loans received	Receivables	Liabilities	Right of use receivables	Lease liabilites	Loans given	Loans received
2019	12,003	34,722	27,562	23,443	-	-	209	3,614	-	-	-	-
2018	-	-	-	-	-	-	-	-	-	-	-	-

35. Major events after the balance sheet date

At the end of 2019, occurrence of a new coronavirus was reported in China. It was named SARS-Cov-2 and it is the cause of the COVID-19 disease. In the first months of 2020, the virus spread around the entire world. As a result of the growing number of infections, the World Health Organization declared a pandemic on March 11, 2020. The Group considers this outbreak to be a non-adjusting post balance sheet event.

Mercator Group's Management Board focused on three key points as it responded to the crisis situation, among others:

- Safety of supply chain: we are maintaining and ensuring safe supply chains and care for uninterrupted logistics even in circumstances of considerably higher daily and hourly sales. Before the start of the crisis, we ensured an adequate amount of inventory, especially of essential food products. Due to the measures adopted in a timely manner, supply remains uninterrupted.
- Managing revenue growth: we focused on offering competitive prices, the essential consumer goods, and volume discounts for joint online orders.
- Liquidity management: we further optimized necessary capex and working capital management.

The Government of the Republic of Slovenia declared an epidemic and adopted numerous measures for social distancing including temporarily prohibition of some business, but exempting offering and selling goods and services remotely, as well as pharmacies and grocery stores. In addition, the Government introduced series of measures helping alleviating the consequences of the Covid 19 for the general public and the economy. Since it is impossible to forecast how long the coronavirus containment measures will remain in place, we are unable to reliably assess the full financial impact of coronavirus on Mercator’s operations at this point. Events related to coronavirus due to market uncertainty beyond Mercator’s control might have a relevant impact on several key aspect of Mercator’s operations and consequently, accounting categories (including the development of rental income from third party tenants and fair value of related real estate), which are currently not possible to evaluate with a high degree of certainty.

Independent auditor's report

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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

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respect, the consolidated and separate financial position of Poslovni sistem Mercator d.d. (the "Company") and its subsidiaries (together - the "Group") as at 31 December 2019, and their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 22 April 2020.

What we have audited

The Group's consolidated and the Company's separate financial statements (together "the financial statements") comprise:

- the consolidated statement of financial position of the Mercator Group and statement of financial position of the company Poslovni sistem Mercator d.d. as at 31 December 2019;
- the consolidated income statement of the Mercator Group and income statement of the company Poslovni sistem Mercator d.d. for the year then ended;
- the consolidated statement of other comprehensive income of the Mercator Group and statement of other comprehensive income of the company Poslovni sistem Mercator d.d. for the year then ended;
- the consolidated statement of changes in equity of the Mercator Group for the year then ended;
- the statement of changes in equity of the company Poslovni sistem Mercator d.d. for the year then ended;
- the consolidated cash flow statement of the Mercator Group and cash flow statement of the company Poslovni sistem Mercator d.d. for the year then ended; and
- the notes to the consolidated financial statement of the Mercator Group and financial statements of the company Poslovni sistem Mercator d.d., which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and in accordance with Regulation (EU) No. 537/2014 dated 16 April 2014, which applies to mandatory audit of a Public Interest Entity. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Matriculation No.: 5717159, VAT No.: SI35498161
The company is registered by District court in Ljubljana under the number 12156800 as well in to the register of the Auditing companies by Agency for Public Oversight of Auditing under the number RD-A-014/94. The amount of the registered share capital is EUR 34.802. The list of employed auditors is available at the registered office of the company.

Independence

We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Slovenia. We have fulfilled our ethical responsibilities in accordance with the IESBA Code and with the ethical requirements that are relevant to our audit of the financial statements in Slovenia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group and the Company are in accordance with the applicable law and regulations in Slovenia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No. 537/2014.

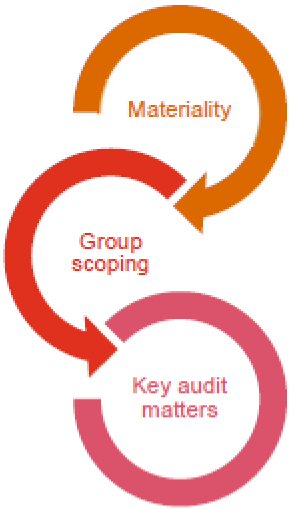
The non-audit services that we have provided to the Group and the Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 11 *"Cost of goods sold, selling costs and administrative expenses"* to the financial statements.

Material uncertainty related to going concern

We draw attention to Note 31 *"Financial instruments"* to the financial statements, which describes in the section "Mitigation of business uncertainty arising from the Agrokor restructuring" exposure to the risks arising from the ownership of Agrokor in the Company and consequently the impact this may have on the refinancing of the Group and the Company that is due on or before June 2021. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group' and the Company's ability to continue operating as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall materiality for the separate financial statements of the Company as a whole: EUR 10,597 thousand, which represents approximately 0.9 % of total revenues of the Company.
- Overall materiality for the consolidated financial statements of the Group as a whole: EUR 19,878 thousand, which represents approximately 0.9% of total revenues of the Group.

- Our audit scope addressed 90% of the Group's revenues and 92% of the Group's absolute value of underlying profit.

- First time adoption of IFRS 16, *Leases*, and subsequent measurement of right-of-use assets using revaluation model.
- Subsequent measurement of property, plant and equipment using revaluation model.
- Subsequent measurement of investments in subsidiaries in the statement of financial position of the company Poslovni sistem Mercator d.d.

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Company materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company and Group materiality	The Group: EUR 19,878 thousand The Company: EUR 10,597 thousand
How we determined it	The Group: approximately 0.9 % of the Group's total revenue The Company: approximately 0.9 % of the Company's total revenue
Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because it is the benchmark against which the performance of the Group and the Company is measured, in terms of both their market share and customer base. In addition, profit or loss for previous years was volatile while total revenue was a more consistent measure of performance. We chose the threshold of 0.9%, which is within the range of acceptable quantitative materiality thresholds for this benchmark.

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 current period. 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.

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Key audit matter	How our audit addressed the key audit matter
First time adoption of IFRS 16 and subsequent measurement of right-of-use assets using revaluation model	
In 2019, the Group and the Company implemented a new standard, IFRS 16, *Leases*. We paid attention to this area because of significance of the initially recognised assets and liabilities to the financial statements. Key estimates relate to (i) determination of the lease term, which includes assessment whether options to extend a lease are reasonably certain to be exercised, and (ii) determination of discount rate. The Group and the Company use revaluation model for subsequent measurement of right-of- use assets that belong to the land and buildings class. These right-of-use assets are measured at fair value. Refer to Note 2.d.ix describing the use of estimates and judgements regarding leases, Note 3.i. *Significant accounting policies*, Note 4.a *Impact of initial application of IFRS 16 Leases* and Note 15, *Leases*. The Group's and Company's lease liabilities were EUR 376 milllion and EUR 103 million, respectively, at 31 December 2019. The Group's and Company's right-of-use assets were EUR 353 milllion and EUR 169 million, respectively, at 31 December 2019	Our audit approach to testing lease liabilities and right-of-use assets included testing of initial recognition and subsequent measurement, by performing the following substantive audit procedures: • We obtained an understanding of management's process for identification of leases at contract inception and for contracts that contain a lease component and one or more additional lease or non-lease components, we obtained an understanding, how management allocates the total consideration to each component. • We performed procedures to assess determination of discount rate, representing the entity's incremental borrowing rate. We reviewed methodology and calculation used by management and compared the discount rate to market data. • We performed procedures to assess determination of lease term, including whether or not management is reasonably certain to exercise an option to extend the lease by reviewing contractual terms and conditions, leasehold improvements, costs relating to the termination of (or not extending) the lease, the importance of underlying asset to operations and other factors. • We assessed completeness and accuracy of inputs used in the calculation of lease liabilities by reconciling the data with supporting documentation, and testing it on a sample basis. • We tested, on a sample basis, lease contracts identified as short-term or for which the underlying asset is determined as being of low value. • We tested the mathematical accuracy of the calculations in the model used by management, in order to verify that the related right-of-use assets and lease liablilities were recorded correctly in accordance with IFRS 16, *Leases*. • We assessed the competence, capabilities, objectivity and verified the

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Key audit matter	How our audit addressed the key audit matter
	qualification of management's external appraiser. • We discussed with management and challenged the scope and results of management's independent appraiser's work. • We assessed that the valuation methods used were consistent with the requirements of applicable IFRSs. • Our own external valuation experts evaluated the valuation results and methods used by the management's external certified appraiser.
Subsequent measurement of property, plant and equipment using revaluation model The Group and the Company applies revaluation model to land and buildings. The total carrying amount of related balances, as at 31 December 2019 is disclosed in Note 14: • EUR 243 million for the land and EUR 544 million for the buildings, for the Group, and • EUR 176 million for the land and EUR 326 million for the buildings, for the Company. Last valuation was performed by an external appraiser in 2017. Valuation methods used by external appraiser are disclosed in Note 5. In order to assess deviation of fair values from carrying amount as at 31 December 2019, the Group and the Company employed external certified appraiser to value a representative sample of items. Management has assessed that the fair value of land and buildings does not differ significantly from the carrying amounts at 31 December 2019 and, therefore, revaluation is not required as of the reporting date following the guidance in IAS 16, *Property, plant and equipment*. The valuation of land and buildings is considered to be a key audit matter due to the significance of the balances to the financial statements, combined with the judgment associated with determining the fair value.	Our audit approach to testing fair value measurement and application of revaluation model to land and buildings included procedures to assess whether management's judgement is appropriate and whether the requirements of IAS 16, *Property, plant and equipment*, and IFRS 13, *Fair value measurement*, are met, including following: • We assessed the competence, capabilities, objectivity and verified the qualification of management's external appraiser. • We discussed and challenged the scope and results of management's independent appraiser's work with management. • We assessed that the approaches used were consistent with requirements of applicable IFRSs. • We assessed a sample of land and building items selected for valuation as of the reporting date for appropriateness. We verified that the sample selected is geographically representative. • Our external valuation expert evaluated the valuation approach and methods used by the management's external certified appraiser. We assessed that the valuation methods used were consistent with requirements of applicable IFRSs. • We assessed whether the carrying amounts materially differ from amounts which would be determined using fair value at 31 December 2019.

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Key audit matter	How our audit addressed the key audit matter
Subsequent measurement of investments in subsidiaries in the statement of financial position of the company Poslovni sistem Mercator d.d.	
The Company has investments in subsidiaries of EUR 264 million as at 31 December 2019, recorded in its statement of financial position. As required by the applicable accounting standard — IAS 36, *Impairment of assets*, management conducted annual impairment test to assess the recoverability of the carrying value of these investments. The Company's accounting policy is disclosed in Note 2.d.v. and Note 18. As a result of the impairment test performed, the Company recognised EUR 24 million of impairment of investments in subsidiaries in 2019, as is disclosed in Note 18. The recoverable amount is considered to be a key audit matter due to the significance of the balances to the Company's statement of financial position.	Our audit approach to testing subsequent measurement of investments in subsidiaries comprised of the following procedures: • We assessed whether the recoverable amount is appropriately determined in accordance with requirements of IAS 36. • We evaluated whether the approach used by management to determine the fair value less costs to sell of individual investments complies with the requirements of IAS 36. • Our internal valuation expert evaluated the approach and methods used by management. We assessed that the approach used was consistent with the requirements of applicable IFRSs. • We have assessed completeness and accuracy of information disclosed in the notes to the financial statements.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group engagement team carried out audit work on the Company's financial statements. The Group engagement team determined Group audit materiality and issued audit instructions to component auditors where subsidiaries were audited by PricewaterhouseCoopers network audit firms.

Other Matter

The consolidated financial statements of the Group and the separate financial statements of the Company for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on 25 April 2019.

Other information

Management is responsible for the other information. The other information comprises the Business Report, Non-financial Report and Management Responsibility Statement, which are constituent parts of the annual report of the Group and the Company, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. In addition to our responsibilities and reporting in accordance with ISAs, with respect to the other information, we also performed procedures required by the Slovenian Companies Act. Those procedures include assessing whether the other information is consistent with the financial statements for the same financial year and whether the other information was prepared in accordance with valid legal requirements.

Based on the described procedures, we report that:

- the other information is consistent, in all material respects, with the audited financial statements; and
- the other information has been prepared in accordance with the requirements of the Slovenian Companies Act.

Based on the knowledge and understanding of the entity and its environment, which we have obtained in the course of the audit, in relation to the other information, we have not identified any material misstatements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted in the European Union 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, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company and the Group's financial reporting process.

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 independent 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 ISAs 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 ISAs, 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 material 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 and the Company's internal control.

- 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 and 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 independent 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 independent auditor's report. However, future events or conditions may cause the Group and the Company 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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 independent auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

5. Other informations

»As it celebrates its 70th anniversary, Mercator thanks its employees, customers, suppliers and other business partners, as well as all our neighbours in the villages, towns and cities where Mercator stores are located.«

List of abbreviations

APM – Alternative Performance Measures

GDP – Gross Domestic Product

DC – Distribution Centre

EBIT – Earnings before interest and taxes (operating profit)

EBITDA – Earnings before interest, taxes, depreciation and amortization

EBITDAR – Earnings before interest, taxes, depreciation, amortization, and rents

EURIBOR – Interbank interest rate in the euro zone (abbreviation of EURO Interbank Offered Rate)

FMCG – Fast-moving consumer goods

FURS – Financial Administration of the Republic of Slovenia

HACCP– Hazard Analysis Critical Control Point

LDC – logistics and distribution centre

IVS – International Valuation Standards

IFRS – International Financial Reporting Standards

IASB – International Accounting Standards Board

IFRS IC – IFRS Interpretations Committee

RS – Republic of Slovenia

SEOnet – Ljubljana Stock Exchange electronic information dissemination system

SPS 2 – Slovenian Corporate Finance Standard 2

VCP – Value Creation Plan

WGD – Wider Group Deal

ZGD-1 – Companies Act

ZIČUDSP – Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia

Alternative Performance Measures (APM)

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

APM	▪ The most equivalent/closest IFRS item ▪ Definition ▪ Purpose	Calculation basis
Income statement		
Retail revenue	▪ Sales revenue ▪ Retail revenue includes total revenue from Mercator Group core activity in the markets of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina. ▪ The indicator is an important measure of Mercator Group performance, since retail revenue accounts for the predominant share of total revenue.	See table below
Labour force cost	▪ No direct item ▪ The indicator is calculated as a sum of expenses pertaining to regular work based on collective and individual employment contracts, costs of student service agencies, hired workers, and costs related to other employment contracts. ▪ The indicator represents the total cost of labour.	See table below
EBIT	▪ Operating profit (EBIT) ▪ Earnings before interest and taxes.[1] ▪ The indicator is a measure of operating profitability, which is the key for attainment of Mercator Group's long-term goals.	The calculation is presented in the income statement in the Financial Report section of the Annual Report.
Normalized EBITDA	▪ Operating profit (EBIT) ▪ Earnings before interest, taxes, depreciation and amortization, excluding the effect of non-recurring business events. Non-recurring business events pertain especially to revaluation adjustments to inventory and receivables, revaluation adjustments to property, plant, and equipment (fixed assets), effect of divested activities, recognized gains and losses in divestment of real estate in the process of monetization etc. [1] ▪ The indicator is a measure operating performance, and it is an approximation of cash flow from operating activities.	See table below
Normalized EBITDA margin	▪ Sales revenue, Operating profit (EBIT) ▪ The indicator is calculated as the ratio between normalized EBITDA and sales revenue. [1] ▪ Improvement in this indicator is an important sign of operating performance, and it allows comparison with competitors and other industries, regardless of the scope of operations.	See table below

Retail revenue – calculation basis:

Mercator Group (EUR thousand)	2019	2018
Retail	1,693,485	1,656,578
Other activities/ businesses	445,253	444,803
Sales revenue	**2,138,739**	**2,101,381**

Labour force cost – calculation basis:

Mercator Group (EUR thousand)	2019	2018
Labour costs from collective and individual employment contracts	254,012	246,626
Costs of student labour, hired workers, and other employment contracts	21,527	18,898
Labour force cost	**275,539**	**265,525**

Normalized EBITDA – calculation basis:

Mercator Group (EUR thousand)	2019	2018
Operating profit (EBIT)	59,415	38,343
Depreciation and amortization	111,235	68,478
EBITDA	170,650	106,822
Non-recurring business events	1,803	636
Normalized EBITDA	**172,453**	**107,458**

Normalized EBITDA margin – calculation basis:

Mercator Group (EUR thousand)	2019	2018
Normalized EBITDA	172,453	107,458
Sales revenue	2,138,739	2,101,381
EBITDA margin (%)	**8.1**	**5.1**

[1] Data for the year 2019 includes implementation of the new IFRS 16 Leases, while the data for 2018 is presented without the effect of this standard that has been in effect since January 1, 2019. The presentation is consistent with the selected method of implementation of the IFRS 16 Leases, i.e. with the Modified Retrospective Approach, which is also used by most large enterprises with an extensive portfolio of leased commercial premises.

<table>
<tr><th>APM</th><th>▪ The most equivalent/closest IFRS item
▪ Definition
▪ Purpose</th><th>Calculation basis</th></tr>
<tr><td>Productivity per employee in retail</td><td>Sales revenue
The indicator is calculated as the ratio between retail revenue and number of FTE (number of employees based on hours worked) in retail.
The use of this indicator is common in the retail industry, and it measures performance in the company's core activity.</td><td><table><tr><th>Mercator Group</th><th>2019</th><th>2018</th></tr><tr><td>Retail revenue (EUR thousand)</td><td>1,693,485</td><td>1,656,578</td></tr><tr><td>Number of retail employees based on hours worked (FTE)</td><td>13,980</td><td>14,355</td></tr><tr><td>Productivity per employee in retail (EUR thousand)</td><td>121.1</td><td>115.4</td></tr></table></td></tr>
<tr><td>Value added per employee in retail</td><td>Operating profit (EBIT)
The indicator is calculated as earnings before interest, taxes, depreciation and amortization, and rents (EBITDAR), excluding labour costs, divided by FTE (number of employees based on hours worked).
The indicator measures the contribution of each employee in the company's core business.</td><td><table><tr><th>Mercator Group</th><th>2019</th><th>2018</th></tr><tr><td>EBITDAR, excluding retail labour costs (in EUR thousand)</td><td>392,142</td><td>376,976</td></tr><tr><td>Number of retail employees based on hours worked (FTE)</td><td>13,980</td><td>14,355</td></tr><tr><td>Value added per employee in retail (EUR thousand)</td><td>28.0</td><td>26.3</td></tr></table></td></tr>
<tr><td colspan="3">Statement of financial position</td></tr>
<tr><td>Long-term coverage of non-current assets with non-current liabilities</td><td>Non-current assets, non-current liabilities, equity
The indicator is calculated as the ratio between the sum of equity and non-current liabilities, and non-current assets.
It is a measure of coverage of long-term assets with long-term liabilities, and it indicates adequacy of financing.</td><td><table><tr><th>Mercator Group (EUR thousand)</th><th>2019</th><th>2018</th></tr><tr><td>Equity</td><td>438,974</td><td>479,525</td></tr><tr><td>Non-current liabilities</td><td>809,643</td><td>639,812</td></tr><tr><td>Non-current assets</td><td>1,581,592</td><td>1,362,283</td></tr><tr><td>Coverage of long-term assets with long-term liabilities</td><td>78.9%</td><td>82.2%</td></tr></table></td></tr>
<tr><td>Net financial debt</td><td>Borrowings, lease liabilities, cash and cash equivalents
The indicator is calculated a: non-current and current borrowings + non-current and current lease liabilities – cash and cash equivalents. [1]
The indicator measures indebtedness and Mercator Group's ability to settle all of its financial liabilities if they matured immediately.</td><td>The calculation is presented under the chapter Financial Management in the Business Report section of this Annual Report, and Note 31 in the Financial Report section of the Annual Report.</td></tr>
<tr><td>Net financial debt/equity</td><td>Borrowings, lease liabilities, cash and cash equivalents, equity
The indicator is calculated as the ratio between net financial debt and equity. [1]
The indicator measures Mercator Group's ability to finance its assets with equity (share capital).</td><td>The calculation is presented in Note 31 in the Financial Report section of the Annual Report</td></tr>
<tr><td>Net financial debt / Normalized EBITDA</td><td>Borrowings, lease liabilities, cash and cash equivalents, operating profit (EBIT)
The indicator is calculated as the ratio between net financial debt and 12-month normalized EBITDA. [1]
The indicator measures the ability to repay the Mercator Group's financial debt from existing sources of liquidity and the generated cash flow from operating activities, and thus indicates the number of years required to repay the financial debt.</td><td>The calculation is presented in chapter Financial Management in the Business Report section of the Annual Report.</td></tr>
<tr><td>Available liquidity lines</td><td>Cash and cash equivalents
The indicator is calculated as the sum of cash and cash equivalents and undrawn approved revolving lines.
The indicator presents the balance of all liquidity lines available to the company on a particular date.</td><td>The calculation is presented under the chapter Financial Management in the Business Report section of this Annual Report, and Note 31 in the Financial Report section of the Annual Report.</td></tr>
</table>

[1] Data for the year 2019 includes implementation of the new IFRS 16 Leases, while the data for 2018 is presented without the effect of this standard that has been in effect since January 1, 2019. The presentation is consistent with the selected method of implementation of the IFRS 16 Leases, i.e. with the Modified Retrospective Approach, which is also used by most large enterprises with an extensive portfolio of leased commercial premises.

Other performance indicators		
Capital expenditure	▪ No direct item ▪ Capital expenditure presents investment into expansion of retail network, refurbishment of existing units, investment into information technology and distribution centres, and investments into non-trade operations. ▪ The indicator allows the attainment of the business strategy laid down.	Calculation, broken down by respective types of investment in markets, is presented in the chapter Real Estate Management and Retail Network Development in the Business Report section of the Annual Report, and in the Cash Flow Statement in the Financial Report section of the Annual Report.
Earning per share	▪ Net profit for the year ▪ The indicator is calculated as the ratio between net profit for the year and weighted average number of ordinary shares in the period at hand, excluding own shares. ▪ The indicator is an estimate of performance and returns for shareholders.	The calculation is presented in Note 27 in the Financial Report section of the Annual Report.

[1] Data for the year 2019 includes implementation of the new IFRS 16 Leases, while the data for 2018 is presented without the effect of this standard that has been in effect since January 1, 2019. The presentation is consistent with the selected method of implementation of the IFRS 16 Leases, i.e. with the Modified Retrospective Approach, which is also used by most large enterprises with an extensive portfolio of leased commercial premises.

Contacts

Trade, service, and manufacturing companies

Slovenia

Poslovni sistem Mercator d.d.	
Head office:	Dunajska cesta 107, 1113 Ljubljana, Slovenia
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

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

Mercator Maxi d.o.o.	
Head office:	Trg republike 1, 1000 Ljubljana, Slovenia
Telephone:	www.maxi.si
Website:	+386 1 476 68 12
Email:	info.maxi@mercator.si

Mercator– Emba d.d.	
Head office:	Tržaška cesta 2c, 1370 Logatec, Slovenia
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Website:	www.mercator-emba.si
Email:	info@mercator-emba.si

Serbia

Mercator–S d.o.o.	
Head office:	Temerinski put 50, 21000 Novi Sad, Serbia
Telephone:	+381 214 888 400
Website:	www.mercatorcentar.rs
Email:	office@mercator.rs

Montenegro

Mercator– CG d.o.o.	
Head office:	Put Radomira Ivanovića 2, 81000 Podgorica, Montenegro
Telephone:	+382 20 449 006
Website:	www.idea.co.me
Email:	info@mercator.me

Bosnia and Herzegovina

Mercator–BH d.o.o.	
Head office:	Blažuj bb, 71000 Sarajevo, Bosnia in Herzegovina
Telephone:	+387 33 286 130
Website:	www.mercator.ba
Email:	info@mercator.ba

M–BL d.o.o.	
Heas office:	Aleja Svetog Save 69, 78 000 Banja Luka, Bosnia and Herzegovina

Real estate companies

Croatia

Mercator–H d.o.o.	
Head office:	Ljudevita Posavskog 5, 10360 Sesvete, Croatia
Telephone:	+385 (1) 6572 201
Email:	info@mercator.hr

Slovenia

Platinum–A d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

Platinum–B, d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

Platinum–C d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

Platinum–D d.o.o.	
Head office:	Dunajska cesta 107, 1000 Ljubljana, Slovenia

North Macedonia

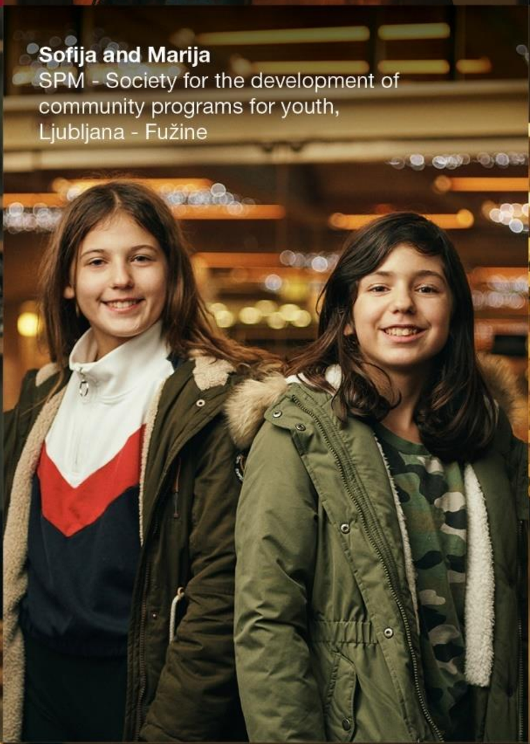
Mercator–Macedonija d.o.o.	
Head office:	Ulica 50. divizije 24A, 1000 Skopje, North Macedonia

**Thank you all,
for doing well.**

Nataša
Kranj

Rok
Volunteer
fire brigade
Ljubljana -
Šentvid

Sašo
Ljubljana



Sofija and Marija
SPM - Society for the development of
community programs for youth,
Ljubljana - Fužine

Tina
Mengeš

Anja
Ljubljana

Ema
Domžale

Vesna
Medovode

MUZEJ NOVEJŠE
ZGODOVINE SLOVENIJE

author: Svetozar Busić


MEMO

Annual report
2020

Mercator
moj najboljši sosed

CORDIAL

Mercator is home
to kind-hearted
and friendly people.

COSINESS

as we want everyone to feel pleasant and right at home with us.

FOCUSED ON SOLUTIONS

We work with people and for the people, and we strive to effectively solve the challenges we face in the course of our work.

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EFFICIENT WORK WILL BEAR FRUIT.

Introduction

Report by the President of Management Board

In 2020, Mercator Group's revenue amounted to EUR 2,170.0 billion, which is an increase of 1.6%; while retail revenue rose by 3.7%. In the market of Slovenia, its largest market of operation at the level of retail as the Group's core activity, revenue growth was even higher, reaching 5.1% relative to 2019[1]. Retail revenue is all the more important since the epidemiologic measures had a pronouncedly negative impact on wholesale, real estate, manufacturing, and technical consumer goods (M Tehnika).

Adjusting for non-recurring business events, Mercator Group’s net profit for 2020 was EUR 4.7 million. In this regard, it should also be considered that the direct negative impact of the COVID-19 epidemic on performance was EUR 18.8 million.

The Group further cut its leverage, as its net financial debt at as December 31 was 5.3% lower than it was in 2019. For comparison, net financial debt adjusted for the effect of IFRS 16 was lower by 6.0%. Mercator Group's normalized EBITDA for 2020 reached EUR 162.8 million. Net financial debt to normalized EBITDA ratio stood at 5.2.

With successful operations and performance, Mercator Group succeeded in attaining its key strategic goals in 2020.

Due to the revaluation of property and impairments to other assets, including those due to the effects of COVID-19, Mercator Group's operating income (EBIT) in 2020 was at EUR -108.2 million, while result for the period was negative at EUR -156.7 million. The main reason for the decrease in operating income (EBIT) is the revaluation of property, plant, and equipment in 2020, which had negative effect on income statement in the amount of EUR 128 million. It should be emphasized that total normalization effects on business results amounted to EUR 161.4 million.

The 2020 business year was under heavy impact of the coronavirus epidemic. Already in early February, Mercator Group's Management Board responded to then potential crisis situation and appointed a crisis task force that held two virtual meetings each day during the harshest periods. The crisis task force that included over 100 key employees in all markets of operation, analyzed six key points on a daily basis: employee safety, customer safety, supply chain safety, revenue growth management, corporate social responsibility, and liquidity Mercator. Even before the epidemic was

[1] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

formally declared, the crisis task force prepared and ran several scenarios, and carried out a number of preparatory measures. After the declaration of the epidemic, over 500 activities were conducted consistently with the six key crisis management points. The crisis task force continues to operate in 2021: it analyzes the conditions and lays down the activities that pave the way for the Group's successful performance, regardless of the effective measures. As the largest national and regional retailer, Mercator Group is aware of its particular responsibility for uninterrupted supply of goods to the general population. We maintain and ensure a safe supply chain and care for continuous logistics. It was of utmost importance for the Mercator Group to ensure even before the declaration of the epidemic additional and adequate amounts of especially the essential food products, and to analyze sales on a daily basis in order to secure adequate amounts of the goods that saw the highest level of customer demand. In this regard, it was very important that Mercator Group had been developing and deepening strategic cooperation with local and regional suppliers even before the crisis. This has proven a major competitive advantage for the Mercator Group. In terms of revenue growth management, we focused on offering competitive prices, offering the essential consumer goods, and offering volume discounts. We increased the capacity of our online store and advertised placement of joint orders between families and neighbours in order to improve the availability of delivery slots.

Declaration of the epidemic and additional measures for its containment, adopted by governments and relevant authorities, however, had a negative impact on Mercator Group operations and performance.

Mercator Group's performance in 2020 was successful. Following, however, are the major aspects that had an negative impact on our operations and performance: Authorities cut the working hours of retail units; an amended came into force in Slovenia to restrict opening hours on Sundays; the entire HoReCa sector as closed down for at least five months (hotel accommodation, all restaurants, bars etc.); along with closing down of schools, this resulted in a major loss of revenue for Mercator Group's wholesale operations, which had to be compensated with additional measures. A similar finding applies to the technical consumer goods (Tehnika) sector that was closed for over a quarter of 2020. Mercator Group's manufacturing operations also saw a decline in demand resulting from the lockdowns in respective markets, which presented an additional challenge for ensuring good business performance. Mercator IP saw a decline in the "to-go" segment, especially due to closing down of schools, a decline in tourism etc. We should add that closing down the country to tourists led to a drop of sales by 10.5% for us. The real estate segment also saw pronouncedly negative effects on its performance as our tenants' operations were closed down.

Epidemiologic measures had a major impact on performance from the aspect of costs. Mercator Group invested heavily in the safety of customers and employees. In 2020, for example, it used nearly 1.5 million litres of disinfectant and purchased over 2.7 million face masks. Mercator Group management introduced a number of activities to cut the negative effects of the increase in the costs of material and services. Nevertheless, epidemiologic measures drove up the costs in 2020 considerably: they rose by 4.4%, or EUR 26.2 million. Labour costs, amounting to nearly EUR 276.0 thousand, increased at the level of the entire Mercator Group by 8.7% relative to 2019. Labour costs increased due to changes in the minimum wage legislation in all markets of our operations. Payments of aid during the epidemic to all employees, consistently with the law, and payment of bonuses for increased risk exposure during the epidemic for all active workers in operations, contributed further to the increase of labour costs.

Despite the restrictions brought about by the year 2020 and the declaration of epidemic in all markets, and which affected the Mercator Group and all economic and social systems, Mercator Group continued to develop and update its network, and continued its activities on all key development projects, including, most notably, the project of constructing a new logistics and distribution centre in Ljubljana. The Management Board and all persons responsible for preparing the required bases for the decisions regarding the planned organization, choice of technology, investment optimization, and development of documentation for the launch for formal procedures for obtaining all necessary documentation, continued their work without impediments and further intensified it, regardless of all headwinds encountered by the Mercator Group as a result of the epidemic.

Also notable in the 2020 fiscal year were the project of anticipated merger with the Fortenova Group, and the project of refinancing Mercator Group's debt. The Management Board prepared everything necessary for successful completion of the transfer procedures and especially for refinancing of the existing agreement on restructuring of Mercator Group's financial liabilities.

In conclusion, I should add that 2020 was a highly challenging year that put additional strain on all Mercator Group employees. Without extra effort by all employees, and active social dialogue regarding the most important measures within the Group, it would have been much harder or nearly impossible to meet all responsibilities laid down as Mercator Group's priorities during the epidemic. The epidemic changed the relations and structure in many aspects. Timely adjustment remains the key to success of further operations. Mercator Group will continue to pursue a clear strategy and vision. It will have clearly defined factors of success, and especially a stable owner that will ensure Mercator Group's long-term development. In recent years, Mercator Group has proven its ability to manage change and its understanding of the future of retail. This provides excellent foundations upon which we can build Mercator Group's future success.

President of the Management Board, Poslovni sistem Mercator d.d.

Tomislav Čizmić

Ljubljana, April 26, 2021

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 controlling company were supervised in 2020 by a Supervisory Board that met at eight regular sessions and three correspondence sessions in the course of the year.

As at December 31, 2020, the Supervisory Board consisted of capital representatives Sergei Volk, Miodrag Borojević, Paul Michael Foley, Fabris Peruško, Matej Lahovnik and Ivica Mudrinić; and of labour representatives Vesna Stojanović, Jože Lavrenčič and Veljko Tatić.

No changes took place in the Supervisory Board in the course of the year.

Major Supervisory Board resolutions

In 2020, 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 2019, and confirmed the wording of the Supervisory Board Report on the 2019 Annual Report audit.
- The Supervisory Board received comprehensive information regarding the refinancing process, liquidity, and financial covenants.
- 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, 2019, to January 31, 2020; from February 1, 2020, to April 30, 2020; from May 1, 2020, to July 31, 2020; and from August 1, 2020, to October 31, 2020.
- The Supervisory Board approved the agenda for the 27th Shareholders Assembly (AGM) of the company Poslovni sistem Mercator d.d.
- The Supervisory Board was presented the business results of the Mercator Group and the company Poslovni sistem Mercator d.d. for the periods, 1–3, 2020; 1–6, 2020; and 1–9, 2020.
- The Supervisory Board was also presented the report on the work of Internal Audit in 2019; it adopted the Internal Audit annual plan for 2020, and the Internal Audit charter.
- The Supervisory Board was presented the information about the construction project for the logistics and distribution centre in Slovenia, and the various options of its financing.
- The Supervisory Board got acquainted with the information on refinancing the debt of the Mercator Group;
- The Supervisory Board agreed with capital increase at the company M–Energija d.o.o. and the company Mercator–S d.o.o.
- The Supervisory Board approved the five-year strategy for the Mercator Group and the company Poslovni sistem Mercator d.d., and the Business Plan for the year 2021.

Activities of the Audit Committee

As at December 31, 2020, the composition of the Audit Committee was as follows: Miodrag Borojević (Audit Committee chair since June 6, 2019), Matej Lahovnik (Audit Committee member), and Aleksander Igličar (Audit Committee member and independent expert on accounting and auditing).

In 2020, the Audit Committee held ten sessions, of which eight were regular meetings and two were correspondence sessions. At these sessions, the Committee addressed the following issues:

- Internal Audit report for the period 1–12, 2019;
- 2020 annual plan for the internal audit department;
- report by the independent auditor on the progress and findings of the audit of Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2019;
- Annual Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2019;
- quarterly reports of the Mercator Group and the company Poslovni sistem Mercator d.d. in the year 2020;
- review of risk management at the Mercator Group;
- five-year strategy for the Mercator Group and the company Poslovni sistem Mercator d.d., and the Business Plan for the year 2021;
- report by the third-party auditor on the preparatory work for the 2020 audit.

Human Resource Committee

As at December 31, 2020, the Human Resource Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. had the following members: Matej Lahovnik (chair), Ivica Mudrinić (member), Vesna Stojanović (member) and Paul M. Foley (member since March 13, 2020). The Human Resource Committee held four meetings in 2020.

Strategy and Finance Committee

As at December 31, 2020, the Strategy and Finance Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. had the following members: Paul Michael Foley (chair), Matej Lahovnik (member), Sergei Volk (member), Miodrag Borojević (member) in Ivica Mudrinić (member), and Fabris Peruško (member since March 13, 2020). The Committee held six meetings in 2020.

Semiannual and Annual Report for 2020

At their correspondence session held on September 23, 2020, The Supervisory Board was presented the non-audited Semi-annual Business Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–6, 2020. 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 22, 2021, the Supervisory Board discussed draft consolidated and separate financial statements for the year ended December 31, 2020, subject to audit of the annual report for the year 2020, which will be in line with events planned for April 23, 2021 (described in the Note 2 and 31 in Financial Part of Annual Report), audited by the audit firm PricewaterhouseCoopers d.o.o., Slovenia, and was presented the Corporate Governance Statement, as a part of the process of adopting the annual report. The draft Annual Report had been previously reviewed by the Audit Committee of the company Poslovni sistem Mercator d.d. at their session held on April 21, 2021. The Audit Committee session was also attended by the certified auditor who provided all and any additional explanations required by the Audit Committee. 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 draft Annual Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2020, and confirmed it unanimously at the session held on April 22, 2021.

Mercator Group wrapped up the year 2020 with a net loss of EUR 156,710 thousand, which is mainly a result of revaluation of real estate owned by Mercator Group amounting to EUR 128 million.

In 2020, the company Poslovni sistem Mercator d.d. generated a net loss in the amount of EUR 55,420 thousand. The company proposes not to offset the distributable loss in the amount of EUR 55,420 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.
Lahovnik Matej

Ljubljana, April 22, 2021

1.7 MILION
of active customer loyalty card holders.

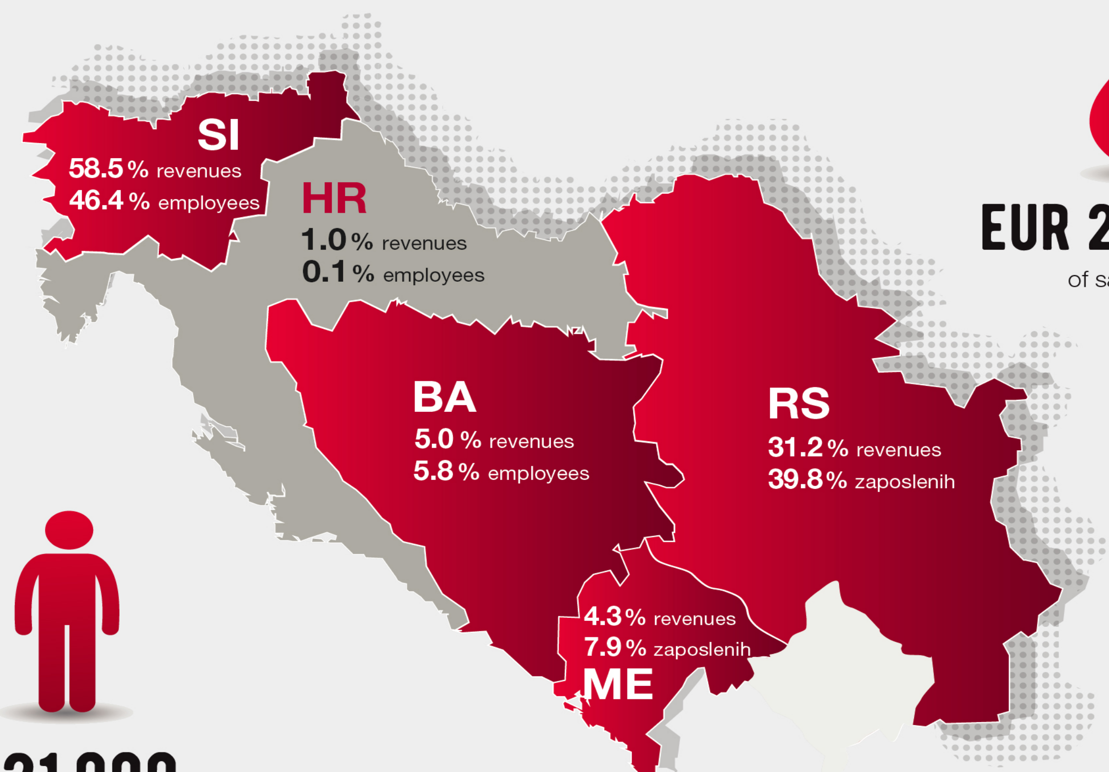
EUR 181 MILION
of paid taxes, contributions, and charges.

1,005 retail and
169 franchise stores

26 new retail units

EUR 163 MILION
of normalized EBITDA in 2020.

Total financial liabilities decreased by
EUR 47 MILION
in 2020.



EUR 2,2 BILION
of sales revenue

~ 21.000
employees

Performance highlights of Mercator Group

		Mercator Group		
		2020	2019**	Change 2020/2019
INCOME STATEMENT	(in EUR 000)			
	Sales revenue and rental income[1,2,Δ]	2,170,018	2,136,707	1.6 %
	Sales revenue from retail [Δ]	1,756,844	1,693,485	3.7 %
	Net profit for the year*	(156,710)	4,666	— %
	EBITDA normalized[2,3, Δ]	162,755	170,422	(4.5)%
STATEMENT OF FINANCIAL POSITION	(in EUR 000)			
	Total assets as at Dec. 31	1,791,483	2,003,869	(10.6)%
	Equity as at Dec. 31	292,046	438,974	(33.5)%
	Net financial debt as at Dec. 31[Δ]	848,068	895,244	(5.3)%
	Net financial debt as at Dec. 31 (w.o. IFRS 16 Leases)	547,842	582,942	(6.0)%
CASH FLOWS	(in EUR 000)			
	Net financial debt / equity as at Dec. 31[Δ]	2.9	2.0	42.4 %
	Net financial debt / EBITDA normalized[4, Δ]	5.2 x	5.3 x	(0.8)%
	(in %)			
	EBITDA normalized / sales revenue and rental income[3,Δ]	7.5	8.0	(47.6)%
OTHER INDICATORS (INVESTMENTS, EMPLOYEES,PRODU-CTIVITY, VALUE ADDED AND SHARE)	Capital expenditure[Δ] (in EUR 000)	41,836	29,905	39.9 %
	Number of employees as at Dec. 31	20,960	19,963	5.0 %
	Number of employees based on hours worked	18,529	18,396	0.7 %
	Productivity per employee in retail[Δ] (in EUR 000)	124.5	121.1	2.8 %
	Value added per employee in retail[Δ] (in EUR 000)	29.7	28	5.8 %
	Market value per share as at Dec. 31 (in EUR)	17.1	19	(10.0)%
	Market capitalization as at Dec. 31 (in 000 EUR)	104,155	115,728	(10.0)%
	Number of companies in the Group as at Dec. 31	11	16	(31.3)%

* Operations in 2020 were affected by non-recurring business events in the amount of EUR 161.4 million, mainly due to the revaluation of fixed assets. **Net profit for the year excluding the impact of non-recurring business events in 2020 amounted to EUR 4.7 million.**

** 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

[1] In 2019, sales revenue is adjusted and present only the net margin earned on arrangements from Transit sales.

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

[3] Normalized EBITDA, excluding the effect of IFRS 16 Leases, amounts to EUR 97,829 thousand for the year 2020, and to EUR 102,840 thousand for the year 2019. The cause for the decrease in normalized EBITDA is the considerable drop in tourist operations in Montenegro as a result of the COVID-19 epidemic and the containment measures introduced by the governments (closing down of non-grocery stores, HoReCa etc.).

[4] Net financial debt/normalized EBITDA ratio, excluding the effect of IFRS 16 leases was at 5.6 x as at December 31, 2020, and at 5.7 x as at December 31, 2019.

[Δ] Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

Business strategy

VISION

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

MISSION

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

STRATEGY

At the end of 2020, Mercator Group renovated a long-term strategy and started to consistently implement it across all key processes at the Mercator Group. The strategy was developed for the period until the year 2025.

Current phase

PHASE 1
Stabilization

- Value Creation Plan (VCP) in Slovenia
- New marketing strategy
- Re-entry into B&H FMCG market

2017

PHASE 2
Value creation plan and deleveraging

- Value Creation Plan in all countries
- New customer value proposition
- Strategic and opportunistic disposals
- Deleveraging

2018-2020

PHASE 3
Intensified growth and expansion of a successful formula

- Refinancing and continuation of deleveraging
- Continue with building operational capability and customer relevance
- Improvement of business performance through optimization of costs and logistics (new logistic center)
- Acceleration and expansion omni-channel and multi-format management
- Building the next level of commercial excellence and pricing & promo optimization with big data (MLink monetization) and advanced analytics
- Expansion of store footprint and opportunistic acquisitions

2021-2025

Value Creation Plan for business efficiency

In the first quarter of 2020, the Value Creation Plan was executed in all markets of Mercator Group's operations, and it included 127 initiatives[2], of which 60 were in Slovenia, 28 in Serbia, 18 in Bosnia and Herzegovina, 16 in Montenegro, and 5 in Croatia. Implementation of initiatives was strictly monitored and we responded with corrective measures in case of any deviations. In March, a new initiative was identified in all markets of Mercator's operations, related to the declared novel coronavirus epidemic. The initiative includes over 500 activities in all key areas of operations. In June, we again tightened some measures and preventively prepared a response plan in case of a second wave of the COVID-19 epidemic. We are closely monitoring the situation regarding COVID-19, constantly adapting the measures to the needs, in view of the changing epidemiological situation, in each market separately.

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

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

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

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

4 **Cash flow**
Optimization of working capital management and divestment of non-core or non-operating assets.

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

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

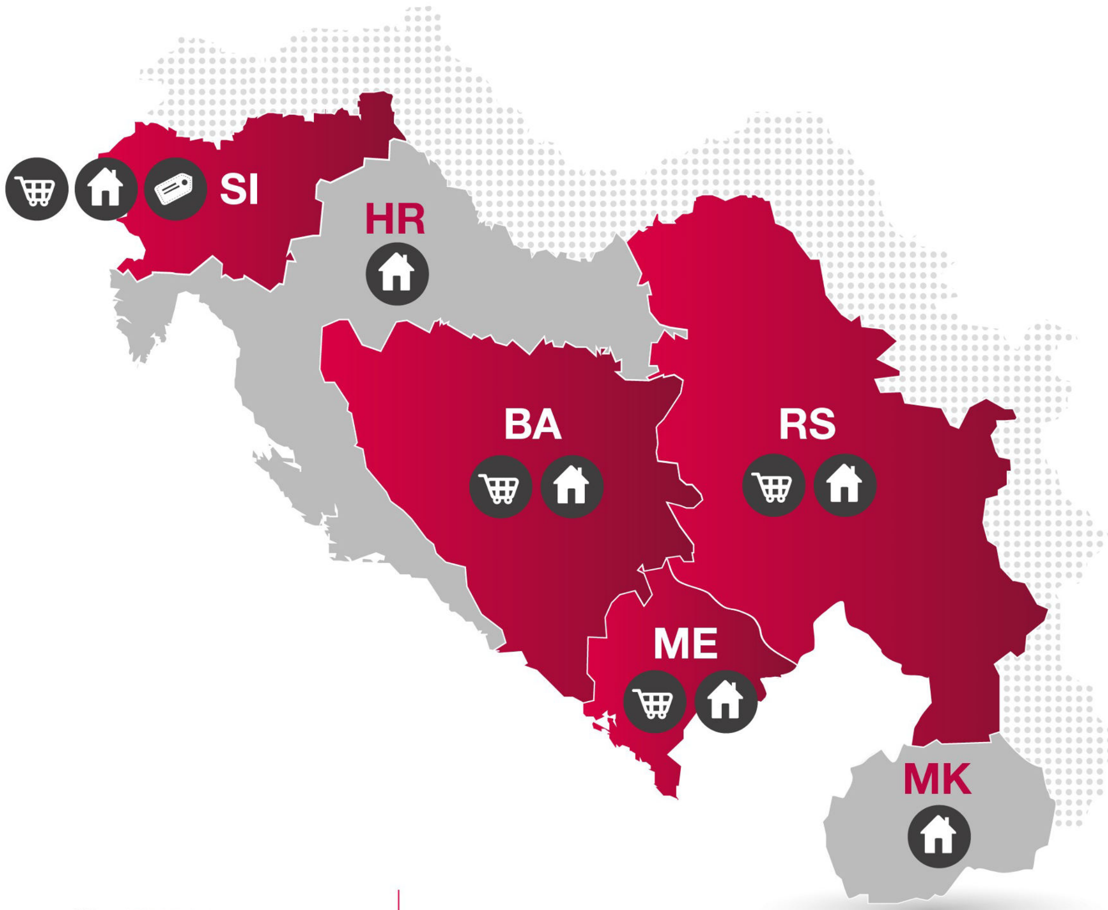
7 **Non-core operations**
Initiatives related to the improvement of operations and performance of wholesale, technical consumer goods (home products and construction supplies – M Tehnika), and other non-core activities or businesses.

[2] An initiative is s cluster of independent activities and/or mutually related or intertwined activities that are meticulously planned in order to attain a certain key goal, or which affect a number of key goals, and which have a clearly specified responsible person and completion timeline/deadline.

Introduction and organization

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.

Mercator Group compositions as at December 31, 2020



Slovenia
Poslovni sistem Mercator, d.d.

Mercator - Velpro, d.o.o. (100.0 %)*

Mercator IP, d.o.o. (100.0 %)

Mercator - Emba, d.d. (100.0 %)

M - Energija, d.o.o. (100.0 %)

Serbia
Mercator - S, d.o.o. (100.0 %)

Montenegro
Mercator - CG, d.o.o. (100.0 %)

Bosnia and Herzegovina
Mercator - BH, d.o.o. (100.0 %)

M - BL, d.o.o. (100.0 %)*

Croatia
Mercator - H, d.o.o. (99.8 %)

North Macedonia
Mercator Makedonija, d.o.o.e.l (100.0 %)*

Mercator operations

Mercator real estate

Other operating activities

* The company does not conduct business operations.

Branch Offices: As at December 31, 2020, Mercator Group companies did not have any branch offices.

Other Organizations: The company Poslovni sistem Mercator d.d. is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees. The company Mercator–S, d.o.o., is the founder of the Mercator Solidarity Foundation (Fundacija solidarnosti Mercator) in Serbia; the company Mercator–CG d.o.o., is the founder of the Mercator Solidarity Foundation (Fundacija solidarnosti Mercator) in Montenegro, and the company Mercator–BH d.o.o., is the founder of the Mercator Solidarity Fund (Fundacija solidarnosti Mercator) in Bosnia and Herzegovina. The mission of all three international foundations is to provide solidarity aid to employees in respective companies, who are in social or financial distress.

Presentation of the parent company of Mercator Group

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

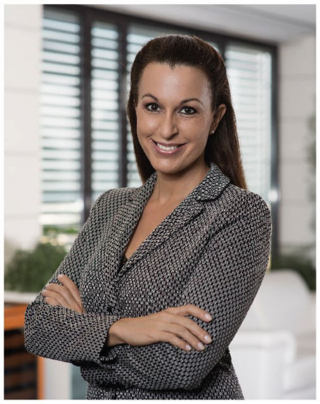
Contact

Telephone	*+38615601000*	Facebook	*www.facebook.com/mercator*
E-mail	*info@mercator.si*	Twitter	*www.twitter.com/mercator_sl*
Website	*www.mercatorgroup.si*	LinkedIn	*www.linkedin.com/company/335027*
		Instagram	*@mercatorslovenija*
		Youtube	www.youtube.com/user/mercatorslo

Organization of the parent company of Mercator Group as at December 31, 2020

The Management Board represents the company. It manages its business independently and at own responsibility. As at December 31, 2020, 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 2020, we continued the **»My Brands«** (»Moje znamke«) campaign, which includes forging links with suppliers and creating a joint story and new offer for our customers, in foreign markets of our operations. This long-term strategic platform for joint development in the region allows joint marketing activities, the broadest offer of local brands, and development of special offer for the customers. The campaign already includes over 5,960 products and 240 suppliers.

As we are looking to offer our consumers what they wish and need, and since most customers want local products that they know and trust, we upgraded in 2020 the broad sales assortment within the project **»Radi imamo domače«** (We Love Local) and **»Ukusi moga kraja«** (My Local Flavours). Thus, we are pursuing the vision of being the best local retailer in all markets of our operations. The campaign already includes over 220 local suppliers and 2,300 items in all markets of our operations. Annually, we sell 1.1 billion worth of goods by local and regional suppliers, which is 61.5% of total Mercator Group retail revenue.

Online store is becoming a key pillar of our business strategy

Mercator's online store that has been operating successfully for 22 years is becoming a key part of Mercator's digital transformation aimed at Mercator's omnipresence, consistent with its omni-channel approach, as we are looking to be the customers' first choice wherever and whenever they want. This year, offer of technical consumer goods in our **M Tehnika online store** was of particular importance, since sale of technical consumer goods was temporarily restricted at brick-and-mortar stores, and home improvement and electronics stores were closed for a long period.

In most cases, fast-moving consumer goods were delivered the day after the order was placed. We also introduced Sunday deliveries, while collection and the pick-up spots was possible in 4 hours after order. A special hotline was established for support to online customers (at 080 2081), since Mercator is the only one to deliver the products purchased at its online store across Slovenia, to over 98% of addresses in the country. An increasing number of customers are reaping the many benefits of Mercator's online store for their usual weekly shopping. while greater shopping frequency is also a sign of customer confidence in Mercator, both off- and online.

Keeping up with the changing lifestyle by developing a new assortment

Consistently with the needs and the changing lifestyle of our consumers, we have developed our own offer of convenience products Minute, Bio Zone, and Free Zone. Mercator's assortment already includes 49 private labels (store brands) with over 3,000 products. Particular emphasis is placed on development of private labels that contribute differentiation for the customers and are consistent with the customers' lifestyles. In terms of convenience offer, we continued to develop the Minute »to-go« offer in 2020. This includes sandwiches, salads and other dishes, including some innovative ones, which are ready for immediate consumption. We prepared an extensive communication campaign for these products early in the year. These products accounted for nearly 30% of total sales for our Minute line that included a total of 320 products, of which 70 are »to-go« products. From the aspect of pursuit of trends, the line of organically grown products Bio Zone is also very important. It is consistent with the wellness and healthy diet lifestyle. This line, too, was supported by an extensive communication campaign at the start of the year, which stressed especially fresh fruit and vegetables that are an important aspect of selection for buyers of organic products. This line, too, is continuously expanded with new products; to date, there are 213. Responding to the increasing needs of our customers for gluten-free diet, we have developed our own line of gluten-free products called Free Zone; today, it includes 17 products.

In 2020, we enriched our offer, consistently with the conditions mostly stipulated by the corona crisis. Immediately after the outbreak of the crisis, our Minute offer focused on large family packs of ready-made dishes that only require reheating. Thus, we relieved our customers of the burden of home cooking. In addition, by offering these dishes, we expanded our focus from B2C (business-to-consumer) operations to B2B (business-to-business) operations. We prepared presentational materials including price lists for sale of dishes to bars and major customers, and for sale by delivery to home or office. In the Ljubljana area, we also included our offer in the Wolt.com online application. In the middle of the year, we upgraded our offer with smaller single-portion packaging of ready-made dishes. Considering the circumstances, we also included cakes and other home celebration products in our private label offer.

In 2020, we launched an updated line of Mercator water, new Finesse chocolates, and new line of Mercator pre-packed meat that helped boost the sales of total live fresh packed meat segment. The line was launched in October 2020. By the end of the year, the total annual net sales value index for the private label red meat products increased to 121, while the index for this type of meat for Mercator rose to 107, for private label chicken to 118, and overall index for meat rose to 103. The Gelatissimo line of ice cream was also expanded with new flavours in 2020; there are now 31.

Mercator real estate

Real estate is a separate business field at the Mercator Group, since the extent of our real property ownership 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 is the owner of buildings with a combined total value of EUR 1 billion (this includes buildings for our own business activities, as well as investment property and land).

Mercator wholesale

IP Veleprodaja (Wholesale) set ambitious goals for the year 2020, which were also defined in activities of value-creation plan initiatives. Despite the epidemic that has had a negative effect since March especially on the HoReCa and public procurement segment, we compensated for the lost revenue by increasing our sales in other segments (franchise stores and retailers). In agricultural equipment and transit segments, our well-prepared risk mitigation activities during the year allowed us to compensate for loss of revenue in the agricultural program with an increase in transit deals. With diligent management of profit margin and cost control, we exceeded last year's EBITDA by nearly 3%.

Twenty franchise units were refurbished or updated, and we acquired 4 new franchise units. After the completion of the WMS (warehouse management system) the intensity of the work on the project to cut delivery failures was stepped up. In addition to other benefits, the introduction of WMS allowed us to start managing our assortments, as well as macro and micro positioning of goods at the C&C units. We also started developing the projects and tools to increase sales and efficiency (tools for work of our field sales agents, tools for the work of call centre operators, tools for managing the public procurement tenders, establishment of required databases in back-office systems, comprehensive solution for warranty claims management, business analytics tools).

Home products

The M Tehnika (technical consumer goods) retail units across Slovenia offer products for home and landscaping at favourable payment terms. The offer includes small and major home appliances, consumer electronics, tools and accessories, construction and gardening equipment and machinery, products for a cosy home and ambient, kitchen cabinetry of Slovenian origin, and landscaping products for a well-kept environment. The offer of traditional stores is rounded off by the **M Tehnika online store** that offers over 17,000 well-priced products in ten categories, including construction and home improvement, with the option of payment in instalments with the Pika card and free delivery for all orders of over EUR 200. In recent 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. With our approach of upgrading our service, we are looking to offer our customers all-around services for their needs during construction, renovation, or decoration of their homes.

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** and **catering**.

Review of key events

January - December 2020

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

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

February 2020

Events related to the declaration of epidemic

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

June 2020

Revaluation of real estate

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

As at June 30, 2020, real estate was reappraised. It was found that fair value of property, plant, and equipment (fixed assets) is considerably different that it was in 2017. Reappraisal was conducted consistently with the requirements of IAS 16. Reappraisal or revaluation of 833 properties across all markets of Mercator Group operations is a challenging task, and Mercator Group is a rather atypical retailer in terms of property ownership, as retailers are normally not the owners of the real estate they use.

On 30 June 2020, real estate appraisal was conducted by a certified real estate appraiser.

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

Avgust 2020

Virtual tour of M Tehnika Črnuče

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

August 2020

Updated hypermarket Kranj Primskovo

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

Events related to the developments at the Agrokor Group

August 2020

In August 2020, a report by the extraordinary Management Board member, whose appointment was proposed by the Government of the Republic of Slovenia, for the period from May 1, 2020, to July 31, 2020, was released. The report indicates that all transactions signed between the company Poslovni sistem Mercator d.d. and the company Agrokor d.d. and the companies affiliated with it, complied with the principles of diligence, good management and credibility, and that the company did not sustain any loss or damage with regard to such transactions.

September 2020

In September 2020, the European Commission approved the transfer of Group Mercator from Agrokor to Fortenova Group. Permits have been obtained from all competent competition authorities, except Serbia.

September 2020

Donation of ski equipment to 22 ski jumping clubs

In September 2020, we presented **101 pairs of skis**, **28 pairs of ski boots**, and **53 pairs of ski bindings** to representatives of 22 ski jumping clubs. This was our contribution to further development of junior ski jumping.

October 2020

Striking of five companies from the court register

In October 2020, the District Court in Ljubljana removed five companies of the Mercator Group from the court register. On October 6, 2020, the companies Mercator Maxi, catering and services, d.o.o., Platinum A, real estate management, d.o.o., and Platinum B, real estate management, d.o.o. were deleted.

The companies Platinum C, real estate management, d.o.o. and Platinum D, real estate management, d.o.o. were deleted on October 14, 2020. The companies did not conduct any business activities.

November 2020

Updated Cash&Carry in Škofja Loka

The wholesale unit in Škofja Loka was partially refurbished. We built a precipitation drainage system outside of the unit, resurfaced the parking lot and the area underneath the unit, and built a packaging area, surrounded with netting. At the same time, we installed additional shelving inside the unit to improve the positioning of beverages. A key improvement is the delineation between the outbound and the inbound section, which simplified and streamlined the process of flow of goods.

November 2020

Closing down of M Tehnika stores

In November, M Tehnika stores were closed down in compliance with the government order. Owing to quick reactions and our colleagues' vision, we were able to respond promptly to this challenge and started offering the products via other sales channels. We remained available to our customers at all our stores, both via electronic mail and by phone. We offer quick shopping **online**, as well as remote shopping for individuals and shopping for businesses/legal persons. We installed bells in front of our sales units, so that the customers could call sales assistants to help them with their purchases via a pro-forma invoice or to answer any other questions.

November 2020

MTikTok Academy

Mercator was the first retailer to establish a TikTok Academy on the rapidly expanding TikTok social network, aimed at all aspiring young creators. Our MTikTok Academy is already live, as it has received the first submissions by contestants. With the MTikTok Academy, Mercator is looking to create a community of young creators who have a chance to become **TikTok stars**. We are pleased to support both young creative spirits and established Slovenian musicians with this project.

Under the tutelage of our mentors, the youngsters will develop their creativity, and they will get the opportunity to work with TikTok influencers and acquire their first working experience by creating video content. The best video content will be rewarded with a cash prize. Contestants will learn from renowned Slovenian TikTok influencers: Žiga Kukovič, Robert Kladnik in Maks Levstek. Music will be provided by Slovenian musicians **Challe Salle** and **MRFY**.

November 2020

Test by the Slovenian Consumers Association

At Mercator, we are proud to see our Minute French salad take the first place in the test by the Slovenian Consumers Association (ZPS) which included three samples of such products by different private labels. In the test, the ZPS tested the chemical properties, conducted some microbiological tests, checked the presence of additives and aromas, and sensory quality. Final score also took into account the compliance of labelling on the packaging. It was confirmed that the winning French salad did not contain any preservatives.

The winning product is made by Mercator's social enterprise. Such awards are proof that freshness and careful selection of ingredients can please the culinary tastes of the most demanding customers, and proof of faithfulness to traditional recipes.

December 2020

Fifty-four employees successfully complete the Health Promoter School

In December, the fourth generation of Health Promoter School participants completed their training. Thus, Mercator already has **157 trained health promoters** from all fields of operation.

December 2020

Revaluation of real estate

As in June 30, 2020, real estate appraisal was conducted in December 31, 2020 by a certified real estate appraiser. Calculation of property revaluation pointed to a net decrease in real estate value (impairment) of EUR 71.3 million, which is equivalent to 7.1% of total value of property (land), plant (buildings), and investment property. After the revaluation, the value is EUR 0.9 billion. Real estate revaluation resulted in an decrease of equity (fair value reserve) due to decrease in value of real estate in the amount of EUR 12.3 million, while net impairment of real estate value in the amount of EUR 59.0 million had a negative effect on Mercator Group's operating results.

Major events following the end of the financial period

After the acquisition of business share from the Republic of Croatia and the business share from Jana Vujnović, Poslovni sistem Mercator d.d. became as of March 1, 2021, the **100% and thus the sole owner of the subsidiary Mercator–H d.o.o.**

msoseska.tv is one of our **most important projects in 2021** that once again proves what we have proven so many times to date: Mercator as the largest and best retailer sets the trends and the direction for the future. At msoseska.tv, we offer content on active leisure time, promote a diverse lifestyle, bust the myths and taboos on vegan diet, offer ideas for delicious lunches and romantic dinners, invite viewers to make the best desserts, unveil the secrets of housewives and technology buffs, as well as culture and music. This online content platform with live video content is freely available to all neighbours. The content of the »town« is available on different Mercator social networks: **www.msoseska.tv** internet site, **Facebook**, **Instagram**, **TikTok**, **YouTube** and **Pinterest**.

ATVP (competition protection agency) Serbia – On March 5, 2021, Fortenova Group acquired permission from the competition protection agency in Serbia, which opened up the way to **transfer of Mercator to Fortenova Group.**

Poslovni sistem Mercator d.d. received a notification by the company Sberbank and the company Fortenova Group TopCo, informing Mercator that the two companies signed on March 12, 2021, a**n agreement on put option involving the shares of the company Poslovni sistem Mercator d.d.** According to the option agreement, the company Fortenova Group TopCo granted to the company Sberbank the put option, which entitles Sberbank to request from the Fortenova Group TopCo to acquire in exchange for adequate consideration from the Sberbank up to 1,128,803 ordinary registered no-par value shares with the symbol MELR, accounting for 18.53% of total MEL share capital of the company Poslovni sistem Mercator d.d.

At the end of March 2021, we received a notification from the company Sberbank and the company Fortenova Group TopCo, informing us of the **transfer of significant ownership involving 1,128,803 Mercator shares, or 18.53% of total Mercator share capital, from the company Sberbank to the company Fortenova Group TopCo**.

On March 9, 2021, Mercator Supervisory Board **approved** the financial arrangement with the **Fortenova Group**, the purpose of which was the restructuring of Mercator's financial liabilities maturing in June 2021. This will allow reaping all synergistic benefits and improving the retail position in all markets.

On March 25, 2021, Mercator entered into an amendment agreement relating to its **maturing EUR 80 million Super Senior Facility with VTB Europe**. This amendment envisaged an initial three-month extension in order to provide a stable framework to finalise the wider refinancing (wider refinancing was then closed on April, 23 2021). This amendment also provided the framework to extend the maturity until end of September 2021 and to roll-in a further EUR 20 million of existing senior debt beyond the wider refinancing.

On April 16, 2021, **the wider refinancing was signed**, whereunder the Company entered into debt facilities with Fortenova grupa d.d. (»FNG«) in the total amount of EUR 480 million (the »FNG Facility«).

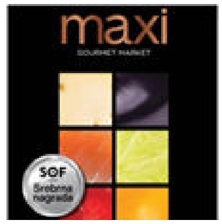
On April 23, 2021, **EUR 385 million** (out of EUR 480 million of the total facility available) **was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes**. More details are provided in Note 2. d) and Note 31 in the Financial section of the Annual Report.

On April 23, 2021, also **the transfer to Fortenova Group of Agrokor's shareholding in Mercator was completed**. After the transfer Fortenova Group owns 5,366,179 or 88.1% ordinary registered no-par values shares with the security code MELR.

On 26 April 2021, **the Fortenova Group announced to the public, pursuant to Article 24 of the Takeovers Act** (»Zakon o prevzemih) its intention of making a takover bid for all Mercator shares. Fortenova will announce its takeover bid for the purchase of the shares of Poslovni sistem Mercator, d. d., no later than 30 days and no sooner than 10 days following the announcement of its intention of taking over.

Awards and other achievements

The project Slovenia's Little Chef, co-created by Mercator team with the POP TV station, won the **golden award at the Slovenian Advertising Festival (SOF).**



We also received the **silver award at the Slovenian Advertising Festival (SOF)** for our third-party advertising of the **Maxi Gourmet market**, in the »**Innovate**« category.

Three products of the **Minute** vegetable meal line were amount the **most innovative food products of 2021** in the ready-made category, according to the expert review of the Nutrition Institute.

The Chamber of Agricultural and Food Producing Companies presented their **golden awards** for excellent quality to **9 Mercator pastry and fine bakery products** made by the company Mercator IP d.o.o., and to 47 different types of bread and small pastry by different bakeries, which are available at Mercator.

At the **58th international agriculture and food fair Agra**, Mercator products of the **Minute** brand won medals for the fifth consecutive year. This year, the medals were presented to 19 products.

In a test by the **Slovenian Consumers Association**, the **Minute French salad made by the company Mercator IP d.o.o.** won among the samples of deli French salads, while the **fresh cheese made of semi-skimmed pasteurized milk** under the **Mercator** private label took the first place among the cottage/fresh cheese samples.

The **Maxim restaurant** won the **Michelin Plate** award presented by the world's most famous restaurant guide – the **Michelin Guide**.

Two products by the company Emba d.o.o. received the award for **innovation in decreasing the sugar content**, presented by the **Nutrition Institute.**

A product by the company Emba d.o.o., the BenQuick cocoa with 30 percent less sugar, won the **2020 product of the year award** in the category of instant cocoa beverages.

At the festive award ceremony where military awards and commendations were presented to enterprises, individuals, and the media, the company Mercator–S d.o.o. received a plaque of gratitude for donating funds and offering support to the **Serbian Ministry of Defence and the Serbian Army** during the COVID-19 epidemic.

At the sixth integrated communications festival called »**Kaktus 2020«**, the company Mercator–S d.o.o. won an award for its project **»We believe in Idea – Novi Sad 2020«** in the Outdoor Campaign category.

The Serbian chamber of commerce and industry organized a campaign Made in Serbia, in which it awarded »**Čuvarkuća«** (»houseleek«) labels to brands. To earn the label, over 80% of a product's value has to be made in Serbia. The brand **»Ukusi moga kraja«** (»My Local Flavours«) won **111 »Čuvarkuća« labels.**

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., for the year 2020, available on the company website at www.mercatorgroup.si 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 (hereinafter referred to as the Code).

Compliance with the provisions of the Code

The Management Board and the Supervisory Board of the company Poslovni sistem Mercator d.d found for the year 2020 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 and 10.0): The Management Board and the Supervisory Board are aware that heterogeneity of composition of all supervisory and managerial bodies is important for their efficiency. The current composition of the Supervisory Board and the Management Board reflect the different personality characteristics and experience in a variety of field of business, different educational profile, and different nationality of the members of these bodies. In light of the planned transfer of Mercator to the Fortenova Group, preparation and implementation of more concrete policies and guidelines for further work all corporate bodies of the company can only commence after the transfer.

Statement of corporate governance and compliance with the Code (Recommendations 5.7 and 14.4): Third-party audit of the corporate governance statement and third-party audit of Supervisory Board operation for 2020 were not conducted due to the anticipated transfer of the company Poslovni sistem Mercator d.d. to the company Fortenova Grupa d.d. (Fortenova Group); therefore, the company Poslovni sistem Mercator d.d. shall commission such external audit later on.

Relations with shareholders (Recommendation 6.2): Two largest shareholders (Agrokor d.d. and Sberbank of Russia) independently communicate their intents regarding the management policy for their investment into the publicly traded stock corporation; 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.

Supervisory Board, independence (Recommendations 18.7, 22, 23): Due to 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), the company Supervisory Board and the Supervisory Board committees also include members with close economic ties to the said two shareholders.

Statement of independence (Recommendation 11): All Supervisory Board members signed a special statement specifying their position regarding the compliance with each criterion of independence. However, the company did not disclose their statements on its official website, since compliance with each particular criterion of independence is a matter of personal integrity of respective Supervisory Board members.

Supervisory Board tasks and payment to the Management Board (Recommendations 12.10 and 21.1): In 2020, Management Board member receipts only included the fixed part, while the decision on the variable part of the reward to Management Board members is subject to Supervisory Board decision that is made based on the performance in the preceding year.

Supervisory Board member training (Recommendation 13.1): Supervisory Board members take part in training and education courses consistently with the needs of each member. Therefore, the Supervisory Board does not specify an annual training plan for members of the Supervisory Board and its committees.

Composition and appointment of the Management Board (Recommendation 20.7): The term of contract of the extraordinary Management Board member at the company Poslovni sistem Mercator d.d. Gregor Planteu is related to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia, pursuant to which he was appointed to the Management Board.

Public disclosure of important information (Recommendation 29.9): At its website at www.mercatorgorup.si, the company makes available, in Slovenian and English, all rules of procedure for its corporate bodies, except for rules of procedure for the shareholders assembly, since such rules of procedure have not been in place for a number of years, as the shareholders assemblies (annual general meetings) are always presided over by a renowned attorney, in compliance with the effective legislation.

Consistently with the Appendix C of the Corporate Governance Code for Publicly Traded Companies (the LJSE Code), the composition of the Management Board and the Supervisory Board is presented in more detail below in this chapter, while the receipts of the Management Board and the Supervisory Board are disclosed 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 Corporate Governance Code in the future, as it is looking to preserve a transparent governance system and the level of confidence by all company stakeholders and the broad public.

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.

The internal audit report on page 25, we described the operation of the internal audit.

Structure of the company shareholders as at December 31, 2020

Shareholders	Country	Number of shares	Share
Agrokor d.d.	Croatia	4,237,376	69.57 %
Clearstream banking sa – finduciary account / Sberbank of Russia	Luxembourg	1,129,058	18.54 %
OTP Banka d.d. – finduciary account	Croatia	410,339	6.74 %
Addiko Bank d.d.- finduciary account	Croatia	172,755	2.84 %
Other		141,415	2.31 %
Total		**6,090,943**	**100.0 %**

Legal transaction 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 (ZIČUDSP) 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. Pursuant to the Act, the District Court in Ljubljana appointed on May 18, 2017, upon proposal by the Government of the Republic of Slovenia, **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.;
- prevents, pursuant to the Act specified above, any financial draining of the company Poslovni sistem Mercator d.d. by its majority shareholder Agrokor d.d.;

President of the Management Board, two 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 2020, reports were released for the following periods: in March 2020 for the period from November 1, 2019, to January 31, 2020; in June 2020 for the period from February 1, 2020, to April 30, 2020; in September 2020 for the period from May 1, 2020, to July 31, 2020; and in November 2020 for the period from August 1, 2020, to October 31, 2020. 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 between the company Poslovni sistem Mercator d.d. and the company Agrokor d.d. comply with the principles of diligence, prudence, 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 2020, which lists all legal transactions executed by the company in 2020 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 2020 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 to anything to its disadvantage. Moreover, the company did not perform or omit any action at the initiative or in the interest of such companies.

Internal audit

The Internal Audit department is organized within the controlling company and it operates at the level of the entire Mercator Group. Its operations are independent and unbiased. 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. The Mercator Group recognizes the importance of internal audit. Therefore, the Mercator d.d. expanded its internal audit team in 2020. Early in the year, assistant to the President of the Management Board (senior vice president) was appointed to be in charge of internal audit. In the second half of the year, the company hired three more internal auditors.

Mercator Group internal audit complies with the Hierarchy of Rules for Internal Auditors and operates in compliance with the International Standards of Professional Conduct in Internal Auditing, Code of Professional Ethics for Internal Auditors, and the Code of Internal Auditing Principles.

The Internal Audit plan is based on identified risks, strategy, and business plans of the Mercator Group companies. In planning the internal audits, the internal audit department observes the following starting aspects: risk assessment; importance of the field (key processes) for the company and the Group; size of company; time since most recent audit; deficiencies established in previous audits; major changes in leadership, management or processes; legislative requirements; extraordinary or unexplained changes in operations or performance; availability of human resources in terms of number and level of expertise.

In 2020, internal audit completed 14 internal audits, of which four were consulting assignments. Two audits were commenced in 2019 and completed in early 2020. The audits involved business continuity system management, merchandise inventory management, personal data protection, security, lack of human resources, quality of master data in material operations, procurement of non-trade goods and services, commute allowances, and compliance of operations with the amended Agricultural Act and Employment Rehabilitation and the Employment of the Disabled Act.

Corporate social responsibility is viewed by Mercator Group as a cornerstone of Mercator Group's further 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[3]. 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.

External 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.

Bodies of corporate governance

The powers of Management Board members, particularly in connection with own shares

The Management Board represents the company Poslovni sistem Mercator d.d. pursuant to the Companies Act, company Articles of Association, and subject to restrictions pertaining to transactions with the majority shareholder (the company Agrokor d.d.) and the companies affiliated to it, which were entered into the court register pursuant to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (so-called Lex Mercator). The company Management Board does not have any special authorizations (Article 70, Paragraph 6, Point 9 of the Companies Act – ZGD-1).

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

As at December 31, 2020, the company Poslovni sistem Mercator d.d. was managed by a four-member Management Board consisting of three regular members (President and two members) and the 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 the duration of which is dependent on 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.

The Shareholders Assembly decides on any changes to the Articles of Association with a three-quarter qualified majority of the share 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

[3] http://www.mercatorgroup.si/sl/druzbena-odgovornost/

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 share 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 to be voted on.

Shareholders' voting right shall be exercised in proportion to the share of the company's share 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 9, 2020, the 27th regular Shareholders Assembly took place with 95.45% of total shares bearing voting rights present. The Shareholders Assembly included a presentation of the 2019 Annual Report and the Supervisory Board Report on the audit results for the 2019 Annual Report. In addition, the Shareholders Assembly was informed about the receipts of the members of managerial and supervisory bodies and about the Supervisory Board assessment procedures, and adopted the resolution on the discharge from liability to the company Management Board and Supervisory Board.

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, Strategy and Finance 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, 2020, the composition of the Audit Committee was as follows: Miodrag Borojević (Audit Committee chair), Matej Lahovnik (Audit Committee member), and Aleksander Igličar (Audit Committee member, independent expert on accounting and auditing). The activities of the Audit Committee are aimed at further improvement of performance of the supervisory function at the company.

The **Strategy and Finance Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. as founded in 2018 under the name Monetization Committee; at the Supervisory Board session held on June 6, 2019, it was renamed to Strategy and Finance Committee. As at December 31, 2020, it had the following composition: Paul Michael Foley (Committee chair), Sergei Volk, Ivica Mudrinić, Matej Lahovnik, Miodrag Borojević and Fabris Peruško (since March 13, 2020). The most important task of the Strategy and Finance Committee is to analyze specific development issues and to consult the Supervisory Board.

The **Human Resource Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. was founded on June 15, 2017, and it currently has the following members: Matej Lahovnik (chair), Ivica Mudrinić, Vesna Stojanović and Paul Michael Foley (since March 13, 2020). 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	SKB d.d.
Igor Mamuza male Member	Mercator retail Slovenia	April 1, 2016	April 6, 2022	Croatian	1973	BA Economics	retail management, sales, purchasing, store development, marketing and logistics	-
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	Slopak, d.o.o.

Supervisory Board

First and last name Gender Function	First appoint. to position	Comple-tion/ end of term	Repres-ent ative	Attend. at commit-tee sessions	Nationali.	Year of birth	Education	Professional profile	Ind. pursuant to Article 23 of the Code	Occu. of conflict of interests in the fiscal year	Membership in supervisory boards of other companies	Membership at Committees President/ Member	Attend. at committ. sessions
Miodrag Borojević male Member	2019	2023	C	13/13	Croatian	1968	BS electrical engineering, MA management	management	YES	NO	Fortenova Grupa d.d., Pik-Vinkovci plus d.o.o., Vupik plus d.o.o., Belje plus d.o.o., Pik Vrbovec plus d.o.o., Konzum plus d.o.o., Tisak plus d.o.o., Roto dinamic d.o.o., Agrolaguna d.d., Croatia; O'Key Group s.a., Russia*	AC (Presid.) SF (member)	10/10 6/6
Paul Michael Foley male Member	2019	2023	C	13/13	British	1958	secundary education	retail	YES	NO	Fortenova Grupa d.d., Croatia; Konzum plis d.o.o. Croatia; BIM Birlesik Magazalar, Turkey; Voli Trade d.o.o., Montenegro; Korzinska.uz, Uzbekistan	SF (member) HR (member)	6/6 3/3
Matej Lahovnik male Deputy chairman/ Member	2012	2022	C	13/13	Slovenian	1971	PhD in management and organization	management	YES	NO	Krka d.d. (from August 21, 2020 onwards)	AC (member) HR (Presid.) SF (member)	10/10 4/4 6/6
Ivica Mudrinić male Member	2014	2022	C	13/13	Croatian	1955	BS electrical engineering	competencies from all segments of management or business administration	YES	NO	Fortenova Grupa d.d., Croatia; Rochester Institute of Technology, Croatia	HR (member) SF (member)	4/4 6/6
Fabris Peruško male Member	2018	2022	C	13/13	Croatian	1973	MA, MBA, BS electrical engineering	economy	YES	NO	Fortenova Grupa, d.d.; Agrokor, d.d.; Konzum plus d.o.o., Ledo plus d.o.o., Roto dinamic d.o.o., Agrolaguna d.d., Jamnica plus d.o.o., Croatia; Dijamant AD, Serbia	SF (member)	5/5

*As of March 2021, Miodrag Borojević resigned from all supervisory bodies at companies within the Fortenova Group.

to be continued continued

C = representative of Capital; E = representative of Employees; AC = Audit Committee; HR = Human Resource Committee; SF = Strategy and finance Committee

First and last name Gender Function	First appoint. to position	Comple-tion/ end of term	Repres-ent ative	Attend. at commit-tee sessions	Nationali.	Year of birth	Education	Professional profile	Ind. pursuant to Article 23 of the Code	Occu. of conflict of interests in the fiscal year	Membership in supervisory boards of other companies	Membership at Committees President/ Member	Attend. at committ.s essions
Sergei Volk male Member	2018	2022	C	12/13	Russian	1969	Master of business administrati-on, specializing in finance	banking	YES	NO	Fortenova Grupa d.d., Croatia; PJSC MMC Norilsk Nickel, Russia	SF (member)	6/6
Jože Lavrenčič male Member	2017	2021	E	13/13	Slovenian	1979	economist, VI level of education	retail	YES	NO	-	-	-
Vesna Stojanović female Member	2013	2021	E	13/13	Slovenian	1957	administrat-ion clerk	human resources	YES	NO	-	HR (Member)	4/4
Veljko Tatić male Member	2019	2023	E	13/13	Slovenian	1964	sales manager	retail	YES	NO	-	-	-

C = representative of Capital; E = representative of Employees; AC = Audit Committee; HR = Human Resource Committee; SF = Strategy and finance Committe

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
Aleksander Igličar male Audit Committee	10/10	Slovenian	MS economics	1962	accounting and finance	Iskra Mehanizmi Holding d.d., Slovenia; Slovenska tiskovna agencija *

*In January 2021, Aleksander Igličar became a member of Supervisory Board of Telekom Slovenije.

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 and the Supervisory Board include one female employee/representative. Since the Mercator Group is currently in the stage of transitioning to the corporate group Fortenova Group, we will only be able to develop and execute more concrete policies and guidelines for further work of the relevant bodies and all human resource management procedures after the transfer is completed. 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 2020, we continued to implement the Value Creation Plan in all markets of our operations. Thus, we are improving the level of corporate governance and exchanging of the best practices within the Mercator Group.

WE ARE STRENGTHENING OUR EDGE BY DEVELOPING INNOVATIVE SOLUTIONS.

Business report

Effect of the COVID-19 epidemic on the Mercator Group

Events related to the declaration of epidemic

At the end of 2019, a new coronavirus was reported in China. It was named SARS-Cov-2 and it is the cause of the COVID-19 disease. In the first months of 2020, the virus spread around the entire world. As a result of the growing number of infections, the World Health Organization declared a pandemic on March 11, 2020. A day later, the Government of the Republic of Slovenia declared the first wave of the epidemic. Numerous measures were adopted, which almost entirely stopped all public life. Offer and sale of goods and services in the accommodation, hospitality, sports and recreation, cultural, and other activities was temporarily prohibited. The temporary prohibition exempted offering and selling goods and services remotely, as well as pharmacies and grocery stores. Similar prohibitions and restrictions of social life were also introduced in other markets of Mercator operations. In June, governments of countries across the region lifted the official epidemic, which allowed gradual abandonment of the restrictions of economic activities and a return to the so-called new normal. However, measures for containment of the infections with the novel coronavirus remained in place (face masks, additional disinfection etc.), which resulted in higher protection costs compared to 2019.

In autumn, the number of cases per day started rise again throughout the region, and the Government of the Republic of Slovenia again declared an epidemic at the end of October, with a similar set of measures that had been effective during the first wave. In other countries of the region, epidemic was not formally declared. Stricter measures were enforced, including restriction of movement and other virus containment measures (face masks, disinfection etc.), but unlike in Slovenia, certain economic activities were not closed down.

Mercator's response to the epidemic

In early February, the Mercator Group Management Board responded to the crisis situation and appointed **a crisis task force** that analyzed and coordinated on a daily basis the following **six key points:** employee safety, customer safety, supply chain safety, revenue growth management, corporate social responsibility, and liquidity management. Several scenarios were analyzed and a range of measures related to the declared COVID-19 pandemic were carried out, including over 500 activities in all markets of Mercator Group operations, in order to plan and manage liquidity, supply flows, costs, and investments. Similar measures were also introduced in other countries of Mercator Group operations. We are closely monitoring the situation regarding the COVID-19, and we continuously adjust our measures to the needs, as we monitor the epidemiologic situation in every market respectively.

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

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

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

COVID-19 epidemic effect on Mercator business segments

FMCG RETAIL

- Decrease of opening hours due to government restrictions
- Zero tourist season from May to Sep in Montenegro
- Decrease of impulse, to-go and ultra-fresh FMCG categories due to lower purchasing frequency in stores
- Government restriction on selling technical and some non-food products in FMCG stores in Slovenia

MERCATOR-EMBA, D. O. O.

Closure of McDonald's restaurants (main client) throughout the EU

MERCATOR IP, D. O. O.

Decrease of To-Go assortment sales produced by Mercator IP, d.o.o.

WHOLESALE

Closures of HoReCa and certain public institutions (for example schools and kindergartens)

DIY

DIY segment was affected by 4 months store closures

REAL ESTATE

Closure or highly decreased business activities of our tenants

RESTAURANTS

Restaurant segment was affected by 5 months restaurant closures

M-ENERGIJA, D. O. O.

Less traffic due to migration restrictions

We did not neglect our corporate social responsibility either in the situation at hand. Mercator **donated 30 tonnes of food and hygiene products** to the Slovenian Red Cross and the Caritas Slovenia organizations. Hospital staff at COVID points were **donated Minute products**, and we delivered lunches to Civil Protection Service workers in towns that were the most endangered due to the number of infections. Working with our partners in the My Brands project, we delivered complimentary packages to 3,000 Slovenian Red Cross and Caritas Slovenia volunteers, and we **donated water and sandwiches** to truck drivers lined at the border crossings. Working with the Slovenian Ski Association, we were joined by ski jumpers and their coaches in supporting the delivery of products purchased via the online store, thus making sure more people stay at home. Upon introduction of extraordinary measures, we made an appeal for moderation and solidarity, and for avoidance of excessive reactions and stockpiling when shopping. In the campaign titled »A good neighbour is there for you«, we emphasized the comprehensive social awareness of all of us, and respect for each other, as well as the fact that now is the time to take care of each other and for all that are close to us.

At the end of the school year, we worked with the Slovenian Caritas on collecting **school supplies for 12,000 children in distress**. In the second half of the year, we installed baskets for collecting food products for families in social and financial distress at 244 major stores. The project »Donated Food« was even more relevant, as the number of those in need of aid increased due to the COVID-19 pandemic. Volunteers from the Slovenian Association of Lions Clubs, Anton Trstenjak Institute and Ljubljana Caritas picked up food every evening at 21 stores across Slovenia. Before the start of the ski jumping season, **we presented 101 pairs of skis, 28 pairs of ski boots, and 53 pairs of ski bindings** to representatives of 22 ski jumping clubs. This was our contribution to further development of junior ski jumping. At the end of the year, we donated coffee and beverages to staff at all COVID hospitals across Slovenia. Activities related to the epidemic situation also took place in all key markets of our operations – including Serbia, Montenegro, and Bosnia and Herzegovina.

Online store is becoming a key pillar of our business strategy

Mercator online store, which has been successfully operating for over 22 years, is becoming a key part of Mercator's digital transformation. Early in the year, Mercator launched its strategic project of comprehensive revision of its online store. In the changed business circumstances resulting from the COVID-19 epidemic, the strategic importance of quick and profound moves in process digitalization and omni-channel management only increased. At the peak of the epidemic, **sales in Mercator's online store even increased up to tenfold for a while**; on average, they were **doubled**. In a very short period, we not only considerably increased the capacity of Mercator's online store, but also improved the service and the shopping experience, which is a continuous process. We introduced a range of new features, including a special offer of products for protection against infection (face masks, gloves, disinfectants), products for work and schooling from home, offer of products for home celebrations, products for boosting the immune system and improved well-being, products for quick preparation of meals, especially offer of fruit and vegetables, and homemade treats. Offer of technical consumer goods in our **M Tehnika online store** is also of particular importance, since sale of technical consumer goods was temporarily restricted at brick-and-mortar stores, and home improvement and electronics stores were closed for a long period. In most cases, fast-moving consumer goods were delivered the day after the order was placed. We also introduced Sunday deliveries, while collection and the pick-up spots was possible in 4 hours after order. A special hotline was established for support to online customers (at 080 20 81), since Mercator is the only one to **deliver the products purchased at its online store across Slovenia, to over 98% of addresses in the country**. An increasing number of customers are reaping the many benefits of Mercator's online store for their usual weekly shopping. while greater shopping frequency is also a sign of customer confidence in Mercator, both off- and online.

Information technology

As the most innovative retailer, Mercator had already had excellent information technology infrastructure. Regardless of this fact, the period of the coronavirus epidemic, especially the first period during which public life was locked down, presented a considerable challenge to the IT department, especially in certain areas and some Mercator companies and countries.

Remote work was enabled, but not fully made use of, for over 800 employees. The first move was to increase remote work capacity for further 700 employees. We did this in compliance with all safety rules of the Mercator Group within two weeks. Our work included procurement and implementation of new licences for virtual private network (VPN), network and security configuration based on justified and authorized rights, additional purchases and installation of new user equipment for allowing secure remote work. During the first lockdown, some problems arose regarding the provision of standard IT equipment. Regardless, with central organization and a clear focus on our goals, we **succeeded in purchasing and preparing for use 1,600 new laptop computers** and relevant video conference equipment for the entire Mercator Group, while observing all standards effective at Mercator Group. As the use of video conferences increased, we enabled and configured Microsoft Teams alone on 1,200 personal computers. In some markets, depending on the circumstances, stores were equipped with video conference equipment. It is evident from the measured data that the use of remote work equipment increased by over 700%.

The coronavirus crisis required clear communication with all employees. Mercator Group had already had a modern and responsive multi-language internal portal called **mi.Mercator** that is used in all markets. This is a standard newsletter portal available across different devices via world-wide web (including on mobile phones outside the company network), which ensures both security and access to applications relevant to our employees. During the crisis, we increased the use and improved the usefulness of the mi.Mercator portal by adding new applications for monitoring employee performance, improving existing digitalized workflows (internal ordering, security requests, master data management, recommendations and proposals etc.), introducing new applications, such as the travel order app, enabling the "knowledge base" (central location for manuals, online seminars etc.)... Improvement of the overall digital experience for users is a continuous process, and we are currently introducing a pilot version of **digital salary slips** that will be enabled for employees in Slovenia by March 15, and for all Group employees by May 15.

The coronavirus crisis also had a strong impact on **customer behaviour and their purchases**. The management responded to these changes with considerable interventions into store planograms, logistics, procurement etc. All this had a profound impact on IT and application infrastructure. It meant rapid changes and configuration of the existing software, as well as other aspects of support and monitoring. In the first few months, work was highly intensive. **Online operations increased by over 600% for a period of time**; on average, it was up 200% in 2020, which also resulted in major increase of requirements regarding IT architecture and infrastructure operation. In order to adequately respond to these changes, the IT department teamed up with the management to devise a three-stage plan:

Stage one, or short run:
- Stabilization of the current platform in all countries to allow increased scope of use.
- Temporary solutions and integration with third-party partners.
- Allowing supply from new locations.

Stage two, or medium run:
- Allowing new functionality that will allow a better user experience and ensure adequate support by Mercator.

Stage three, or long run:
- Implementation of modern uniform platform for the online store, with the option to adjust the scope and develop internal competencies that will benefit all requirements regarding the online store at the Mercator Group.

Mercator Group has already started the implementation of the third stage.

Mercator Group has **the highest rate of use of self-checkouts** (SCO) that has increased further relative to other retailers. In some countries, we had already been using virtual accounts and mobile payment methods, while in others, we started the implementation. The use of mSken app increased in Slovenia (it is possible at all stores, currently enabled at 129 stores), while in other markets, the pilot stage has been launched in Serbia.

Since the coronavirus crisis affected the entire economy, Mercator Group extended or signed additional agreements with all critical partners, including necessary **service-level agreements** (SLA), and ensured the responsiveness that allows normal operation and performance. In order to mitigate the risk, we also forged strategic partnerships with new partners.

To ensure an adequate level of information security, in addition to compliance with all existing security standards, Mercator Group replaced over 1,000 obsolete computers, conducted over 1,900 operating system upgrades, "reinforced" over 1,000 servers, started sending regular security newsletters/notifications, and launched training and education on security on its online training and education platform, for which contents were prepared by a third-party partner, while internal teams localized to content and tailored it to Mercator. We introduced mobile device management for over 1,000 devices (RF terminals, mostly in use at stores). In this regard, we are planning further expansion to all mobile devices.

Social aspects and human resource management

After the declaration of the first wave of the epidemic, the company immediately amended its medical risk assessment and specified additional measures required to protect the health and safety of workers. Consistently with the document Preventive Measures during the Epidemic, general preventive measures were implemented along with special preventive measures for respective fields or areas in order to prevent infection with the COVID-19. For jobs or positions that allowed work from home, either work from home or a rotation system was introduced in order to reduce the number of people physically present at our commercial buildings (on average, 50% of our employees work from home). A crisis team was appointed to monitor on a daily basis the information on the occurrence of infection is respective units, and coordinate the determination of the risk level of contacts, in order to assign all employees who were in a high-risk contact to quarantine. A protocol for conduct in case of suspicion of infection or infection was defined, along with required activities with regard to employees, work premises, and goods.

Increase in labour costs in Slovenia, resulting from payments of aid during the COVID-19 pandemic to all employees (pursuant to the new government legislation) and salary bonuses for increased risk involved in work during the epidemic for all active workers at stores and warehouses during the first wave of the COVID-19 epidemic. **Higher absenteeism** among some groups of employees who had to be replaced quickly with additional agency or student workers: sick leaves, public transport lock-down, closing of schools and kindergartens.

Effect of the COVID-19 epidemic on increase of material and services costs

Higher costs of material for purchase of **protective equipment** (masks, gloves, sanitizers etc.).

Higher **costs of services**:
- cleaning services for special disinfection of stores in case of infection of one of the employees;
- security services to enforce compliance with the mandatory restrictions of the number of customers per square metre, as provided by law;
- special donations related to COVID-19 for public institutions.

Use of government subsidies and aid

Consistently with the government measures of providing aid to enterprises, Mercator Group claimed the waiver for payment of pension and disability insurance contribution for workers who were working pursuant to Article 33 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP), and reimbursement for salary compensation for workers who were temporarily furloughed or absent from work due to force majeure pursuant to Article 28 of the ZIUZEOP for the companies Mercator–IP d.o.o. and Mercator–Emba d.o.o. For those absent from work due to force majeure due to closing down of kindergartens, schools, and public transport, and those absent from work due to quarantine, over 1,500 applications were filed with the Slovenian National Employment Agency, pursuant to the provisions of the Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of COVID-19 Epidemic (PKP 6).

2,734,292
protective face masks purchased

92 DAYS
of **M Tehnika** closure in 2020

121 DAYS
of **Gostinstvo** closure in 2020

1,464,578
of disinfectant used

33,275
instruction sheets issued for customers and employees

1,349
employees working from home for a total of

81,712
worker days, or 61 days per employee.

2,355
partition walls installed on check-out counters

Mercator Group

2,323,210
protective face masks purchased

92 DAYS
of **M Tehnika** closure in 2020

121 DAYS
of **Gostinstvo** closure in 2020

364,530
of disinfectant used

25,600
instruction sheets issued for customers and employees

657
employees working from home for a total of

52,689
worker days, or 61 days per employee.

1,000
partition walls installed on check-out counters

Poslovni sistem Mercator, d. d.


A GOOD NEIGHBOUR WILL
STAND BY YOUR SIDE.
SUSHI
MINUTE
RIBARNICA
KLIK DOM
Mercator Spletna trgovina
Mercator
Mercator

Effect of economic conditions and competition on operations

The COVID-19 epidemic and strict measures for its containment had a severe impact on economic activity in 2020. Restriction of non-essential services and hindrances to other service activities in the second and last quarter, and to manufacturing in the second quarter, caused a considerable decline in economic activity, both globally and in Slovenia.

Recovery of economic activity in the eurozone was interrupted at the start of the last quarter of the year due to intensification of containment measures, as the number of COVID-19 infections rose again. The COVID-19 pandemic had a negative effect on all components of the GDP in the first half of the year. Private spending suffered the most, as household consumption, especially for services and durables, was strongly impeded in the spring. This led to accumulation of involuntary savings, while saving out of caution was up, too. Investment saw a strong decline in the first half of the year, as businesses and households postponed or suspended any investments after the economy ground to a halt and uncertainty increased considerably.

After a **sharp decline in the second quarter** (–11.7% quarter-on-quarter, deseasoned, or –14.8% year-on-year, according to original data), economic activity **picked up pace in the third quarter** with gradual lifting of the containment measures and significant support by monetary and fiscal policy (12.5% quarter-on-quarter), while **year-on-year decline decreased considerably, too** (–4.3%).

With partially offset demand and considerable fiscal support to purchasing power of households, private spending recovered in the third quarter. However, the recovery was cut short by the second wave of the pandemic and introduction of stricter containment measures towards the end of the year. In October, the rapid increase of the number of infections in many countries of the eurozone led to reintroduction of strict containment measures. Considering the current economic indicators, recovery of activity and mood in the eurozone cane to a halt in the last quarter in service activities; growth of activity in processing industries, however, has been sustained, albeit it is somewhat slowed down.

After the outbreak of the pandemic, a number of measures was adopted to mitigate its negative effects on the population and the economy, and for faster recovery, both nationally and within the framework of the ECB and the European Commission. Extensive packages of measures considerably alleviated the loss of revenue in business and loss of income in households, resulting from the pandemic, and offered liquidity and support to enterprises facing negative consequences. This, the shrinkage of economic activity from last year was considerably alleviated, and failure in some of the most hard-hit industries was prevented. According to our assessment, without the measures to support the economy, the decline in economic activity would have been at least 4 percentage points deeper last year. The effect of measures to fight the impact of the coronavirus crisis will be of key importance this year, too; at first, it will allow preservation, and later a restart of especially service activities, or recovery of the entire economic activity.

International institutions in their forecasts mostly assume that recovery of economic activity, with gradual release of the containment measures, will shift to 2021; this will be followed by gradual growth, but a return to pre-pandemic levels cannot be expected before 2022. Eurozone GDP will decline by around 7.5% for the year. In **the next two years, activity is expected to recover with growth rates of 3.5 or 3.3, respectively**. The depth of this year's decline and the speed of recovery in 2021 and 2022 will differ between respective member states, and will depend on the progress of the epidemic, strictness of containment measures, differences in the structure of respective economies, and responses of national governments.

Consumer confidence declined in the region in 2020[4]. Employment possibilities, financial security and willingness to spend had a negative impact in this respect. Consumers' main concerns include their financial position, personal health, security of employment, work-life balance, and rising living costs. The effect of the COVID-19 epidemic and the containment measures prepared by countries in the markets of Mercator's operations had an important effect on key economic

[4] Nielsen: Consumer Confidence Index, Q2 2020, Adriatic

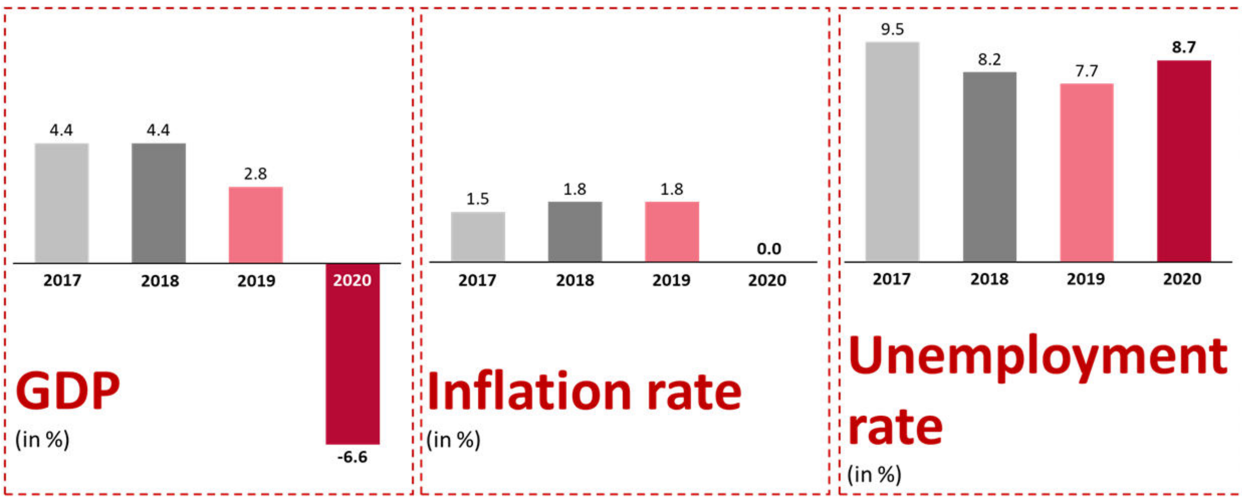
indicators (GDP, inflation, unemployment) and consumption in 2020 and will continue to have such impact in the future. Despite the harsh conditions, however, most retailers in all markets continued to expand their retail network.

Key macroeconomic indicators in the markets of Mercator's retail operations[5]

Slovenia

Declaration of epidemic in Slovenia was followed by a curfew (restriction of movement during night time), closing down of most non-essential services (stores, bars and restaurants, hotels, cosmetics and hair salons etc.), and restriction of movement between municipalities, which had a strong impact on the GDP. After a deep decline in the second quarter (-13% year-on-year), economic recovery actually exceeded our expectations in the third quarter (to -2.6% year-on-year).

In Slovenia, GDP growth plummeted by 9.4 percentage points in 2020 relative to 2019, when GDP growth rate was positive. The crop was also recorded with annual inflation rate that amounted to 0.0% in 2020 – an improvement of 1.8 percentage points. Negative effect of the epidemic is also reflected on the unemployment rate that increased by 1.0 percentage point relative to 2019, to 8.7%.

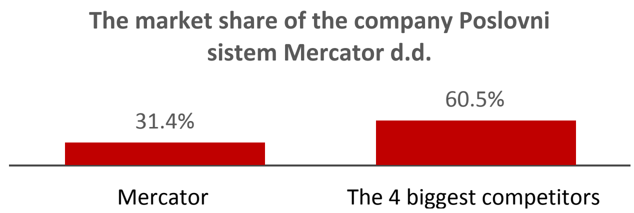


Effect of market situation on consumption: Consumer confidence[6] in Slovenia declined in 2020 on an annual basis, due to the epidemic. Consumers are pessimistic about the economic situation in Slovenia in the last 12 months. Expectations regarding the number of unemployed have worsened, and the same applies to economic conditions in the country, financial position of households, and savings.

In 2020, GDP in Slovenia is forecast to drop by 6.6 percent due to the COVID-19 epidemic. Unemployment rate increased (to 8.7%). Consumer prices mostly stayed the same in 2020 as they had been in 2019, especially on account of lower prices of energy. In the next two years, inflation rate is expected to increase to 1.6 percent[7]. Economic confidence was much worse at the annual level than it was in 2019. The decline in annual economic confidence was primarily a result of confidence in service activities, confidence among consumers, and confidence in retail and construction industry.

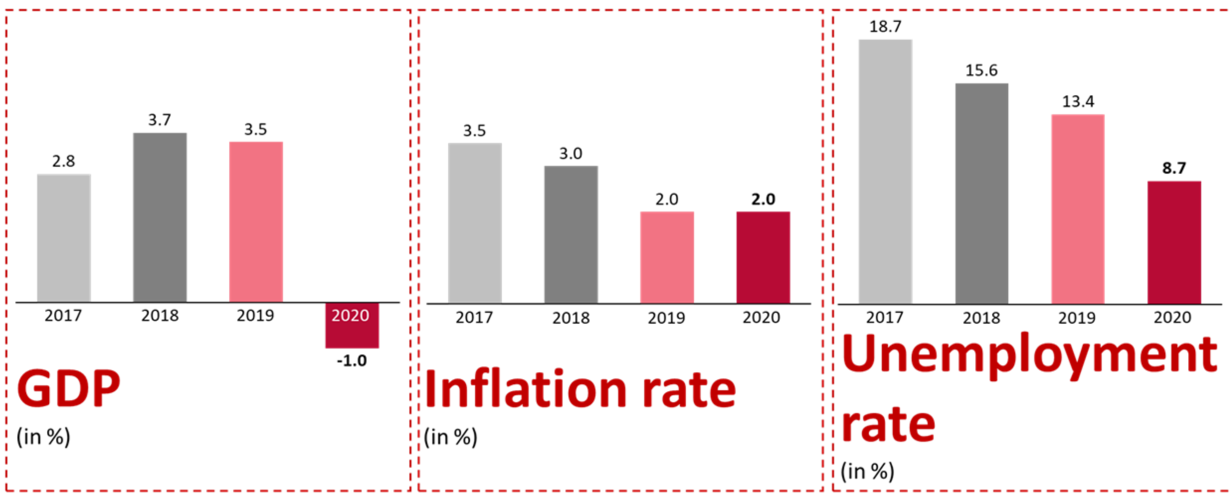
[5] Economic conditions are commented based on the following data sources: UMAR (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia), ECB (European central bank), S&P (Standard&Poor's ratings services), statistical offices or respective countries, IMF (International Monetary Fund), market research company Nielsen, and EC (European Commission)).
[6] SURS: Consumer opinion, Slovenia, December 2020
[7] UMAR: Econimoc mirror, no. 1/2021, year XXVII

Competition: 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 92% of the market). Poslovni sistem Mercator d.d. held 31.4% of the market in 2020, which is 0.4 percentage points more than in 2019.



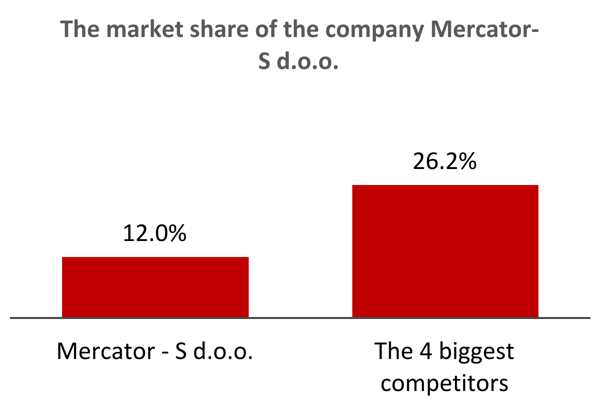
Serbia

In 2020, GDP in Serbia dropped by 1.0%, which means that the GDP growth rate declined by 4.5 percentage points relative to 2019. Unemployment rate was at 8.7%, which is 4.7 percentage point less than in the year before. Inflation rate in 2020 was at 2.0%, remaining stable relative to 2019. The country's rating for 2020 is BB+ with a stable outlook.



Effect of market situation on consumption: Consumer confidence in Serbia worsened in 2020[8]. Employment possibilities, financial security and willingness to spend had a negative impact on consumer confidence. In 2020, GDP is expected to decline by 3 percent. Unemployment rate decreased in the third quarter relative to 2019, reaching 9%. Inflation rate in 2020 was at 1.2%.

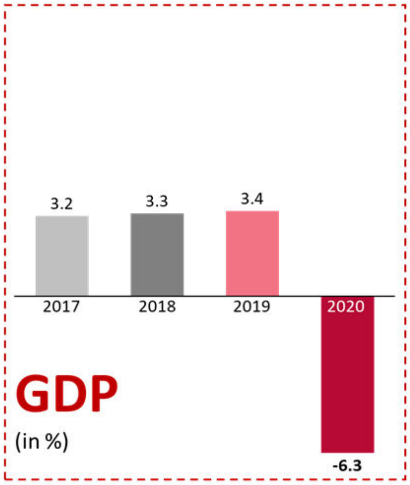
Competition: Retail industry is relatively less consolidated (top five retailers combined account for approximately 40 percent of the market)[9]. In Serbia, Mercator–S d.o.o. held 12.0% of the market, which is 1 percentage point more than in 2019.

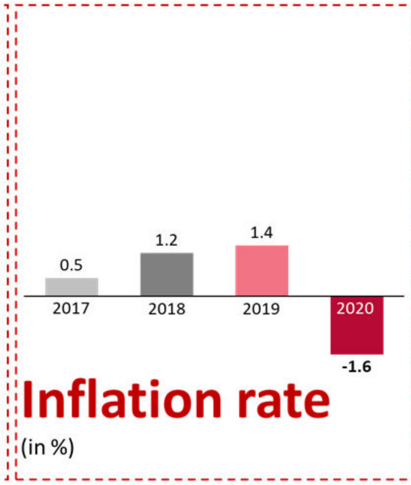


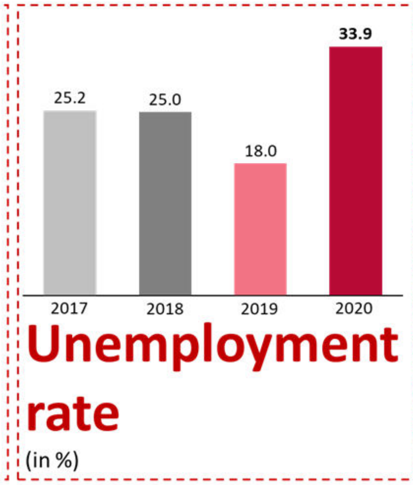
Bosnia and Herzegovina

GDP growth rate saw a sharp drop in Bosnia and Herzegovina in 2020, reaching –6.3%, which is 9.7 percentage points less than in the year before. In the year at hand, inflation rate slowed down by 3.0 percentage point, and reached –1.6%. The outbreak of the epidemic had the most negative effect on the unemployment rate that increased by 88.3% to reach 33.9%.

[8] The Global Economy, Serbia Economic Indicators
[9] Euromonitor, 2020

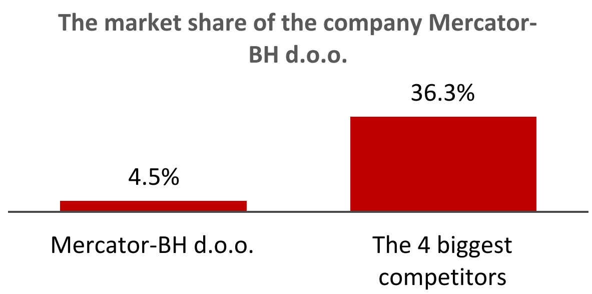






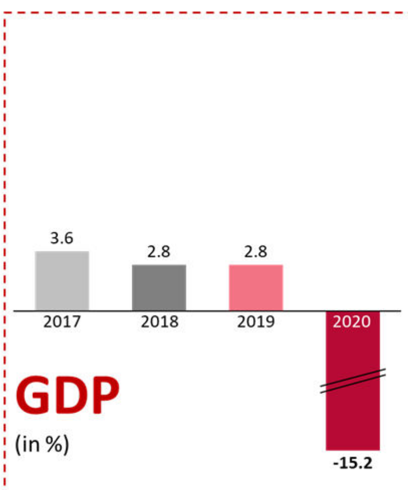
Effect of market situation on consumption: In 2020, GDP of Bosnia and Herzegovina dropped by 5.2%. Unemployment rate remains high at 17.5%. Inflation rate in 2020 was at -1.5%[10].

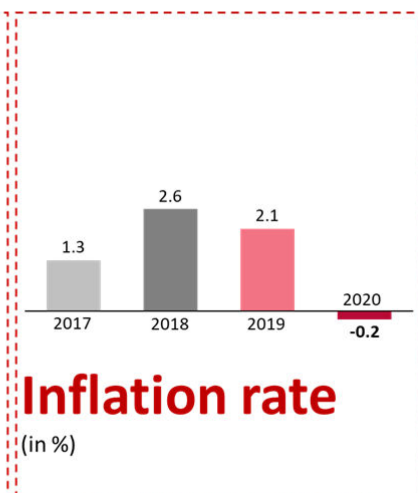
Competition: The market of Bosnia and Herzegovina is not consolidated. In 2020, top five retailers account for less than a half of the market (40%)[11]; the rest is covered by traditional retail. The market share of Mercator–BH d.o.o. in 2020 increased by 1.5 percentage points relative to 2019.

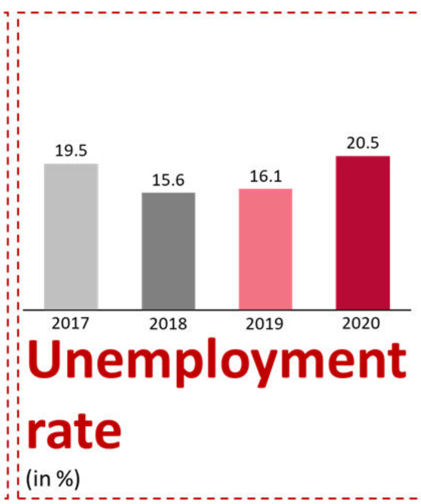


Montenegro

According to data, GDP growth in 2020 declined by 19.3 percentage points to reach -15.2%. In Montenegro, inflation rate decline as well and reached – 0.2%. Unemployment rate increased by 4.4 percentage point and reached 20.5% in 2020.





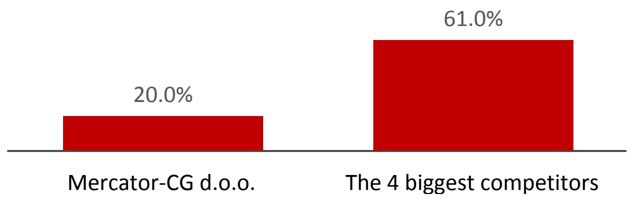


10 The Global Economy, BiH Economic Indicators
11 Euromonitor, 2020

Effect of market situation on consumption: In 2020, Montenegro's GDP plummeted by 15.2%. Unemployment rate increased (20.5%). Inflation rate in 2020 was at -0.2%[12].

Competition: In the Montenegrin market in 2020, the top five retailers accounted for an 80% market share. Most retailers continued to expand their retail network. Mercator–CG d.o.o. holds 20% of the market, which is the same as in last year.

The market share of the company Mercator-CG d.o.o.



[12] The Global Economy, Montenegro Economic Indicators

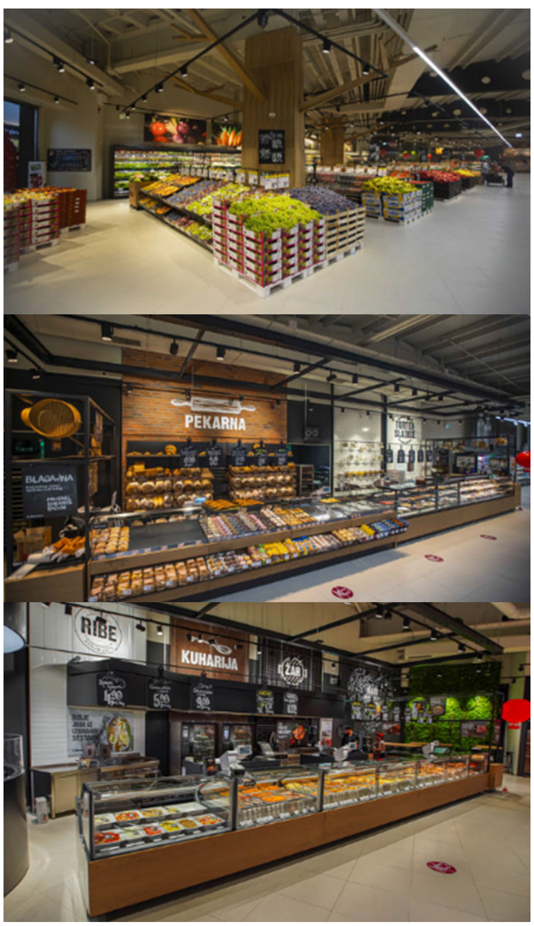
Store Formats

In store format development, Mercator is keeping up with the market trends. In 2020, particular stress was placed on cooperation of all markets where we are present with a variety of store formats. Shopping behaviour of our customers varies somewhat across our respective markets, and observance of these differences can contribute to improvement of our performance. Focus on the consumer is the key in all markets of our operation. We wish to offer our consumers the best products and services, and a modern shopping environment in as many locations as possible.

Most of 2020 was under a heavy impact of the coronavirus, which strongly affected the dynamics of execution of planned refurbishments, updates, and constructions of new facilities. A strong need for **effective operation of the online store** became evident, as a good part of shopping moved online.

In 2020, we invested especially into refurbishment of the existing retail network; in addition, we also constructed some new facilities, despite the restrictions. A total of **26 new units** were opened in Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina, while a total of **172 units were renovated and refurbished**; of these, **70 units** were located in Slovenia. The refurbished Mercator stores afford customers a more pleasant shopping environment, while category structures and new services are adapted to the most recent trends.

Slovenia



Renovated and enlarged hypermarket Kranj Primskovo

In 2020, the greatest emphasis was placed on the refurbishment of the existing units in Slovenia. We completely or partially **refurbished several markets and supermarkets, and two hypermarkets**. **We also opened two new markets**.

Standing out among refurbishments of major units in Slovenia is certainly the comprehensive update of **hypermarket Kranj Primskovo** that increased the store's sales area by approximately 300 m^2. The unit has the best location in Kranj and it is Mercator's second-best-performing store.

The updated hypermarket addresses customers who desire something new, and the store offers an excellent shopping experience with an appealing offer of products. The comprehensive refurbishment of the store included both its ambiance and its assortment, with key accents placed on **quality, new products, personal service**, and culinary novelty. Particularly exposed are the departments of **fresh program, wine department, organic and special food, We Love Local products, grab & go, and sweets**.

Hypermarket Velenje also saw a major update. In order to better use the sales area, the hypermarket was shrunk by approximately 800 m^2 of gross sales area. However, the store was not only shrunk, but also refreshed. Bread department will now also allow finishing pre-baked products, which in turn will make self-service sale of bread and pastry easier.

In the eastern part of the hypermarket, there is now a combined offer of **Minute coffee**, a juicer, and impulse and refrigerated **Grab&Go products**. Offered in the low gondola (display) and in refrigerators in front of the delicatessen department is a well-rounded offer of **We Love Local** products. A new visual identity of the store was introduced, too. M Tehnika was also included in the centre.

Hypermarket Kranj Primskovo – shrunk and updated

Supermarkets Slovenske Konjice, Šentjernej and **Žalec** were comprehensively renovated to gain a new, modern image, large fresh program departments, updated offer, and pleasant shopping environment enlivened by the new visual identity and exposed projects. The supermarket is an upgrade to the neighbourhood stores, offering a broader and especially deeper offer of fast-moving consumer goods. The supermarkets serve customers on both their daily and weekly shopping sessions as their offer allows all-around shopping with a focus on fresh program and supplementary offer of non-food items.

Comprehensively updated supermarket Slovenske Konjice

Market Koseze

Two new market units were opened: **Miklavž na Dravskem polju** and **Market Koseze**. The latter is particularly interesting as it is **Mercator's first pre-fabricated store**. It is a temporary facility with an area of 308 m^2. Since it is a pre-fabricated store, it can be moved to another location.

The market offers a clear view and passages, and its design follows the concept of an urban neighbourhood store with highlighted offer of fresh program. This is a replacement store, since the supermarket Koseze was closed down at the end of the year because a new commercial and residential neighbourhood Koseško okno (Koseze Window) will be built at its current location. The new facility, however, will also include a modern Mercator hypermarket.

Foreign markets

Refurbishments also took place in other markets where we are present with three store formats: Mercator, Roda, and Idea. In total, we **opened 21 new retail stores** in international markets, while **86 were refurbished or renovated**.

In **Serbia**, we opened 13 new units, 6 units were renovated, and 70 units were refurbished.

The most profound renovation was carried out on the supermarket **IDEA Super Blok 62** in Belgrade. The store was changed from a RODA format to IDEA Super format. The supermarket has a new layout of sales programs. All fresh departments have been updated, and self-checkouts were installed. The renovation of the supermarket also included installing our first cooling system using CO_2.

The following units also saw major renovation: **IDEA Čačak Centar,** market **IDEA Stari grad**, market **IDEA Smederevo Centar 3**, and market **IDEA Niš Centar**. All of these are located in the centre of their respective towns, which is why they feature particularly well-stocked fresh departments, especially the hot bar and TO GO offer, and an especially well-thought-out design. Fruit and vegetables departments, delicatessen, bakery, fresh meat, and dairy departments were comprehensively updated.

A similar renovation was implemented in the market **IDEA Maxima** where the focus was on major shopping sessions, since the store is located in a rural area.

In the market of **Montenegro**, we opened 6 new stores. One major addition in this market is a new, entirely different IDEA Gourmet market. The sales area of **IDEA Gourmet** is approximately 400 m^2, and its unique location in the Marina square makes it accessible for the local population, visitors, and yacht owners. Unique concept and interesting offer that also includes local specialities, and organic products, satisfy even the most fastidious of customers who decide to spend time in this part of the Montenegrin coast.

IDEA Gourmet in Potonova

IDEA Dom Revolucije, Nikšić

In July, **IDEA** opened another chapter of special shopping in Nikšić, this time by opening a modern store format in the recently reconstructed Dom revolucije that will be available to customers 24/7.

The unique concept of the new store, symbolically presented as (r)evolution of superior taste, combines everything necessary to meet the needs of the customers whose desires and expectations always come first.

In addition to the highlighted facilities, four more new units were opened in 2020: **IDEA Krivi most**, **IDEA Zabjelo**, **IDEA Stari Aerodrom**, and **IDEA Tivat Magistrala**. All of these units are modern facilities that offer the customers a broad assortment of products in a pleasant environment; in terms of offer, the emphasis is on fresh fruit and vegetables, delicatessen, and bakery with daily offer of fresh baking products.

In the market of **Bosnia and Herzegovina**, we opened a new unit **market Brčko** and the **new supermarket Travnik** in 2020. The supermarket has a very attractive location and welcomes customers on a gross sales area of 850 m^2, offering a unique shopping atmosphere, superior range of over 20,000 quality products, affordable prices, and a variety of benefits. The stress is on recognizable fresh departments, rich offer of healthy food, including 100% natural products of certified quality Bio Zone. In addition, the shelves are stocked with a varied offer of non-food products, small domestic appliances, and other household products.

New supermarket Travnik

Composition of units by store as at December 31, 2020

Slovenia Mercator M Tehnika

- FMCG retail units 468
  - Markets: 400
  - Supermarkets: 45
  - Hypermarkets: 23
- Wholesale units (Cash & Carry) 13
- Restaurants 6
- Franchise stores 169
- Tehnical program (M Tehnika) 41

Serbia Mercator IDEA RODA

- FMCG retail units 332
  - Idea Small: 258
  - Idea Super: 39
  - Roda: 27
  - Roda Megamarkets: 6
  - Mercator Hypermarkets: 2
- Wholesale units (VELPRO) 6

Montenegro IDEA

- FMCG retail units 126
  - Idea Small: 123
  - Idea Super: 3

Bosnia and Herzegovina Mercator

- FMCG retail units 79
  - Markets: 61
  - Supermarkets : 11
  - Hypermarkets: 7

MERCATOR GROUP	Gross sales area (in m²)	Net sales area (in m²)
FMCG retail units 1,005	810,602	519,494
Wholesale units (Cash & Carry/VELPRO) 19	56,231	33,663
Restaurants 6	2,565	1,019
Tehnical program (M Tehnika) 41	61,615	36,760
Total units under management 1,071	**931,012**	**590,936**
Franchise stores 169	36,126	23,781
TOTAL 1,240	**967,138**	**614,717**

Category management

Slovenia

Considering the crisis in the first and second quarter, and again in the fourth quarter, we prepared in the period 1–12, 2020, the steps and measures for immediate introduction and execution of category management and procurement management in case of worsening conditions in the market as a result of the COVID-19 pandemic.

This included especially provision of adequate amounts of goods in key categories through coordination with the existing suppliers, and search for new supply sources. We optimized our promotional activities, with stress on mechanics for making large shopping sessions easier, taking into account the lower frequency of shopping sessions. We included into our assortment new niche products for ensuring safety of consumers and customers. We adjusted our processes and work to make goods handling easier for our retail and logistics employees during higher customer demand.

In such situation, we continued to actively support domestic suppliers and promote Slovenian and local offer at Mercator stores. Continuous education and training of our employees regarding the changes, key highlights and standard processes contributed to the quality of service at the stores, taking into account the healthcare measures to protect the health of the employees and all participants in material transactions.

Particular stress was placed on continuation and upgrade of our latest platform, the My Brands project, with the successful TV campaign Little Chef, Merry Waves, and the offer of Vivo glasses and stemware. We saw progress in our online operations, as we took another step further in keeping up with the global digitalization trends.

Key category management activities remained focused on the pursuit of the following key goals:
- upgrading the portfolio of quality private label lines and providing the best value for money; introducing new varied items from the non-food segment, and maintaining and expanding the offer of local products;
- managing the commodity market products and seasonal products in a quality and prudent way;
- monitoring competition's pricing for products of renowned brands and private labels, and ensure competitiveness; including appealing offer in our sales promotion activities, with particular stress on promotion of activities related to the Pika loyalty program;
- efficient management of the retail area down to the level of each product, and providing and upgrading services at the point of sale, with key stress on our fresh departments.

Serbia

In 2020, Mercator–S d.o.o. actively adjusted to the new operating conditions brought about by the global healthcare crisis. Taking into account the key goals for 2020 and new legislative frameworks and guidelines was among the primary tasks at the company Mercator–S d.o.o., in order to ensure current operation of our facilities and adequate inventory at the stores, required to meet the needs of the consumers, while observing the healthcare measures to protect the health of the employees and all other participants in material transactions. The main focus of development was on enriching the offer of homemade and local products. At the same time, respective products were promoted intensively at our stores. We continued to provide a good service, especially on fresh program and other projects, which is distinctive from our competition, through the initiatives of Mercator–S d.o.o. We continued the positive practice of exchange of experience, knowledge, and initiatives within the Mercator Group.

Following were the key activities in category management in 2020:
- Efficient assortment management. In 2020, we introduced new and varied non-food items, especially quality and affordable offer of seasonal items that were at the core of the demand hike fuelled by the COVID-19 epidemic.
- Constant focus on the customers is also evident in price and competitiveness management where we took into account the need to adapt to regional and local differences.

- Promotional activities were considerably optimized in the first half of 2020. The healthcare crisis in the second quarter of 2020 brought about optimization of promotional activities, including a notable decrease in frequency and strength of advertising. At the same time, it directed us towards focusing on the promotion of groups/categories of products that are not as frequently advertised in normal conditions. Emphasis was placed on attractive offers for users of the Super Card loyalty program, with an initiative for comprehensive development of personalized offer. We continued to intensively promote brands within the project »Splača se skupaj« (»Better Together«).
- Focus on the employees is very important, not only in training and education, but also in terms of helping retail employees optimize the processes at their stores. During the healthcare crisis, we attained a high level of teamwork, which gave our employees the strength to contribute even more to the development of the company.
- The processes are aimed at simplifying and optimizing the resources and to improve business performance and efficiency in the changed market circumstances.

Montenegro

Key activities were focused on tackling the global crisis situation and adjustment to new shopping habits in the market, as well as adjustment to changes in tourism. Following are the measures that we adopted and implemented in 2020 in order to improve our performance:

- Ensuring adequate amounts of basic food products during the pandemic.
- Adjusting the offer to the changed market requirements brought about by the pandemic.
- We carried out projects in the sectors of meat, fruit and vegetables, bakery, health food, and wine.
- We introduced new items and brands in order to generate new growth and differentiate ourselves from the competition:
  - Delicatessen: Premium brands of cheese and delicatessen, new poultry products, new lines of beef, freshly packed meat – expansion of assortment.
  - Pre-packed food: we are the only retailer to offer herb and spice sprays, spray olive oil, Belgian chocolate, Disney program etc. We are also developing craft beers with paper packaging.
- We continued the My Brands activities.

Bosnia and Herzegovina

Key activities of Mercator–BH d.o.o. for 2020 included the following:

- In the first quarter, we stepped up our marketing activities in fresh departments, with emphasis on the breadth of the assortment.
- During the pandemic, we adjusted the packaging and shelf restocking.
- In the second quarter, activities were adapted to the new circumstances, as we focused on basic food and hygiene products, and »non-food 2« assortment (online school, social games/board games, small domestic appliances). In the third quarter, we continued the activities and preparations for the last quarter and the holiday season.
- We negotiated with our suppliers further cooperation in the project »Discounts for You« (»Znižano za vas«), where we wanted to meet the needs of our customers for the offer of attractive sales promotion activities.
- We adapted continuously to new legal decisions that are constantly changing both at the national level and at the level of political entities and towns. Since the frequency of customers decreased in the last three quarters, we optimized and adjusted our marketing activities to the new market situation to increase the average size of the shopping basket.

Marketing and customer loyalty programs

Customer loyalty programs and private label by countries*

Customer loyalty programs are a valuable source of data for Mercator on consumer habits and for understanding of their conduct in all markets of operation. Data for over **1.7 million active loyalty card holders** in Slovenia, Serbia, Montenegro, Bosnia and Herzegovina, allow preparation of customer segmentation and adjustment to the trends of respective markets. Customers can choose between different types of cards that are the best fit for their way of shopping and saving. At the same time, we are developing innovative mobile and payment services.

	Loyalty program	Brand
Slovenia Active card holders: **726 thousand**		Mercator M Tehnika MAXEN MAXIMALNA ENERGIJA
Serbia Active card holders: **709 thousand**		Mercator IDEA RODA
Montenegro Active card holders: **69 thousand**		IDEA
Bosnia and Herzegovina Active card holders: **205 thousand**		Mercator

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

Marketing

In the period 1–12, 2020, we started our activities to support our business strategy that allows long-term stability and profitable growth.

In marketing projects, we were focused especially on Mercator brand differentiation, which is also the basis for the Mercator marketing strategy.

Differentiation as a competitive advantage

Our differentiation strategy is based on:
a) the broadest offer of local and regional brands,

b) the best customer loyalty program,
c) introduction of new store formats,
d) innovation.

Regardless of the business and marketing strategy, the entire year was under a strong impact of the emergency circumstances related to the coronavirus epidemic, which required rapid adjustment, adoption of relevant business measures, and changes in market communication. We only started carrying out the projects laid down in the marketing strategy in middle of the year.

Slovenia

Communication during the epidemic

In light of the new conditions, we adapted our communication messages. These are conceived at three levels:
- care for the welfare of the community,
- strengthening of cooperation with local suppliers,
- adjustment of offer for the customers.

Upon introduction of extraordinary measures, we made an appeal for moderation and solidarity, and for avoidance of excessive reactions and stockpiling. In the campaign titled »**A Good Neighbour is There for You**«, we emphasized the comprehensive social awareness of all of us, and respect for each other, as well as the fact that now is the time to take care of each other and for all that are close to us. We worked even closer with our partners and suppliers, since the importance of the food industry is even greater now in every market.

With the My Brands platform, we offer our customers the products of their favorite local brands. In our year-long project We Love Local, we supported small local growers and producers to enable a better future for them and the successive generations of local products.

In these challenging weeks, we made shopping easier for our customers in several ways. Online shopping for food has increased, which is why we allocated our resources accordingly, increased our capacity, and introduced a **special crisis food online store**. We also offered convenient shopping for major domestic appliances, small domestic appliances and other technical consumer goods at the online store of our M Tehnika, and further increased the number of dispatch points to allow faster delivery. For all who are short on time for cooking, we have developed larger family packs of ready-to-eat Minute products. We also prepared other convenient solutions. Thus, pre-baked bread can be finished at home in a matter of minutes, so customers can always enjoy freshly baked bread.

Campaign »A good neighbour will stand by your side«

Activities related to the epidemic situation took place in all markets of our operations – including Serbia, Montenegro, and Bosnia and Herzegovina, where key messages were derived from the previously presented umbrella campaign.

Marketing strategy projects

WE LOVE LOCAL

We conduct activities to support the local micro-economy on a consistent weekly basis. We present suppliers and their products in regular flyers. The focus is on products and suppliers who have developed to the point when they can meet the needs of stores with a high sales potential for local products. In February, the Agrobiznis (Agro Business) conference took place. We took part as partners, as we selected the award winners and included them in our business process. In May, we revised the We Love Local website. We enriched it with additional content, presented more local suppliers and products, and established a better link with the online store.

In the summer, we developed a new line of 56 products under the umbrella brand We Love Local (»Radi imamo domače«) that we introduced in October, and prepared a communication campaign for it.

In September, 256 We Love Local products were redesigned to match the visual identity of the new private label line We Love Local, and in October, we carried out a communication campaign that also included a new TV ad. The focus on the new offer was sustained until the end of the year. The primary medium (after the 360° campaign) was the flyer.

GOOD CHOICE

»Good Choice« was a project developed in the spirit of awareness and encouragement of a »healthier« diet. Working with suppliers of renowned brands, who had developed products with lower sugar content, lower fat, without preservatives etc., we prepared for our customers a condensed offer of good choices, paired with the story of fulfilling the new year's resolutions.

In September, the second wave of the campaign that included 71 products took place.

Project »Good choice«

SLOVENIA'S LITTLE CHEF 2020

At Mercator, we are aware of the importance of encouraging young people to develop healthy habits, including a responsible diet. Thus, we teamed up in spring with POP TV to prepare the new season of the TV show **Slovenia's Little Chef** for which we received an award for innovation by international media associations NAPTE and CEETV. We donated funds to each participating elementary school to help carry out their projects for better well-being of their students. The amount of funds allocated to each school was decided by customers with their votes.

TV show »Slovenia's little chef 2020«

VIVO GLASSES AGAIN IN MERCATOR

From September 3, the activity of collecting e-stickers or regular stickers for superior crystal glasses and stemware **Vivo** took place. Customers received one sticker per every 10 EUR of purchased value, or for each My Brands product. After collecting 5, 10, or 20 stickers, they were entitled to a discount of up to 85%. The collection included glasses and stemware for red and white, gin tonic and beer, sparkling wine, spirits and juice, and a decanter. The activity of collecting stickers took place until December 31, 2020, and stickers could be redeemed until January 9, 2021.

COLLECT MY BRANDS AND ACTIVATE THE REWARD BENEATH THE SURFACE

From November 5 to December 31, we prepared scratch card sweepstakes. The mechanics of the entire activity were as follows: for every purchase of one My brands product or another product labelled as being a part of the activity, customers received one scratch card at the check-out counter, with one of a total of 12,000 rewards under the scratch film: Mercator gift cards, addition of a certain number of Pika points to the Pika card, shopping at the Mercator FMCG online store, a text message for the main prize, and other minor prizes.

VIVO glasses

Collect My Brands and activate the reward beneath the surface

PICNICS CONNECT, MY BRANDS REWARD

»We can only bring the best from Slovenia to your homes by working together. That is why we are forging strong links with top Slovenian brands who have enjoyed a good reputation in our lives for a long time. These brands are my, yours, and ours.« Thus, we conducted an activity of bonding between May 14 and June 20, 2020. During this time, we also prepared an SMS sweepstakes that involved an award of a EUR 1,000 gift card, 5 portable grills, Intex swimming pool, and one hundred gift cards worth EUR 40 each.

COLLECT ALL STICKERS AND DISCOVER THE OCEANS IN THE COMPANY OF THE SMART CREATURES FROM THE DEPTHS

From June 11, 2020, to August 26, 2020, the activity of collecting stickers for the album **Happy Waves**. Stickers were awarded for every purchase of EUR 10, for purchases of products with the My Brands symbol and purchases of products with the Happy Waves logo. This is a children's customer loyalty program titled Happy Waves, which had an environmental awareness tone, since we also offered, in addition to the album and stickers, complementary products, such as bracelets, towels and socks made of specially processed fabric, fishing nets, and other plastic waste. In addition, our assortment also included three plush heroes: Hugo the octopus, Rozi the crab, and Živa the turtle.

Picnic connect, My Brands reward


The smart creatures from the depths

NEW YEAR'S CAMPAIGN

At Mercator, this year's holiday story was wrapped up with the thought **»The best gift is the one that brings us together«**. This time in particular brings up feelings of gratitude for being close to the ones we love; awareness, that happiness lies in people, not things; and realization that the magic of holidays is to be connected with good thoughts and best wishes. The campaign summarized the key thought we all shared, that despite the distances that may separate us at the moment, we have to stay connected, and that the best gift is a shared experience. In December, we actually connected our users with the virtual event The Most Connected Dinner that was attended by 34,600 users. We hosted famous Slovenians and enjoyed the company of chef Uroš Štefelin, as well as other guests from other continents of the world.

Serbia

Key regular corporate projects of Mercator–S d.o.o. include in particular the following ones:

- Introduction of fast payments with mobile phone, which ensure safe, fast and simple shopping without cash or payment cards.
- In the nine months of the year, promotions under the project **»Ukusi moga kraja«** (»My Local Flavours«) continued, and they included over 200 products and 30 suppliers. 27 products from the project also received the seal of »Čuvarkuća« (Serbian name for the plant houseleek believed to protect the house), which is a project of the Serbian Chamber of Commerce and Industry, and the seal of local high-quality product.
- Project **»Better Together«** (**»Vredno je zajedno«**) involves more than 60 suppliers. Brands that are popular among Serbian consumers are a part of a new wave of the campaign in which sales of soft drinks have seen the highest growth. In December, we organized large sweepstakes called Perfect Ten in which customers could take part by purchasing the products from the »Better together« (»Vredno je zajedno«) to compete for one of ten automobiles Fiat 500 Hybrid
- In May, the Super card celebrated its seventh birthday. Under the slogan »Sharing Happiness with You for Seven Days«, customers were rewarded between May 25, 2020, and May 31, 2020, with numerous benefits and extra points for their shopping within the partner network. The customers received double points on their Super card for their shopping; if they used the Super payment card, Sberbank also awarded double bonus points.
- **Strategic partnership with Hemofarma** – **Zdravoteka** (»Healthcare«) – At over 100 Idea, Roda, and Mercator stores, we included over 200 Hemofarm products – vitamins, minerals, dietary supplements, syrups, and other pharmaceutical products sold over the counter.

At **IDEA**, we conducted a campaign for the IDEA bakery in the first nine months of 2020, and introduced a new service **»Order and Collect«** at Idea Online. We started cooperation with Glovo that allows ordering via a mobile app and delivery of products in less than 60 minutes. Moreover, 5 new stores were opened, including the new Idea Organic store in Belgrade, while 4 units were renovated.

Montenegro

In addition to regular activities or issuing a catalogue, weekend campaigns, and minor temporary campaigns, Mercator–CG d.o.o. (Montenegro) carried out the following activities/campaigns:

- **Campaign for fruit, vegetables and delicatessen**: the purpose of the **campaign for delicatessen** was to present the broad offer of products in this category and to present the offer of K Plus private label. In the fruit and vegetables campaign, Idea is presented as a destination for daily shopping for **fruit and vegetables**. Due to the circumstances related to the epidemic, the campaign was discontinued.
- **Pre-packed meat campaign**: at the end of July, we held a campaign for pre-packed meat, since we are the first retailer in the market to offer such products.
- **Bakery campaign**: In November, we held a major bakery campaign with the slogan »Different, Special, Yours«.
- **»Health Lovers«** (»Zdravoljubci«): in August, we launched a new project aimed at promoting a healthy diet and increasing the share of fruit and vegetables in children's diets. When purchasing select products or when the checkout total reaches a certain amount, customers win stickers for discount on seven types of plush toys in the shape of fruit and vegetables. The project also included a donation to the Autism Centre.
- **Project »Moji brendovi«** (»My brands«): four waves of the campaign were held, involving 74 brands and 314 items.
- **»The Treasures of Our Montenegro«** (»Blago naše Crne Gore«)**:** To support our local producers and the local economy, we launched the campaign The Treasures of Our Montenegro that steers the consumers towards choosing quality local products offered at their stores.
- **Ideal offer:** In the first half of the year, we carried out a special project for our customers, called Ideal Offer. Super card users were awarded extra points for purchasing products included in the project. Suppliers also take part in the project.
- **New Year's Campaign:** The New Year's campaign included a number of activities intended for both employees and customers. We also made a donation to healthcare workers at COVID departments.

Bakery campaign

Health Lovers campaign

Novoletna kampanja

Innovation: Consistently with the recent trends, we have developed a new service in the online store, called **»Order and Collect«**. The service is available at 6 locations: Podgorica, Bar, Herceg Novi, Tivat, Kotor, and Nikšić. This way, we offer our customers speed, efficiency, comfort, as well as safety.

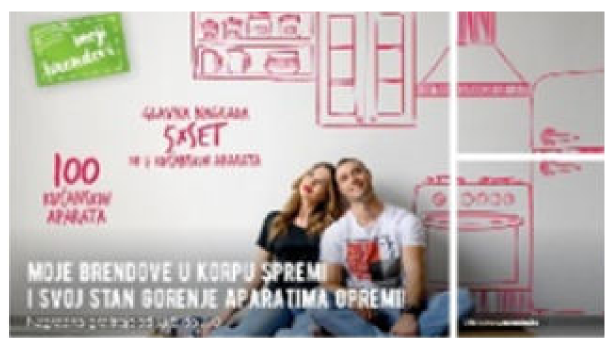
Bosnia and Herzegovina

Early in the year, the first wave of the campaign **»Always the Right Choice«**, intended for presentation of the Mercator brands, was dedicated to communication of the My Day label, which is a new addition to the nektar juice category. The goal of the campaign was to improve recognition among the buyers, provide a perception link with the Mercator label, and to foster growth of sales for the label in total revenue.

After four successful waves of the campaign **»My Brands, Our Values«**, Mercator–BH d.o.o. launched in early June a new, fifth wave, in order to further promote renowned local and regional brands. In addition to the brand promotion, we also prepared the sweepstakes »Chose My Brands, Enjoy the Vespa Ride!«

Sweepstake »Chose My Brands, Enjoy the Vespa Ride!«

In August, we launched a new wave of the project, in which customers who purchase the »My Brands« products are entitled to take part in attractive sweepstakes with rewards provided by Gorenje, including seven domestic appliances to be presented to five customers for equipment of their home.



Sweepstake for Gorenje white goods

Mercator Première – In July and August, we introduced a new project to highlight new additions to our offer: coffee energy drinks, new Plazma products, and Fairy Extra cleaners.

Pika Bonus – In July, the sweepstakes Pika Bonus were launched, in which customers who purchase select products are entitled to take part, and which include substantial rewards. Moreover, customers are awarded triple bonus points when purchasing the Pika Bonus products.

Real estate management and retail network development

In 2020, 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, as well as placement thereof in its operating shopping centres. Thus, we opened a total of **26 new fast-moving consumer goods stores**, **2 new technical consumer goods stores »Center Tehnike«**, and **1 new distribution centre**.

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.

Launch of the Alpin project (development projects and real estate monetization)

In November 2020, we launched the Alpin project, the purpose of which is to select a suitable investor for business cooperation in Mercator's new development projects in Slovenia. Business cooperation with the company Mercator d.d. will take part in the form of financing select development projects and agreements sale of relevant land, construction of retail units on such properties, consistently with Mercator standards, and long-term leaseback of the constructed retail units. In case of successful agreement, the selected investors will also be offered long-term sale and leaseback for a selected number of existing retail units, employing the system of real estate monetization.

By the end of 2020, several investors already expressed their interest in the project.

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

Investment and divestment

In 2019, Mercator Group **investment into property, plant, and equipment (CAPEX) amounted to EUR 41.8 million**. Of the total investment amount, 60.8% was used for investments in Slovenia and 39.2% was used for investments in international markets.

Capital expenditure in 2020 by markets

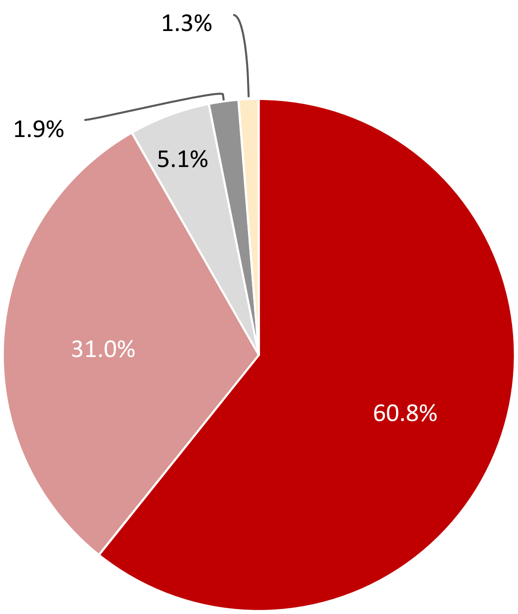
	Capital expenditure in 2020 (in EUR 000)	Structure (in %)
Slovenia	25,417	60.8 %
Serbia	12,965	31.0 %
Montenegro	2,149	5.1 %
Bosnia and Herzegovina	779	1.9 %
Croatia	526	1.3 %
Total	**41,836**	**100.0 %**

Investment into refurbishment and update existing units accounted for 52.7% of total investments; expansion of new retail units represented 20.8%; IT investments accounted for 15.4%; investments into distribution centres accounted for 6.8%; and the remaining 4.3% was invested in non-trade activities.

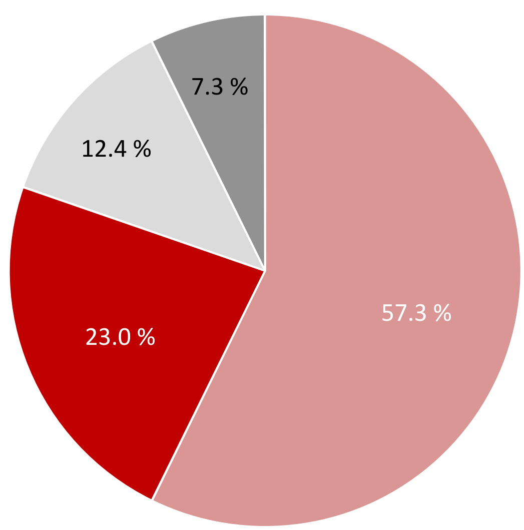
In 2020, Mercator Group acquired **14,998 m^2 of new gross area** for its core activity. Of this area, 12,888 m^2 of gross area was acquired through operating lease, while 2,110 m^2 was acquired by refurbishing our shopping centres.

In 2020, Mercator Group **divested property, plant, and equipment worth EUR 13.0 million**, of which EUR 12.7 million pertains to the divestment of property (real estate) and EUR 0.3 million pertains to plant and equipment.

Capital expenditure in 2020 by market



Share of new usable areas in 2020 by market



Summary of total gross retail area as at December 31, 2020

	Gross retail area (in m^2)*		
	Used for own operations	Leased out	Total
Owned retail area	458,921	334,106	793,027
Leased retail area	472,092	145,062	617,154
Total retail area	**931,013**	**479,168**	**1,410,181**
Owned warehouse capacity	153,464	20,526	173,990
Leased warehouse capacity	60,562	10,508	71,070
Total warehouse capacity	**214,026**	**31,034**	**245,060**
Owned commercial facilities	17,922	3,598	21,520
Leased commercial facilities	7,412	674	8,086
Total commercial facilities	**25,334**	**4,272**	**29,606**
Gross area under management	**1,170,373**	**514,474**	**1,684,847**
- of which owned	630,307	358,230	988,537
- of which leased	540,066	156,244	696,310

*In gross usable area are not included holiday facilities and other unusable areas.

Overview of new area and updates/layout updates by markets in 2020

Slovenia

Area of new facilities: 3,444m^2

- Number of new units: 5
- Openings: Center Tehnike Logatec; Market Šentvid pri Stični; Market Miklavž na Dravskem polju; Market Koseze; Center Tehnike Velenje

Refurbishments/renovations:

- Number of units: 70 fast-moving consumer goods stores, 3 technical consumer goods stores (M Tehnika), 13 wholesale units (Cash&Carry)

Serbia

Area of new facilities:retail 4,447m^2, logistics and distribution center: 4,153m^2

- Number of new units: retail 13, logistics and distribution center 1
- Openings: Market Patriarha Pavla, Novi Sad; Market Zrenjanin; Market Zlatibor 2; Market Organic, Vase Pelagića, Beograd; Sutobanja; Market Organic, Sinđelićeva, Beograd; Market Kraljice Natalije, Beograd; Market Petrovaradin, Novi Sad; Market Glavna, Ruma; Market Kovin; LDC Novi Banovci

Refurbishments/renovations:

- Number of units: 84

Montenegro

Area of new facilities: 1,862m^2

- Number of new units: 6
- Openings: Market Krivi most, Podgorica; Market Zabjelo 4, Podgorica; Market Stari aerodrom 3, Podgorica; Market Porto Novi, Herceg Novi; Market Tivat, Magistrala; Market Dom revolucije, Nikšić

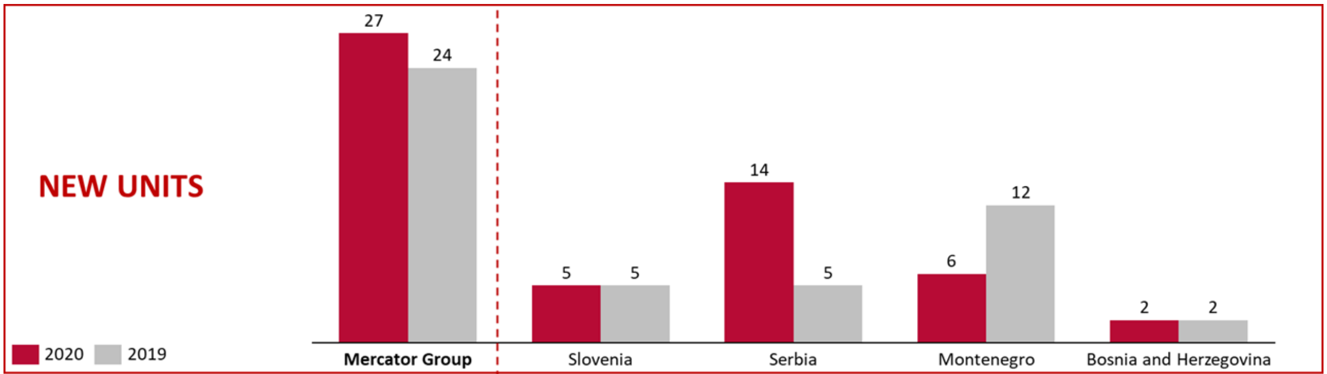
Refurbishments/renovations:

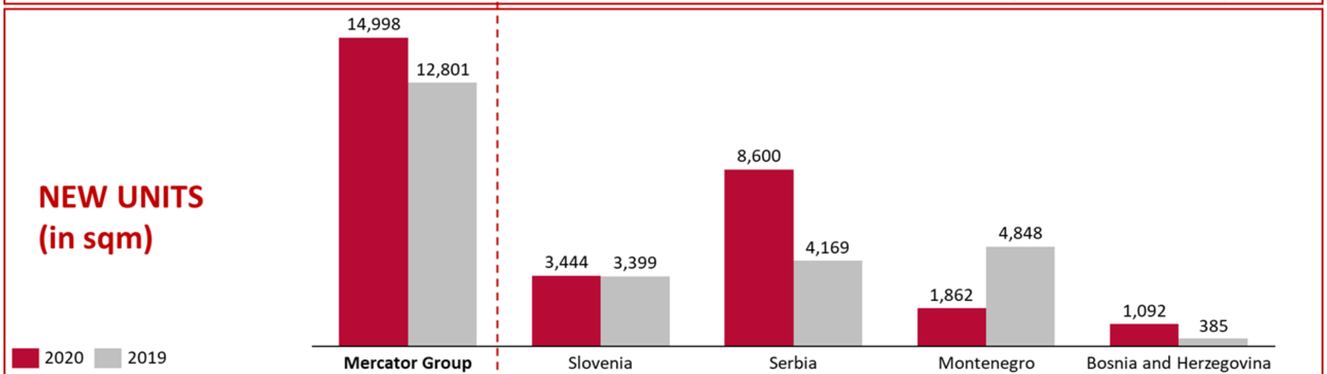
- Number of units: 2

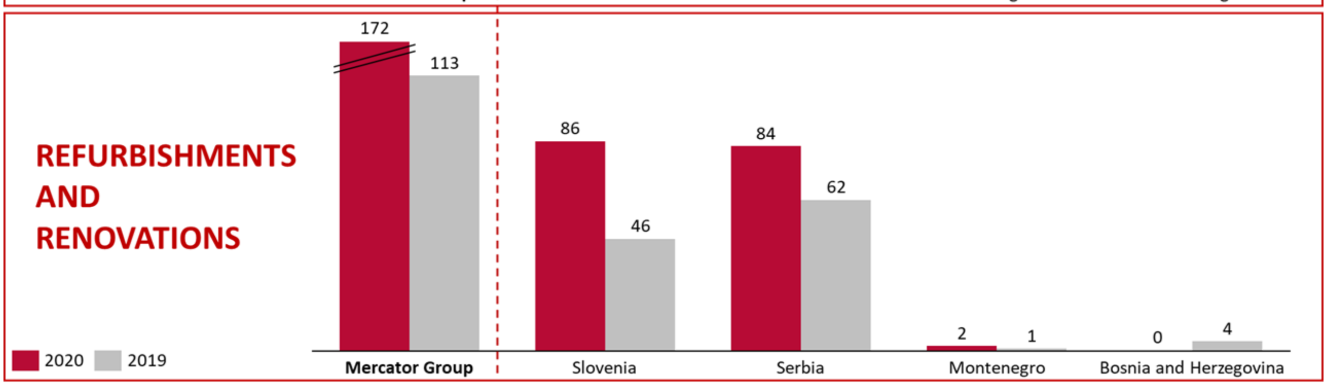
Bosnia and Herzegovina

Area of new facilities: 1,092m^2

- Number of new units: 2
- Openings: Market Brčko, Supermarket Travnik







At the Mercator Group level, a total of **27 units** were **newly opened** in 2020, and **172 units** were refurbished or had their layouts updated.

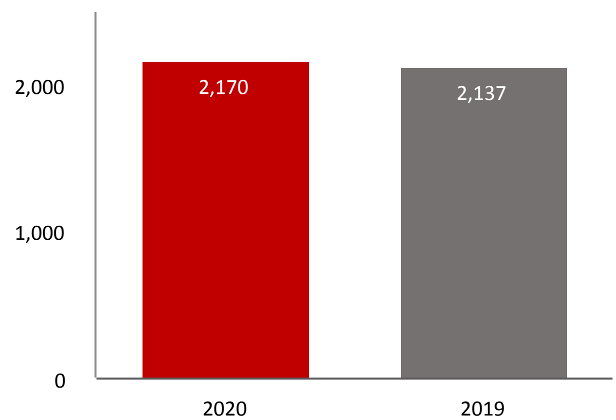
Analysis of key performance in year 2020

Analysis of key performance categories

Sales revenue and rental income

In 2020, Mercator Group comparable sales revenue and rental income amounted to EUR 2,170.0 million, which is 1.6% more than in 2019[13]. Despite the epidemic, Mercator Group sustained the growth of its revenue, which is a result of timely and responsible preparation for the epidemic. In order to mitigate the negative effects of coronavirus, we introduced the following initiatives: negotiations with suppliers, further implementation of My Brands platform in all markets, improvements of category management process which also effect relative margin, better utilization of loyalty functionalities and data usage for targeted promotional activities, optimization of promotional activities during epidemic period, and rapid adaptation of the Internet infrastructure.

Sales revenue (in EUR mn)



In 2020, sales revenue and rental income in the Slovenian market increased by 1.9% relative to the year before. Growth rates was recorded in FMCG retail (5.1%), which is a result of successful execution of the business strategy.

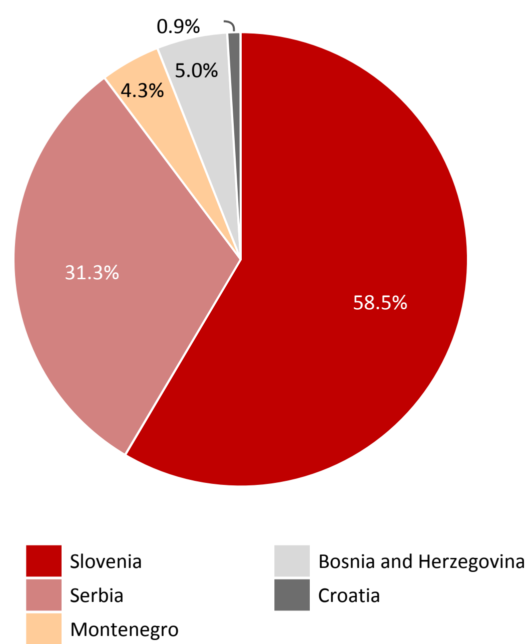
In the market of Serbia, our sales revenue and rent increased in 2020 by 2.4% relative to the preceding year. Growth was also recorded in retail (4.2%) while revenue from sales and rents in other segments decreased in comparison to the year before.

The drop of sales revenue and rent was seen in the market of Montenegro where revenue decreased by 10.5% relative to the year before. The drop in revenue is a result of significant loss of the tourist season due to the coronavirus epidemic.

In the market of Bosnia and Herzegovina, our revenue increased by 3.1%, which is a result of successful stabilization of retail operations, based on Value Creation Plan initiatives was maintained.

In the market of Croatia, revenue from services sold increased by 7.9%.

Consolidated sales revenue by markets for 2020 (in %)



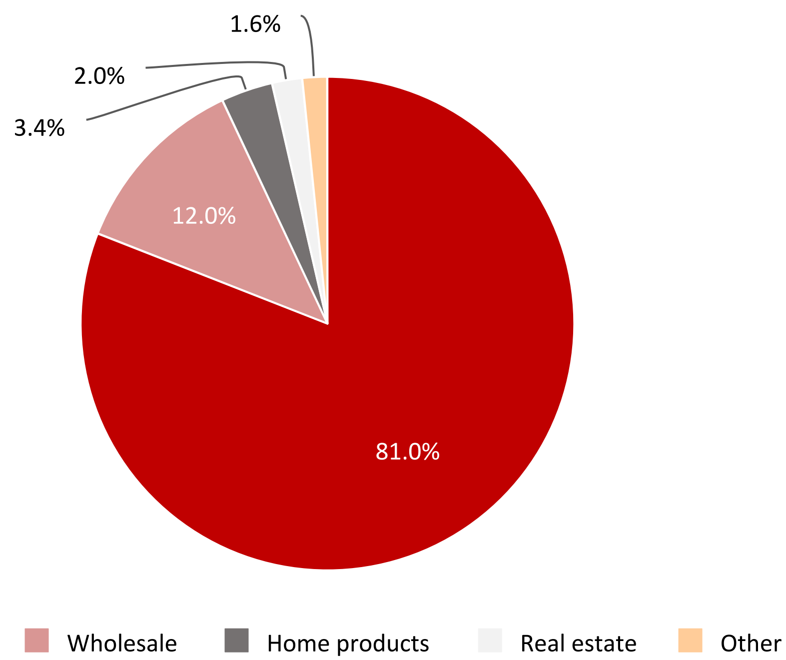
Structure of sales revenue and rental income by Mercator Group programs

The structure of sales revenue and rental income by respective programs did not change significantly in 2020. FMCG retail accounts for the highest share of revenue with 81.0%. Relative to the year before, this share in comparison to other

[13] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

programs increased by 1.7 percentage points. In 2020, revenue from wholesale decreased (4.5%) as a result of the government measures to contain the coronavirus epidemic. The share of sales revenue and rental income generated in specialized retail program of home products amounted to 3.4% in 2020, which is only 0.2 percentage point less than in the preceding year, despite the closure of technical (home improvement and electronics) stores due to the coronavirus. In 2020, revenue from real estate activity amounted to 2.0%, while other revenue amounted to 1.6% (this includes revenue generated by Mercator–Emba d.o.o., Mercator–IP d.o.o., and M–Energija d.o.o.).

Mercator Group sales revenue and rental income structure by programs in 2020 (in %)



Retail revenue

Year-on-year growth in the retail segment is a result of successful pursuit of business strategy, including all initiatives for attainment of business goals. Our business performance remained successful after the declaration of the COVID-19 epidemic in all markets (except Montenegro) of our operations, especially due to responsible preparation for the crisis, timely provision of inventory and assets, effective crisis management, and exceptional execution of all additional value creation plan initiatives. Positive trends were recorded in all retail markets except Montenegro that depends heavily on the tourist season between May and September.

in EUR mn	2020	2019	Change 2020/2019
Retal revenue$^{\Delta}$	1,757	1,693	3.7 %

$^{\Delta}$ Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

In Slovenia, **retail revenue increased by 5.1%** in 2020; at the Mercator Group level, retail revenue **increased by 3.7%** relative to 2019.

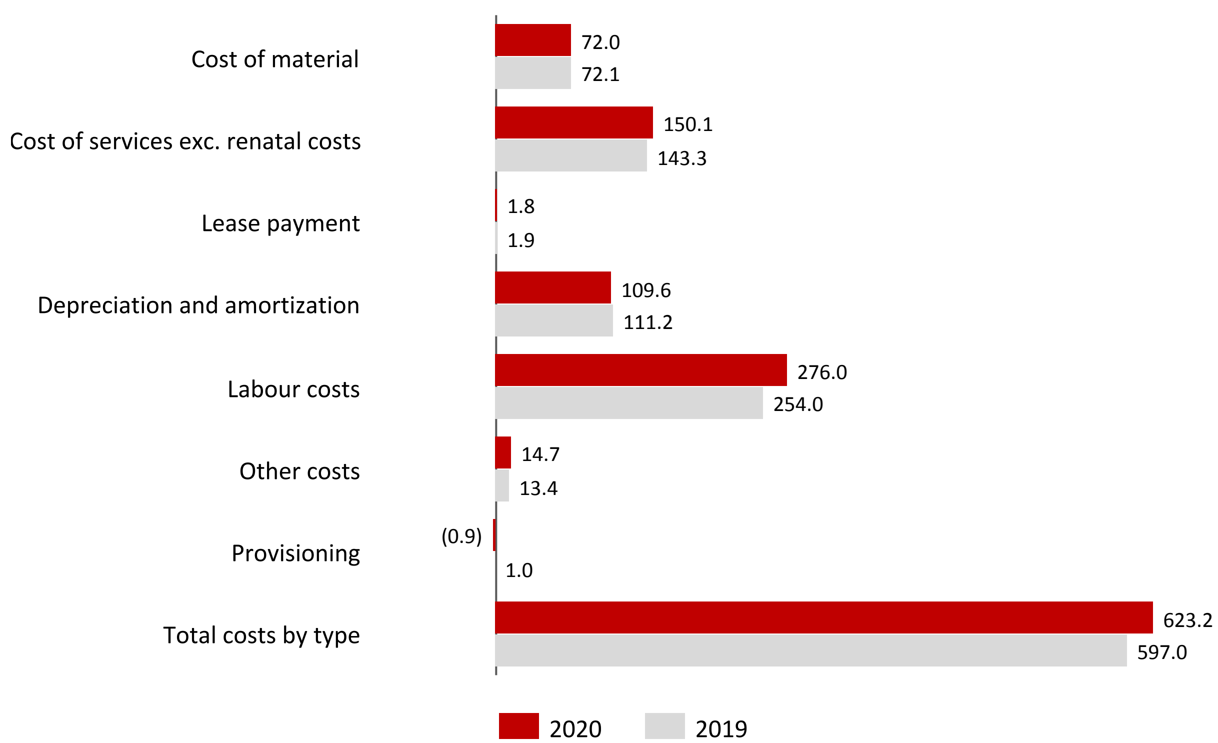
Expenses by nature

In 2020, total expenses by nature (costs by natural categories) amounted to EUR 623,236 thousand, which is EUR 26,249 thousand, or 4.4% more than in 2019.

Development by respective types of expenses was as follows:

- **Material costs** in 2020 amounted to EUR 71,957 thousand, which is a decrease of 0.3% relative to the preceding year, and mostly a consequence of higher energy costs in the markets of Slovenia. Costs of material decreased despite the additional costs related to the purchase of protective equipment (face masks, gloves, sanitizers etc.) to protect the employees from COVID-19.
- In 2020, **costs of services excluding rents** amounted to EUR 150,148 thousand, which is 4.8% more than in 2019. The reason for the increase is higher payments to student labour agencies and to hired and contract workers especially in the market of Slovenia, as a result of the change in labour legislation with regard to minimum wage, additional costs of workers and student workers hired for store security and enforcement of the COVID-19 measures, and higher absenteeism of some groups of employees as a result of lock-down of kindergartens and schools, medical leave etc.
- **Rental expenses,** related to short-term rents amounting to EUR 1,772 thousand, decreased by 8.6% in 2020 relative to 2019.
- **Labour costs**, amounting to EUR 275,993 thousand, increased in 2020 at the level of the entire Mercator Group by 8.7% relative to 2019. This is a result of increase in minimum wage legislation in all markets of our operations. In Slovenia, payments of aid during the COVID-19 epidemic to all employees (consistently with the new government law), and payment of bonuses for increased risk exposure during the epidemic for all active workers in operations contributed further to the increase of labour costs.
- **Depreciation and amortization expense** at the level of the entire Mercator Group decreased from EUR 111,235 thousand in 2019 to EUR 109,560 thousand, or by 1.5%.
- **Other costs by natural categories and revaluation adjustment to inventory**, which include e.g. environment protection expenses, donations, membership fees etc., amounted to EUR 14,711 thousand in 2020, which is 10.2% more than in 2019. This increase is a result of the donations related to the COVID-19 epidemic.
- **Provisions** in 2020 amounted to EUR -906 thousand, which is EUR 1,930 thousand less than in 2019. The cause of decrease is the reversal of provisions in 2020. In 2019, revenues from the reversal of provisions were kept below other operating revenues, and in 2020 they are kept below the costs of provisions due to the change in methodology in 2020.

Change of costs by type (in EUR mn)



Total costs by natural categories amounted to EUR 623.2 million in 2020, which is **EUR 26.2 million more** compared to 2019.

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

Mercator Group's operations and performance were under a considerable impact of the COVID-19 epidemic in 2020, as well as under the effect of negative events originating outside our regular course of business (especially the real estate revaluation in the amount of EUR 128 million). Adjusting for all non-recurring negative events and the effects of the COVID-19 epidemic, Mercator Group's **operating income (EBIT)** in 2020 would have amounted to EUR 53,195 thousand. Despite the changes in the economic environment due to the COVID-19 epidemic, Mercator Group's timely measures and adjustment of business model allowed it to even increase its operating income (EBIT) in the core activity of retail by 5.2%.

When reviewing the operations and performance in 2020, it is also important to understand that real estate represents a separate business area at the Mercator Group due to its considerable scope. In terms of ownership, Mercator Group is an atypical retailer, since retailers are normally not owners of real property. We are committed to observing the financial policies and rues, and International Accounting Standards. This also allows us to reach the highest standards of economy and transparency of our operations. In 2020, we had to revalue our own real property. Real estate was re-appraised by an independent consultancy, and the results were reviewed by two independent expert institutions. When reviewing the operations and performance, it should also be taken into account that the decreased value of real estate has direct effects on the business results, while any increased in value is, pursuant to the international standards, taken into account in the company's equity. From the aspect of the Group's development, stable equity is very important.

In 2020, **net finance expenses** for the Mercator Group amounted to EUR 50,628 thousand, which is EUR 3,810 thousand more than in the year before. Regular interest expenses, amounting to EUR 25,414 thousand, account for the largest share (47.2%) of finance expenses.

Effects of the COVID-19 epidemic and non-recurring negative events (especially the real property revaluation in the amount of EUR 128 million) had a negative impact on both our **operating profit** and on our **net income** for the accounting period at hand. Adjusting for all non-recurring events Mercator Group's **net income for the period** would have amounted to **EUR 4,712 thousand**.

Review of non-recurring business events

In 2020, net effects of non-recurring business events at the level of the entire Mercator Group amounted to EUR 161.4 million, while the net effects of non-recurring business events on Mercator Group business results in 2019 amounted to EUR 1.4 million.

The table below summarizes the non-recurring business events in the period 2019-2020 and their effect on EBITDA.

in EUR mn	2020	2019
EBITDA	**1.3**	**169.0**
Normalization effect	**161.4**	**1.4**
- of which net impairment of current assets	6.3	1.9
- of which net impairment of non-current assets*	144.4	(4.1)
- of which other one off events	10.7	3.6
EBITDA normalized	**162.8**	**170.4**
Effect of IFRS 16 Leases	(64.9)	(67.6)
EBITDA normalized w.o. IFRS 16 Leases	**97.8**	**102.8**

* Of the total net revaluation adjustments to non-current assets, revaluation of property accounted for EUR 128 million.

In 2020, Mercator Group generated **EUR 162.8 million of normalized EBITDA.**

Assets

Assets of Mercator Group

in EUR 000	December 31, 2020	December 31, 2019	Change December 31, 2020/2019	Share in total assets 2020
Property plant and equipment	831,426	916,896	(9.3)%	46.4 %
Intangible assets	20,750	20,548	1.0 %	1.2 %
Investment property	198,978	273,006	(27.1)%	11.1 %
Right of use assets	340,030	351,908	(3.4)%	19.0 %
Loans/deposits given	8,246	13,600	(39.4)%	0.5 %
Receivables and investment in financial assets	10,537	5,633	87.1 %	0.6 %
Total non-current assets	**1,409,966**	**1,581,592**	**(10.9)%**	**78.7 %**
Assets classified as held for sale	0	0	— %	— %
Inventories	202,951	211,090	(3.9)%	11.3 %
Receivables	126,317	156,062	(19.1)%	7.1 %
Loans/deposits given	2,365	2,148	10.1 %	0.1 %
Cash and cash equivalents	49,884	52,977	(5.8)%	2.8 %
Total current assets	**381,517**	**422,277**	**(9.7)%**	**21.3 %**
Total assets	**1,791,483**	**2,003,869**	**(10.6)%**	**100.0 %**

Mercator Group's assets as at December 31, 2020 amounted to EUR 1,791,483 thousand, which is 10.6% less than at the end of 2019.

Mercator Group non-current assets as at **December 31, 2020**, amounted to EUR 1,409,966 thousand, which is 10.9% less than at the end of 2019. The value of property, plant, and equipment accounts for the highest share of non-current assets, with 59.0%. In non-current assets, EUR 340,030 thousand pertains to the right-of-use assets at fair value, which is related to the IFRS 16 Leases and, in terms of substance, represents the lease of property, plant, and equipment.

Mercator Group current assets as at **December 31, 2020**, amounted to EUR 381,517 thousand, which is 9.7% less than at the end of 2019. The largest items within current assets as at **December 31, 2020**, are inventories (53.2%) and trade and other receivables (33.1%).

Equity and liabilities

Equity and liabilities of Mercator Group

in EUR 000	December 31, 2020	December 31, 2019	Change Dec. 31, 2020 / Dec. 31, 2019	Share in total equity and liabilities 2020
Equity	**292,046**	**438,974**	**(33.5)%**	**16.3 %**
Borrowings	67,743	471,902	(85.6)%	3.8 %
Lease Liabilities	272,636	300,260	(9.2)%	15.2 %
Deferred tax liabilities	15,063	11,677	29.0 %	0.8 %
Provisions	27,543	25,804	6.7 %	1.5 %
Total non-current liabilities	**382,985**	**809,643**	**(52.7)%**	**21.4 %**
Trade and other payables	558,680	576,305	(3.1)%	31.2 %
Borrowings	484,538	99,959	384.7 %	27.0 %
Lease Liabilities	73,036	76,100	(4.0)%	4.1 %
Current tax	199	2,887	(93.1)%	— %
Total current liabilities	**1,116,453**	**755,251**	**47.8 %**	**62.3 %**
Total liabilities	**1,499,438**	**1,564,894**	**(4.2)%**	**83.7 %**
Total equity and liabilities	**1,791,483**	**2,003,869**	**(10.6)%**	**100.0 %**

Mercator Group's borrowings and other lease liabilities as at **December 31, 2020**, amounted to EUR 897,953 thousand, which is EUR 50,268 thousand less than at the end of 2019. Mercator Group's net financial debt as at **December 31, 2020**, amounted to EUR 848,068 thousand, which is EUR 47,176 thousand lower than a year earlier.

Total trade and other payables as at **December 31, 2020**, amounted to EUR 558,680 thousand, which is EUR 17,625 thousand less than at the end of 2019. Provisions as at **December 31, 2020**, amounted to EUR 27,543 thousand, which is 6.7% less than at the end of 2019.

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

	December 31, 2020	December 31, 2019
Long-term coverage of non-current assets $^{\Delta}$	47.9 %	78.9 %
Net financial debt/ EBITDA normalized	5.2 x	5.3 x

$^{\Delta}$ Alternative measure is presented in more detail in the chapter Alternative performance measures (APM).

As at **December 31, 2020,** long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounted to 47.9%, which is 31.0 percentage points less than as at the end of 2019. The ratio between net financial debt and normalized EBITDA in 2020 amounted to 5.2 x, which is 0.8% lower than at the end of 2019.

Effect of the new IFRS 16 pertaining to leases

As of January 1, 2019, a new International Financial Reporting Standard Leases (IFRS 16 Leases) came into effect, replacing the previously effective standard IAS 17 Leases. The standard introduces a single model for determination of lease regimes and accounting treatments for both landlords (lessors) and tenants (lessees). It specifies the principles for recognition, measurement, disclosure, and presentation of leases. According to the new IFRS 16 Leases, the previously effective double model of lease accounting is eliminated. Hence, there is no longer a distinction between operating and financial lease, and they are presented in financial statements with a single model.

The IFRS 16 Leases also introduces certain exceptions, such as:

- for short-term leases, i.e. leases shorter than one year;
- for leases in which the asset has a very low value.

Two approaches for transition to the new standard are offered:
- full retrospective approach, presented with the use of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- modified retrospective approach, i.e. retrospective approach with cumulative effect of implementation of this standard, recognized on the date of implementation.

Mercator Group and the company Poslovni sistem Mercator d.d. opted for the modified retrospective approach to application of the IFRS 16 as of January 1, 2019, which means that comparable information for 2018 is not re-calculated or adjusted; rather, all changes resulting from the transition to the new standard are reported as adjustments to the opening balance in the balance sheet as at the day of the start of use of the new standard. Most other large enterprises with a large portfolio of leased commercial real estate decided for a similar approach.

As of 2019, Mercator Group and the company Poslovni sistem Mercator d.d. amended their effective accounting policies for treatment of business events and their presentation in financial statements, pursuant to the requirements of the IFRS 16 Leases.

The new standard IFRS 16 Leases represents changes in accounting and reporting of leases, which affects the income statement and the statement of financial position.

The table below presents the data for 2020 without and with the effect of the IFRS 16 Leases.

in EUR 000	without IFRS 16 Leases impact	with IFRS 16 Leases impact
EBITDA normalized	97,829	162,755
Net profit for the year	(139,383)	(156,710)
Total financial liabilitis	597,726	897,952
Net financial debt/EBITDA normalized	5.6x	5.2x

Operations and performance plans for 2021

Planned operations and performance in 2021

For 2021, Mercator Group is primarily planning to further pursue its development strategy. The key aspects of this pursuit are attainment of revenue growth and business performance within Mercator's efforts to be the best local retailer in all markets of its operations. For the year 2021, Mercator Group is planning revenue of EUR 2.2 billion and normalized EBITDA of EUR 101.1 million (excluding the effect of the IFRS 16 Leases).

One notable development in the year 2021 will be the increase of labour and other costs; therefore, Mercator Group has already planned a number of activities to control the cost growth.

Tomislav Čizmić, President of the Management Board at Mercator Group, stresses: »Mercator Group is already successfully pursuing the strategy of merging its sales channel into a uniform ecosystem that offers customers what they want, where they want, when they want. In 2021, we shall prove once more that this is an effective and successful strategy that brings us competitive advantages and leads to better business efficiency.«

Moreover, Mercator is planning to strengthen the position of the leading retailer in all markets of its operations. It will boost activities in the wholesale market, retain its role of a technological innovator, and continue to invest in the processes of understanding the desires and needs of its customers, based on the largest customer loyalty system in Slovenia and the broader region. Mercator Group activities shall remain focused on local and regional supplier brands and activities that pave the way for their stable and successful growth.

Investment activities in 2021

In 2021, Mercator Group will continue the construction project for the new logistics and distribution centre in Ljubljana. Capital expenditure will total at EUR 39.8 million, of which 65.8% is allocated to investments in Slovenia. In 2021, Mercator Group is planning to open 16 new stores and update 29 stores in all markets of its operations.

Further deleveraging

The Group's ultimate goal is further deleveraging. According to the 2021 budget, the net financial debt to EBITDA ratio (including MSRP 16) will be at 4.9.

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.

Risk analysis for the year 2020

Based on the risk analysis at Mercator Group for the year 2020, we discussed and completed in 2020 a total of 160 risk mitigation or hedging measures. We monitored their execution on a monthly basis and documented our findings in our reports.

Risk analysis for the year 2021

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

For 2021, we employed systematic analysis to identify and evaluate the risks that could occur in all processes of Mercator Group operations. We revised the risk management system to be consistent with the best practice, and we identified and prioritized Mercator's key challenges, which allows us to act in a timely manner and appropriately in our efforts to accomplish our planned goals. Thus, we specified the key risks for each company and the entire 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. 185 measures were forwarded to the responsible persons to ensure their execution. We shall monitor their progress on a regular basis.

Key risks of the Mercator Group

Following is a presentation of the key risks for the Mercator Group, and the planned activities for their mitigation in 2021.

KEY IDENTIFIED RISKS	RISK DEFINITION/CHARACTERIZATION	CURRENT MITIGATION/HEDGING MEASURES	NEW MITIGATION/HEDGING MEASURES
Risk of change in customer behaviour	• Digitalization, Development of e-commerce • Changes in price sensitivity • Epidemic (in case of COVID-19 – bigger shopping baskets/carts, fewer visits) • Changes in personal preferences • Brand boycott • Decrease in customer loyalty • More home cooking	Risk is being mitigated with Value Creation Plan (VCP) initiatives under the key goals focusing on revenue, margin generation and brand differentiation:: • Annual negotiations with suppliers, additional marketing projects with suppliers, My Brands – upgrade of existing concept, pricing, preparation of category management strategy and process improvements, optimization of promotions, PromoTool – design and implementation of Mercator promotions, Reporting for Suppliers – standardization and automation, recommender SYSTEM, targeted segmentations of customers, private label development and central purchasing, process part of margin optimization, loyalty customer strategy, operational readiness, brand unique selling propositions (USPs) communication, improvement of loyalty card program (digitalization, monetization, personalization, optimization), single banner strategy and factors of differentiation • Contactless payments • Customer behaviour analysis	For additional mitigation we planned new initiatives: • »Heroes« project: defining SKU's that will improve brand differentiation • Upgrade of My Brands platform • Providing value added services to suppliers (MLink monetization) • Development of fresh categories – deli, meat, fruit & vegetables and bakery • Projects for stimulating the frequency of shopping and increase of average baskets and connect online and offline experience, »Value for Money« project, best omni channel (Msoseska, new digital platforms, MojM (My M) app, digital signature), We Love Local and Lumpi Baby Club • Ready to eat food, Ready to bake food (bundles) • Social Commerce • Contactless payments with Pika card • Partnerships with restaurant chains
Risks pertaining to e Commerce	• Change of consumer behaviour, way of life • Development of competitor's online stores (IT solution, assortment, delivery time, security) • Threat of a process bottleneck • Threat of loss of profitability in the online store segment	Risk is being mitigated with VCP initiatives:: • Improving digital services for customers and monetization of digital channels for Mercator's suppliers and partners • Creation of marketing & commercial platform for Mercator's suppliers	For additional mitigation, we are planning new initiatives: • Complete renovation of Mercator online store with the aim to increase the share of wallet with omni-channel approach, winning the young customer segment and developing a complete new set up for online shop (platform, operations, marketing, customer care etc.) • Best omni-channel operation with development of new digital channels (Msoseska, various M Box formats, using new digital channels like Spotify, Pinterest, WhatsApp, podcasts), renovation of »My M« app and upgrade of mScan and MiMercator.. • Improvement of loyalty card program (digitalization, monetization, personalization, optimization)

KEY IDENTIFIED RISKS	RISK DEFINITION/CHARACTERIZATION	CURRENT MITIGATION/HEDGING MEASURES	NEW MITIGATION/HEDGING MEASURES
Risk of loss of market share	• Competitor's activities • Threat of suboptimal promo activities • Threat of suboptimal category management	• Initiatives under the key goals which focus on revenue, margin generation, brand differentiation and new store concept and refurbishment • New store openings and renovations with the implementation of latest store concepts	For additional mitigation, we are planning new initiatives:: • »Heroes« project: defining SKU's that improve brand differentiation • Upgrade of My brands platform • Providing value added services to suppliers (MLink monetization) • Development of fresh categories – deli, meat, fruit & vegetables and bakery • Projects for stimulating the frequency of shopping and increase of average baskets and connect online and offline experience, »Value for Money« project, best omni channel (Msoseska, new digital platforms, MojM app, digital signature), We Love Local and Lumpi Baby Club. Complete renovation of Mercator online store • Increase of online presence in areas with lower store density
Risks of changes in law and regulatory risk	• Threat of ban of sale of certain products • Threat of opening time restrictions • Regulatory measures take effect in a very short time; hence, there is a threat due to the lack of time for preparation and adjustment • Regulatory measures are often unpredictable • The duration of restrictions is unpredictable • Delays in development and execution of action plans	• Risk in being mitigated as a part of everyday business activities • Special project teams are being appointed to deal with major regulatory changes	• New VCP initiative is planned for 2021, called Changes in Law and Regulation, with constant monitoring and effective implementation • The Business Continuity Management System project has been launched
Risks pertaining to ownership changes – merging process and synergies from the merger	• Failure to reap the synergistic effects of the merger within the specified timeline and budget	• Risk to be mitigated with Ringo project initiatives (joint project between Mercator Group and Fortenova Group)).	• All Ringo initiatives are being constantly upgraded and enhanced
Risks pertaining to change management	• Risk of inappropriate internal communication, exchange of information, and inefficient process improvements	• Risks are being mitigated within Mi.Mercator project • VCP initiative »Employer brand« with introduction of 4-step model to set up, manage and build an employer brand	• All initiatives are being constantly upgraded and enhanced • Creation of Mi.Mercator portal that is a key channel for internal communication, with which we aim to connect all employees in all markets
Risks pertaining to business continuity management system	• Risk of unpreparedness for certain catastrophic events that could threaten the functioning of the company	• Based on the experience gathered during the crisis management in Mercator due to coronavirus epidemic, Mercator shall, after the end of the current epidemic, review the relevant existing policies and procedures and prepare an update in order to improve the response and minimise the negative impacts of any future similar events.	• New VCP initiative is planned for 2021, called »Business Continuity Management System« that will cover all critical aspects of risk.

KEY IDENTIFIED RISKS	RISK DEFINITION/CHARACTERIZATION	CURRENT MITIGATION/HEDGING MEASURES	NEW MITIGATION/HEDGING MEASURES
Risks pertaining to talent management and human resources	• Risk of a lack of qualified (adequately trained) motivated employees	• Risks are being mitigated with VCP initiatives under the key goals related to employees: employer brand, onboarding processes, motivation & reward, talent development • Frequent job announcements in all areas, especially in retail, distribution and IT, through various human resource agencies • Improved assessment of job candidates and the effectiveness of initial job training. • Recruitment and integration of expatriates with specialist skills • Introducing additional atypical work practices • Internal cross-functional training. • Cooperation with secondary schools (internships, scholarship, practical training) • Development and fostering of leadership competencies	• Upgrade of Human resources strategy • Introduction of E-learning concept • Introduction of regular annual surveys of organizational climate, employee satisfaction, and commitment, based on which the management will take appropriate measures to address identified shortcomings • Mi.Mercator as a key channel for internal communication, with which we have connected all employees in all markets
Risks pertaining to CAPEX projects criteria	• Threat of reduced competitiveness of Mercator in relation to the store portfolio • Threat of increased maintenance costs for buildings and equipment • Threat of reduced productivity and profitability	• Ongoing initiatives to maximize free cash flow, reduce leverage and consequently increase the level of cash flow available for CAPEX • Right KPI and criteria for CAPEX projects	• Revision of methodology for calculating the profitability of the planned investment projects to support the focus on the projects which are most important for Mercator in terms of cost benefit (a special stream under the CAPEX Project).
Risks pertaining to IT infrastructure (technology, processes, people)	• Lack of IT personnel is also related to suboptimal process improvements. • Lack of IT-related investments (CAPEX) • Information/cyber-security risk • IT infrastructure may be subject to occasional disruptions and would need to be upgraded in some areas	• This risk is being mitigated with VCP initiative IT optimization (removal of outdated systems, optimization and digitalization of processes) • This risk is being mitigated within the initiative IT, Digital & Online • Adoption of the latest best practices in IT security standards	• The initiative is being constantly upgraded and enhanced. In addition to current activities, we are planning new VCP activities for 2021 such as Mi.Mercator portal, HR advanced modules, macro & micro space management, regional usage of custom business intelligence algorithms, upgrade of inventory replenishment system etc.

Financial management

Stable Financial Operations

As at December 31, 2020, Mercator Group's net financial debt (not taking into account the new IFRS 16 Leases) amounted to EUR 547,842 thousand, which is 6.0% less than as at the end of 2019[14]. Decrease of financial liabilities as at December 31, 2020, was also a result of the completion of transaction and payment of the acquisition price related to the monetization project in Serbia at the end of 2019. Mercator Group's net financial debt (taking into account the new IFRS 16 Leases) as at December 31, 2020, amounts to EUR 848,068 thousand.

The net financial debt to normalized EBITDA ratio was 5.2x at the end of 2020, which is 0.8% better than at the end of 2019.

in EUR 000	December 31, 2020	December 31, 2019	Change Dec. 31, 2020 / Dec. 31, 2019
Non-current borrowings	67,743	471,902	(85.6)%
Current borrowings	484,538	99,959	384.7 %
Financial leases*	45,445	64,058	(29.1)%
Financial liabilities	**597,726**	**635,919**	**(6.0)%**
Cash and cash equivalents	49,884	52,977	(5.8)%
Net financial debt (without the effect of IFRS 16 Leases)	**547,842**	**582,942**	**(6.0)%**
New liabilities related to the new standard IFRS 16 Leases			
New non-current and current lease liabilities*	300,226	312,302	(3.9)%
Total lease liabilities related to the new standard IFRS 16 Leases	**300,226**	312,302	**(3.9)%**
Net financial debt (with the effect of IFRS 16 Leases)	**848,068**	**895,244**	**(5.3)%**
EBITDA normalized	162,755	170,422	(4.5)%
Net financial debt (with the effect of IFRS 16 Leases)/EBITDA normalized	**5.2 x**	**5.3 x**	**(0.8)%**

* Items »Financial leases« and »new non-current and current lease liabilities« are presented in Statement of financial position as »Lease liabilities«.

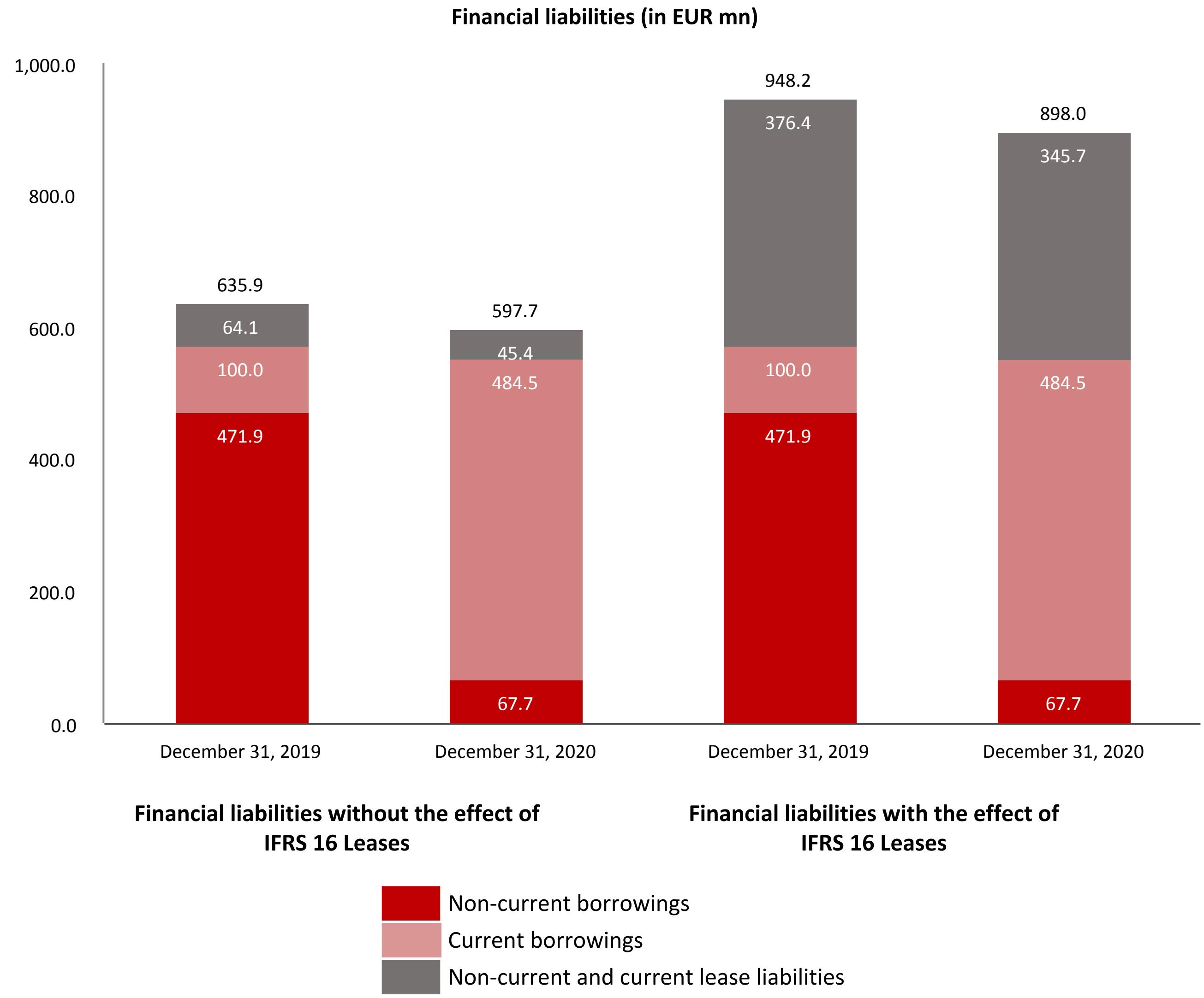
Debt to equity and financial liability ratio

As at December 31, 2020, Mercator Group **attained** a **debt-to-equity ratio of 1:2.90**. The ratio is a quotient between equity and net financial debt.

The share of long-term financial liabilities in total financial liabilities as at December 31, 2020, was at 37.9% (81.4% as at December 31, 2019). The decrease in share is a result of maturity of debt as at December 31, 2020, which mostly matured in 2021. As at the day of Annual Report release, this debt as already been refinanced with a long-term loan by the Fortenova Group.

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

[14] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020



Available liquidity lines as at December 31, 2020

As at December 31, 2020, Mercator Group had access to the following liquidity lines or sources[Δ]:

in EUR 000	December 31, 2020
Cash and cash equivalents	49,884
Standby revolving credit lines*	6,723
Total	**56,607**

* Standby revolving credit lines include undrawn WGD tranche A, undrawn Super Senior, and undrawn cheque factoring.
[Δ] Alternative measure is presented in more detail in the chapter Alternative performance measures (APM).

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.

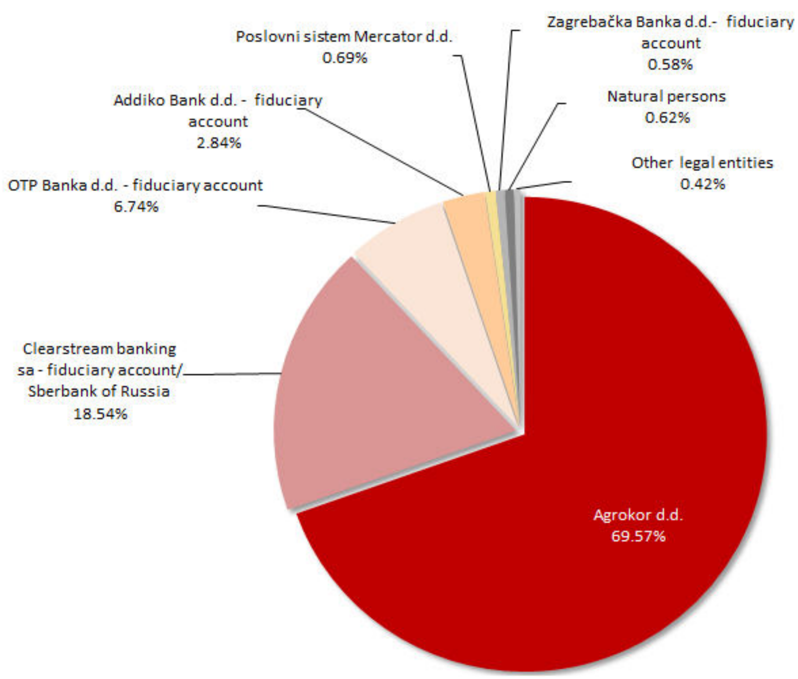
Mercator share and investor relations

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31, 2020:

Code/Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska borza, d. d.
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of own shares	42,192
Number shareholders	1,505

Ownership structure of the company Poslovni sistem Mercator, d.d., as at December 31, 2020



Major Shareholders

As at December 31, 2019, the ten largest shareholders combined owned 97.69% of the company. Key information on the largest shareholders is presented in the chapter Corporate Governance Statement.

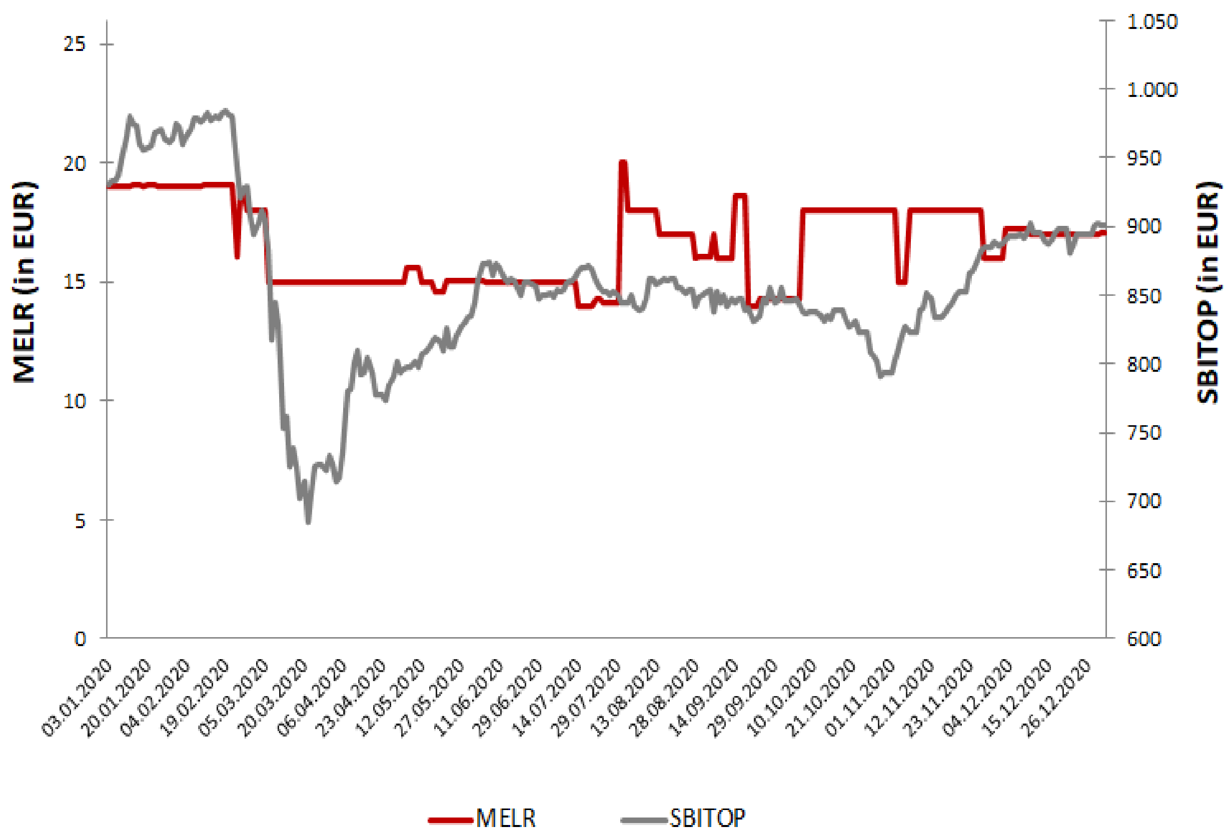
Shares held by Management and Supervisory Board members as at December 31, 2020

As at December 31, 2020, 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, 2020, the share of foreign investors in the company Poslovni sistem Mercator d.d. amounted to **98.67%** and has not changed compared to 2019.

Movement of closing price per MELR share in the period 1-12, 2020, compared to the movement of the SBITOP index



Key information for the shareholders[15]

in EUR 000	December 31, 2020	December 31, 2019	Change Dec. 31, 2020 / Dec. 31, 2019
Number of shares registered in Court Register	6,090,943	6,090,943	— %
Number of own shares	42,192	42,192	— %
Market capitalization (in EUR)	104,155,125	115,727,917	(10.0)%
Market value of share (in EUR)	17.1	19.0	(10.0)%
Book value per share (in EUR)	60.5	66.5	(9.1)%
Minimum close rate in the period (in EUR)	14.0	19.0	(26.3)%
Maximum close rate in the period (in EUR)	20.0	28.0	(28.6)%
Average close rate in the period (in EUR)	16.6	23.1	(28.3)%
Earnings per share (in EUR) $^{\Delta}$	-9.2	-2.3	— %
Price/earnings ratio (P/E)$^{\Delta}$	-0.7	24.6	— %
Capital gains yield (in %)	-10.0	-17.4	— %

$^{\Delta}$ Alternative measure is presented in more detail in the chapter Alternative performance measures (APM)

Dividend policy

In 2020, the company Poslovni sistem Mercator d.d. did not pay out any dividend.

Own shares

As at **December 31, 2020**, the company Poslovni sistem Mercator d.d. **held 42,192 own shares**. In the period 1-12, 2020, the company Poslovni sistem Mercator d.d. neither acquired nor disposed of own shares.

Investors

The company Poslovni sistem Mercator d.d. communicates important information and major changes in company operations or performance to all stakeholders regularly and in a timely fashion. Such information is conveyed via the website at www.mercatorgroup.si, 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 and under the same terms by Mercator. Furthermore, they are motivated to actively and responsibly exercise their rights.

[15] 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. Book value per share is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator d.d. as at 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. Price/earnings per share 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 of the entire society or country. **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.

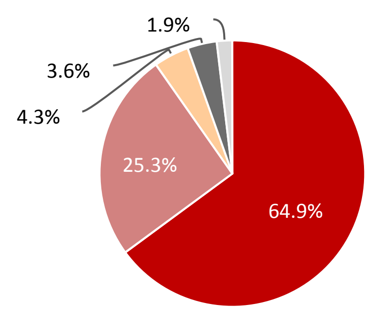
Mercator Group is managing its taxation risks in a similar manner as every other operational risk. Taxation risk management is a key process that can protect the company from negative consequences for the accomplishment of its business goals.

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 2020

in EUR 000	Tax, contributions, and other charges in 2020
Slovenia	117,449
Serbia	45,823
Montenegro	7,759
Bosnia and Herzegovina	6,449
Croatia	3,415
Total	**180,895**

Tax, contributions, and other charges in 2020 (in %)



In 2020, Mercator Group companies paid a total of EUR 181 million of taxes, contributions, and other charges. Of this amount, EUR 117 million of taxes and other charges were paid in Slovenia (accounting for 64.9% of total Mercator Group tax liabilities), which makes Mercator one of the most important contributor of public finance income in the country.

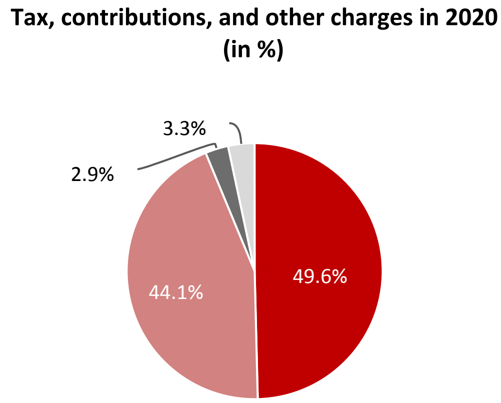
Types of taxes, contributions, and other charges

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 2020

v EUR 000	Tax, contributions, and other charges in 2020
Personal income tax	89,770
Taxes on goods, services, products	79,839
Corporate income tax	5,258
Other taxes and charges	6,028
Total	**180,895**



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 fulfillment of liabilities and decrease of administrative burden of financial control. In March 2019, the special status of the company was extended to March 2022.

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 fulfillment of its tax liabilities with willingness to cooperate. Such form of cooperation with the allows greater certainty regarding taxes for the company.

OUR VALUES EXPRESS OUR VERY ESSENCE.

Non-financial report

Pursuant to the Directive 2014/95/EU of the European Parliament and of the Council dated December 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 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.

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.

Business model and governance

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

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.

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

At Mercator Group, we respect our **natural environment** and environmental regulations. Our goal is to protect and improve natural capital in the countries of our business. We strive to prevent or decrease pollution throughout the entire cycle of our products and services, and especially with respect to waste generation, emissions, and use of raw materials and energy.

Environmental policy, effects on the environment, and risks are defined in more detail below, in the chapter »Responsibility to natural environment«.

Our key goal is to have competent, satisfied, and motivated **employees.** 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. **We honour human rights,** we comply with the legislation and relevant norms, and we prohibit any discrimination in the workplace in all countries of our operations. 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. More detailed information on employees and respect for human rights is provided below in the chapter »Responsibility for the employees and respect for human rights«.

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, including **corruption** and **fraud.** Unlawful and unethical conduct is not permissible. The document Binding Guidelines for Operating Compliance lay down the fundamental principles and rules to be observed by the employees in their mutual relations and in relations to customers and third parties with whom they cooperate in their work. At Mercator Group, the standard of zero-tolerance for any form of corruption or fraud applies. More information about our fight against corruption and bribery is presented below, in the chapter »Responsibility to social environment«.

In addition to the said policies, Mercator Group also recognized:

- **diversity policy** presented in more detail in the chapter »Corporate Governance Statement« in the Business Report section of the Annual Report;
- **customer relations policy** that is presented in more detail in the chapter »Responsibility to customers«;
- **social environment policy** that is presented in more detail in the chapter »Responsibility to social environment«;
- **supplier relations policy** that is presented in more detail in the chapter »Responsibility to suppliers«;
- **quality management policy** that is presented in more detail in the chapter »Responsibility for quality«.

As a part of the risk analysis for the year 2021, Mercator Group assessed all risks identified in the risk register. Mercator Group's key **risks** are described and presented in the chapter Risk Management in the Business Report part of the Annual Report.

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 2020 pursuant to the provisions of Article 70.c of the Companies Act (ZGD-1). Mercator Group's non-financial operations are presented later in this chapter.

Ljubljana, April 23, 2021

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

Responsibility for the employees and respect for human rights

Employee policy and respect for human rights

Commitment of the Mercator Group

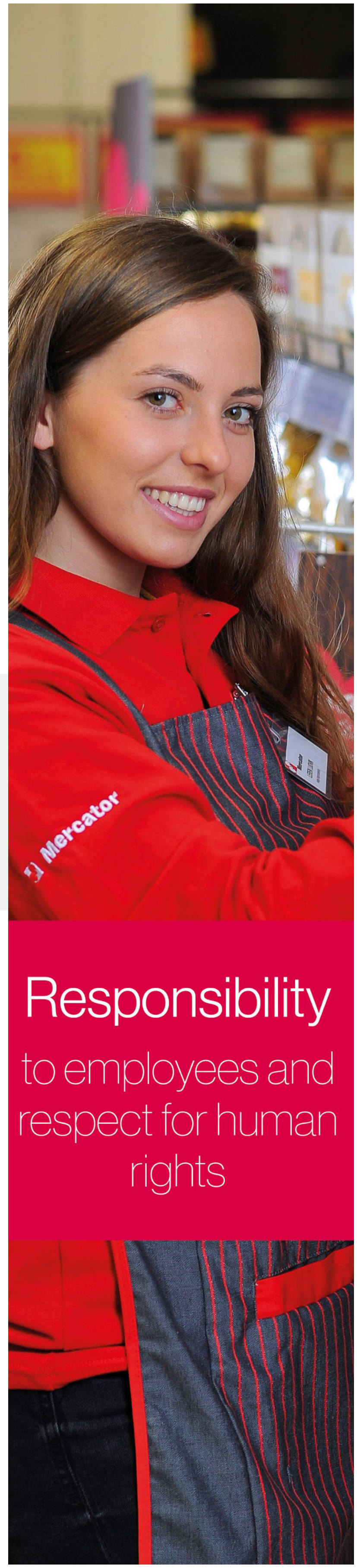
We are dedicated to attaining our business goals with competent, satisfied and motivated employees. In order to successfully accomplish these goals, the following starting points of our efforts are of key importance:

- focus on the customer,
- efficiency,
- agility.

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.

Employee-related activities and due diligence

In 2020, human resource management was under heavy impact of the COVID-19 pandemic. In February, we started to adjust the organization of our work and all our business segments in order to prevent further infections. A crisis task force was appointed in order to coordinate all legislative, external and internal regulations and instructions regarding work in the resulting state of emergency, and to adopt measures with particular attention to protection and welfare of our employees, especially those at operating units. Consistently with the instructions provided by the National Institute of Public Health (NIJZ), business hours of our retail units had to be adjusted during certain periods, and observation of safety measures had to be ensured (physical distance, use of protection gear, restriction of the number of customers in the sales area/store etc.). Work processes and IT support to human resource management systems had to be adjusted rapidly to the particularities related to COVID-19 (new forms of work or absence – working from home, furloughs, absence due to force majeure, quarantine) in order to arrange in a timely manner and correctly the compensations and allowances, as well as the crisis bonus. Considering the constantly changing circumstances, employees have to be kept up to date, and employees in distress are offered a phone line for counselling or conversation with trained professionals free of charge.



During the period of work from home, we worked with IT to develop and implement an application for registering the contents of the work performed, intended for white-collar workers at all Mercator Group companies.

Mercator Humanitarian Foundation paid out humanitarian aid in the total amount of EUR 85,721.00 in the first quarter of the year to assist 113 employees of the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o. In Serbia, we provided humanitarian aid in the amount of EUR 58,881.21 thousand to 208 employees. In Bosnia and Herzegovina, aid was provided from the Solidarity Fund to 39 employees, in the total amount of EUR 9,193.22. In Montenegro, 43 employees received total aid of EUR 9,700.00.

Our employees and their family members in respective markets are offered additional benefits: presents upon birth of a child, presents for elementary school freshmen on the first day of school, presents to children in the Christmas/end-of-year holiday season (over 1,040 children whose parents work at Mercator d.d. and Mercator IP d.o.o. and provided their consent were visited by Santa Claus at their home).

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

Health promotion program

Health promotion program – In December, the fourth generation of trainees completed the Health Promoter School. Thus, we got 54 new health promoters. Due to the circumstances, there was no joint certificate award ceremony; heads of retail units, heads of hypermarkets and shift managers made sure their health promoters still received in their certificates in an appropriately festive manner. At the moment, Mercator already has 157 health promoters from all fields. It is our goal for each unit with 10 or more employees to have a health promoter. Therefore, we shall continue training for further generations in 2021.

Retail training

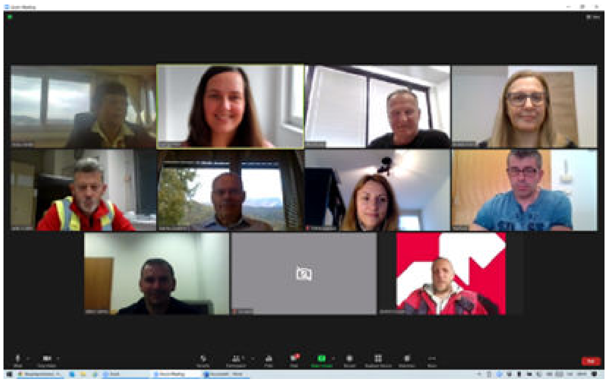
Retail training – In 2020, we paid particular attention in retail to training and education on expert knowledge and skills for employees in the delicatessen and meat departments, and to education and training on selling skills. Classes of school for meat department managers and butchers were attended by a total of 100 employees. Specialized »Corner« workshops for cutting prosciutto and mortadella were organized in autumn for 74 units in which 93 employees took part in on-the-job training. Selling skills workshops that we regularly hold in the form of both conventional workshops and visits at retail units were attended by 7819 employees in 2020.

In 2020, one group completed their training at the Stock Assistant School. Participants completed the four-day theoretical 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 15 employees successfully completed their training.

Wholesale employee development – The year 2020 was also a successful year in terms of training and education of employees in Wholesale. Regional managers and support managers attended workshops and received individual coaching to strengthen their leadership competencies. Field sales agents honed their selling skills at workshops, and call centre employees worked on their sales communication over the telephone. Sales assistants took part in workshops »Mercator's selling skills standard«, and the drivers took part in the workshop »Driver's role in Wholesale's service«. From June to

September 2020, we held 5 group coaching sessions with all Cash & Carry managers. Group coaching was conducted by internal coaches who are trained for individual performance of this type of training.

Eighth generation of Retail Academy – Early in the year, the 7th generation graduated from the Retail Academy. In addition, the 8th generation with no less than 70 participants started their training. Due to the measures to contain the epidemic, the program was only started in September when participants formed small groups to attend workshops in Ljubljana and Ptuj. The program includes 11 training days or 78 hours of training, and it includes 18 different sets of contents. We will continue the program remotely in January 2021.



Joint coaching of distribution center managers

Shop manager training in M Tehnika

Head of distribution centres took part in group coaching sessions – Group coaching sessions for heads of distribution centres were aimed at providing further development of leadership competences for operational leaders from logistics. They were joined by the executive director and the director at all meetings. After brainstorming and proposals for different solutions, they also identified a solution at the level of overall logistics: preparing a code of conduct with clearly defined rules.

Shop manager school for M–Tehnika – The shop manager school for M–Tehnika was broken down into 5 stages. In the preparatory stage, the management and shop managers were presented the purpose and goals of training, we measured shop manager competencies, and defined the training program based on the results. In the second stage, leaders held individual interviews with shop managers based on the competence measurement results, and shop managers laid down their development goals. Shop managers also took part in workshops: managerial economics, sound relations as the key to success, communication, motivation, and crisis leadership. The third stage included computer training. Before preparing these training sessions, classification testing was organized for the shop managers who were then divided into groups in which they recapped the key commands and functions in Excel and worked on the basis of Outlook. The program will continue and will be completed in Q1, 2021

Leader development in the IT and telecommunication sector – We have developed a project to identify and develop key competencies for successful work of leaders in IT. The project is based on 3 key stages, and it includes many innovative approaches to employee development. Based on the results, we devised a development program, the purpose of which is to bring together co-workers so that they can work better as individuals and work together better as a team, improve their communication, and develop better solutions. At first, 19 leaders were included in the program. In November, all IT employees joined them. Through a combination of individual coaching, group workshops, and digital interactive tools, this personalised program ensures that new knowledge and skills are not only acquired, but actually transferred to and implemented in daily practice in order to generate real and palpable results.

HR scholarship holders – In this year, we newly signed scholarship agreements with 30 candidates to be hired as sales assistants. They joined the 66 scholarship holders from last year. In total, the »family« of **TOP HIGH-SCHOOL STUDENTS** with **TOP SCHOLARSHIPS** now includes 96 members. Four scholarship holders who completed the Sales Assistant program in the last academic year, have already been hired in 2020.

»It is good to be the best« – In 2020, we held our traditional contests: Mercator Award, Best Boss, Best Store, Best Sales Assistant, and Best Teacher. As a rule, the contests are announced in March, while assessment and approval of the final choice of award recipients lasts until October. Since an award ceremony could not be held due to the pandemic, we presented the 97 awards remotely: 20 winners of the Mercator Award, 12 Best Bosses, 37 Best Sales Assistants, 8 Best Teachers, and 20 Best Stores.

Training centres – In order to more easily integrate into work, acquire basic theoretical and practical knowledge and skills, and also to improve motivation of our new employees, we set up the first training centre in hypermarket Ljubljana Rudnik in Ljubljana, in which new employees hired as sales assistants at stores in the Ljubljana area are trained. In the period from September 1 to December 31, 2020, we trained 69 new employees at the training centre, whose induction took a combined total of 2,338 hours. In 2021, we are planning to open a training centre in Kranj and in one more location.

Selection – Since the outbreak of the epidemic, we conduct job interviews to select the candidates for new employees remotely, via video chat applications (MS Teams, Viber, WhatsApp etc.), while psychological tests were adapted to online communication. In 2020, we thus hired a total of 1,056 new employees. In October, we took part in the largest virtual career fair in Slovenia. We presented our company on two stands – the largest central stand and the IT personnel stand.

Training center

Revision of job/workplace systematization and salary system – with regard to the legislative changes introducing an increase in minimum wage and exemption of all bonuses from the minimum wage, we introduced on January 1, 2020, changes to the salary system. All employees received new contracts, effective as of January 1, 2020, to be signed. A new stimulative employee reward system was also introduced, based on work performance. It was implemented on September 1, 2020.

Selection

Salary compensation for workers absent due to force majeure, and workers absent due to mandatory quarantine – An entirely new work process was set up in the human resource management department to process claims for salary compensation in case of absence due to force majeure and quarantine (approximately 6,000 claims for reimbursement of salary compensation were filed with the National Employment Agency of the Republic of Slovenia).

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

Transition to the new salary system – As of January 1, 2020, a new salary system was negotiated through productive social dialogue with the trade unions for Mercator IP d.o.o. The system maintains the ratios between respective salaries based on responsibilities, while still ensuring equal salaries for comparable jobs or workplaces. As in Mercator d.d., it also applies to the company Mercator IP d.o.o. that a new stimulative employee reward system based on work performance was introduced as of September 1, 2020.

Presents for employees during the Christmas/New Year's holiday season – IN December 2020, we carried out the most challenging project at our pastry workshop Kranjski kolaček (»Kranj Cupcake«) in terms of organization. The purpose of the project was to deliver presents to employees at Mercator Group companies in Slovenia. We prepared, baked, packed and distributed more than 12 tonnes of traditional pastry »lavish potica«.

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

M Hub talent management program – In February, a program of internal talent selection from a variety of fields within the company was presented to the management. After testing and review of candidates, 47 key talents were selected at the company, who will be involved in the planned activities as of January.

»One Assessment« platform – A new platform is being developed, which will combine the processes of selection and hiring (starting with the vacancy ad, and continuing with application, candidate testing etc.), which shall also allow communication with the candidates and improvement of related analytics and reporting.

»We are listening to you« training – In order to improve the service and friendliness of employees at our stores, we worked with regional leaders to devise an internal training course dealing with this subject. In three months, 12 trainers in 10 towns held 105 training sessions with over 1,050 participants from retail units. The next round of training is planned in 2021 when all other retail employees will be involved in the training.

Brochure »10 good commandments« – In view of the consequences of the COVID-19 epidemic, and in order to preserve the mental health of our employees living in stressful situations, we issued a brochure »10 good commandments« that includes advice for a better disposition and more effective tackling of everyday challenges.

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

Retail conference – On January 15, 2020, a Retail Conference was held in Sarajevo, during which business events and results for the year 2019 were presented, along with goals for the year 2020 and the years ahead. The conference was designed as a combination of interactive presentations, and it was intended to raise the level of professional knowledge and skills of retail shop managers. We presented awards for 12 best shop assistants in four regions; they received plaques and cash prizes.

Retail conference

»Coronavirus info« – In the entire, highly challenging year 2020, we sought to care as much as possible for health, motivation, satisfaction and career development of our employees. Since the very start of the epidemic, we have been systematically complying with and executing all types of measures for protection from the COVID-19 infection. We are continuously educating our employees on how to protect themselves from an infection and on how to work in the altered circumstances. Since the start of the second wave of the epidemic, we regularly report to our employees on the measures and situation regarding the infections with an informative newsletter »Coronavirus Info«.

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

Succession in retail – In January, we launched one of this year's major projects: succession in retail. This is a strategic plan aimed at providing qualified and competent people for leadership positions in retail. Based on previous interviews with the employees in whom we had recognized the potential, and psychological testing, we selected 20 individuals to be included in retail succession training. In case of a vacancy, these employees are the first candidates for appointment or promotion.

New training program for newly appointed shop managers – Early in the year, we prepared a new training program for newly appointed shop managers, which will allow systematic training for newly appointed shop managers and define the goals that a candidate should master in order to become a good shop manager. This is a product of regional coordinators and some of the best shop managers in the region. Fourteen best shop managers were appointed as mentors who shall train shop manager candidates. To this end, future mentors took part in internal training early in this year, while external training is planned later on. However, due to the situation with the coronavirus, implementation has been postponed.

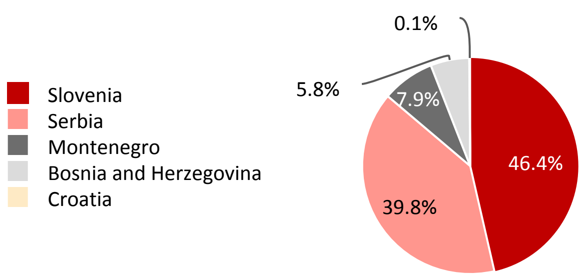
»Best employee« selection – In the previous years, we voted for our »Best Colleagues«; this year, we somewhat altered the concept and selected the »Best Employees« in administration, retail and logistics and distribution centres. We also held the »Best Facility« contest for the first time. This title went to four retail units, based on previously defined criteria.

Key performance indicators

- **Number of employees by Mercator Group markets**

Market	Number of employees as at December 31, 2020	Number of employees as at December 31, 2019	Index number of employees Dec 31, 2020/ Dec 31, 2019	Number of employees based on hours worked in the period 1–12 2020
Slovenia	9,726	9,355	104.0	8,409
Serbia	8,342	7,985	104.5	7,487
Montenegro*	1,650	1,393	118.4	1,455
Bosnia and Herzegovina	1,213	1,197	101.3	1,147
Croatia	29	33	87.9	30
Total	**20,960**	**19,963**	**105.0**	**18,528**

*The number of employees in the Montenegrin market has increased due to changes in labor legislation and the termination of employment through agencies.



As at December 31, 2020, there were 20,960 employees at Mercator Group, of which 11,234, or 56.27%, worked at companies outside Slovenia. The number of employees was the highest in Slovenia with 9,726, and the lowest in Croatia with 29. Compared to 2019, the number of employees increased in all markets except for Croatia – in total by nearly 5%. Total external fluctuation rate was lower in 2020 than it was in the preceding years.

- **Employees by gender**

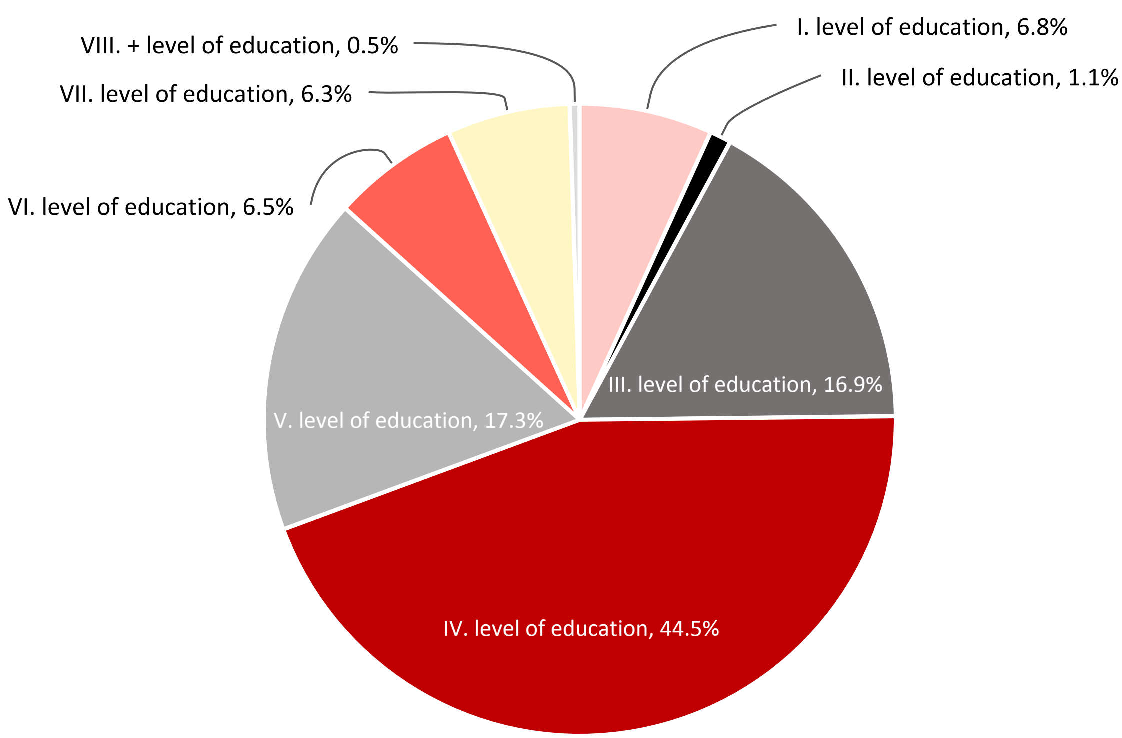
As at December 31, 2020, Mercator employed more female than male employees: 72.2% of employees were women and 27.8% were men.

Year	Number of employees	Men (in %)	Women (in %)
December 31, 2020	20,960	27.8	72.2
December 31, 2019	19,963	27.7	72.3

- **Composition of employees by level of education**

The most employees – as many as 44.5% of all employees – at Mercator Group have the 4th level of education, which reflects the Group's core activity of retail. This group is followed by employees with 5th and 3rd level of education with 17.3% and 16.9%, respectively. The lowest share – 0.5% or 105 employees (of which 94 are employed in Slovenia) – pertains to employees with 8th or higher level of education.

Actual level of education (% of employees), December 31, 2020



- **Share of employees by type of employment contract**

As at December 31, 2020, there were 18,175 Mercator Group employees (or 86.7% of all employees) with a permanent employment contract, of which 9,530 worked in Slovenia (98% of employees in this market). The company Mercator–CG d.o.o. had the largest share of employees on fixed-term (temporary) employment contracts (29.3% employees in this market).

Market	Individual contract (in %)	Standard contract (in %)	Permanent contract (in %)	Contract for a fixed period (in %)
Slovenia	0.8	99.2	98.0	2.0
Serbia	0.7	99.3	77.7	22.3
Montenegro	0.1	99.9	70.7	29.3
Bosnia and Herzegovina	0.3	99.7	80.1	19.9
Croatia	3.4	96.6	89.7	10.3
Total	**0.7**	**99.3**	**86.7**	**13.3**

- **Employment of disabled persons**

There are 1,042 persons with disabilities who are employed at Mercator Group, or 5.0% of all employees. Slovenian market has the highest number of employees with disabilities, with 845 or 8.7% of total employees in Slovenia. Of these, 203 are employed at the company Mercator IP d.o.o., which accounts for 51.8% of employees at this company.

Market	Number of employees	Disabled persons	Disabled persons (in %)
Slovenia	9,726	845	9
Serbia	8,342	161	2
Montenegro	1,650	1	0
Bosnia and Herzegovina	1,213	35	3
Croatia	29	0	0
Total	**20,960**	**1,042**	**5**

- **Functional training and education**

In the period at hand, Mercator Group devoted nearly 97,818 hours to functional training and education that involved 17,315 employees. On average, each participant received 6 hours of education or training.

Market	Number of hours in 2020	Number of participants in 2020	Costs (in EUR)
Slovenia	63,282	12,768	372,851
Serbia	17,950	3,137	77,738
Montenegro	5,929	388	5,886
Bosnia and Herzegovina	10,656	1,022	4,648
Croatia	0	0	0
Total	**97,818**	**17,315**	**461,123**

- **Health-related absenteeism and average age by markets**

The level of health-related absenteeism burdening the company is calculated as the ratio between total health-related absenteeism hours borne by the company and the total number of hours worked by all employees in the period. Total health-related absenteeism rate borne by the employer at Mercator Group in 2020 was 3.8%. It was the highest in Serbia, and the lowest in Croatia. On average, employees are the youngest at the company Mercator–CG d.o.o. where average employee age is 38.8 years, while the highest average age of employees was recorded at the company Mercator–H d.o.o., at 47.8 years.

Market	Health-related absenteeism to the burden of the company in 2020 (in %)	Average age of employees
Slovenia	4.0	43.8
Serbia	4.1	41.1
Montenegro	1.8	38.8
Bosnia and Herzegovina	3.1	41.0
Croatia	0.1	47.8
Total	**3.8**	**42.1**

Responsibility to customers

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-related activities and due diligence

At Mercator, safety and quality are of utmost importance. Therefore, we pay a lot of attention to compliance and quality of our products and services. We do our best to offer environmentally friendly products and services, and we pace a lot of emphasis on the offer of domestic, local products.

Customers complaints

We always address any customer complaints seriously and responsibly, and they are a source of information and a starting point for improving our offer and our service. We address any complaint or comment and we find the best solution for the customer, while also improving the work process insofar as possible and reasonable.

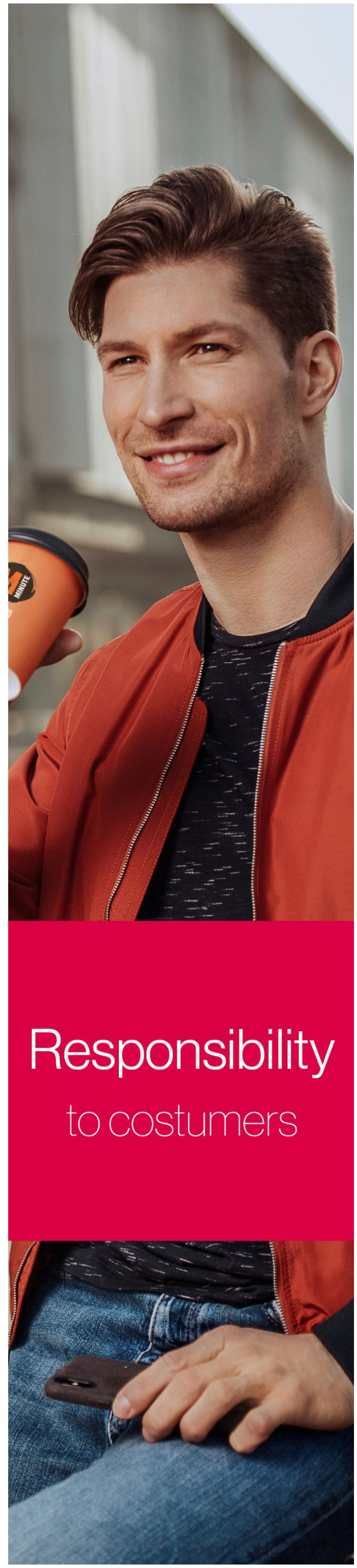
Customer complaints are received via a number of channels (telephone, e-mail, conventional postal delivery service, Facebook etc.) and collected at our Contact Centre. We coordinate their resolution and provide feedback on the solution as needed. Most frequently, the complaints are lodged via e-mail. We analyze the received complaints and develop proposals for improvements and measures for their pursuit.

In 2020, we entered a new Environment Protection classification unto the Cocos application, under which we record complaints pertaining to pollution with waste, exceeded noise emissions, light pollution, use of energy, chemicals and water that is environmentally unsound, consequences of extraordinary events etc.

Marketing activities related to the offer of local

In 2019, we continued our project **»We Love Local«**, within which we offer genuine produce and products from local farmers, growers and producers. The project involves 229 local suppliers, and the offer already involves over 2,300 local products.

Annually, we sell **1.1 billion worth of goods by local and regional suppliers**, which is **61.5% of total Mercator Group retail revenue.**



Care for food safety

Key goals regarding responsibility to customers include providing control over safety, compliance, and quality of our private label products; efficient annual internal control over each sales unit; employee training; and control of safety and quality of food in open departments. Contents and scope of internal controls were adjusted to the COVID-19 circumstances.

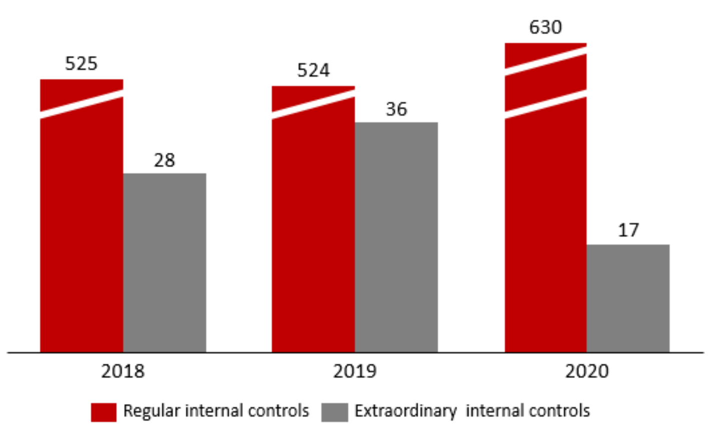
In order to offer safe, compliant, and quality products to consumers, the Mercator Group highlights the following activities in 2020:

- continuous quantity and quality control on acceptance of fresh food at warehouses or stores (e.g. fresh fruit and vegetables, fresh meat etc.);
- at least 2,429 private label product samples were analyzed in our in-house laboratory and by third-party certified institutions;
- we conducted monitoring of 4,444 samples of food, 3,007 swabs and 231 potable water analyses in open departments;
- we recorded 695 sample analyses as a part of national monitoring;
- we carried out 996 regular and at least 667 extraordinary internal controls at our sales and other units;
- for employees in retail and wholesale, we held 356 workshops on internal controls according to the principles of the HACCP system (2,208 employees took part in the workshops);
- in Serbia, we successfully completed the audit for marketing organic food products; sales of packed fresh fruit and vegetables and other food were approved; in Slovenia, we expanded our organic product operations with our own import and export of organic food products;
- in Slovenia, we successfully completed the certification audit for the Izbrana kakovost (Select Quality) scheme for the sale of poultry, beef, and veal, and for the Izbrana kakovost (Select Quality) scheme for sale of bulk (non-pre-packed) fruit;
- in Serbia, we successfully completed third-party certification audit[16] for the HACCP system.

Superior Quality Certificate by the Faculty of Biotechnology

Key performance indicator

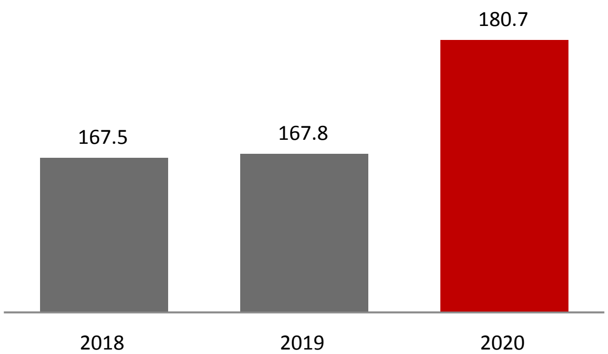
- **regular and extraordinary internal controls**



[16] Specialty in the Republic of Serbia.

In order to offer our consumers quality products, we are conducting both regular and extraordinary internal controls. Thus, we conducted 630 regular controls in 2020, which is 20.2% more than in 2019. There were also 17 extraordinary controls, which is 52.8% fewer than in the year before.

- **Revenues through modern technologies (in EUR mn)**



Innovations in modern technologies afford quick and easy payment for the customers, as well as new ways of shopping and new shopping experience. Modern technologies allowing retail transactions include:

- online store (Slovenia, Serbia, and Montenegro);
- TikTak self-check-out (Slovenia, Serbia and Bosnia and Herzegovina);
- MScan (Slovenia, Serbia and Montenegro);
- payment with mobile application (Slovenia).

In 2020, **revenue generated via modern technologies in retail increased by 7.7%** relative to 2019. The steepest increase was recorded in our **online store**, with 118%, followed by checkouts with mobile app, which were up 28.5%, and **TIK TAK self-checkouts** with an increase of 0.8%. Shopping with the **M Sken** service is also increasingly popular. It allows customers to use a hand-held scanner or a smart phone to streamline the shopping experience. In 2020, **M Sken** accounted for **1.1% of total revenue generated with modern technologies**.

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

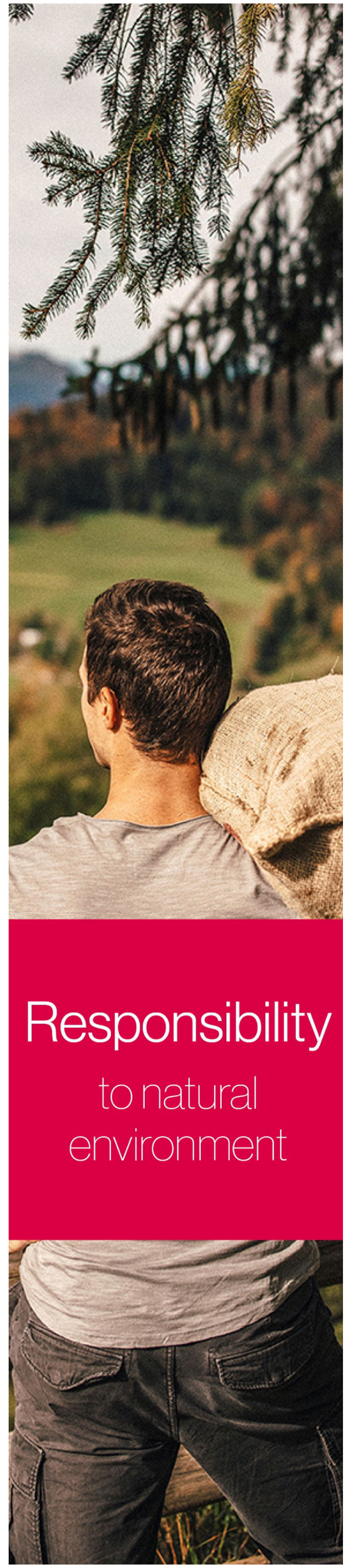
Environmental policy

Mercator's activity of fast-moving consumer goods retail and wholesale is not among activities detrimental to the environment. However, our activity the large number of stores still contribute to environmental pollution.
We are aware that we are operating in countries with highly diverse and rich natural environment. Therefore, efforts and actions to improve the processes in our society are also geared towards preservation of the natural environment in which we operate, and constant improvement of the environmental management system.

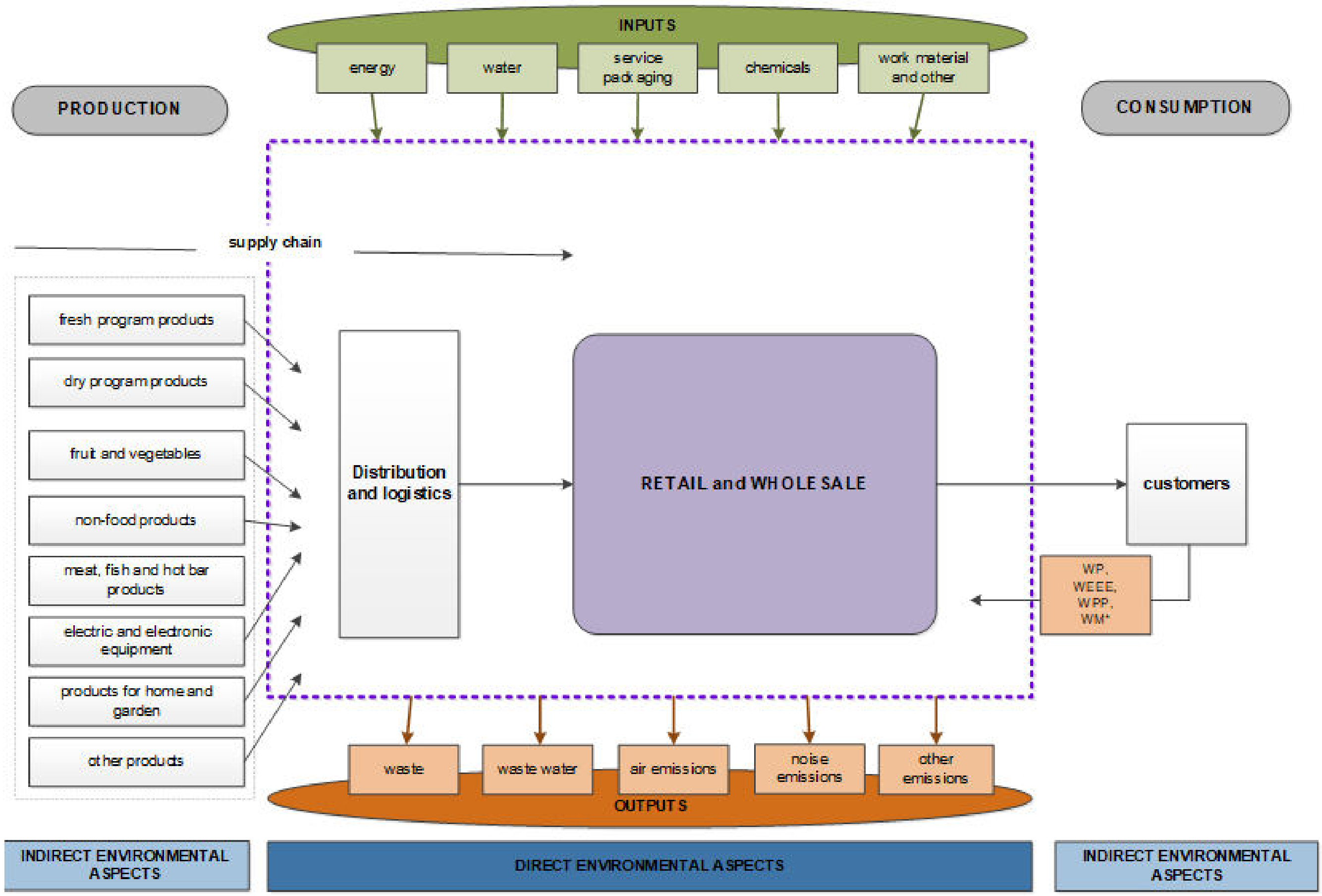
Environment-related activities and due diligence

Mercator's operations directly affect our natural environment. In order for us to conduct our business activity, we use natural resources, such as water, energy, service packaging etc., or the so-called inputs. Moreover, our retail and logistics business activity result in generation of various types of waste, wastewater, noise emissions, emissions into air, greenhouse gas emissions etc., or the so-called outputs.
Thus, we are aware at Mercator Group that by conducting our business activity, especially in terms of use of energy and the resulting greenhouse gas emissions, we also contribute to climate change. Consistently with our goal of cutting the use of energy, we are conducting a number of measures and activities.

Mercator Group also affects climate change indirectly via the goods we are offering to our customers. In our offer, we are constantly increasing the share of local products with a shorter supply route, which in turn reduces greenhouse emissions in comparison to products sourced from suppliers farther away. By selecting local products, customers contribute to a lower impact on climate change.



Environmental aspects and effects on the environment in retail and wholesale



*OEM (WP) – waste packaging; OEEO (WEEE) – waste electric and electronic equipment; odp. FFS (WPF) – waste phytopharmaceuticals; odp. zdravila (WM) – waste medications

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 our environmental goals. We can affect the internal factors directly with our actions by controlling them, changing them, or by taking action in some other way (cutting energy usage, generating less waste etc.); external factors, however, are beyond our direct control, but we can adjust to them (fire and flood protection etc.). External factors also include the challenges presented by climate change and other environmental issues. At the companies Mercator d.d. and Mercator–S d.o.o., we periodically analyze the strengths and weaknesses of internal factors, as well as the opportunities and threats posed by external factors, relevant to the environmental management system.

We also periodically analyze understanding of requirements, needs and expectations of interested parties (owners, employees, customers, suppliers, shareholders, government authorities, banks, the media, associations, non-government organizations, local and broad community and others) who can affect the operations and performance of both companies or who are affected by the operation of the two companies and who are relevant for the environmental management system. 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. consequences of a violation of the law, 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.

It is Mercator Group's goal to **protect, preserve, and improve the natural capital** 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 to the environment.

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 requirements of the currently effective version of the international standard ISO 14001:2015.

Audits

External audits of the environmental Management System

- At the company Poslovni sistem Mercator d.d., the SIQ certification institution conducted at the end of September 2020 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 at the start of October 2020 an external audit of the environment management system according to the ISO 14001:2015 standard.

Out of respect for 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**.

Energy efficiency

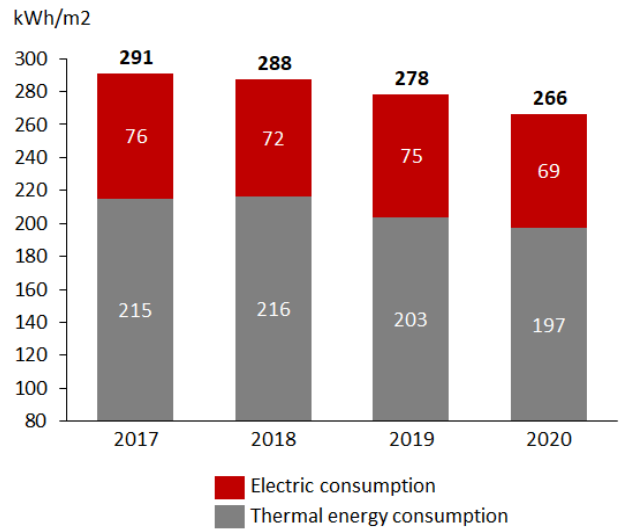
The pace and purpose of exploitation of renewable and non-renewable natural resources are increasingly reducing the ability of our planet to restore the sources of energy on which our welfare and growth depend. Therefore, Mercator Group is making every effort to preserve the natural resources and reduce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

In the period 1–12, 2020, the following applies to the five companies of the Mercator Group:

- Cost of energy use amounted to EUR 37,610 thousand, which is 2.3% less than in 2019.
- CO_2 emissions from energy resources amounted to 271,380 tonnes of CO_2, which is 18,2% less than in 2019, while specific emission amounted to 143 kg CO_2 /m^2, which is 18.8% less than in 2019.
- Electricity use reached 431,871 kWh, which is 5.9% less than in 2019. Specific use of electric energy was 227 kWh/m^2, which is 6.6% less than in 2019.

Key performance indicator

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



Slovenia

At the company Poslovni sistem Mercator d.d., we are striving to cut energy consumption. Therefore, we conducted or continued the following activities.

- energy accounting was established for all buildings of the company, measures for efficient use of electric energy are in place at 491 facilities or units, measures for efficient use of heating energy are in place at 214 facilities or unit (all based on the Business Cooperation Agreement in the Implementation of Energy Management);
- we inform our employees on a quarterly basis on the measures for efficient use of energy, and we conduct energy consumption control for individual employees on a monthly basis;
- update of the heating and cooling (and HVAC) systems based on the energy policy strategy.

Plans for 2021

In 2021, we shall continue to inform the employees on a quarterly basis about the efficient use of energy. We shall continue to implement measures for efficient use of energy with support of our contractual partner. Efficient use of energy will include continuation of our activities to date, including restoration of heating and cooling systems and installation of energy-efficient equipment at some facilities. In addition to restoration of heating systems, we shall also continue to replace lighting systems at our facilities.

Serbia

In 2020, the company Mercator–S d.o.o. conducted the following activities for improvement of energy efficiency:

- replacement of old fluorescent lighting with new LED lighting at 4 facilities;
- carrying out the »retail« project in 33 locations;
- installing an idle current compensation device at 14 facilities;
- installing the first CO_2 cooling system.

Plans for 2021

in 2021, we are planning to replace the old fluorescent lighting with new LED lighting at 10 facilities; implement the retail project in 15 locations; install an idle current compensation device at 20 facilities; install a CO_2 cooling system; and optimize HVAC at select facilities. Our main goal is to continue to reduce the overall energy consumption by at least 1% per year.

Montenegro

To improve the efficiency of energy use, the company Mercator–CG d.o.o. continued its activities related to guidelines for rational use of electric energy at retail units.

Bosnia and Herzegovina

In 2020, the company Mercator–BH d.o.o. operated consistently with the relevant guidelines:
- continuous efforts for rational use of energy for lighting and refrigeration;
- installation of LED lighting at the Šip supermarket and the Katedrala marketplace;
- adjustment of heating and cooling system to outside temperatures;
- monthly monitoring of energy costs.

Plans for 2021

In 2021, we are planning to continue the implementation of measures from 2020: further efforts for rational use of energy consumed for lighting and refrigeration, installation of LED lighting fixtures at our facilities, adjustment or heating and air conditioning system to outside temperatures, minimal increase of prices relative to the initially offered prices for electricity distribution, further monthly cost monitoring, and corrective measures.

Croatia

In 2020, planned activities regarding the implementation of guidelines consistently with the Manual on Efficient Use of Energy at Retail Units and replacement of energy-inefficient devices with energy-efficient ones.

Plans for 2021

In 2021, we are planning to continue the implementation of measures from 2019:
- replacement of existing energy-inefficient devices with more energy-efficient ones,
- replacement of existing energy-inefficient lighting with LED light fixtures,
- replacement of currently existing inefficient air-conditioning and heating systems with energy-efficient ones.

Sustainable logistics and merchandise supply

Slovenia

In 2020, we continued to develop improvements in logistics, particularly in terms of providing a **high level of availability of products from our sales assortment**, and starting in March, ensuring **stocking of stores** due to increased demand oscillations. Despite higher inventory levels, especially for basic food and hygiene products, during the first wave of the COVID-19 epidemic, our total inventories along the entire supply chain for the year were lower than in the year before.

We continued to increase the share of central supply to stores with existing logistics infrastructure, without significantly increasing the merchandise inventory at distribution centres. Moreover, we continued to upgrade automatic ordering and to expand cross-dock distribution, which resulted in fewer manual transactions at retail units. Automatic order amount proposal is created for the entire assortment distributed through our own distribution centres, and for majority of the assortment distributed directly.

In the last quarter, the fruit and vegetables warehouses Maribor and Sežana transitioned to Gold Stock IT support. All logistics warehouses now share uniform support, which results in standardized operations and contributes to simpler supervision and control of distribution processes, as well as higher labour force flexibility.

Serbia

In the extraordinary circumstances, and continuously throughout the year, we successfully conducted measures for containing the spread of COVID-19, and ensured normal operation of logistics processes in the system with detailed execution of the measures and activities specified in the crisis plan.

In the middle of the year, we opened a new distribution centre in Novi Banovci, to which we moved the fresh program products that had been previously distributed via warehouses in Belgrade and Niš, and via warehouse in Ugrinovci. By concentrating our goods in a single place, we cut the level of inventory and optimized the distribution process; by also increasing the weekly delivery frequency and by delivering fruit, vegetables and fresh meat only in the morning, we also improved the level of supply to retail stores. At the ambiental goods warehouses in Novi Sad, Niš and Čačak, we transitioned to a 5-day work week. In the same period, in the middle of the year, we transferred imports and distribution of private label frozen products (particularly baguettes and ice cream) to a third-party distributor.

By using three loading ramps and acquiring a pallet wrapping machine, we sped up the vehicle loading process for internal distribution at the Niš warehouse. In addition to the time savings, we also cut the use of stretch wrap. In November, we started measuring master data for items, which is a prerequisite for optimization of many internal and external work processes that require accurate dimensions and weight of items in practice.

Montenegro

At the company Mercator–CG d.o.o., we expanded in 2020 the assortment in the delicatessen warehouse with private label products, which has resulted in an increase in turnover by 23%. At the fruit and vegetables warehouse, we implemented new planograms and increased the number of deliveries compared to the year before. These activities have contributed to a 12% growth of turnover.

We tackled many challenges related to the COVID-19 pandemic, and successfully overcame them so that regular distribution of goods was not threatened.

Bosnia and Herzegovina

At the company Mercator–BH d.o.o., we expanded in 2020 the distribution centre assortment by approximately 200 new basic food and hygiene products, which in turn also increased the level of inventory. The scope of distribution was slightly lower than in the year before; as a result, transport costs were lower, too.

Considering the challenging situation related to the spread of the COVID-19 virus and a range of measures adopted at the national level in order to stabilize the economy, we are content with the said results

Waste and raw material

At Mercator Group, we have been persistently striving for a number of years to use resources and raw materials in a sustainable manner and to cut the amount of disposed waste. However, in 2020, the pandemic caused by the SARS-Cov-2, had a negative impact on use of raw materials and waste generation, too. Due to the epidemic containment measures, use of products such as hand and surface disinfectants, face masks, plastic gloves etc. increased. Despite operating in extraordinary conditions, however, we immediately ensured proper conduct and removal of the generated waste (used face masks and plastic gloves) and introduced measures to optimize the use of disinfectants (installing hand sanitizer dispensers, use of gel sanitizers instead of liquid ones etc.). Thus, we reduced this aspect of the epidemic's negative environmental effect.

Slovenia

Circular economy projects

In order to raise the awareness of our consumers that the waste packaging of their products can be recycled and reused for production of a similar or even the same new product, which in turn preserves the natural resources and raw materials, the company Poslovni sistem Mercator d.d. teamed up with product suppliers and carried out with them in 2020 some activities and products focusing on circular economy.

In 2020, Poslovni sistem Mercator d.d. took part for the fourth consecutive year in the educational campaign of the company Tetra Pak, which is intended to improve customer awareness about **recycling and circular economy**. Buyers of products in Tetra Pak packaging were encouraged to correctly dispose of it in the waste packaging bin, thus allowing its further recycling and production of new products such as hygiene paper products. The project addressed the customers at Mercator hypermarkets who received a pack of recycled Lucart EcoNatural handkerchiefs as a present upon purchase of five products by partners taking part in the Tetra Pak packaging campaign. This promoted understanding among the consumers of the link between the recycled product and correct waste packaging handling.

summer activity Merry Waves and socks made from yarn of abandoned fishing nets

With the summer activity **Merry Waves**, we encouraged customers to purchase a variety of different products (socks/ stockings, towels, bracelets) made of recycled plastic waste (e.g. abandoned fishing nets, maritime waste, waste plastic bottles etc.). The socks or stockings, for examples, are made of yarn sourced from abandoned fishing nets. Compared to production of regular nylon, production of such yarn saves a lot of raw oil and generates considerably less CO2 emissions. By using such socks and stockings, the customers can cut their environmental footprint and help preserve our planet.

Since the plastic waste that most of the Merry Waves products are made of is recovered from the sea, we also raised awareness among our customers about the problem of sea pollution.

At the start of the summer of 2020, we launched the Tefal project with 100% recycled and environmentally friendly Tefal Ingenio Resource cookware that customers could purchase with a 50-percent discount upon redeeming a certain number of Pika bonus points. If they also brought their old cookware to the store, they could purchase the new one with a 60-percent discount. Hence, we encouraged our customers to bring in their old cookware made of highly recyclable material. The cookware thus collected is a raw material that will be used for making new cookware and other products. Thus, everyone involved contributes to preservation of natural resources, raw materials and energy.

Waste and raw material management activities in the Slovenian market

In 2020, the company **Poslovni sistem Mercator d.d.** carried out the following activities in the field of waste and raw materials management:

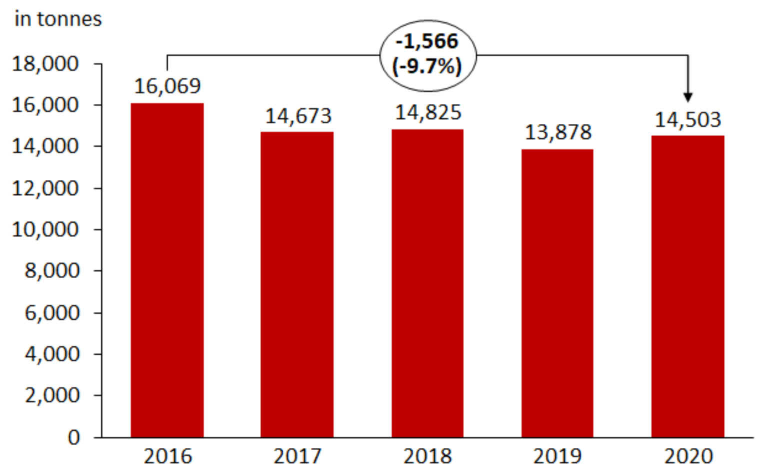
- At 19 locations we conducted a number of activities (e.g. adapting the volume and number of waste bins, changing the method and frequency of collection etc.) to ensure more optimal management of all types of waste packaging and municipal waste generated at our units in the course of regular operations, and thus ensured even more accurate waste sorting.
- 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 11 refurbished retail units of the company Poslovni sistem Mercator d.d., we installed waste sorting bins for separate waste collection for the customers.
- 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 allowed our customers paperless payment or checkout at our stores.
- We emptied the paper documentation archives several times during the year. 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.
- We worked with recycling and reuse centres (Center za ponovno uporabo) with regard to worn-out office equipment, damaged and written-off goods, and this ensured reuse of products that would otherwise go to waste.
- In all M Tehnika stores, we collected goods that are no longer suitable for sale (expired shelf life, damaged packaging, poorly visible labelling, non-compliant declaration label or description on the product etc.). All such goods were taken to a designated collection point and handed over to an authorized waste management service as hazardous waste. Thus, we ensured separate collection, as well as safe and correct handling and removal of this waste.

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

- more than 51 thousand tonnes of waste cardboard packaging;
- more than 7 thousand tonnes of waste plastic packaging, and
- more than 9 thousand tonnes of waste wooden packaging.

Key performance indicator

Waste material (raw materials and packaging material)



Foreign markets

In the markets of Montenegro and Serbia, the following activities of waste and raw materials management were carried out in 2020:

- In compliance with the changes to the legislation, we introduced new plastic bags that are thicker than 50 microns and intended for reuse. In 2020, sale of plastic bags decreased by approximately 20% relative to 2019. We believe one of the reasons for such decrease is the introduction of new thicker reusable plastic bags with bearing capacity of 7 and 10 kilograms, which also have a higher price. Free-of-charge bags with a thickness of less than 15 micrometres only remain available to customers in self-service departments.
- In order to promote reuse and to cut the amount of plastic waste, we expanded our sales program with bags and shopping bags made of recycled materials, textile, corn starch etc.
- At the end of the year 2019 and in early 2020, we took part in panel discussions »I Say No to Single-Use Plastics«. Further activities, such as use of packaging and materials brought by users etc., cannot be started until the food safety legislation is aligned with regard to this issue.
- In 2020, we installed wire fence at the unit MPO 349 RODA Šabac to provide a separate area for waste sorting. In this area, we installed equipment for handling waste packaging from the retail unit, and waste generated during activities of other tenants in the shopping centre. Thus, we prevented the mixing of waste packaging and municipal waste, which had occurred due to the direct proximity of the equipment for disposal of such waste, and inadequate education of employees of our tenants. Working with representatives of recycling service providers and waste packaging collection service Kappa Star Recycling, education courses were provided for all employees. Al this contributed to correct waste handling at the site, and a 10-percent increase in the amount of collected waste packaging.
- In 2020, the company Mercator–S d.o.o. wrote-off 9,200 kg of obsolete archives that were handed over to an authorized collector of this type of waste.
- In September 2020, we worked with EkoStar Pak to organize glass packaging collection campaigns in major retail units. The goal of the campaign was to raise the awareness about the importance of recycling and waste storing at the source. As a reward, each participant received a reusable shopping bag. Thus, we also supported the campaign to reduce single-use plastic pollution.
- In 2020, we separately collected and handed over for recycling or harmless destruction the following amounts of waste:
  - 2,709 tonnes of waste cardboard packaging,
  - 165 tonnes of waste plastic packaging,
  - 27 tonnes of waste electric and electronic equipment, and
  - 299 tonnes of organic waste.
- Following are the amounts of packaging we introduced to the market in 2020 from imported goods:
  - plastics: 1,066 tonnes

- glass: 309,552 tonnes
- paper: 977,033 tonnes
- wood: 300,941 tonnes
- metal: 94,896 tonnes

- The packaging management obligation was transferred to the operator EkoStar Pak. Annual report was submitted to the Environment Protection Agency with the application »National Register of Pollution Sources«dated March 31 for the preceding year.
- 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.

Water and wastewater

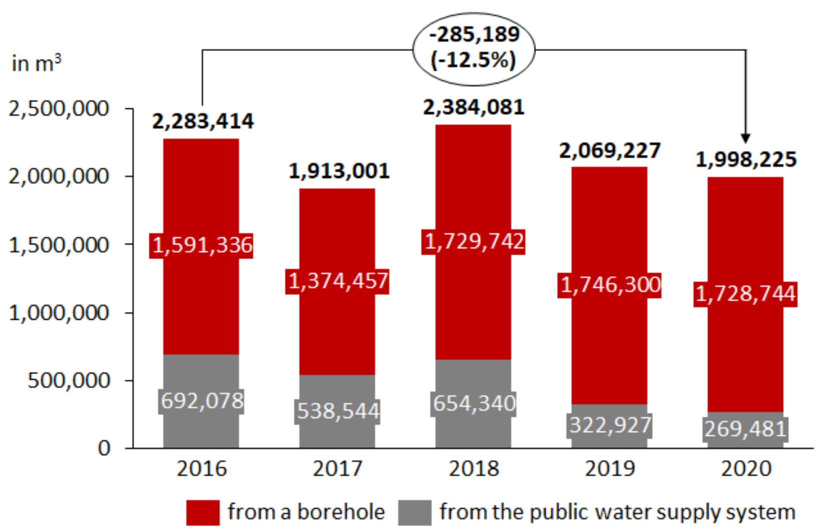
Slovenia

At the company **Poslovni sistem Mercator d.d.**, we care for rational use of water and appropriate treatment of waste water. This, we are striving to reduce pollution and amount of waste water resulting from our operations. The following activities were carried out in 2020:

- At 2 sites, we replaced or newly installed equipment for more rational use of water (e.g. sensor faucets, economical toilet cisterns etc.).
- At 5 sites, we built connections to public sewage system; in four cases, this allowed us to abandon the use of a septic tank.
- We updated our internal documents for waste water treatment plant management (e.g. oil traps and separators etc.), and thus improved the control of all installed treatment plants.
- At 3 sites, we replaced or newly installed waste water treatment plants.

Key performance indicator

Total amount of water pumped, by source



Serbia

- In 2020, the company **Mercator–S d.o.o.** used 387,257 m^3 of drinking (potable) water, which is 53,500 m^3 less than in the preceding year. The lower water consumption is a result of the SARS-Cov-2 pandemic containment measures, including shorter business hours and the fact that most facilities were closed during weekends.
- Wastewater quality is monitored at the company Mercator–S d.o.o. consistently with the legislation and the plans for internal wastewater sampling in installed oil and fat skimming devices, or separators. In 2020, sampling was conducted 3 times at 54 oil and grease traps. For oil and grease traps (skimming devices or separators) in which deviations were

detected, all deficiencies were eliminated, most commonly by cleaning the skimming devices (separators) and repeated sampling. No other measures or interventions were necessary.

Emissions into atmosphere and ozone depleting substances

Slovenia

At the company **Poslovni sistem Mercator d.d.**, we are striving to optimize by regular maintenance the operation of devices or equipment that causes air pollution (e.g. heating equipment), and thus mitigate its negative impact on the quality of air. Moreover, company efforts are aimed at replacing fossil fuels with renewable sources of energy, in order to contribute to the decrease in greenhouse gas emissions.

With regular maintenance of equipment for cooling goods and air conditioning of facilities, which uses fluorinated greenhouse gases and ozone-depleting substances, we successfully prevent any leaks of such gases that have a negative impact on global warming and the ozone layer.

In 2020, the following activities were carried out with regard to cutting the emissions into air and prevention of unintended release of fluorinated greenhouse gases and ozone-depleting substances:

- At 7 locations, we updated the boiler rooms, where such updates also included replacing the existing fuel – heating oil – with a more environmentally friendly fuel (e.g. natural gas or connection to a district heating system).
- At 6 locations, we installed heat pumps to replace an existing heating system that had used heating oil or liquefied petroleum gas.
- In newly constructed and refurbished facilities at 42 sites, we replaced or installed more modern and environmentally friendly cooling technology.
- At 3 sites, we replaced the existing refrigerants with refrigerants with a lesser effect on the ozone layer and global warming.
- At 3 sites, we replaced or newly installed a cooling system using CO2, which is environmentally the most acceptable cooling system with considerably lower negative effect on global warming than the cooling systems with conventional refrigerants.
- We made sure that 38 units were connected to 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.

Serbia

At **Mercator–S d.o.o.**, emissions into atmosphere from stationary sources were measured in 2020 at the start and at the end of the heating season at 24 measurement points 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.

In 2020, energy consumption totalled at 166,084,958 kWh; in 2019, it reached 178,617,327 kWh. With our energy efficiency measures, we cut power consumption in 2020 by 3,703,065 kWh, which resulted in a decrease of CO_2 emissions by 2,618 tonnes. The remainder of the decrease in electricity consumption is a result of shorter business hours and lower number of jobs due to the pandemic caused by SARS-Cov-2.

At the facility MP 257 IDEA Blok 62, a cooling system using the gas CO_2 was installed to replace a Freon (chlorofluorocarbon refrigerant) with 3,260 times greater effect on global warming than CO_2.

Hazardous substances and preparations

Slovenia

At the company **Poslovni sistem Mercator d.d.**, instructions have been in place for a number of years regarding the management of hazardous chemicals, including their storage, use, transport, and sale.

In order to improve the safety in use of hazardous chemicals and to prevent any extraordinary events resulting from non-compliant use (spillage of hazardous chemicals), we conducted the following activities in 2020:

- We updated the internal database of safety data sheets and prepared tools to improve the control of safety data sheets, which in turn optimized access to safety data sheets to both users of hazardous chemicals and our customers.
- We launched the project of systemic management of displaying information about hazardous characteristics of chemicals for online sale at Mercator d.d., in order to ensure access to this information for our online customers.
- We informed our hazardous chemicals suppliers about the additional requirements regarding labelling and provision of information on hazardous chemicals, for emergency medical assistance and preventive measures.

Serbia

At the company **Mercator–S d.o.o.** we provided, in compliance with the law, proper labelling of the sales area in which chemicals are sold and stored. Before launching in the market, we register the biocides marketed under our private label. In case of sale of chemicals and biocides, we also register such chemicals and biocides with the Register of Chemicals and Biocides. We submit the data on sold amounts annually to the relevant Ministry.

Noise

Slovenia

At the company **Poslovni sistem Mercator d.d.**, especially when building new facilities or when reconstructing existing ones in urban environments, we ensure that equipment is installed that releases a minimum level of noise into the natural environment. When designing, building and refurbishing our facilities, we pay particular attention to placement of sources of noise, in such way that the noise that generate is minimized. Thus, we strive to make sure that the noise generated by our equipment and our facilities in the course of their operation causes as little disturbance as possible for the environment.

At six sites at which critical values of noise indicators were exceeded, we restored in 2020 the sources of such noise and thus eliminated the excess noise.

Serbia

In 2020, twelve noise measurements were conducted. At 4 sites 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.

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. Our mission is to offer aid to those who need it. We care for the families and individuals in distress.

Social-environment-related activities and due diligence

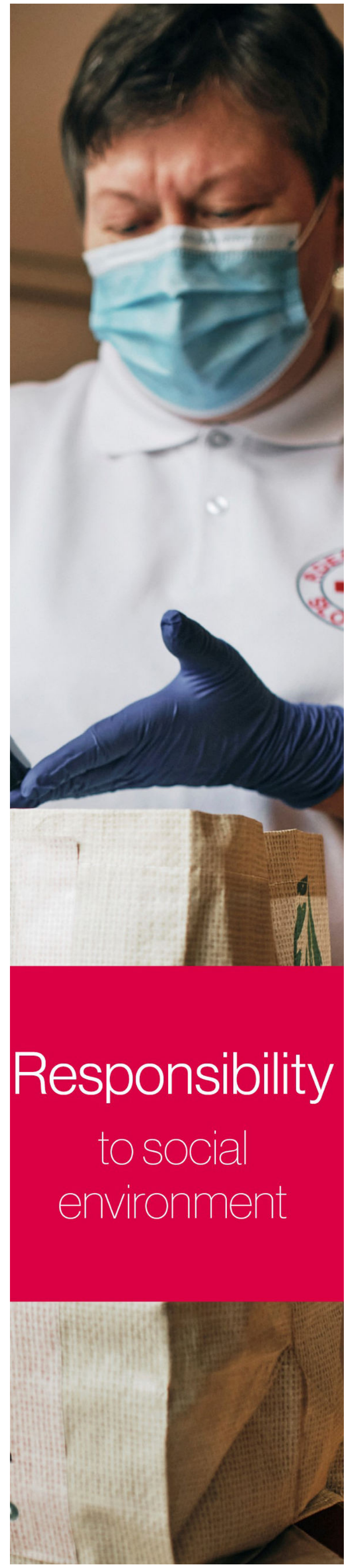
With our activities related to social environment, we are building and consolidating our company's reputation and promoting the recognition of our own private labels (or store brands). Through the years, Mercator has gradually increased its investment into the local environment through sponsorships and donations, as well as with humanitarian aid to families and individuals in need.

Slovenia

Humanitarian projects

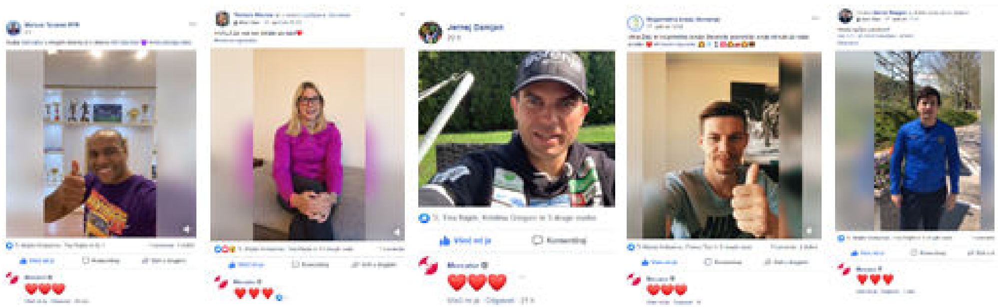
The Donated Food project included 21 major stores across Slovenia. This year, the project was even more relevant, as the number of those in need of aid increased due to the COVID-19 pandemic. Volunteers from the association of Lions Clubs, Anton Trstenjak Institute and Ljubljana Caritas picked up every evening the food for which the use-by date has not yet expired, and distributed it to families and individuals in social or financial distress.

At the end of the school year, Mercator joined the **humanitarian campaign of the Slovenian Caritas** to collect school supplies for 12,000 children in distress. Baskets for collection of donated products were placed at 255 Mercator stores across Slovenia. Thus, over 23,000 notebooks and over 800 school supply products were collected with our help for families with children in schools. In the second half of the year, we placed baskets for collecting food items for family in social or financial distress at 244 major stores.



Donations and sponsorships

In 2020 when the COVID-19 pandemic affected the lives of all Slovenians, Mercator faithfully stood by all of our sponsorship and donation recipients, and included them in various humanitarian projects. These projects included the campaign **Minutes for our Heroes** in which the athletes encouraged and cheered for healthcare workers, civil protection service workers and volunteers of the Slovenian Red Cross and the Slovenian Caritas via the **M Neighbourhood** platform. Due to the pandemic, the number of applications for donations and sponsorships was halved compared to the preceding years in 2020. Nevertheless, we supported **over 330 different humanitarian, cultural, educational, and sports projects**.



Before the start of the ski jumping seasons, we presented 101 pairs of skis, 28 pairs of ski boots, and 53 pairs of ski bindings to representatives of 22 ski jumping clubs. This was our contribution to further development of junior ski jumping. Mercator does not support only the senior national team, but also provides direct **support to ski jumping clubs** across Slovenia.

Activities during the COVID-19 pandemic

During the COVID-19 pandemic, we kept in mind our **corporate social responsibility**. Mercator donated 30 tonnes of food and hygiene products to the Slovenian Red Cross and the Caritas Slovenia organizations. In the campaign Minute for our Heroes, hospital staff at COVID points were donated Minute products, and we delivered lunches to Civil Protection Service workers in towns that were the most endangered due to the number of infections. Working with our partners in the My Brands project, we delivered complimentary packages to 3,000 Slovenian Red Cross and Caritas Slovenia volunteers, and we donated water and sandwiches to truck drivers lined at the border crossings. Working with the Slovenian Ski Association, we were joined by ski jumpers and their coaches in supporting the delivery of products purchased via the online store, thus making sure more people stay at home.

Serbia

Sponsoring mass sporting events, sports clubs and associations

As the proud **sponsor of the Serbian Basketball Association**, Roda supported many sporting events. In February 2020, it supported the organization of the Radivoj Korać Cup, organization of the Olympics qualifier tournament for women's basketball national teams, and organization of European Championship 2021 qualifier tournament for the men's basketball team.

After the break due to the coronavirus pandemic, **Serbian Basketball Association** organized, in compliance with the instructions by the relevant institutions, an official basketball tournament **Roda 3 × 3 Serbian championship**.

Humanitarian projects

Idea's Father Frost (Dedek Mraz) scaled the roofs to reach the youngsters at the Children's University Clinic Tiršova, so that children hospitalized there could meet him, experience the magic of holiday season in the best possible way, and to look forward to the coming holidays. Despite the coronavirus pandemic, the Idea caravan again – while observing all epidemiologic measures – visited 23 towns across Serbia and over 50 children's hospitals, orphanages, and other institutions, and presented more than 5,000 New Year's gift packages.

Although the Idea caravan visited at the end of 2019 all orphanages and children's hospitals across Serbia, the campaign reached its peak in early 2020 when it aired a video in which employees share with the audience their feelings upon seeing the children receive the presents. In the first ten days after the video was posted on YouTube, it garnered two million views, with an average viewing length of 67%, or 2 minutes and 27 seconds. On Facebook, the video reached 2,300,000 people, or 60% of all users of this channel in Serbia, and received 9,000 likes, comments, and shares.

After a five-month break from humanitarian action, Tamara Grujić and her production team continued recording new episodes of »**In Action with Tamara«**, which started airing in March 2020 on RTS1 (Serbian Radio and Television). In the new season, we continue to support the team of the show and work with them to help many families in Serbia to live a better and happier life.

Activities during the COVID-19 pandemic

The company Mercator–S d.o.o. **donated goods with a total value of four million dinars to hospitals for treating the coronavirus infections and to barracks of the Serbian Army** taking part in the fight against the new coronavirus pandemic. The first contingent of donated aid was delivered to the hospital KBC Dragiša Mišović for treatment of coronavirus infections. Goods worth 4 million dinars will be donated to five clinical centres in Serbia and two army barracks.

Healthcare workers at the hospitals Dragiša Mišović, Zemunski and at clinical centres in Novi Sad, Niš and Kragujevac received food on a weekly basis, which helped them do the hardest and the most important work for Serbia.

Gratitude to the artists and retired cultural workers of Novi Sad, whose work and effort contributed to the cultural scene of Novi Sad and left behind many successors, was the motive behind the campaign to distribute gifts as a token of appreciation, carried out by the foundation **Novi Sad 2021 – European Capital of Culture** and supported by Idea. The gifts include genuine local products that are a part of our tradition. All products are made by small businesses or farms, and many of them are still handmade.

Montenegro

Donations and sponsorships

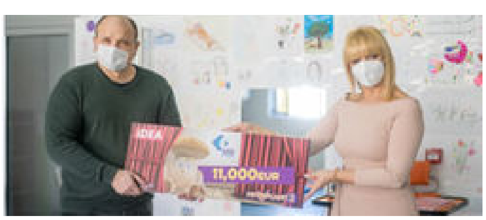
In the campaign **We are Here for You** that we launched in March 2020, we carried out several humanitarian activities due to the crisis brought about by the new coronavirus. The company Mercator–CG d.o.o. is demonstrating its corporate social responsibility in both normal and extraordinary circumstances. Therefore, we were looking to contribute to even stronger and more decisive fight against the spread of the virus.

We donated EUR 20,000 to the National Coordination Agency for Infectious Disease (NKO) for procurement of respirators and to aid the fight against the spread of the new coronavirus. As a socially responsible company, we contributed to a stronger and more determined fight against the spread of the virus.

In order to show solidarity and help those most affected by the current situation, we **donated 10 tonnes of food to the Montenegrin Red Cross**. The donation includes basic food products selected in compliance with the needs and recommendations of the Red Cross, and it was received by those in need across the entire Montenegro. Moreover, we donated food packages with a sandwich, water and fruit to 230 volunteers taking part in activities of municipal Red Cross organizations and helping alleviate the humanitarian consequences of the coronavirus. Thus, we tried to make everyday a little easier for the Red Cross volunteers and thank them for their effort.

Over **600 lunch packages** were presented to healthcare workers on COVID departments at general hospitals Bar, Bijelo Polje, Berane, Cetinje, Kotor, Nikšić, Pljevlja and Clinical Centre of Montenegro. With institutional support by the Montenegrin Ministry of Health, we provided and delivered these packages to employees at COVID departments of hospitals in Montenegro, as a token of support and appreciation for the effort they are investing to preserve the health of the entire population.

In the campaign **Zdravoljupci 2** (»Health Lovers 2«), we provided a donation to the Ognjen Rakočević autism centre. We donated EUR 11,000.



Donation to the Ognjen Rakočević autism centre: With the purchase of the Peki the mushroom, customers of the Idea store contributed to the donation of EUR 11,000 for the Ognjen Rakočević autism centre. A voucher in this value was presented to the director of this institution Dr Ivan Krgović who sincerely thanked the company Idea for the initiative, and the customers for the support they had shown with their purchase.

In 2020, we maintained the role of the general sponsor of **Dnevnica**, one of the most widely viewed humanitarian shows in Montenegro. The show is a role model for humanity, solidarity, and corporate social responsibility.

We are sponsoring sports associations, clubs, and athletes

Successful sponsorship of the **Montenegro Basketball Association** continued in 2020. As promoters of a healthy lifestyle and fair play, we continued to sponsor the Montenegrin Basketball Association and thus supported the development of basketball and popularity of the sport, especially among young basketball players.

As in 2019, we provided support in 2020 to the **Podgorica Marathon**, a traditional marathon and half marathon competition. The event, main contests and extra events, including a rich cultural and entertainment program, and the crowd of spectators involve several thousand people.

Anti-corruption and anti-bribery 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. The fundamental purpose of the Guidelines is to underscore the exceptional importance of compliance of operations for the operation of Poslovni sistem Mercator d.d. in the business and broader social environment, and to promote the awareness of all employees about the importance of compliant and fair treatment, and prevention of non-compliance in everyday practice. Compliance of operations is our priority and a competitive advantage. We shall accomplish our goals in a lawful, ethical, transparent, and socially responsible manner. Lawful and ethical operations give rise to a sound corporate culture and consolidate the reputation of our company.

Activities related to prevention of corruption and bribery, and due diligence

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. Unlawful and unethical conduct is not permissible.

Compliance of operations means conduct in compliance with the laws and implementing regulations, and the Company's internal acts. Ensuring compliance of operations is predominantly geared towards prevention of any breach of legislation, implementing or executive regulations, and internal acts, to make sure potential breaches do not even occur. One of the key tasks related to operational compliance is continuous information and education of employees, since this results in adequate understanding of the sense, meaning, and purpose of a particular internal act.

Corruption is a result of the lack of moral and ethical values. Due to its negative effects, it requires constant response and prevention. At our company, the standard of zero-tolerance for any form of corruption applies. Corruption can be defined as active corruption that includes offering or giving bribe, or as passive corruption that includes accepting bribe. Corruption will be present as long as both sides take part in it.

We have also established a mechanism for disclosure of disputable practices (whistleblowing system) at the company, called »Say It Out Loud«. In the document titled Policy of Encouraging Responsible and Fair Conduct accurately specifies the procedures regarding reports, protection of confidentiality of the reporting parties, handling of disclosed or reported practices, and responsibilities and powers of everyone involved in the said process. 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.

We also informed our business partners about the possibility of reporting any disputable conduct or poor business practice by including an anti-corruption clause and the »Povejmo« (»Say it out loud«) clause in all contracts.

Responsibility to suppliers

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-related activities and due diligence

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 fast-moving consumer goods 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.

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, 20 agricultural cooperatives and 1,460 products.

By offering the best that the local environment has to offer, we **encourage innovation and success of local farmers and growers** and boost our competitive advantages in terms of differentiation.

The We Love Local (»Radi imamo domače«) project includes several sub-projects such as »Srčno predani« (»Devoted with all our hearts«) and »The Best Supplier of Local Products«, which are related to the new private label line We Love Local, which takes cooperation with the local suppliers yet another notch higher. Visual identity is based on recognition of both partners, Mercator and the producer. Sixty new products were included in this offer, and the line will be further upgraded. We are preparing a project in which products from Slovenia, included in the We Love Local project, will be launched in Serbia.

Activities of the We love Local project

Inclusion of suppliers into the My Brands project

In 2020, the campaign **My Brands** that builds close links with our suppliers to create a shared story and new offers for our consumers was rolled out successfully to all markets of Mercator's operations. Thus, we further strengthened 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. In all markets of our operations, the campaign thus includes 282 partners and over 340 partner brands, of which 156 partners and 240 partner brands are included in Slovenia.

My Brands project

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.

Supplier policy as a part of operational efficiency

Execution of supplier policy has three important roles:
1. It directly affects long-term relations with suppliers and thus the atmosphere created in the market by Mercator as one of the largest customers for local products.
2. It establishes normal conditions for unimpeded supply of food and other goods at our stores.
3. It has an important role in providing »safe food« and other products for the customers.

Execution of business strategy in cooperation with the suppliers

In 2020, operations of the Category Management sector were again focused on pursuit of **Mercator's business strategy** that is based on three key pillars:
1. Mercator is striving to be **the best retailer in all its markets**, including Slovenia. Respect and care for the local environment and local suppliers remain at the core of its mission.
2. **We see our comparative advantage in differentiation**, and differentiation of offer is a key task. In the increasingly harsh competitive conditions in the market, we believe the key to success is especially differentiating our offer relative to the competition. Our primary role is:
   - To provide the broadest offer of local and regional brands.
   - Needless to say, we need to strike the right balance in relation to international brands and private labels, especially those that offer added value for the consumer.
3. **Our operational excellence** is the key for reaching the Group's short-term and long-term goals. In this aspect, **strategic and long-term partnership relations with suppliers** are of key importance. We see one of our advantages in the fact that we are a part of a broader regional group, which means we can search shared purchasing channels across markets in certain categories. At the same time, we can pave the way for Slovenian and regional products, including those that we develop ourselves, to the Group's other markets.

Responsibility to quality

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.

Quality-related activities and due diligence

Management of certified management systems

Efficient management of business processes is provided through compliance with the requirements of the international quality management systems. Respective management systems have been combined into an integrated management system whose basic requirements are implemented at 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.

Quality management system in Mercator Group by companies

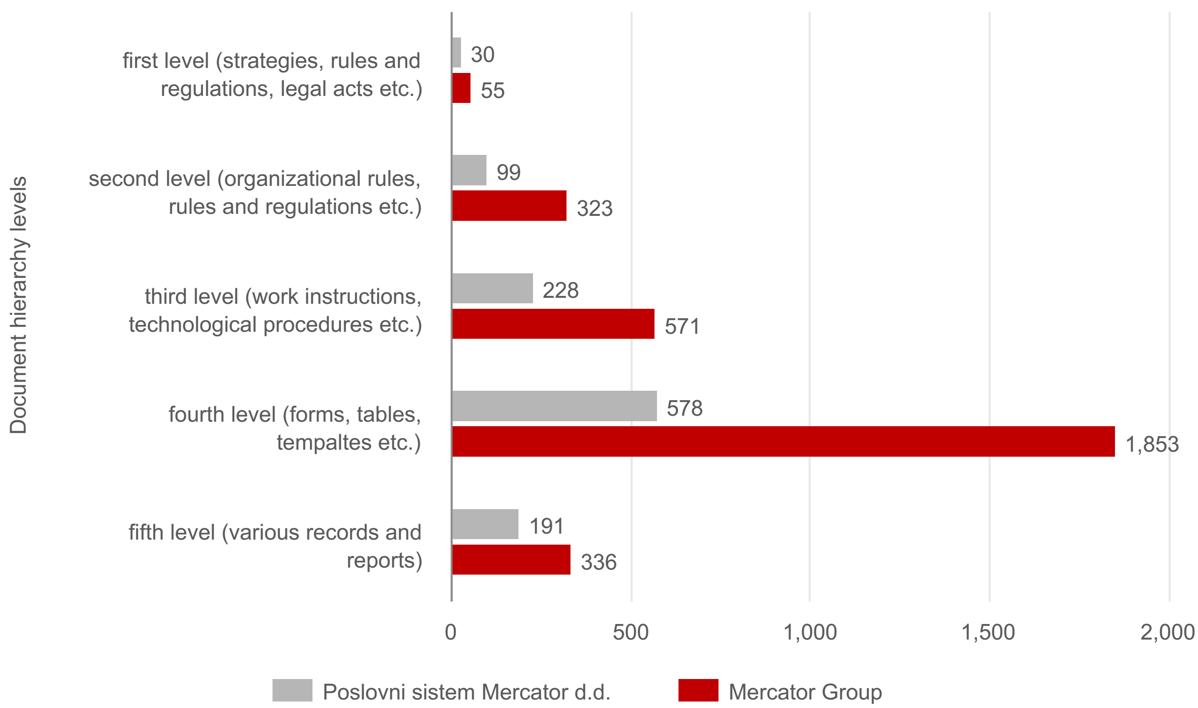
	Poslovni sistem Mercator d.d	Mercator IP d.o.o	Mercator-Emba d.d	Mercator– S d.o.o.	Mercator– CG d.o.o.
ISO 9001 – Quality management system	✓			✓	
ISO 10002 – Quality Management – Customer Satisfaction				✓	
Protected Consumer Seal				✓	
ISO 14001 – Environmental management system	✓			✓	
HACCP – Ensuring food safety				✓	✓
IFS – International Food Standard			✓		
SQMS – Supplier Quality Management			✓		
AEO –Authorised economic operator	✓				
Family-Friendly Company	✓	✓			
Organic farming	✓				
Select Quality – fresh meat	✓				
Select Quality – Fruit	✓				
FSC – Forest Stewardship Council – traceability chain	✓				
UTZ – Sustainable cocoa farming			✓		
SWA – Supplier workplace accountability			✓		
PCI DSS - The payment card industry data security standard				✓	

There are 20 certified management systems maintained at Mercator Group companies. In 2020, we kept all certificates acquired in previous years. We successfully completed 5 extension audits: International Food Standard (IFS), Supplier Quality Management System (SQMS), and Sustainable Cocoa Farming Certificate (UTZ) at Mercator–Emba, and the seal »Customer Protection« (»Zaštićen potrošač«) and PCI DSS at Mercator–S. We maintain a total of 20 certified management systems at Mercator Group companies. In 2020, we kept all certificates acquired in previous years. We successfully completed 5 extension audits: International Food Standard (IFS), Supplier Quality Management System (SQMS), and Sustainable Cocoa Farming Certificate (UTZ) at Mercator–Emba, and the seal »Customer Protection« (»Zaštićen potrošač«) and PCI DSS at Mercator–S.

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.

Key performance indicators: number of valid documents in the Mercator Standards Collection as at December 31, 2020



Source: Mercator Standards Collection as at December 31, 2020

As at December 31, 2020, there were **3,138** valid documents in the Mercator Standards Collection for the entire Mercator Group. In 2020, we posted **588** new or revised documents, while **185** documents were archived (their use was discontinued).

Control and improvement 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.

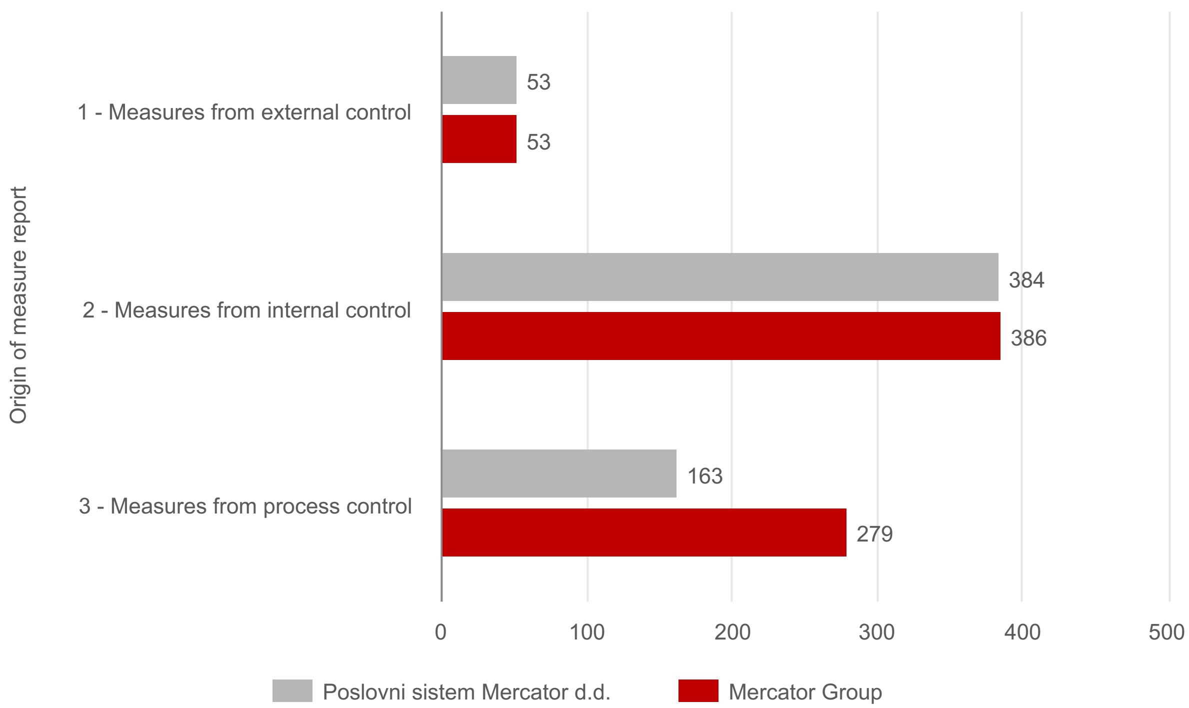
External control at the Mercator Group is conducted by inspection authorities and third-party auditors who ensure compliance with the legislation and other requirements pertaining to Mercator.

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 of certified management systems, 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 from all forms of control provide the basis for action and continuous improvement of operations and performance. The continuous improvement system has IT support, which provides faster and more transparent resolution of any reports.

Key performance indicators: number of measures implemented in 2020, by origin of report



Source: Internal application and measures for 2020

In the non-compliance, recommendations, commendations, and measures management application, we addressed in 2020 at the Mercator Group level a total of **718** tasks. This figure, however, only accounts for a part of all measures implemented to improve our operations, as the use of the application has not yet been implemented in all areas of control, which will be the goal of our efforts in the future.

WE RELY
ON FACTS,
BUT SET NO
BOUNDARIES TO
ASPIRATIONS.

Financial report

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 2020, and of the financial statements which, to the best knowledge of the Management Board, give a true and fair view 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 2020.

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 European Union.

The Management Board approves and confirms the Annual Report of the company Poslovni sistem Mercator d.d., and the Mercator Group for financial year 2020.

Ljubljana, April 23, 2021

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

Consolidated and separate financial statements of Poslovni sistem Mercator d.d.

Consolidated and separate statement of financial position

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
ASSETS					
Property, plant and equipment	15	831,426	915,896	545,488	558,429
Right of use assets	16	340,030	352,908	159,703	168,723
Investment property	18	198,978	273,006	3,043	4,081
Intangible assets	17	20,750	20,548	12,993	12,733
Deferred tax assets	21	5,420	—	—	—
Other receivables	23	4,190	4,757	2,669	3,042
Loans/deposits given	24	8,246	13,600	—	30
Investments in financial assets	20	927	876	803	736
Investments in subsidiaries	19	—	—	235,520	263,520
Total non-current assets		**1,409,966**	**1,581,592**	**960,219**	**1,011,293**
Inventories	22	202,951	211,090	110,245	111,544
Trade and other receivables	23	124,675	162,810	54,932	66,833
Current income tax assets	21	1,642	93	1,539	—
Loans/deposits given	24	2,365	2,506	33,012	25,149
Cash and cash equivalents	25	49,884	45,777	28,964	11,137
Total current assets		**381,517**	**422,276**	**228,692**	**214,663**
Total assets		**1,791,483**	**2,003,868**	**1,188,911**	**1,225,956**
EQUITY	26				
Share capital		254,175	254,175	254,175	254,175
Own shares		(3,235)	(3,235)	(3,235)	(3,235)
Reserves		133,709	135,243	153,867	142,693
Retained earnings / Accumulated deficit		(92,835)	53,131	(39,110)	8,508
Equity attributable to the owners of the company		**291,814**	**439,314**	—	—
Non-controlling interests		231	(339)	—	—
Total equity		**292,046**	**438,974**	**365,696**	**402,141**
LIABILITIES					
Borrowings	28	67,743	471,902	—	361,993
Lease liabilities	16	272,636	300,260	71,553	83,496
Deferred tax liabilities	21	15,063	11,677	6,708	4,715
Provisions	29	27,543	25,804	22,824	21,152
Non-current liabilities		**382,985**	**809,643**	**101,085**	**471,356**
Trade and other payables	30	558,680	579,502	305,344	300,662
Borrowings	28	484,538	96,762	395,433	30,175
Lease liabilities	16	73,036	76,100	21,354	19,541
Current income tax liabilities	21	199	2,887	—	2,082
Current liabilities		**1,116,453**	**755,251**	**722,130**	**352,459**
Total liabilities		**1,499,438**	**1,564,894**	**823,215**	**823,816**
Equity and liabilities		**1,791,483**	**2,003,868**	**1,188,911**	**1,225,956**

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Consolidated and separate income statement

		Mercator Group		Poslovni sistem Mercator d. d.	
in EUR 000	Note	2020	2019	2020	2019
Sales revenue*	10	2,127,256	2,091,031	1,244,981	1,215,292
Rental income*	10.1	42,761	47,708	11,152	14,926
Cost of sales	12	(2,148,257)	(2,039,355)	(1,228,321)	(1,172,652)
Revaluation gains / losses of investment property	10.2	(71,440)	5,835	(1,000)	—
Administrative expenses	12	(78,318)	(69,669)	(75,291)	(57,421)
Other operating income	11	19,769	23,866	14,901	13,235
Results from operating activities		**(108,227)**	**59,415**	**(33,579)**	**13,380**
Finance income	14	1,580	3,246	2,051	2,142
Finance costs	14	(52,209)	(51,681)	(23,792)	(23,347)
Net finance costs		(50,628)	(48,435)	(21,741)	(21,204)
Profit / (loss) before tax		**(158,856)**	**10,980**	**(55,320)**	**(7,824)**
Tax	21	2,146	(6,314)	(100)	(5,983)
Net profit / (loss) for the year**		**(156,710)**	**4,666**	**(55,420)**	**(13,807)**
Net profit / (loss) for the year attributable to:					
Owners of the Company		(156,560)	4,645		
Non-controlling interests		(150)	21		
Earnings (loss) per share					
Basic	27	(25.9)	0.8		
Diluted	27	(25.9)	0.8		

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

*In 2020, Mercator Group and the company Poslovni sistem Mercator d.d., changed presentation of rental income, which is now presented in separate line, while the sales revenue was reduced in the same amount. The Group believes that such presentation provides information that is reliable and more relevant to users of the financial statements. The change was taken into account also for 2019, with the aim of comparability. For changes in presentation refer to Note 4.

**In 2020, the net loss of the company Poslovni sistem Mercator d.d amounted to EUR 55,420 thousand and includes the net impairments of investments in subsidiaries in the amount of EUR 34,928 thousand (2019: EUR 23,639 thousand), which are eliminated at the Mercator Group level.

Consolidated and separate statement of other comprehensive income

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	2020	2019	2020	2019
Net profit/loss for the year		**(156,710)**	**4,666**	**(55,420)**	**(13,807)**
Other comprehensive income / (loss):					
Items that subsequently can not be reclassified to profit or loss		**15,202**	**9,207**	**18,975**	**3,811**
Change in fair value of PPE and right of use assets	15	14,733	3,899	20,701	(1,468)
Change in fair value of financial assets	20	59	555	67	507
Remeasurements of post-employment benefit obligations		(341)	(279)	(60)	(144)
Deferred tax	21	(426)	5,033	(1,893)	4,915
Other changes		1,177	—	162	—
Items that may be reclassified subsequently to profit or loss		**(7,405)**	**(848)**	**—**	**—**
Foreign currency translation differences		(7,405)	(848)	—	—
Total other comprehensive income/(loss) for the year		**7,797**	**8,359**	**18,975**	**3,811**
Total comprehensive income/(loss) for the year		**(148,913)**	**13,025**	**(36,445)**	**(9,996)**
Total comprehensive income / (loss) for the year attributable to:					
Owners of the company		(148,744)	13,513		
Non-controlling interests		(170)	(488)		

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Consolidated statement of changes in equity

		Mercator Group												
				Reserves						Retained earnings				
in EUR 000	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profi or loss	Net profit or loss for the period	Equity attribute. to the control. company owners	Non-control. interests	Total equity
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**21,296**	**1,597**	**425,800**	**149**	**425,949**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	—	4,645	4,645	21	4,666
Other comprehensive income for the year		—	—	—	—	—	—	5,278	(339)	3,929	—	8,868	(509)	8,359
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**5,278**	**(339)**	**3,929**	**4,645**	**13,513**	**(488)**	**13,025**
Disposal of land and buildings carried at fair value		—	—	—	—	—	—	(20,110)	—	20,110	—	—	—	—
Transactions with owners directly recognized in equity														
Contributions by and distributions to owners														
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	—	1,597	(1,597)	—	—	—
Creation of reserves pursuant to the Management Board decision		—	—	—	—	1,305	(1,305)	—	—	—	—	—	—	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	(3,811)	—	2,257	—	—	1,554	—	—	—	—
Total transactions with owners		**—**	**—**	**—**	**(3,811)**	**1,305**	**953**	**—**	**—**	**3,151**	**(1,597)**	**—**	**—**	**—**
Balance as at December 31, 2019		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**

in EUR 000	Mercator Group													
	Note	Share capital	Own shares	Reserves						Retained earnings		Equity attribute. to the control. company owners	Non-control. interests	Total equity
				Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period			
As at January 1, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**
Other changes		—	—	—	—	—	—	—	—	(740)	—	(740)	740	—
As at January 1, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**47,746**	**4,645**	**438,574**	**401**	**438,974**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	—	(156,710)	(156,710)	—	(156,710)
Other comprehensive loss for the year		—	—	—	—	—	(21)	5,649	(7,160)	9,349	150	7,966	(170)	7,797
Total comprehensive loss for the year		**—**	**—**	**—**	**—**	**—**	**(21)**	**5,649**	**(7,160)**	**9,349**	**(156,560)**	**(148,744)**	**(170)**	**(148,913)**
Transactions with owners directly recognized in equity														
Contributions by and distributions to owners														
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	—	4,645	(4,645)	—	—	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	—	—	—	—	—	1,984	—	1,984	—	1,984
Total transactions with owners		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,630**	**(4,645)**	**1,984**	**—**	**1,984**
Balance as at December 31, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,969**	**186,215**	**(90,971)**	**63,725**	**(156,560)**	**291,814**	**231**	**292,046**

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Separate statement of changes in equity

		Poslovni sistem Mercator d.d.									
				Reserves					Retained earnings		
in EUR 000	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	Total equity
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**13,389**	**—**	**143,971**	**5,101**	**(10,882)**	**412,136**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	(13,807)	(13,807)
Other comprehensive income for the year		—	—	—	—	—	—	5,262	(1,451)	—	3,811
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**5,262**	**(1,451)**	**(13,807)**	**(9,996)**
Disposal of land and buildings carried at fair value		—	—	—	—	—	—	(25,736)	25,736	—	—
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	(10,882)	10,882	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	(3,811)	—	—	—	3,811	—	—
Total transactions with owners		**—**	**—**	**—**	**(3,811)**	**—**	**—**	**—**	**(7,071)**	**10,882**	**—**
Balance as at December 31, 2019		**254,175**	**(3,235)**	**3,235**	**2,571**	**13,389**	**—**	**123,498**	**22,315**	**(13,807)**	**402,141**

Identified accumulated loss of the company Poslovni sistem Mercator d.d. for 2019 is presented in Note 26 Equity.

in EUR 000	Note	Share capital	Own shares	Reserves					Retained earnings		Total equity
				Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	
	Poslovni sistem Mercator d.d.										
As at January 1, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**13,389**	**—**	**123,498**	**22,315**	**(13,807)**	**402,141**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	(55,420)	(55,420)
Other comprehensive income for the year		—	—	—	—	—	—	11,174	7,801	—	18,975
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**11,174**	**7,801**	**(55,420)**	**(36,445)**
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	(13,807)	13,807	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	—	—	—	—	—	—	—
Total transactions with owners		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(13,807)**	**13,807**	**—**
Balance as at December 31, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**13,389**	**—**	**134,672**	**16,310**	**(55,420)**	**365,696**

Proposal for coverage of accumulated loss of the company Poslovni sistem Mercator d.d. for 2020 is presented in Note 26 Equity.

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Consolidated and separate cash flow statement

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Note	**2020**	**2019**	**2020**	**2019**
Cash flows from operating activities					
Net profit/loss for the year		**(156,710)**	**4,666**	**(55,420)**	**(13,807)**
Adjustments for non-cash items:					
Tax	21	(2,146)	6,314	100	5,983
Depreciation and amortization	15, 17	109,560	111,235	43,938	39,461
Revaluation of own use PP&E	15,16	(2,648)	(12,359)	(30)	(103)
Impairment of own use PP&E	14	71,927	4,674	16,357	—
Impairment of investment property	18	74,691	—	1,072	—
Revaluation of investment property	18	(3,251)	—	(71)	—
Gains on disposal of property, plant and equipment	11	(3,640)	(2,704)	(1,821)	(2,072)
Write-off and losses of property, plant and equipment	15	354	2,549	337	2,265
Dividends received, gains on disposal of other financial assets	14	—	(415)	—	(729)
Write-offs from revaluation of financial investments, impairment of investment in subsidiaries	14	5	50	34,965	23,671
Net other financial income (expenses)	14	1,435	3,605	1,292	1,400
Impairment with expected credit loss model and other financial assets recognised		3,932	685	901	1,016
Impairment of inventories		2,585	7,650	(2,055)	(1,350)
Change in provisions and other changes		(906)	(6,467)	866	(4,898)
Net foreign exchange differences	14	2,126	(1,178)	(46)	8
Interest income	14	(1,235)	(1,357)	(1,703)	(1,107)
Interest expenses	14	48,303	47,780	22,198	21,632
Cash from operating activities before the change of working capital		**144,382**	**164,728**	**60,880**	**71,370**
Change in inventories		2,197	(16,176)	3,354	(6,442)
Change in trade and other receivables		26,724	(2,556)	8,538	(3,103)
Change in trade and other payables, and provisions		(12,413)	11,478	18,619	(2,245)
Tax paid		(4,814)	—	(3,643)	—
Cash from operating activities		**156,075**	**157,473**	**87,748**	**59,581**
Cash flows from investing activities					
Acquisition of property, plant and equipment, investment property and intangible assets	15, 17	(41,836)	(35,438)	(24,177)	(20,601)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		12,992	152,422	9,188	127,385
Interest received		1,235	—	1,703	—
Loans granted	24	5,233	—	(21,288)	(18,574)
Repayment of loans granted	24	256	—	6,490	6,980
Cash from investing activities		**(22,120)**	**116,983**	**(28,084)**	**95,190**
Cash flow from financing activities					
Repayment of borrowings	16, 29	(125,970)	(473,548)	(50,336)	(308,973)
Proceeds from borrowings	28	107,214	320,884	44,986	186,865
Interest paid		(46,888)	(45,460)	(21,677)	(20,726)
Principal elements of lease payments		(64,134)	(45,759)	(14,811)	(7,096)
Cash from financing activities		(129,778)	(243,883)	(41,838)	(149,931)
Net increase/decrease in cash and cash equivalents		4,177	30,574	17,826	4,840
Cash and cash equivalents at beginning of the year	25	45,777	15,074	11,137	6,298
Effect of exchange rate fluctuations on cash and cash equivalents		(71)	130	—	—
Cash and cash equivalents at the end of the year		**49,884**	**45,777**	**28,964**	**11,137**

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Notes to consolidated and separate financial statements

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 companies in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro and North 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, 2020 comprise the company Poslovni sistem Mercator d.d. and its subsidiaries. The company Poslovni sistem Mercator d.d. is a subsidiary of the company Agrokor d.d., Marijana Čavića 1, Zagreb, Croatia, but Agrokor d.d. does not prepare consolidated accounts. Neither direct parent nor ultimate controlling party are preparing consolidated financial statements. As of April 10, 2017, the ultimate controlling party of Agrokor d.d. is defined in the Act on the Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of 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 separate 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 23, 2021.

b) Basis of measurement

Consolidated financial statements of the Mercator Group and separate financial statements of the company Poslovni sistem Mercator d.d. have been prepared on the historical cost basis, except for the items below measured at fair value:
- buildings;
- land;
- investment property;
- financial assets (Note 20).

Methods used for fair value measurement are described in Note 6.

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 as adopted by the EU 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. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revision 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 estimates 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 equipment using the cost model as described in Note 3(f)(i) and 6(a). The estimated useful life of property, plant and equipment is disclosed in Note 3(f)(iv).

Certain items of property, plant and equipment (real estate) are held partially for rentals and partially for own business and/or administrative purposes. As per IAS 40 paragraph 10, if the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

IFRS does not provide any guidance as to what constitutes an *insignificant* portion for this purpose, therefore the classification requires management judgement in each individual case, taking into consideration the economic nature of the real estate item and relevant legislation to assess whether property item can be disaggregated in smaller portions for sale or not. In practice, the real estate objects cannot be sold separately, because Mercator centers are held partially for rentals and partially for own business. Retail centers (interior of the center, common areas, exterior surfaces) are designed and built in the manner of one owner, and the sale of individual parts would change the purpose and would result in loss of control over the management of the center.

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for the use in the normal course of business or for administrative purposes, it is accounted for as investment property only if an insignificant portion is held for use in the the regular course of business or for administrative purposes. The two parts are accounted separately if they could be sold or leased out under finance lease separately.

Where items of properties are held for more then one purpose, items of real estate are used for both: rentals and own normal course of business, the properties are not separable and can not be sold or leased out in pieces in accordance with local legislative requirements and nature of the business and real estate items (commercial properties, shopping centers). In addition, given the nature of the business, the contribution of own business operations to the total operating results generated by the properties is not insignificant and therefore the whole item of real estate used for both own business and rentals is classified as property, plant and equipment. More details about policies and effects are provided in Note 3 h).

Out of total amount EUR 708,726 thousand related to land and buildings classified as property, plant and equipment as at December 31, 2020, EUR 589 million relates to properties that are used for both rentals and own business, within that amount fair value of portions leased out as of December 31, 2020 is EUR 205,992 thousand (2019: EUR 151,077 thousand).

ii. Investment property

The Mercator Group and the company Poslovni sistem Mercator d.d. measure investment property using the fair value model, as described in Note 6(a).

iii. Business model assessment

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest (SPPI) test and the business model test. The Mercator Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Mercator Group and the company Poslovni sistem Mercator d.d. perform continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

iv. Expected credit losses

The Mercator Group and the company Poslovni sistem Mercator d.d. apply simplified model to expected credit losses ('ECL') measurement and determines the lifetime ECL at initial recognition of trade and lease receivables and throughout their lifetime. ECL measured is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. The estimate is based on circumstances and situation that existed at the end of each reporting period.

Details about the group's policies are provided in Note 3 c) i) Financial assets.

v. Impairment of investments in subsidiaries

The company Poslovni sistem Mercator d.d. performs impairment test of its investments in subsidiaries in acordance with IAS 36 Impairment of assets requirements. Recoverable amount of investments in subsidiaries, is most sensitive to the achievement of the 2021-2025 budget. Budget comprises forecasts of EBITDA based on current and anticipated market conditions that have been considered and approved by the board. The estimate is based on circumstances and situation that existed at the end of each reporting period.

Major assumptions and sensitivity in respect of recoverable amount is provided in Note 19.

vi. Inventories

Carrying value of inventories is determined as lower of cost and net realizable value. Net realizable value is the net amount that an entity expects to realize from the sale of inventories in the ordinary course of business and is assessed taking into consideration current and expected market conditions, economic environment qualitative characteristics and other factors. No material write down of value of inventory to net realizable value have occurred during the periods presented in current financial statements.

Inventory realizable value allowance is determined on the basis as difference between the cost and expected net realizable value of aging stock. Value of the allowance recognized during the periods presented in the financial statements is disclosed in the Notes 12 and 22.

vii. Provisions

Carrying amount of provisions for legal claims settlement is measured as the present value of the future expenditures expected to be incurred upon settlement of these obligations. Due to the associated uncertainty, it is possible that estimates may need to be revised during the following periods as legal case might evolve, changing the expected settlement date and amount. The best estimate of timing and amount of settlement is provided by legal experts and approved by management of the company Poslovni sistem Mercator d.d. Whilst a range of outcomes is possible, the Mercator Group and the management of the company Poslovni sistem Mercator d.d. doesn't expect any significant changes in the amount of the provision recognized as disclosed in Note 29.

Provisions for employees benefits and long-service awards refer to estimated payments of termination and long term post employment 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 which is approved by the 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 nature of its inputs, the liabilities for post-employment benefits are susceptible to changes in the mentioned estimates.

viii. Deferred taxes

Deferred taxes are calculated based on temporary differences applying the balance sheet liability method, using the enacted or substantively enacted 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 credits 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..

ix. Leases

Mercator Group addressed key judgements regarding to amount of right of use assets and lease liabilities, including the assessment of how reasonably certain it is considered to be that a lease option (extension, termination or purchase) will be exercised, and the determination of an appropriate discount rate used to present value the lease liability and to initially measure the right of use asset. With regards to these, the Mercator Group has determined that the lease term will correspond to the duration of the contracts except in cases where the Mercator Group is reasonably certain that it will exercise contractual extension or break options. The discount rate applied is the incremental borrowing rate.

x. Going concern

The terms of our principal financial debt agreements comprise several provisions directly linked to Agrokor Group. These comprise (i) cross-default, (ii) change of control and (iii) material adverse effect provisions.

(i) Cross default: To proactively address the potential triggering of the cross default resulting from the opening of Agrokor's restructuring proceedings in Spring 2017; we already obtained (in Spring 2017) a waiver from the necessary majority of lenders. The waiver was valid during the existence of financial documentation with the lenders with no expiration date. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, above mentioned financial documentation was refinanced with new Fortenova debt facilities in the amount of EUR 480 million, and the transfer from Agrokor to new owner Fortenova has been concluded the same day, so a waiver on cross default is not relevant anymore.

(ii) Change of control: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. As of April 23, 2021 the Change of control topic is not relevant anymore for WGD, as it was resolved through refinancing of existing debt on April 23, 2021. The change of control clause for the remaining debt related to SSF was amended in March 2021, when the amendments to the SSF agreement were signed, where moving the control to Fortenova was now allowed.

(iii) Material adverse effect: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. Indeed, if anything, the three years since the commencement of Agrokor's restructuring have consistently demonstrated the ability of Mercator Group to survive and thrive independently of circumstances affecting the Agrokor Group. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, Mercator is not anymore related to Agrokor group.

In assessment of the risk of default clause discussed above Mercator has considered the following factors:

- Mercator is and remains, both for cashflow and EBITDA, one of the most significant entities within the Agrokor/ Fortenova Group. Poslovni sistem Mercator d.d has the clear working assumption that stakeholders in both Agrokor/ Fortenova Group and Mercator Group are 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.
- The Change of Control issue related to Wider Group Deal has been successfully solved through refinancing as of April 23, 2021.

As explained in Note 28 (Borrowings and lease liabilities), as at December 31, 2020, the Group had amounts due under the Wider Group Deal (“WGD”) and Super Senior Loan (“SSFA”) falling due in June 2021 or earlier, amounting to EUR 427,079 thousand.

On April 16, 2021, the wider refinancing was signed, whereunder the Company entered into debt facilities with Fortenova grupa d.d. (“FNG”) in the total amount of EUR 480 million (the “FNG Facility”).

On April 23, 2021, EUR 385 million (out of EUR 480 million of the total facility available) was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes. Out of total debt that was falling due on June 2021 of EUR 427,079 thousand, as explained above, EUR 326,696 thousand was refinanced on April 23, 2021, while the remaining EUR 100,000 thousand (EUR 80,000 thousand of existing upsized for additional 20,000 thousand at closing of WGD refinancing) related to the SSFA remains open, and is due in September 2021 based on the rescheduling agreement dated March 25, 2021. The remaining limit of EUR 95 million under the FNG Facility is available, if needed, to refinance that SSFA at maturity later this year. It is anticipated that certain real estate disposals will also be applied towards prepayment of the SSFA, mitigating the need to draw on this facility.

The FNG Facility has a 5-year bullet maturity and does not contain any financial covenants on the Company, with defaults limited to non-payment and Mercator group insolvency events. The FNG Facility is guaranteed by the Company and the following of its subsidiaries: Mercator–H d.o.o., Mercator–BH d.o.o., Mercator–CG d.o.o., Mercator IP d.o.o., Mercator-Emba d.d. and M - Energija d.o.o. (the “guarantors”). The FNG Facility will be secured on asset collateral over all material assets of the Company and the guarantors (properties, intra-group loan receivables, bank accounts, bills of exchange, intellectual property). Where appropriate, such collateral will rank behind the collateral granted to the SSFA.

In order to pre-fund the FNG Facility, FNG increased its existing bond facility with HPS Partners and VTB Bank (the "Noteholders") by EUR 380 million (as a new “Tranche C”). The Tranche C notes are secured, amongst other means, by the same Company’s and the guarantors’ assets as provided for the FNG Facility, as explained above. Importantly to note, there is a cap on recourse against the Company and the guarantors (other than for their own default, gross negligence or fraud) such that aggregate recourse to the Company and the guarantors under the FNG notes shall not exceed the amounts recoverable under the FNG Facility.

The Tranche C notes fall due on January 15, 2022, and prescribe certain financial covenants for which quarterly and annually FNG would need to provide compliance certificates to the Noteholders. Failure to comply with such debt covenants represents an event of default. FNG’s cash flow plans assume settling the debt under the Tranche C notes with proceeds from the recently announced sale of its frozen food business group (“FFBG”) to Nomad Foods Limited. This is already expected to happen in September 2021, well ahead of the Tranche C maturity. As explained in the Note 31 below, FNG and Nomad Foods Limited have signed an SPA on March 29, 2021 for the FFBG, consisting of Ledo plus d.o.o., Ledo d.o.o. Čitluk, and Frikom d.o.o., alongside several smaller affiliated companies. The value of the transaction is EUR 615 million, with completion planned for Q3 2021. The closing of transaction is subject to merger control approval in six jurisdictions (Austria, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) and foreign direct investment (“FDI”) approval in two jurisdictions (Hungary and Slovenia) (collectively, the “Regulatory Approvals”). On current timing, it is anticipated that the last of the Regulatory Approvals will have been obtained by early-to-mid July 2021 (on an optimistic basis) or early-to-mid September 2021 (on a more conservative basis) given the clear statutory deadlines and processes involved. Regulatory approvals are focused on the assessment of market concentration, and, as there is no material overlap of market share or trading in any of the Regulatory Approval jurisdictions, management believes the risk of not obtaining regulatory approvals, and thus completing the sale, is remote.

Based on the facts and circumstances known at this moment, including the planned completion of the sale of the FFBG and agreed use of received funds, management expects that FNG will be able to meet its obligations under the Tranche C notes, including compliance with financial covenants linked to this debt, and that there will be no need for the Noteholders to collect their receivables through Mercator Group's pledged assets. Management has thus determined that the use of the going concern assumption is fully appropriate in respect of the preparation of the consolidated and separate financial statements for the year ended December 31, 2020. However, considering that the sale of FFBG is not “business as usual” transaction, and that its completion requires a third party approval (Regulatory Approvals), the uncertainty behind the Regulatory Approvals and realization of this transaction represents a material uncertainty that may cast a significant doubt upon the Group’s and the Company’s ability to continue as a going concern.

3. Significant accounting policies

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company Poslovni sistem Mercator d.d. and entities controlled by the company Poslovni sistem Mercator d.d. (its subsidiaries) made up to 31 December each year. Control is achieved when the company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The company reassesses whether or not it controls an invested if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with the Mercator Group's accounting policies.

All intergroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Mercator Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Mercator Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests.

i. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Mercator Group, liabilities incurred by the Mercator Group to the former owners of the acquiree and the equity interest issued by the Mercator Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Mercator Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the:
i. consideration transferred,
ii. amount of any non-controlling interest in the acquired entity, and
iii. acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Consideration transferred does not include amounts of settlements regarding pre-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 incurred.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Mercator Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

ii. 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.

iii. Loss of control

After loss of control, 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 Mercator 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 statement of financial position as investment in an associate (at equity method) or as other financial asset, depending on the extent of retained influence.

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. Monetary assets 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-monetary 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 investments in 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 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 non-controlling 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

Financial assets and financial liabilities are recognized in consolidated and separate statement of financial position when Poslovni sisem Mercator d.d. or any of its subsidiaries become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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 legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

i. Financial assets

Regular way purchases and sales of financial assets are recognized on trade date, being the date on which the Mercator Group and the company Poslovni sistem Mercator d.d. commit to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Debt instruments

Debt instruments comprise of trade and other accounts receivable, loans given, long term lease deposits and other relevant financial assets. All debt instrument type financial assets are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within one year term and therefore all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Equity instruments

The Mercator Group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Mercator Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment of financial assets at cost

Mercator Group and the company Poslovni sistem Mercator d.d. apply simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables, loans and contract assets have been grouped based on shared credit risk characteristics and the days past due. Mercator Group and the company Poslovni sistem Mercator d.d. have defined categories of risk related to recoverability of receivables with regard to the type of collateral used to secure receivables, and classified the credit loss allowance 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 overdue, 31-90 days overdue, more than 90 days overdue.

The expected loss rates are based on the payment profiles of customers over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The impact of forward looking macroeconomic data on the estimated lifetime expected credit losses was considered immaterial given positive economic outlook in the upcoming periods.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery.

Subsequent recoveries of amounts previously written off are credited against the same line item.

ii. Financial liabilities

Initially, the Mercator Group and the company Poslovni sistem Mercator d.d. recognize issued debt securities and subordinated 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.

The Mercator Group and the company Poslovni sistem Mercator d.d. classify non-derivative financial instruments as other financial liabilities carried at amortized cost. Such financial liabilities are initially recognized at fair value increased by the transaction costs that are directly attributable and incremental to the origination or issue of debt. Subsequent to 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

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, cash in transit (daily proceeds of retail units) and demand deposit with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, potential credit loss is considered immaterial.

e) Share capital

Ordinary shares

Ordinary shares are an integral part of share capital. Transaction costs directly attributable and incremental to issuing of ordinary shares are recognized as a decrease in equity, net of tax effects.

Repurchase of own shares (treasury shares)

When nominal capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable and incremental transaction costs, net of 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

All items of property, plant and equipment, except for land and buildings, 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 2020, 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 Mercator Group include 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.

Land and buildings are measured in the statement of financial position at their revalued amounts (details of relevant fair value measurement are disclosed in Note 6), being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses. If the carrying amount of the asset is increased due to revaluation, the increase is recognized in other comprehensive income and accumulated in equity as revaluation surplus. The increase is recognized in profit or loss (income statement), if it eliminates a revaluation decrease of the same asset, which was previously recognized in profit or loss. If the carrying amount of assets is decreased below its historical cost net book value as a result of revaluation, then the decrease is recognized in profit or loss. Decrease is charged directly to other comprehensive income and 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.

Depreciation on revalued buildings is recognized in profit or loss. Upon subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

ii. 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 cost 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.

iii. Depreciation

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 residual value of property, plant and equipment is assessed 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

Land is not subject to depreciation.

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

	2020	2019
Buildings	40 years	40 years
Equipment and other assets	2-18 years	2-18 years

g) Intangible assets

i. Goodwill

Goodwill generated upon acquisition of subsidiaries or business 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 and its cost can be measured reliably. 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:

	2020	2019
Brands/labels	unlimited	unlimited
Material right and licenses	10 years	10 years

The useful life of brands and labels can not be determined reliably as the period over which it is available for the entity and volume of relevant economic benefits produced are unlimited, but are impacted among other factors by future economic outlook. The indefinite useful life of brands was determined based on stability of demand related to the products covered by the brand and market share stability. Carrying value of brands and labels is tested for impairment annually.

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.

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for the use in the normal course of business or for administrative purposes, it is accounted for as investment property only if an insignificant portion is held for use in the the regular course of business or for administrative purposes. The two parts are accounted separately if they could be sold or leased out under finance lease separately.

Where items of properties are held for more than one purpose, items of real estate are used for both: rentals and own normal course of business, the properties are not separable and can not be sold or leased out in pieces in accordance with local legislative requirements and nature of the business and real estate items (commercial properties, shopping centers). In addition, given the nature of the business, the contribution of own business operations to the total operating results generated by the properties is not insignificant and therefore the whole item of real estate used for both own business and rentals is classified as property, plant and equipment.

Certain items of property, plant and equipment (real estate) are held partially for rentals and partially for own business and/or administrative purposes. The precise valuation of the full portfolio was not performed for the comparative period, so the Mercator Group just estimated the value based on the % of sq meters. The value using the proportionate share of total fair value resulted into value of 122 million for the Mercator Group and EUR 73 million for the company Poslovni sistem Mercator d.d. (for 2019 the value using this estimate would be EUR 151 million and EUR 80 million). However due to the significant changes in the markets, for 2020 the full valuation of all properties was performed, and the valuation was done to also assess fair values of portions leased-out, showing that those portions' fair value as at December 31, 2020 was EUR 206 million at the level of Mercator Group and EUR 130 million at the level of the company Poslovni sistem Mercator d.d.

As discussed above, the properties are not separable following the legislative requirements and nature of the business, therefore are classified as property, plant and equipment.

Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Fair value of investment property items is determined by independent certified appraiser in accordance with International Valuation Standard and IFRS as described in Note 6. The assessment of fair value requires significant judgements to determine the appropriate assumptions, including the market rental fees and specific benefits to be granted to lessors adjustments, depending on the type and location of specific property.

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) Investment in subsidiaries

In the financial statements, the company Poslovni sistem Mercator d.d. carries investments in subsidiaries at cost less impairment. Investments are tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries that suffered impairment in previous periods are reviewed for possible reversal of the impairment at each reporting date.

Subsidiaries are those investees that the company controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The company may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the company from controlling an investee.

j) Leases

Mercator Group and the company Poslovni sistem Mercator d.d. asses whether a contract is or contains a lease, at inception of the contract. Right-of-use asset and a corresponding lease liability are recognized with respect to all lease arrangements in which Mercator Group or/and the company Poslovni sistem Mercator d.d. are the lessees, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Mercator Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by lessee’s incremental borrowing rate. Incremental borrowing rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Mercator Group uses comparable third-party yield to maturity rates as a starting point, adjusted specifically to the lease term, country, currency and security.

Lease payments included in the measurement of the lease liability comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Right-of-use assets is initially measured at cost comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs, if assumed by lease contract or legislative requirements.

Subsequently, right-of-use land and building are measured at fair value, while vehicles and equipment are measured at cost model.

Lease payments to be made under reasonably certain extension options are included in the measurement of the lease liability.

The Mercator Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Mercator Group did not make any such adjustments during the periods presented.

The Mercator Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use related to the real estate, comprising land and buildings classes of underlying assets is subsequently measured applying revaluation model, similar to the property, plant and equipment accounting policy. Applicable methodology of fair-value measurement and frequency of revaluations is disclosed in Note 6 (a) Fair value of property, plant and equipment.

Right of use asset meeting the definition of investment property in accordance with IAS 40 is measured at fair value. The revaluation is performed as of each year-end reporting date using methodology as discussed in Note 6 (a). Any changes in the fair value of the relevant right-of-use are recognized in the profit or loss when occur.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If management is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

The Mercator Group and the company Poslovni sistem Mercator d.d. apply IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Note 3 (m) *Impairment of non-financial assets policy.*

If the fair value of proceeds from the sale of an asset is lower than its fair value, the difference is accounted for as an overpayment of future lease payments (Sale & Lease Back transaction). The overpaid amount is amortised over the lease term.

Lessor accounting

Leases for which the Mercator Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Mercator Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Mercator Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Mercator Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Mercator Group applies IFRS 15 to allocate the consideration under the contract to each component.

k) Assets classified as held for sale or disposal group

Assets held for sale or disposal group, which includes assets and liabilities expected to be recovered through sale, are classified as held for sale. Immediately before the reclassification as 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 recognized in profit or loss. Gains are not recognized 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.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of purchased inventory are determined after deducting rebates and discounts and include handling and warehousing costs (only if the storage is necessary in the production process prior to a further production stage) directly attributable to the acquisition of the products, and the transport costs incurred in bringing the products to the location.

In 2019, methods of costs assignment to individual items of inventories are:

- FIFO method for merchandise,
- weighted average method for raw materials and packaging.

In 2020, Mercator Group and the company Poslovni sistem Mercator d.d. changed valuation of merchandise from FIFO to weighted average method.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. 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 and obsolete inventories are regularly performed during the year on an item-by-item basis. As of year-end net realizable value allowance for aging inventories is estimated on the basis of previous years' experience.

m) Impairment of non-financial assets

As of each reporting date, the Mercator Group and the company Poslovni sistem Mercator d.d. review the residual carrying amount of their non-financial assets in order to establish the indication of impairment. If such indicators exist, the recoverable amount of the asset is estimated. Impairment of goodwill and intangible assets that have indefinite useful lives or 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 (a) value in use or(b) fair value less costs of disposal. When determining the value in use of an asset, the expected future cash flows are discounted to their present value by using the discount rate before tax that reflects market assessments of the time value of money and risks typical 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 cash inflows from 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 separate testing at operating segment level (i.e. segment level 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 and which are not larger than an operating segment. 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 corporate 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 asset is allocated.

Impairment is recognized 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 subsequently not reversed. In relation to other assets, the Mercator Group and the company Poslovni sistem Mercator d.d. evaluate impairment losses of 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 estimates, on the basis of which the Mercator Group and the company Poslovni sistem Mercator d.d. calculate the recoverable amount of the asset. The impairment loss is reversed so that the carrying amount does not exceed the carrying amount that would have been determined net of accumulated depreciation had no impairment loss been recognized for the asset in prior periods.

n) Employee benefits

i. Long-term employee benefit and post-employment obligations

Long-term employee benefits comprise provisions for jubilee awards, post employment benefits and termination benefits upon termination of employment.

Mercator Group and the company Poslovni sistem Mercator d.d. recognizes provisions for long-term employee benefits arising from corporate and collective agreements and relevant legislation requirements.

Long term employee benefits provisions are determined by independent certified actuary expert and are calculated using the projected unit credit method, that is the method of accounting for benefits in proportion to the work performed since the employment at the company until the anticipated payment of jubilee award or post employment benefit. Provisions are formed in the amount of present value of employee service benefits attributable to current and past periods.

In accordance with IAS 19 Employee benefits the actuarial assumptions are taken into account in the calculation, since benefits are contingent upon the employee's future employment in the company, namely:

- Demographic assumptions: mortality, fluctuation and estimated retirement date
- Financial assumptions:
  - the growth of average salaries in each country, the growth of employees' salaries, the growth of fixed amounts and non-taxed amounts of awards,
  - discount rates.

Relevant current and past service costs and interest expense are recognized in the profit or loss when incurred.

In accordance with IAS 19, jubilee awards are classified as other long-term employee benefits, therefore the actuarial remeasurements are recognized in the income statement, while post employment benefits are recognized in other comprehensive income.

The company Poslovni sistem Mercator d.d. and Mercator Group recognize a liability and an expense benefits upon termination of employment, that are classified under IAS 19 as termination benefits, at the earlier of the following dates: when the company or a Group can no longer withdraw an offer of those benefits, according to IAS 19.166 and 167 and when the company or a Group recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

ii. Short-term employee benefits

Short-term employee benefits comprise provisions for unused days of paid leave, obligations for already earned salaries and social security contributions, that are expected to be settled wholly before twelve months after December 31.

Provisions for accumulated unused days of paid leave are calculated as the amount of gross gross salary for the period of unused leave outstanding as of reporting date. Due to short term nature, the provision is recognized without discounting effect. Changes in provisions for unused days of paid leave are recognized as operating expenses in the income statement.

o) 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.

p) 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. The amounts received on behalf of third parties are excluded from revenue.

Revenue from sales of goods, products and material is recognized at fair value of the consideration received or receivable, decreased by refunds or rebates for further sales and volume discounts. Revenue is recognized when control over the assets has been transferred to the buyer, when consideration is probable to be collected, the associated costs and sales returns of goods, products and material can be reliably estimated, and when any variable consideration is highly probable not to be reversed.

Transfer of control over the goods as indicated by transfer of risks and rewards depends on assessment of 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. Depending on the amount of purchases and consequently the number of collected points, they can earn from 5 EUR (for 250 collected points) to 210 EUR (for 3,500 collected points). During the year, the company Poslovni sistem Mercator d.d. allocates potential discounts on the basis of collected points, whereas revenue from unrealized bonus points is allocated based on the experience from previous bonus periods. Despite the fact that the second bonus period ends on 31 January of the following year, the company Poslovni sistem Mercator d.d. in this way ensures that recorded revenues match expenditures that were necessary for their realization.

iii. Revenue from services rendered

Revenue from services are continuously recognized through the period, in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Discounts or rebates and commercial cooperation fees are 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 Mercator 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 lease incentives are recognized as an integral part of total rental income.

Mercator Group and the company Poslovni sistem Mercator d.d. earn rental from investment properties and items of PP&E that are partially leased-out, as described in Note 2 d) i) and Note 3 h) above.

Rent concessions provided to tenants during the COVID lockdowns were insignificant at the level of Mercator Group. More details are disclosed in Note 31 Operating risk.

q) Government grants

Initially, all government grants are recognized as deferred revenue in the financial statements where reasonable assurance exists that the Mercator Group or 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 other income 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 income during the useful life of an individual asset.

r) Finance income and expenses

Finance income comprises interest on investments, 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 using the effective interest method. Dividend income is recognized in the income statement as at the day when the shareholder's declare the dividend; 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 costs comprise costs of borrowings, unwinding of the discount on provisions, and dividend on preference shares reported in liabilities. Borrowing costs that are not directly attributable to acquisition, construction, or production of an asset, that takes an extended period to get ready for use, are recognized in the income statement using the effective interest method.

Gains and losses from translation of foreign currency monetary balances and transactions are recognized net as finance income or expenses.

s) Corporate income tax

Corporate income tax on profit 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 recognized directly in equity or other comprehensive income, in which case it is recognized in equity or in other comprehensive income.

i. Current tax

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous reporting periods.

ii. Deferred tax

Deferred tax is recognized using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for the purpose of financial reporting and their tax bases. 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.

Deferred tax assets are recognized to the extent it is probable that future taxable profit will be available against which a deductible temporary difference or a tax loss carry forward can be used in the future. Deferred tax assets are decreased by the amount for which it is no longer probable that tax benefit associated with the asset can be utilized in the future.

t) Earnings per share

The Mercator Group 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 does 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. Comparative information

Adjustments and effects of changes of the consolidated and separate income statement for the year 2019 pertain exclusively to transfers between respective presentation lines, and they affect neither the result from operating activitiesnor profit or loss before tax for the period. Impact of these changes on the consolidated and separate financial statement for the year 2019 is presented below.

	Mercator Group			
		Adjustments		
in EUR 000	2019 before adjustment	Rental income	Revaluation gains/ losses of investment property	2019 after adjustment
Sales revenue	2,138,739	(47,708)	—	2,091,031
Rental income	—	47,708	—	47,708
Cost of sales	(2,036,545)	—	(2,810)	(2,039,355)
Revaluation gains / losses of investment property	—	—	5,835	5,835
Administrative expenses	(69,669)	—	—	(69,669)
Impairment of property, plant and equipment and intangible assets	(4,674)	—	4,674	—
Other operating income	31,564	—	(7,698)	23,866
Results from operating activities	**59,415**	—	—	**59,415**
Finance income	3,246	—	—	3,246
Finance costs	(51,681)	—	—	(51,681)
Net finance costs	(48,435)	—	—	(48,435)
Profit / (loss) before tax	**10,980**	—	—	**10,980**
Tax	(6,314)	—	—	(6,314)
Net profit / (loss) for the year	**4,666**	—	—	**4,666**

	Poslovni sistem Mercator d.d.			
in EUR 000	2019 before adjustment	Adjustments		2019 after adjustment
		Rental income	Revaluation gains/ losses of investment property	
Sales revenue	1,230,218	(14,926)	—	1,215,292
Rental income	—	14,926	—	14,926
Cost of sales	(1,172,652)	—	—	(1,172,652)
Revaluation gains / losses of investment property	—	—	—	—
Administrative expenses	(57,421)	—	—	(57,421)
Impairment of property, plant and investment properties	—	—	—	—
equipment and intangible assets	13,235	—	—	13,235
Results from operating activities	**13,380**	—	—	**13,380**
Finance income	2,142	—	—	2,142
Finance costs	(23,347)	—	—	(23,347)
Net finance costs	(21,204)	—	—	(21,204)
Profit / (loss) before tax	**(7,824)**	—	—	**(7,824)**
Tax	(5,983)	—	—	(5,983)
Net profit / (loss) for the year	**(13,807)**	—	—	**(13,807)**

There was a change in presentation of rental income, which is now presented in separate line, while the sales revenue was reduced in the same amount. There was also a change in presentation of impairment of property, plant and investment properties, which is now presented in two separate lines and dived to revaluation gain/losses of investment properties and all other revaluation losses under costs of sales. The Mercator Group and the company Poslovni sistem Mercator believe that such presentation provides information that is reliable and more relevant to users of the financial statements.

5. Adoption 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 new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU became effective for the current reporting period:

- **Amendments to the Conceptual Framework for Financial Reporting** (issued on March 29, 2018 and effective for annual periods beginning on or after January 1, 2020);
- **Amendments to IFRS 3: Definition of a business –** (issued on October 22, 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after January 1, 2020);
- **Amendments to IAS 1 and IAS 8: Definition of materiality** (issued on October 31, 2018 and effective for annual periods beginning on or after January 1, 2020);
- **Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform** (issued on September 26, 2019 and effective for annual periods beginning on or after January 1, 2020).

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 endorsed by the EU were in issue but not yet effective:

- **Amendment to IFRS 16: COVID-19-Related Rent Concession** (issued on May 28, 2020 and effective for annual periods beginning on or after June 1, 2020;
- **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (issued on September 11, 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest rate benchmark (IBOR) reform – phase 2** (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

New standards and amendments to the existing standards issued by the IASB but not yet endorsed by the EU

At present, IFRS as adopted by the EU do not significantly differ from IFRS as issued by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at April 26, 2021 (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 17: Insurance Contrac**t (issued on May 18, 2017 and effective for annual periods beginning on or after January 1, 2021);
- **Amendments to IAS 1: Classification of liabilities as current or non-current** (issued on January 23, 2020 and effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IAS 1: Classification of liabilities as current or non-current, deferral of effective date** (issued on July 15, 2020 and effective for annual periods beginning on or after January 1, 2023);
- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41** (issued on May 14, 2020 and effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IFRS 17** (not yet endorsed by the EU) **and an amendment to IFRS 4** (endorsed by the EU) (issued on June 25, 2020 and effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2**: Disclosure of Accounting policies (issued on February 12, 2021);
- **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates (issued on February 12, 2021);
- **Amendments to IFRS 16 Leases:** COVID-19-Related Rent Concessions beyond June 30, 2021(issued on March 31, 2021).

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..

The EU carve-out in respect of hedge accounting for the portfolio of financial assets and liabilities, the principles of which have not been fully endorsed yet by the EU did not have any material impact on these financial statements.

6. 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. The fair value of assets and liabilities are presented in Note 31.

a) Property, plant and equipment

In line with IFRS, Mercator Group and the company Poslovni sistem Mercator d.d. periodically, at least every three to five years, reassesses the fair value of its property, plant and equipment carried at revaluation model: buildings and land. The latest valuation was performed at the end of 2020 year by an external independent certified real estate appraiser in compliance with the International Valuation Standards (IVS 2017) 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 appropriateness and suitability of all three methods is always examined considering the use of property and availability of required information: income approach (discounted cash flow and/or income capitalization method), market approach (method of direct comparability of sales or transactions), and cost approach (reflects the cost to a market participant to construct assets of comparable utility). As a result of analysis of the real estate market and other considerations, and taking into account the purpose of the evaluation and the characteristics of the evaluated property the income approach and market approach were used. Where there is sufficient data of transactions or offers carried out with comparable real estate available, comparable transactions method (market approach) was applied, where there is insufficient data for the market approach, and/or in a case when cash flows are generated by renting the property (investment properties, refer to Note 5 (c) below), income capitalization method (income approach) was used.

IFRS 13 requires the use of valuation techniques for which sufficient data is available, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The degree of detail of the disclosure depends on the observability of the inputs used. For this purpose, IFRS 13 establishes a fair value hierarchy that classifies the inputs into three levels:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

i. Fair value of land, buildings and investment property

The following tables present land, buildings and investment property that are measured at fair value as at 31 December 2020 and as at 31 December 2019:

	Mercator Group			
in EUR 000	Level 1	Level 2	Level 3	Total
Land	—	—	489,106	489,106
Buildings	—	—	219,620	219,620
Investment property	—	—	198,978	198,978
Total as at 31 December 2020	**—**	**—**	**907,704**	**907,704**

	Mercator Group			
in EUR 000	Level 1	Level 2	Level 3	Total
Land	—	—	544,237	544,237
Buildings	—	—	242,864	242,864
Investment property	—	—	273,006	273,006
Total as at 31 December 2019	**—**	**—**	**1,060,107**	**1,060,107**

	Poslovni sistem Mercator d.d.			
in EUR 000	Level 1	Level 2	Level 3	Total
Land	—	—	324,134	324,134
Buildings	—	—	165,513	165,513
Investment property	—	—	3,043	3,043
Total as at 31 December 2020	**—**	**—**	**492,690**	**492,690**

	Poslovni sistem Mercator d.d.			
in EUR 000	Level 1	Level 2	Level 3	Total
Land	—	—	325,776	325,776
Buildings	—	—	175,854	175,854
Investment property	—	—	4,081	4,081
Total as at 31 December 2019	**—**	**—**	**505,711**	**505,711**

ii. Valuation techniques, inputs and assumptions about fair value

Quantitative information about fair value measurements using unobservable inputs:

Segment	Valuation technique	Net book value December 31, 2020	Net book value December 31, 2019	Input	Range
Slovenia					
Retail – FMCG	Income capitalization method	Land: EUR 72,604 thousand Buildings: EUR 198,319 thousand **∑ EUR 270,923 thousand**	EUR 519,659 thousand	Average monthly rent in EUR per sqm	1.0 – 12.5
				Capitalization rate	7.77% – 8.77%
Retail – Other tenants	Income capitalization method	Land: EUR 25,103 thousand Buildings: EUR 74,986 thousand **∑ EUR 100,089 thousand**		Average monthly rent in EUR per sqm	1.0 – 13.5
				Capitalization rate	7.77% – 9.52%
Logistics	Income capitalization method	Land: EUR 30,707 thousand Buildings: EUR 41,267 thousand **∑ EUR 71,974 thousand**		Average monthly rent in EUR per sqm	1.5 – 6.0
				Capitalization rate	8.77% – 9.02%
Office	Income capitalization method	Land: EUR 995 thousand Buildings: EUR 13,342 thousand **∑ EUR 14,337 thousand**		Average monthly rent in EUR per sqm	2.5 – 9.5
				Capitalization rate	8.02% – 9.27%
Other real estate (land plots, apartments, smaller retail units, gas stations, ...)	Comparable transactions method	Land: EUR 35,438 thousand Buildings: EUR 5,639 thousand **∑ EUR 41,078 thousand**		Market transactions	Land: 1 - 180 EUR/m2 Other real estate: 100 - 2,000 EUR/m2
Croatia					
Retail	Income capitalization method	Land: EUR - thousand Buildings: EUR - thousand **∑ EUR - thousand**	EUR 309,210 thousand	Average monthly rent in EUR per sqm	2.5 – 12.0
				Capitalization rate	7.79% – 9.29%
Logistics	Income capitalization method	Land: EUR 1,903 thousand Buildings: EUR 793 thousand **∑ EUR 2,696 thousand**		Average monthly rent in EUR per sqm	3.0
				Capitalization rate	8.79 %
Other real estate (Land plots)	Comparable transactions method	Land: EUR 22,165 thousand Buildings: EUR 197,162 thousand **∑ EUR 219,326 thousand**		Market transactions	2 - 130 EUR/m2
Serbia					
Retail – FMCG	Income capitalization method	Land: EUR 8,447 thousand Buildings: EUR 42,644 thousand **∑ EUR 51,091 thousand**	EUR 154,072 thousand	Average monthly rent in EUR per sqm	4.0 – 10.0
				Capitalization rate	8.81% – 9.06%
Retail – Other tenants	Income capitalization method	Land: EUR 6,942 thousand Buildings: EUR 35,046 thousand **∑ EUR 41,988 thousand**		Average monthly rent in EUR per sqm	6.0 – 10.0
				Capitalization rate	8.81% – 9.06%
Land plots	Comparable transactions method	Land: EUR 4,142 thousand Buildings: EUR - thousand **∑ EUR 4,142 thousand**		Market transactions	5 - 33 EUR/m2
Bosnia and Herzegovina					

Retail – FMCG	Income capitalization method	Land: EUR 3,099 thousand Buildings: EUR 22,075 thousand **∑ EUR 25,174 thousand**	EUR 69,656 thousand	Average monthly rent in EUR per sqm	5.0 – 10.0
				Capitalization rate	10.79% – 11.54%
Retail – Other tenants	Income capitalization method	Land: EUR 3,439 thousand Buildings: EUR 24,498 thousand **∑ EUR 27,936 thousand**		Average monthly rent in EUR per sqm	5.0 – 14.0
				Capitalization rate	10.79% – 11.54%
Montenegro					
Retail – FMCG	Income capitalization method	Land: EUR 1,222 thousand Buildings: EUR 1,257 thousand **∑ EUR 2,479 thousand**	EUR 7,509 thousand	Average monthly rent in EUR per sqm	5.5 – 6.5
				Capitalization rate	9.73 %
Retail – Other tenants	Income capitalization method	Land: EUR 452 thousand Buildings: EUR 466 thousand ∑ EUR 918 thousand		Average monthly rent in EUR per sqm	6.0
				Capitalization rate	9.73 %
Total net book value		**874,153**	**1,060,106**		

Total net book value of valued land, buildings and investment properties is lower than disclosed in the Note 15 and Note 18 due to investment in fixed assets owned by third party. The reconciliation is presented in the table below.

	Mercator Group	Poslovni sistem Mercator d.d.
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2020**
Land	216,658	161,583
Buildings	657,495	319,506
Net book value of valued land and buildings	**874,153**	**481,089**
Investment in fixed assets owned by third party	33,551	11,601
Total value	**907,704**	**492,690**

The average monthly rent provided includes the open market rent of each space (not necessarily equal to the current passing rent) of the property, including rental income from office and retail space but excluding ancillary income from storage, parking, signage, technology and other income divided by square meters of lettable office, retail and storage space.

Valuation of assets and fair value revaluation indicators for assets measured at fair value (PP&E and investment property)

COVID-19 led to significant changes in country risk premiums, which are a key input in calculation of capitalization rates used in the valuation of Mercator Group's properties. Mercator Management noted this to be a significant indicator that would possibly trigger fair value revaluations of the Group's assets as at December 31, 2020.

A previous independent valuation of all properties was performed as at December 31, 2017. Sample tests were performed annually (including the test as of December 31, 2019) by independent certified appraisers to confirm that the carrying value of property does not differ significantly from their fair values as of the reporting dates. As at December 31, 2020, the Mercator Group performed an evaluation of property and came to the conclusion that the carrying amounts of property, plant and equipment differ materially from amounts which would be determined using fair value at the end of the reporting period and therefore revaluation is required as per IAS 16 requirements.

In assessing whether there were any indications for fair value revaluation, the Management considered external sources of information, such as market considerations (including the rate of return and changes in the real estate market) as required by IFRS 13, as well as changes in the market due to COVID-19 epidemic (increase in country risk premiums).

The Group has seen individual rent reductions or delays in rent payments for smaller shops during government required quarantine and tightened social distancing restrictions, yet all the larger stores operated almost undisturbed. It should be emphasized that these exceptions have only occurred in the short-term. By easing COVID-19 related measures the rents are being paid regularly and reductions are no longer foreseen.

The valuation was performed by independent certified appraiser using valuation techniques as described below in compliance with the International Valuation Standards (IVS 2017) and Slovenian business and financial standard No. 2: Valuation/appraisal of real estate (OG RS, no. 106/13, December 18, 2013). Valuation as at December 31, 2020, for land and building shows reduction in fair values. The main driver of the updated fair values is the change in capitalization rates, impacted by the change in country risk premium, which in comparison to year-end 2019 increased in most countries where the Group operates.

Investment properties were also part of the fair value revaluation exercise as at December 31, 2020. The valuation technique and inputs are the same as for land and buildings.

The fair value determination of the Group's properties (land and buildings of EUR 708,726 thousand presented within property, plant and equipment line item and investment properties of EUR 198,978 thousand) and Company (land and buildings of EUR 489,647 thousand presented within property, plant and equipment line item and investment properties of EUR 3,043 thousand) is inherently uncertain due to the individual nature of each property and the characteristics of the commercial real estate markets in the region where the Group's properties are located. Additionally, as at the valuation date we continued to be faced with an unprecedented set of circumstances caused by COVID-19. A year into the global pandemic, the economic disruption and resulting uncertainty continues to impact each sector of the commercial real estate industry. As at the valuation date, there is a shortage of market evidence for comparison purposes, and our valuation of properties as at December 31, 2020, is therefore being subject to high degree of judgement and material valuation uncertainty. Our external valuators reported that their valuation of the Group's properties as at December 31, 2020, was prepared under the material valuation uncertainty due to COVID-19. Consequently, less certainty and a higher degree of caution, should be attached to the valuation than would normally be the case. For the avoidance of doubt, "material valuation uncertainty" does not mean that the valuation cannot be relied upon; rather, provides transparent disclosures and further insight as to the market context under which the valuations were prepared.

Locations used in a manner that differ from its highest and best use (like empty land plots) were valued based on the method of market transactions. Mercator Group believes that this method is the most suitable for land plots, as for other methods (for example the method of land development or the method of HABU) a more detailed conceptual plans or projects for construction on certain lands would be needed, which are not available for all of these real estate.

Sensitivity of measurement to variance of significant unobservable inputs

A decrease in the estimated monthly rent will decrease the fair value. An increase in the capitalization rates will decrease the fair value. There are interrelationships between these rates as they are partially determined by market rate conditions.

Should the rental levels increase or decrease by 0.5 EUR/m2 the carrying value of investment property as at December 31, 2020 would be higher or lower by EUR 9,927 thousand (December 31, 2019: EUR 13,957 thousand), while the carrying value of land and buildings would be higher or lower by EUR 50,082 thousand (December 31, 2019: EUR 60,177 thousand).

The income capitalization rate (yield) across the portfolio as at December 31, 2020 ranges from 7.77% to 11.54%, with 8.55% on weighted average (December 31, 2019: from 7.24% to 9.33%, or 8.33% on average). Should this capitalization rate increase/decrease by 50 basis points, the carrying value of the investment property would be EUR 9,657 thousand lower / EUR 10,885 thousand higher (December 31, 2019: EUR 15,582 thousand lower / EUR 17,872 thousand higher), while the carrying value of land and buildings would be EUR 33,192 thousand lower / EUR 37,372 thousand higher (December 31, 2019: EUR 32,071 thousand lower / EUR 34,658 thousand higher).

Valuation process

The latest valuation of the properties was performed in December 2020, on the basis of valuation reports prepared by independent and qualified valuers.

These reports are based on both:
- information provided by the company such as current rents, terms and conditions of lease agreements, service charges, capital expenditure, etc. This information is derived from the company's financial and property management systems and is subject to the company's overall control environment.
- assumptions and valuation models used by the valuers – the assumptions are typically market related, such as market rents, yields and capitalization rates. These are based on their professional judgment and market observation.

Generally, for income producing assets a discounted cash flow method is used, for non-core and land the method of direct comparability of sales or transactions is used.

The information provided to the valuers, and the assumptions and the valuation models used by the valuers, are reviewed by the controlling department and the Group Chief Financial Officer ('CFO'). This includes a review of fair value movements over the period.

All the major inputs used in valuations are determined based on available market data:
- Information about recent transactions and offers between market participants for similar items of properties (comparable utility, age, location, use, other factors);
- Market rents applied in income capitalization method;
- Capitalization rates.

A short overview of the valuation process is showed below:

- The valuation is split into two parts, covering areas that are rented out and areas Mercator uses for its own activities.
- In the case of rental areas, it was checked whether the rents currently exist and for how long these contracts are valid (WAULT period). For this purpose, the method of the income approach was used (and within that approach the discounted cash flows method«), where the concluded rents for the WAULT period were took into consideration, and market rents after the expiration of this period.
- These values were then discounted and the result is the value of the rental areas.
- In the case of areas Mercator uses for its own activities, the income capitalization method was used, where market rents were taken into account. The stabilized profit was then capitalized and the value of Mercator areas is the result.
- In cases of land, apartments, small individual units of garages or parking spaces and Investment properties in Slovenia, the comparable transactions method was used.
- Due to accounting standards value was divided to the value of the land and value of the building (value of location – value of the land).

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

Investment property, including right of use asset meeting the definition of investment property, is measured at fair value subsequent to initial recognition.

Fair value of investment property is determined by independent certified appraiser on the yearly basis. The valuation technique and inputs are the same as for property, plant and equipment and are disclosed in Note 6 (a) above.

d) Right-of-use assets

In line with IFRS, Mercator Group and the company Poslovni sistem Mercator d.d. periodically, at least every three to five years, reassesses the fair value of its right-of-use assets carried at revaluation model: buildings and land. The latest valuation was performed at the end of 2020 year by an external independent certified real estate appraiser in compliance with the International Valuation Standards (IVS 2017) and Slovenian business and financial standard No. 2: Valuation/appraisal of real estate (OG RS, no. 106/13, December 18, 2013).

Had the right-of-use assets been carried under the cost model, the carrying amount that would have been recognised would not have been significantly different to the current carrying amount under the revaluation model at the Mercator Group level, as well as for the Company.

e) 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.

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. The fair value of trade and other receivables is categorized as Level 3 in fair value hierarchy.

7. Tax policy

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 applicable to the company Poslovni sistem Mercator d.d. is 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 claimed:
- 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 2020, the companies recognized and reversed deferred income tax related to the following items:
- differences between accounting 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 investments in financial assets,
- unused tax breaks,
- revaluation of fixed assets to a higher value (revaluation).

Each company has to provide documentation on transfer prices; general documentation may be common to a group of related entities as a whole.

a) 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 2020, the company recognized and reversed deferred income taxes in relation to the following:
- differences between accounting and tax depreciation and amortization,
- differences in value of provisions.

The company is obliged to prepare transfer pricing documentation.

b) 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 2020, the company recognized and reversed deferred taxes liabilities arising from revaluation to a higher value of fixed assets and revaluation of investments in financial assets.

The company is obliged to prepare transfer pricing documentation.

c) 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%.

d) 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 2020, the company recognized and reversed deferred tax liabilities arising from revaluation of fixed assets to a higher value (revaluation).

8. Business combinations and reorganization of the Mercator Group

In 2020, no such business events took place in the company Poslovni sistem Mercator d.d. neither in the Mercator Group.

9. Operating segments

Mercator Group

For the requirements of reporting by operating segments, the Mercator Group defined business segments by the countries where the Mercator Group carries out its activities. Operating results of a segment are regularly reviewed by the main operational decision-maker - the President of the Management Board, and are used for decision making, including resources allocation, purposes.

In 2020, 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 Mercator−Velpro d.o.o., Mercator Humanitarian Foundation, Mercator Makedonia, 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 one individual customer did not reach 10% of total sales revenues of the Mercator Group.

Mercator Group’s revenues from its major products and services are disclosed in Note 10.

Poslovni sistem Mercator d.d.

During 2020 year the company Poslovni sistem Mercator d.d. operated as a single economic unit within one individual geographical segment – Slovenia, and therefore it's assets, liabilities and results of operations belong to one segment only,in accordance with IFRS 8 *Operating segments* requirements.

in EUR 000	Slovenia		Serbia		Croatia		Bosnia and Herzegovina		Montenegro		Total		Eliminations		Mercator Group - consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets as at December 31	**1,234,974**	**1,268,649**	**472,436**	**562,420**	**238,311**	**323,681**	**103,199**	**121,989**	**72,265**	**84,383**	**2,121,185**	**2,361,122**	**329,702**	**357,254**	**1,791,483**	**2,003,868**
Intersegment assets	*(275,504)*	*(305,538)*	*(32,171)*	*(38,887)*	*(374)*	*(632)*	*(1,852)*	*(3,606)*	*(4,900)*	*(6,885)*	*(314,801)*	*(355,547)*	*(314,801)*	*(355,547)*	—	—
Liabilities as at December 31	**830,743**	**833,888**	**473,519**	**512,275**	**134,064**	**142,976**	**67,984**	**72,363**	**56,047**	**59,586**	**1,562,358**	**1,621,088**	**62,920**	**56,194**	**1,499,438**	**1,564,894**
Intersegment liabilities	*(19,594)*	*(30,254)*	*(81)*	*(5,081)*	*(28,750)*	*(18,264)*	*(5)*	*(31)*	*(587)*	*(861)*	*(49,018)*	*(54,492)*	*(49,018)*	*(54,492)*	—	—
Total sales revenue	**1,277,644**	**1,251,535**	**671,816**	**655,857**	**85**	**503**	**104,839**	**100,779**	**92,228**	**103,146**	**2,146,612**	**2,111,820**	**19,355**	**20,789**	**2,127,256**	**2,091,031**
Intersegment revenue	*(19,167)*	*(20,738)*	*(139)*	*(179)*	*(49)*	*(387)*	—	—	—	*(558)*	*(19,355)*	*(21,862)*	*(19,355)*	*(21,862)*	—	—
Revenue from external customers	**1,258,477**	**1,230,797**	**671,677**	**655,678**	**36**	**117**	**104,839**	**100,779**	**92,228**	**102,589**	*2,127,256*	*2,089,958*	**—**	**(1,072)**	*2,127,256*	*2,091,031*
Cost of sales	**(1,257,477)**	**(1,207,936)**	**(682,806)**	**(643,616)**	**(20,626)**	**(12,983)**	**(117,908)**	**(101,518)**	**(95,243)**	**(94,632)**	**(2,174,059)**	**(2,060,685)**	**(19,838)**	**(21,331)**	**(2,154,221)**	**(2,039,355)**
Intersegment transactions	*18,686*	*19,134*	*531*	*841*	*92*	*297*	*323*	*1,127*	*205*	*462*	*19,838*	*21,862*	*19,838*	*21,862*	—	—
Administrative expenses	**(76,507)**	**(57,851)**	**(29,047)**	**(24,114)**	**(3,269)**	**(3,356)**	**(4,941)**	**(4,880)**	**(5,741)**	**(6,122)**	**(119,505)**	**(96,323)**	**(41,187)**	**(26,654)**	**(78,318)**	**(69,669)**
Intersegment transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Rental income	**11,427**	**15,198**	**6,812**	**8,851**	**20,462**	**18,874**	**4,187**	**5,001**	**355**	**326**	**43,244**	**48,249**	**483**	**541**	**42,761**	**47,708**
Intersegment transactions	*(483)*	—	—	—	—	—	—	—	—	—	*(483)*	—	*(483)*	—	—	—
Revaluation gains/losses of investment property	**(1,000)**	**—**	**—**	**—**	**(64,475)**	**5,835**	**—**	**—**	**—**	**—**	**(65,475)**	**5,835**	**—**	**—**	**(65,475)**	**5,835**
Intersegment transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other net operating income	**15,310**	**15,790**	**2,323**	**2,120**	**1,840**	**5,545**	**276**	**370**	**20**	**41**	**19,769**	**23,866**	**—**	**—**	**19,769**	**23,866**
Intersegment transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Interest income	**2,166**	**1,458**	**177**	**271**	**488**	**604**	**87**	**128**	**169**	**230**	**3,087**	**2,690**	**1,852**	**1,333**	**1,235**	**1,357**
Intersegment transactions	*(1,607)*	*(976)*	—	—	—	—	*(76)*	*(127)*	*(169)*	*(230)*	*(1,852)*	*(1,333)*	*(1,852)*	*(1,333)*	—	—
Interest expense	**(22,313)**	**(21,779)**	**(18,259)**	**(17,519)**	**(5,306)**	**(5,324)**	**(2,524)**	**(2,766)**	**(1,776)**	**(1,732)**	**(50,178)**	**(49,121)**	**(1,875)**	**(1,341)**	**(48,303)**	**(47,780)**
Intersegment transactions	*740*	*760*	*195*	*73*	*940*	*507*	—	—	—	—	*1,875*	*1,341*	*1,875*	*1,341*	—	—

	Slovenia		Serbia		Croatia		Bosnia and Herzegovina		Montenegro		Total		Eliminations		Mercator Group - consolidated	
in EUR 000	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Other net finance cost	**(1,253)**	**(675)**	**(25)**	**(626)**	**(2,157)**	**(257)**	**(32)**	**(61)**	**(93)**	**(10)**	**(3,561)**	**(1,629)**	**—**	**384**	**(3,561)**	**(2,013)**
Intersegment transactions	*36,852*	*23,255*	*6,221*	*3,015*	*—*	*—*	*—*	*—*	*—*	*—*	*43,073*	*26,270*	*43,073*	*26,654*	*—*	*(384)*
Income tax expense	**(473)**	**(6,668)**	**2,470**	**476**	**—**	**—**	**—**	**—**	**149**	**(122)**	**2,146**	**(6,314)**	**—**	**—**	**2,146**	**(6,314)**
Net profit / (loss)	**(52,475)**	**(10,929)**	**(46,539)**	**(18,300)**	**(72,958)**	**9,440**	**(16,017)**	**(2,948)**	**(9,932)**	**1,125**	**(197,920)**	**(21,612)**	**(41,210)**	**(26,278)**	**(156,710)**	**4,666**

As at December 31, 2020, the Mercator Group comprised the following companies (in EUR 000):

Poslovni sistem Mercator d.d. Slovenia	
Equity	365,696
Net operating profit or loss	(55,420)

Mercator–S d.o.o. Serbia	100.0%
Equity	(1,083)
Net operating profit or loss	(46,610)

Mercator –H d.o.o. Croatia	99.8%
Equity	104,247
Net operating profit or loss	(72,827)

Mercator–CG d.o.o. Montenegro	100.0%
Equity	16,218
Net operating profit or loss	(9,932)

Mercator –BH d.o.o. Bosnia and Herzegovina	100.0%
Equity	35,215
Net operating profit or loss	(16,017)

M–Energija d.o.o. Slovenia	100.0%
Equity	2,597
Net operating profit or loss	156

Mercator–Emba d.d. Slovenia	100.0%
Equity	23,043
Net operating profit or loss	868

Mercator IP d.o.o. Slovenia	100.0%
Equity	12,895
Net operating profit or loss	1,921

The Mercator Group also includes companies Mercator - Velpro d.o.o., Mercator Humanitarian Foundation, Mercator Makedonia d.o.o.e.l., which are idle and do not perform business activities.

10. Revenue from contracts with customers

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Sale of goods (where the entity is principal)	2,089,480	2,047,372	1,237,337	1,204,732
Sales of services	7,963	11,335	7,078	9,996
Transit sales arrangement fees	2,515	1,579	445	466
Sales of products	26,952	30,329	—	—
Sales of materials	346	416	120	96
Total	**2,127,256**	**2,091,031**	**1,244,981**	**1,215,292**

	2020					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzego-vina	Monte-negro	Mercator Group
Sale of goods (where the entity is principal)	1,237,281	669,481	23	104,428	91,699	2,102,911
Sales of services	6,941	606	13	228	176	7,963
Transit sales arrangement fees	445	1,546	—	172	352	2,515
Sales of products	13,521	—	—	—	—	13,521
Sales of materials	290	44	—	12	1	346
Total	**1,258,477**	**671,677**	**36**	**104,839**	**92,228**	**2,127,256**

	2019					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzego-vina	Monte-negro	Mercator Group
Sale of goods (where the entity is principal)	1,204,401	654,846	96	100,303	101,695	2,061,340
Sales of services	9,576	693	21	204	565	11,059
Transit sales arrangement fees	466	1	—	240	872	1,579
Sales of products	16,636	—	—	—	—	16,636
Sales of materials	246	138	—	31	1	416
Total	**1,231,326**	**655,678**	**117**	**100,779**	**103,132**	**2,091,031**

Mercator Group's and company's Poslovni sistem Mercator d.d. revenue is generated from sales of goods, products and materials and rendering of services. Revenue from sales of goods comprises in-store sales and revenue from other core business activities, while revenue from sales of products is generated by two production companies within the Mercator Group. It is recognized at a point in time when the control of the goods has been transferred to the customer, generally in-store or upon delivery. Revenues from rendering services comprises revenue from other services (unused bonuses from loyalty program – PIKA, commissions from household bills and other payments cards, customs services etc). Revenue from rendering services is recognized over the period when services are provided. Details about rental income are provided in Note 10.1

Revenue from sales of goods is presented net of discounts granted to customers.

Under the transit sales arrangements, products are shipped directly from Mercator's vendor to the end customer and Mercator does not obtain control over the goods before or during the transit. Mercator obtains legal title to the goods only momentarily before they are transferred to the end customer. Management applied their judgement in assessing these arrangements and concluded that Mercator in substance merely arranged the sale as an agent.

In 2020, Mercator Group succeeded in sustaining and upgrading the positive business trends from 2019. In 2020 sales revenue increased by EUR 36,226 thousand comparing to 2019. The main driver of revenue growth was recorded in retail FMCG segment which more than compensated the negative effect of COVID-19 epidemic which influenced non-core segments and companies (wholesale, DIY, manufacturing companies etc.) due to closing of certain industries which resulted in closer of operating units or/and operations of their business partners.

However, COVID-19 epidemic also had an impact on Mercator Group core business activities (retail FMCG segment) through:
- decrease of opening hours due to government restrictions throughout the region (more than 220,000 hours due to Sunday closures, introduction of curfew, limitation of max customer per square meter);
- very poor tourist season from May to September in Montenegro;
- decrease of impulse, to-go and ultra-fresh FMCG categories due to lower purchasing frequency in stores;
- government restriction on selling technical and some non-food products in FMCG stores in Slovenia.

Year over year (YOY) growth in retail FMCG segment is a result of successful execution of the business strategy along with all business goal attainment initiatives. Our business performance remained successful also after the declaration of COVID-19 epidemic in all markets (excluding Montenegro) of our operations, mainly due to responsible preparation for the crisis, timely provision of inventory and resources for all key SKU's (Stock-Keeping Unit), effective crisis management and exceptional execution of all additional COVID-19 Value Creation Plan initiatives. In addition, refurbishments and implementation of best practices in all markets further contributed to positive YOY growth in 1-12, 2020. Positive trends were recorded in all retail markets, with exception of Montenegro, which is highly dependent on tourist season from May to September.

Insistence on regular and precise monitoring of all operating plans has proven successful for accomplishment of all strategic goals set by the Mercator Group. Only timely and responsible preparation for the crisis allowed Mercator Group to sustain its positive performance trends started in the period before the coronavirus crisis. One factor contributing to Mercator's success in maintaining the positive performance trends is the fact that during the crisis, coordination, analysis, planning and decision-making sessions were held in all markets of Mercator's operations daily, and in the most critical moments even twice daily.

Company's Poslovni sistem Mercator d.d. offers and owns a customers loyalty program – PIKA. The benefits accumulated by customers from loyalty programmes constitute a performance obligation that is separate from the initial sale. For this reason, a contract liability is recognized in respect of this performance obligation as disclosed in Note 30.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Contract liabilities arising from customer loyalty program	6,576	6,480	6,576	6,480
Total contract liabilities	**6,576**	**6,480**	**6,576**	**6,480**

There were no significant changes in the contract assets and contract liability balances during the reporting period.

10.1 Rental income

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Rental income	42,761	47,708	11,152	14,926
Total	**42,761**	**47,708**	**11,152**	**14,926**

Mercator Group

In March 2020 governments adopted restrictions regarding to COVID-19 situation in all markets where Mercator Group operates in real estate segment. From the second half of March 2020 until the end of April 2020 all businesses (except retail FMCG, pharmacies and bakeries) were closed. At the end of April, the businesses with their own entry to shopping malls were reopened, and from second half of May all other businesses were reopened. In second half of October all businesses (except FMCG retail, pharmacies and bakeries) closed again. However, in Serbia and Bosnia and Herzegovina restrictions from October onwards allow businesses to operate but under special conditions issued by their National Health Agency.

Slovenian government also adopted special regulations under which tenants received privileged position with respect to landlords (the right of unilateral termination of the contract in 8 business days, deferral of payment for obligations under the lease contract, and extension of a fixed-term lease periods for the period of closure).

In 2020, Mercator Group rental income amounted to EUR 42,761 thousand and decreased by EUR 4,947 thousand comparing to 2019. The main drivers for decrease were monetization effect (sale of shopping centers in Slovenia in 1-3, 2019 and Serbia at the end of 2019), and termination of one lease agreement in Serbia with loss of rental income from subleases in 2020. Due to COVID-19 situation related liquidity issues of our tenants the Management of the Mercator Group agreed to give rent discounts for tenants in closed store, with the impact to EUR 1.7 million for the period from April to December 2020.

Poslovni sistem Mercator d.d.

In March 2020 Slovenian governments adopted restrictions regarding to COVID-19 situation. From the second half of March 2020 until the end of April 2020 all businesses (except FMCG retail, pharmacies and bakeries) were closed. At the end of April, were re-opened businesses with their own entry to shopping mall, and from second half of May were re-opened all other businesses, but in second half of October were all businesses (except FMCG retail, pharmacies and bakeries) again closed.

Slovenian government also adopted special regulations under which tenants received privileged position with respect to landlords (unilateral termination of the contract in 8 business days, deferral of payment for obligations under the lease contract, and extension of a fixed-term lease periods for the period of closure).

Rental income s at the company Poslovni sistem Mercator d.d. in 2020 amounted to EUR 11,152 thousand and decreased by 3,774 thousand comparing to 2019. The main drivers for decrease were monetization effect (sale of shopping centers in 1-3, 2019) and given rent discounts for tenants in closed stores, because COVID-19 situation put liquidity pressure on our tenants and Management agreed to issue credit notes for the rental period between March- May and creation of provision for issuing credit notes for the second wave (last quarter in 2020).

10.2 Revaluation gains/losses of investment property

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Revaluation gain/loss of investment property	(71,440)	5,835	(1,000)	—
Total	**(71,440)**	**5,835**	**(1,000)**	**—**

Mercator Group

Revaluation gain/loss of investment property of the Mercator Group amounted to EUR (71,440) thousand (2019: in EUR 5,835 thousand). Details are explained in Note 6 and 18.

Poslovni sistem Mercator d.d.

Revaluation gain/loss of investment property of the company Poslovni sistem Mercator d.d. amounted to EUR (1,000) thousand (2019: in EUR — thousand). Details are explained in Note 6 and 18.

11. Other operating income

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Gain on sale of property, plant and equipment	2,158	2,704	1,661	2,072
Other operating income	17,611	13,670	13,240	6,149
Total	**19,769**	**23,866**	**14,901**	**13,235**

Mercator Group

Gain on the sale of property, plant and equipment was EUR 2,158 thousand (2019: EUR 2,704 thousand).

Among other operating income in the amount of EUR 17,611 thousand (2019: EUR 13,670 thousand), Mercator Group included COVID-19 Government aid in the amount of EUR 7,200 thousand (being the refund of paid allowance explained below), income from indemnities based on insurance premiums and other indemnities in the amount of EUR 2,036 thousand, income from compensation received in the amount of 2,329 thousand EUR, revenue from reimbursed costs of collections and lawsuits in the amount of EUR 956 thousand, revenue from employment disability benefits in the amount of EUR 941 thousand, and other operating income in the amount of EUR 4,150 thousand.

In 2019, other operating income of the Mercator Group amounted to EUR 13,670 thousand, and included income from assets revaluation in the amount of EUR 4,603 thousand, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 1,997 thousand, income from compensation received in the amount of 1,896 thousand EUR, revenue from costs of warnings and lawsuits in the amount of EUR 1,030 thousand, revenue from employment disability benefits in the amount of EUR 1,007 thousand and other operating income in the amount of EUR 3,137 thousand.

Government aid

As at April 2, 2020, the government of the Republic of Slovenia adopted the Act on the intervention measures to mitigate the consequences of the communicable disease SARS-CoV-2 (COVID-19) for citizens and the economy. Under the first package of measures the employees in the private sector whose gross basic wage is less than three times the Slovenian gross minimum wage and who, due to performing their work during the epidemic, are exposed to health risks more than the average or have higher workloads due to epidemic, were entitled to an allowance of EUR 200. All Slovenian legal entities within Mercator Group paid the allowance in accordance with the legislation for March (proportionally from March 13th-31th), April and May. The new allowance was funded from the funds relating to the exemption of pension insurance contribution payment. In accordance with legislation the allowance of EUR 200 per employee was also paid in December.

In addition, the employers were eligible for reimbursement of the compensations in case the employer could not provide work for their employees and they were temporarily not working. This applied for the period until the May 31, 2020, at most and it was based on the Management estimation that the condition of the revenue decrease by more than 10% in 2020 in comparison to 2019 would be met. Within the Mercator Group, two companies received the mentioned aid, Mercator-IP d.o.o., and Mercator-Emba d.d.

At the same time the new Act provided all the employers who have paid the salary compensation to employees that were not able to perform work due to force majeure to be eligible for reimbursement of costs, in case the employees were not performing their work due to childcare (following the closing of schools and kindergartens) and other objective reasons or inability to commute due to the ban of public transport or the closing of borders with neighboring states and were thus receiving salary compensation. Within the Mercator Group all Slovenian legal entities benefited from aid.

During 2020 the companies in Slovenia had to submit prescribed documentation to the Ministry based on which government compensation was retroactively confirmed or disputed. As at December 29, 2020, the company Poslovni sistem Mercator d.d. received the decision that part of the aid is disputed based on which our legal team prepared the appeal that was in January 2021 submitted to the Court. Disputed amount of EUR 2.4 million is fully provisioned in financial statements for 2020.

Poslovni sistem Mercator d.d.

Gain on the sale of property, plant and equipment amounted to EUR 1,661 thousand in 2019 (2019: EUR 2,072 thousand).

Among other operating income the company Poslovni sistem Mercator d.d. discloses COVID-19 Government aid in the amount of EUR 7,085 thousand (being the refund of paid allowance explained above), income from compensation received in the amount of 2,328 thousand EUR, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 808 thousand, revenue from employment disability benefits in the amount of EUR 941 thousand, revenue from costs of warnings and lawsuits in the amount of EUR 881 thousand and other operating income in the amount of EUR 1,197 thousand.

In 2019, other operating income of the company Poslovni sistem Mercator d.d. amounted to EUR 6,149 thousand, and included income from compensation received in the amount of 1,898 thousand EUR, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 1,013 thousand, revenue from employment disability benefits in the amount of EUR 1,007 thousand, revenue from costs of warnings and lawsuits in the amount of EUR 949 thousand and other operating income in the amount of EUR 1,282 thousand.

Regarding to COVID-19 Government aid the company Poslovni sistem Mercator d.d. had to submit prescribed documentation to the Ministry based on which government compensation was retroactively confirmed or disputed. As at December 29, 2020, the company Poslovni sistem Mercator d.d. received decision that part of aid is disputed based on which our legal team prepared the appeal that was in January 2021 submitted to the Court. Disputed amount of EUR 2.4 million is fully provisioned in financial statements for 2020.

12. Costs of goods sold, selling costs and administrative expenses

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Depreciation of property, plant and equipment	57,616	61,083	28,116	28,704
Amortization of intangible assets	3,162	3,112	2,383	2,330
Depreciation of right of use assets	48,782	47,040	13,439	8,426
Labour costs	275,993	254,012	182,596	169,099
Costs of material	71,957	72,146	28,664	27,361
Costs of services excluding rents	150,148	143,280	107,386	98,959
Short-term and low value lease expense	1,772	1,940	975	985
Revaluation decrease of PP&E (Note 15)	71,555	4,226	16,357	—
Reversal of revaluation decrease of PP&E (Note 15)	(2,276)	1,416	(30)	—
Cost of goods sold	1,522,791	1,504,769	872,195	857,947
Other costs	14,245	13,532	9,270	8,583
Provisioning	(906)	1,024	866	117
- of which provisions for onerous contracts	(2,790)	—	(384)	—
- of which prov. for jubilee awards and post employment benefits	264	299	—	—
- of which provisions for litigation risks	94	724	(372)	117
- of which provisions for credit notes issued to lessees due to COVID epidemic	1,622	—	1,622	—
- of which provisions for company reorganization	(96)	—	—	—
Impairment of goodwill and intangible assets	—	—	—	—
Write-off of property, plant and equipment	5,076	376	3,938	121
Loss on sales of property, plant and equipment	354	2,172	337	2,144
Expenses due to impairment with expected credit loss model	3,932	685	901	1,016
Impairment of subsidiaries and other financial investments	5	50	34,965	23,671
Write-down of inventories to net realizable value	466	(182)	—	—
Other operating expenses	1,901	1,174	1,253	608
Total cost of goods sold, selling costs and administrative expenses	**2,226,575**	**2,111,856**	**1,303,612**	**1,230,073**
- of which cost of sales	2,148,257	2,039,355	1,228,321	1,172,652
- of which administrative expenses	78,318	69,669	75,291	57,421

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 and missing inventory.

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 IFRS.

Among the costs of services, the Mercator Group in 2020 shows audit costs for auditing the Annual Report 2020 in the amount of EUR 263 thousand. Additionally, EUR 6 thousand were used in the year 2020 for assurance services, EUR 0 thousand EUR for tax consultancy services and EUR 0 thousand for other non-audit services. For auditing the Annual Report in the year 2019 were used EUR 251 thousand, for assurance services EUR 17 thousand, for tax consultancy services EUR 0 thousand and for other non-audit services EUR 2 thousand.

Among the audit costs in 2020 the Mercator Group shows also audit costs for auditing interim report in the amount of EUR 544 thousand.

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.

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.

Among the costs of services, the company Poslovni sistem Mercator d.d. in 2020 shows audit costs for auditing the Annual Report in the amount of EUR 144 thousand. Additionally EUR 4 thousand were used in the year 2020 for assurance services, EUR 0 thousand for tax consultancy services and EUR 0 thousand for other non-audit services. For auditing the Annual Report in the year 2019 were used EUR 136 thousand EUR, for assurance services EUR 4 thousand, for tax consultancy services EUR 0 thousand and for other non-audit services EUR 2 thousand.

Among the audit costs in 2020 the company Poslovni sistem Mercator d.d. shows also audit costs for auditing interim report in the amount of EUR 544 thousand.

13. Labour costs

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Gross salaries	206,721	186,041	131,121	117,981
Other pension insurance costs	24,405	22,627	14,420	13,548
- of which defined benefit (DB) pension schemes	21,013	19,323	11,430	10,646
- of which defined contribution (DC) pension schemes	3,392	3,304	2,989	2,902
Health insurance costs	10,611	10,026	9,383	8,736
Other labour costs	34,256	35,317	27,672	28,834
Total	**275,993**	**254,012**	**182,596**	**169,099**
Number of employees as at December 31	20,960	19,963	9,216	8,833

Mercator Group

Labour costs at the Mercator Group level in 2020 amounted to EUR 275,993 thousand (2019: EUR 254,012 thousand). The main driver for the increase was driven by new minimum wage legislation throughout the region except in Montenegro, new crisis allowances for all employees pertaining to national intervention acts to mitigate the consequences of COVID-19 (in details explained below) in all Slovenian legal entities and additional bonuses for working in risk environment for employees in operating units and logistics in Slovenia and Serbia.

Among other labour costs, which amounted to EUR 34,256 thousand (2019: EUR 35,317 thousand) in 2020, the Mercator Group classifies reimbursement of meal allowances during work, reimbursement of commute allowances, annual leave allowances and other labour costs.

The total amount of all remuneration of employees of the Mercator Group employed under a contract, that is not subject to the tariff part of the collective agreement, excluding the members of the management of the company Poslovni sistem Mercator d.d., amounted to EUR 10,356 thousand in 2020 (2019: EUR 8,961 thousand).

Poslovni sistem Mercator d.d.

Labour costs at the company Poslovni sistem Mercator d.d. in 2020 amounted to EUR 182,596 thousand (2019: EUR 169,099 thousand). The main driver for the increase were the new minimum wage legislation, new crisis allowances for all employees pertaining to national intervention acts to mitigate the consequences of COVID-19 and additional bonuses for working in risk environment for employees in operating units and logistics.

The other labour costs amounting to EUR 27,672 thousand in 2020 (2019: EUR 28,834 thousand) and include reimbursement of meal allowances during work, reimbursement of commute allowances, annual leave allowances and other labour costs.

The total amount of all remuneration of employees of the company Poslovni sistem Mercator d.d. 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 6,354 thousand in 2020 (2019: EUR 5,292 thousand).

14. Finance income and costs

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Interest income from loans granted	1,235	1,357	1,703	1,107
Dividends received	—	415	—	729
Other financial income	269	240	261	299
Finance income	**1,504**	**2,013**	**1,965**	**2,136**
Borrowings costs	(26,828)	(26,849)	(17,349)	(17,678)
Lease liabilities interest costs	(21,464)	(20,946)	(4,819)	(3,960)
Other finance costs	(1,715)	(3,831)	(1,582)	(1,694)
Finance costs	**(50,006)**	**(51,625)**	**(23,751)**	**(23,332)**
Net foreign exchange differences	(2,126)	1,178	46	(8)
Net finance costs recognized in the income statement	**(50,628)**	**(48,435)**	**(21,741)**	**(21,204)**

Mercator Group

The largest share of the finance costs of the Mercator Group represent interest expenses, which amounted to EUR 26,828 thousand in 2020 (2019: EUR 26,849 thousand)

Poslovni sistem Mercator d.d.

The largest part represents interest expenses, which amounted to EUR 17,349 thousand in 2020 (2019: EUR 17,678 thousand).

15. Property, plant and equipment

	Mercator Group				
in EUR 000	**Land**	**Buildings**	**Equipment and other assets**	**Assets not yet available for use**	**Total**
Gross carrying amount					
As at January 1, 2019	**275,296**	**1,129,976**	**421,295**	**12,245**	**1,838,812**
Additions	—	266	922	32,222	33,410
Transfer from assets being acquired	875	8,620	14,552	(28,268)	(4,222)
Disposals, deficit, surplus	(32,973)	(31,016)	(14,533)	(11)	(78,534)
Revaluation increase	—	—	—	—	—
Revaluation decrease	(471)	(1,689)	—	—	(2,160)
Translation differences	127	1,975	1,084	43	3,230
Other	9	(242)	(55)	183	(104)
As at December 31, 2019	**242,864**	**1,107,890**	**423,265**	**16,414**	**1,790,432**
Accumulated depreciation					
As at January 1, 2019	**—**	**(547,293)**	**(293,686)**	**(2,335)**	**(843,314)**
Depreciation	—	(33,804)	(27,282)	—	(61,086)
Transfer from assets being acquired	—	4,222	—	—	4,222
Disposals, deficit, surplus	—	13,320	13,123	—	26,443
Revaluation increase	—	—	—	—	—
Revaluation decrease	—	618	—	—	618
Translation differences	—	(715)	(673)	(6)	(1,394)
Other	—	—	(23)	—	(23)
As at December 31, 2019	**—**	**(563,653)**	**(308,542)**	**(2,340)**	**(874,536)**
Carrying amount					
As at January 1, 2019	**275,296**	**582,683**	**127,609**	**9,910**	**995,498**
As at December 31, 2019	**242,864**	**544,237**	**114,723**	**14,073**	**915,896**
Gross carrying amount					
As at January 1, 2020	242,864	**1,107,890**	**423,265**	**16,414**	**1,790,432**
Tranfser to right-of-use assets	—	—	24	—	24
Additions	—	111	1,532	36,754	38,397
Transfer from assets being acquired	25	9,332	21,205	(34,290)	(3,727)
Disposals, deficit, surplus	(8,773)	(12,573)	(17,646)	(69)	(39,061)
Revaluation increase	2,368	145,813	—	—	148,182
Revaluation decrease	(16,325)	(64,665)	—	—	(80,990)
Translation differences	(539)	(505)	(1,955)	(7)	(3,006)
Other	—	(478)	(20)	—	(498)
As at December 31, 2020	**219,620**	**1,184,926**	**426,405**	**18,802**	**1,849,752**
Accumulated depreciation					
As at January 1, 2020	**—**	**(563,653)**	**(308,542)**	**(2,340)**	**(874,536)**
Depreciation	—	(31,847)	(25,770)	—	(57,617)
Transfer from assets being acquired	—	3,727	—	—	3,727
Disposals, deficit, surplus	—	10,551	16,175	(3,870)	22,856
Revaluation increase	—	(139,548)	—	—	(139,548)
Revaluation decrease	—	24,735	—	(444)	24,292
Translation differences	—	215	2,285	—	2,500
Other	—	—	—	—	—
As at December 31, 2020	**—**	**(695,820)**	**(315,853)**	**(6,653)**	**(1,018,326)**
Carrying amount					
As at January 1, 2020	**242,864**	**544,237**	**114,723**	**14,073**	**915,896**
As at December 31, 2020	**219,620**	**489,106**	**110,552**	**12,148**	**831,426**

in EUR 000	Poslovni sistem Mercator d.d. Land	Buildings	Equipment and other assets	Assets not yet available for use	Total
Gross carrying					
As at January 1, 2019	**180,951**	**754,871**	**230,770**	**7,027**	**1,173,620**
Additions	—	—	727	18,458	19,185
Transfer from assets being acquired	873	4,546	8,067	(17,705)	(4,220)
Disposals, deficit, surplus	(5,982)	(7,160)	(7,562)	—	(20,704)
Revaluation increase	—	—	—	—	—
Revaluation decrease	—	—	—	—	—
Translation differences	—	—	—	—	—
Other	12	(114)	(1)	214	110
As at December 31, 2019	**175,854**	**752,143**	**232,001**	**7,993**	**1,167,991**
Accumulated depreciation					
As at January 1, 2019	**—**	**(417,171)**	**(179,659)**	**—**	**(596,830)**
Depreciation	—	(18,027)	(10,678)	—	(28,704)
Transfer from assets being acquired	—	4,220	—	—	4,220
Disposals, deficit, surplus	—	4,610	7,142	—	11,752
Revaluation increase	—	—	—	—	—
Revaluation decrease	—	—	—	—	—
Translation differences	—	—	—	—	—
Other	—	—	—	—	—
As at December 31, 2019	**—**	**(426,367)**	**(183,195)**	**—**	**(609,562)**
Carrying amount					
As at January 1, 2019	**180,951**	**337,701**	**51,111**	**7,027**	**576,790**
As at December 31, 2019	**175,854**	**325,776**	**48,806**	**7,993**	**558,429**
Gross carrying amount					
As at January 1, 2020	**175,854**	**752,143**	**232,001**	**7,993**	**1,167,991**
Transfer to right-of-use assets	—	—	—	—	—
Additions	—	—	887	20,609	21,497
Transfer from assets being acquired	25	4,277	10,686	(18,695)	(3,707)
Disposals, deficit, surplus	(5,656)	(10,551)	(7,703)	—	(23,911)
Revaluation increase	2,336	143,782	—	—	146,118
Revaluation decrease	(7,045)	(17,698)	—	—	(24,743)
Translation differences	—	—	—	—	—
Other	—	(18)	—	—	(18)
As at December 31, 2020	**165,513**	**871,935**	**235,872**	**9,908**	**1,283,227**
Accumulated depreciation					
As at January 1, 2020	**—**	**(426,367)**	**(183,195)**	**—**	**(609,562)**
Depreciation	—	(17,757)	(10,360)	—	(28,117)
Transfer from assets being acquired	—	3,707	—	—	3,707
Disposals, deficit, surplus	—	8,593	7,486	(3,870)	12,210
Revaluation increase	—	(124,795)	—	—	(124,795)
Revaluation decrease	—	8,818	—	—	8,818
Translation differences	—	—	—	—	—
Other	—	—	—	—	—
As at December 31, 2020	**—**	**(547,801)**	**(186,069)**	**(3,870)**	**(737,739)**
Carrying amount					
As at January 1, 2020	**175,854**	**325,776**	**48,806**	**7,993**	**558,429**
As at December 31, 2020	**165,513**	**324,134**	**49,803**	**6,038**	**545,488**

Additions in property, plant and equipment shown in the context of investments relate to:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Purchase of land, buildings and equipment	10,806	9,263	3,317	4,804
Refurbishment of existing retail and wholesale units	24,412	21,444	15,735	12,547
Other	3,178	2,702	2,445	1,834
Total	**38,397**	**33,410**	**21,497**	**19,185**

Decreases in property, plant and equipment relate to:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Real estate sales	10,790	50,417	7,613	8,449
Sale of equipment	755	1,093	149	382
Write-offs	4,661	581	3,938	121
Total	**16,205**	**52,091**	**11,701**	**8,952**

Breakdown of assets by geographical location

December 31, 2020	Mercator Group					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro	Total
Land	167,455	19,539	24,414	6,538	1,674	**219,620**
Buildings	336,463	98,246	2,716	46,978	4,703	**489,106**
Equipment and other assets	54,243	38,433	632	8,144	9,099	**110,551**
Assets not yet available for use	6,059	5,692	—	—	397	**12,148**
Total	**564,220**	**161,910**	**27,762**	**61,660**	**15,873**	**831,426**

December 31, 2019	Mercator Group					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro	Total
Land	177,796	21,393	35,463	6,538	1,674	**242,864**
Buildings	337,782	132,680	4,822	63,119	5,835	**544,238**
Equipment and other assets	53,018	41,473	921	9,349	9,961	**114,722**
Assets not yet available for use	7,999	5,684	—	57	333	**14,073**
Total	**576,595**	**201,230**	**41,206**	**79,063**	**17,803**	**915,896**

Breakdown of revaluation increase and decrease of land and buildings by geographical location

December 31, 2020	Mercator Group					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzego-vina	Monte-negro	Mercator Group
Revaluation increase / (decrease) recognized in P&L	(16,247)	(23,138)	(7,890)	(14,546)	(1,025)	**(62,846)**
Revaluation increase / (decrease) recognized in OCI	22,504	(7,469)	(1,161)	884	22	**14,780**
Total	**6,257**	**(30,607)**	**(9,051)**	**(13,662)**	**(1,003)**	**(48,066)**

During 2020, in its separate financial statements, the Company recognized revaluation decrease in the amount of EUR 16,084 thousand in P&L, and revaluation increase in the amount of EUR 21,483 thousand in OCI.

Land and buildings at historical cost basis

Had land and buildings been measured at historical cost basis, the net book amounts would be as follows:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Land	308,033	340,777	188,975	209,111
Buildings	453,805	651,240	255,237	290,405
Total	**761,838**	**992,017**	**444,212**	**499,516**

Mercator Group

Land and buildings are carried at their revalued amounts (details of relevant fair value measurement are disclosed in Note 6), being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses.

Other items of property, plant and equipment, except for land and buildings, are measured using the cost model. They are carried at cost less accumulated depreciation and any accumulated impairment losses.

As at December 31, 2020, net book value of land, buildings and equipment of the Mercator Group amounted to EUR 831,426 thousand (as at December 31, 2019: EUR 915,896 thousand). PP&E decreased by EUR 84,471 thousand when compared to December 31, 2019. The movement is mainly explained by depreciation charge in 2020 in the amount EUR 57,617 thousand, net impairment loss in the amount of EUR 48,066 thousand and additions in the amount EUR 38,397 thousand. Additions mostly relate to opening of 26 new stores and refurbishment of 172 existing stores.

During 2020, in its conslidated financial statements, the Mercator Group recognized revaluation decrease in the amount of EUR 62,846 thousand in P&L, and revaluation increase in the amount of EUR 14,780 thousand in OCI.

Poslovni sistem Mercator d.d.

As at December 31, 2020, net book value of land, buildings and equipment amounted to EUR 545,488 thousand (as at December 31, 2019: EUR 558,429 thousand). PP&E decreased by EUR 12,940 thousand when compared to December 31, 2019. The movement is mainly explained by depreciation charge in 2020 in the amount EUR 28,117 thousand, net impairment in the amount of EUR 5,398 thousand, and additions in the amount EUR 21,497 thousand.

During 2020, in its separate financial statements, the Company recognized revaluation decrease in the amount of EUR 16,084 thousand in P&L, and revaluation increase in the amount of EUR 21,483 thousand in OCI.

16. Leases

Right-of-use assets	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Land and buildings	Vehicles and equipment	Total	Land and buildings	Vehicles and equipment	Total
As at January 1, 2019						
Transfer from PP&E/to investment property	—	—	—	—	—	—
Gross carrying amount	346,316	10,349	356,665	114,878	5,837	120,715
Accumulated depreciation	(41,251)	—	(41,251)	(1,970)	—	(1,970)
Net book amount	**305,065**	**10,349**	**315,414**	**112,908**	**5,837**	**118,745**
Balance as at December 31, 2019						
Net book amount	305,065	10,349	315,414	112,908	5,837	118,745
Effect of foreign exchange differences	—	—	—	—	—	—
Additions	89,876	5,056	94,932	59,525	3,005	62,531
Disposals	—	—	—	—	—	—
Depreciation charge	(54,408)	(3,030)	(57,438)	(10,805)	(1,749)	(12,553)
Revaluation increase	—	—	—	—	—	—
Revaluation decrease	—	—	—	—	—	—
Other changes	—	—	—	—	—	—
Closing net book amount	**340,533**	**12,375**	**352,908**	**161,629**	**7,094**	**168,723**
Balance as at December 31, 2019						
Gross carrying amount	436,192	15,405	451,597	174,403	8,842	183,245
Accumulated depreciation	(95,659)	(3,030)	(98,689)	(12,774)	(1,749)	(14,523)
Net book amount	**340,533**	**12,375**	**352,908**	**161,629**	**7,094**	**168,723**

On October 12, 2018, the company Poslovni sistem Mercator d.d. and companies Supernova signed an agreement on the sale of ten shopping centres in Slovenia. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator took a long-term lease of parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities.

Right-of-use assets	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Land and buildings	Vehicles and equipment	Total	Land and buildings	Vehicles and equipment	Total
As at January 1, 2020						
Transfer from PP&E/to investment property	(348)	—	(348)	—	—	—
Gross carrying amount	432,484	14,833	447,317	170,695	8,660	179,356
Accumulated depreciation	(91,379)	(3,030)	(94,409)	(8,885)	(1,749)	(10,633)
Net book amount	**340,756**	**11,803**	**352,559**	**161,811**	**6,912**	**168,723**
Balance as at December 31, 2020						
Net book amount	340,756	11,803	352,559	161,811	6,912	168,723
Effect of foreign exchange differences	—	—	—	—	—	—
Additions*	14,059	6,048	20,107	1,450	3,530	4,980
Disposals**	(5,049)	(72)	(5,121)	(576)	(9)	(585)
Depreciation charge	(44,932)	(3,585)	(48,516)	(10,815)	(2,084)	(12,899)
Revaluation increase	5,934	—	5,934	4,042	—	4,042
Revaluation decrease	(12,878)	—	(12,878)	(5,273)	—	(5,273)
Other changes	27,945	—	27,945	716	—	716
Closing net book amount	**325,836**	**14,194**	**340,030**	**151,354**	**8,349**	**159,703**
Balance as at December 31, 2020						
Gross carrying amount	469,091	20,809	489,900	172,285	12,181	184,467
Accumulated depreciation	(143,255)	(6,615)	(149,870)	(20,931)	(3,833)	(24,764)
Net book amount	**325,836**	**14,194**	**340,030**	**151,354**	**8,349**	**159,703**

* The item includes: a) leases from new contracts signed from January 1, 2020 onward; b) renewal of existing contracts; c) increase regarding to changes in contract terms and conditions.

** The item includes: a) termination of existing contracts; b) reduction of lease duration; c) decrease regarding to changes in contract terms and conditions.

At the end of 2019, sale of the Roda Center New Belgrade in Serbia was successfully completed and Mercator–S d.o.o. entered into a long-term lease agreement for the part of the center in which it is conducting its core activity. Recognized new right-of-use assets relating to the Roda Center Novi Beograd in early 2020 in the amount of EUR 5.7 million is shown as part of Right-of-use assets additions in 2020.

Investment property right-of-use asset is disclosed in Note 18.

Right-of- use land and buildings are carried at their revalued amounts (details of relevant fair value measurement are disclosed in Note 6), being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Non-current	272,636	300,260	71,553	83,496
Current	73,036	76,100	21,354	19,541
Total lease liability	**345,672**	**376,361**	**92,906**	**103,037**

Maturity analysis	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Year 1	73,036	76,100	21,354	19,541
Year 2	51,445	56,380	13,396	15,404
Year 3	47,790	51,535	13,812	12,159
Year 4	39,045	48,418	11,625	12,050
Year 5	49,980	41,014	7,054	11,365
Year 6 and onward	84,375	102,913	25,666	32,519
Total	**345,672**	**376,361**	**92,906**	**103,037**

Amounts recognised in profit and loss	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Depreciation expense on right-of-use assets	(49,320)	(47,040)	(14,246)	(8,426)
Interest expense on lease liabilities	(21,449)	(20,946)	(6,663)	(3,960)
Expense relating to short-term leases & low value items	(1,772)	(1,940)	(975)	(985)
Expense relating to variable lease payments not included in the measurement of the lease liability	—	—	—	—
Income from subleasing right-of-use assets	572	550	—	—

The total cash outflow for leases of the Mercator Group amount to EUR 85,609 thousand (Poslovni sistem Mercator, d.d.: EUR 19,660 thousand), and is presented as cash flow from financing activities. Principal elements of lease payments provided in the statement of cash flow only comprises the repayment of lease principal, interest payments are included in interest paid line.

17. Intangible assets

	Mercator Group				Poslovni sistem Mercator d.d.		
in EUR 000	Trade-marks	Material rights and licenses	Asset not yet available for use	Total	Material rights and licenses	Assets not yet available for use	Total
Gross carrying amount							
As at January 1, 2019	**10,766**	**67,022**	**20**	**77,808**	**49,174**	**—**	**49,174**
Additions	—	183	2,554	2,737	43	2,068	2,110
Transfer from assets being acquired	—	2,574	(2,574)	0	2,068	(2,068)	—
Disposals, deficit, surplus	—	(408)	—	(408)	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	—	—	—	—	—	—
Translation differences	96	45	—	142	—	—	—
Other	—	(94)	—	(94)	—	—	—
As at December 31, 2019	**10,862**	**69,322**	**—**	**80,184**	**51,284**	**—**	**51,284**
Accumulated depreciation							
As at January 1, 2019	**(6,998)**	**(49,865)**	**—**	**(56,863)**	**(36,221)**	**—**	**(36,221)**
Amortization	—	(3,112)	—	(3,112)	(2,330)	—	(2,330)
Transfer from assets being acquired	—	—	—	—	—	—	—
Disposals, deficit, surplus	—	365	—	365	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	—	—	—	—	—	—
Translation differences	(63)	(20)	—	(83)	—	—	—
Other	—	56	—	56	—	—	—
As at December 31, 2019	**(7,060)**	**(52,575)**	**—**	**(59,636)**	**(38,551)**	**—**	**(38,551)**
Carrying amount							
As at January 1, 2019	**3,768**	**17,157**	**20**	**20,945**	**12,953**	**—**	**12,953**
As at December 31, 2019	**3,802**	**16,746**	**—**	**20,548**	**12,733**	**—**	**12,733**
Gross carrying amount							
As at January 1, 2020	**10,862**	**69,322**	**—**	**80,184**	**51,284**	**—**	**51,284**
Additions	—	188	3,169	3,357	161	2,482	2,643
Transfer from assets being acquired	—	3	(3,141)	—	2,482	(2,482)	—
Disposals, deficit, surplus	—	(17)	—	(17)	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	(20)	—	(20)	—	—	—
Translation differences	(14)	(118)	—	(132)	—	—	—
Other	—	—	—	—	—	—	—
As at December 31, 2020	**10,848**	**72,496**	**28**	**83,372**	**53,928**	**—**	**53,928**
Accumulated depreciation							
As at January 1, 2020	**(7,060)**	**(52,575)**	**—**	**(59,636)**	**(38,551)**	**—**	**(38,551)**
Amortization	—	(3,125)	—	(3,125)	(2,383)	—	(2,383)
Transfer from assets being acquired	—	—	—	—	—	—	—
Disposals, deficit, surplus	—	17	—	17	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	20	—	20	—	—	—
Translation differences	9	93	—	102	—	—	—
Other	—	—	—	—	—	—	—
As at December 31, 2020	**(7,051)**	**(55,571)**	**—**	**(62,623)**	**(40,935)**	**—**	**(40,935)**
Carrying amount							
As at January 1, 2020	**3,802**	**16,746**	**—**	**20,548**	**12,733**	**—**	**12,733**
As at December 31, 2020	**3,797**	**16,925**	**28**	**20,750**	**12,993**	**—**	**12,993**

Mercator Group

As at December 31, 2020, intangible assets amount to EUR 20,750 thousand (2019: EUR 20,548 thousand) and include rights, patents, licenses, trademarks and investments into software.

The value of intangible assets increased in 2020 due to investments in the amount of EUR 3,357 thousand (2019: EUR 2,737 thousand).

The trademark value as at December 31, 2020 amounts to EUR 3,797 thousand and refers to the trademark Roda in Serbia. The estimated useful life of the trademark is indefinite. On December 31, 2020, it was tested for potential impairment, which was not identified.

Amortization of intangible assets amounts to EUR 3,125 thousand (2019: EUR 3,112 thousand).

Poslovni sistem Mercator d.d.

As at December 31, 2020, intangible assets amount to EUR 12,993 thousand (2019: EUR 12,733 thousand) and include rights, patents, licenses and investments into software.

The value of intangible assets increased in 2020 due to investments in the amount of EUR 2,643 thousand (2019: EUR 2,110 thousand).

Amortization of intangible assets amounts to EUR 2,383 thousand (2019: EUR 2,330 thousand).

18. Investment property

in EUR 000	Mercator Group	Poslovni sistem Mercator d.d.
As at January 1, 2019	**268,362**	**4,498**
Additions	—	—
Transfer from assets being acquired	1	1
Disposals	(438)	(417)
Revaluation increase	5,835	—
Revaluation decrease	—	—
Translation differences	(882)	—
Transfers, reclassification	129	—
As at December 31, 2019	**273,006**	**4,081**
As at January 1, 2020	**273,006**	**4,081**
Transfer from right-of-use assets	348	—
Additions	—	—
Transfer from assets being acquired	—	—
Disposals	(57)	(57)
Revaluation increase	3,251	71
Revaluation decrease	(74,691)	(1,072)
Translation differences	(3,358)	—
Transfers, reclassification	478	18
As at December 31, 2020	**198,978**	**3,043**

The following amounts were recognized in the income statement with regard to investment property:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Rental income	14,911	14,973	94	89
Direct expenses arising from investment property and generating rental income	(4,482)	(4,916)	(111)	(79)
Total	**10,429**	**10,056**	**(17)**	**10**

Minimum lease payments receivable on leases of investment properties are as follows:

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Within 1 year	7,150	17,880	7,150	8,785
Between 2 and 5 years	36,864	80,234	36,864	43,594
Later than 5 years	10,381	13,567	10,381	11,818

Mercator Group

The Mercator Group investment property at the Mercator Group level in 2020 amounted to EUR 198,978 thousand (2019: EUR 273,006 thousand). The result of the revaluation of investment property is a downward adjustment in the real estate value in the statement of profit and loss in this respect by an amount of EUR 71,440 thousand. More details about valuations of assets in 2020 are disclosed in Note 6.

Poslovni sistem Mercator d.d.

Investment property at the level of company Poslovni sistem Mercator d.d. in 2020 amounted to EUR 3,043 thousand (2019: EUR 4,081 thousand). The result of the revaluation of investment property is a downward adjustment in the real estate value in the statement of profit and loss in this respect by an amount of EUR 1,001 thousand. More details about valuations of assets in 2020 are disclosed in Note 6.

Financial liabilities of the company Poslovni sistem Mercator d.d. as at December 31, 2020 are not secured by mortgages on investment property.

19. Investments by the company Poslovni sistem Mercator d.d. in equity of Group companies

in EUR 000	As at December 31, 2019	Equity interest (%) as at December 31, 2019	Capital increase	Disposals	Impair-ment	Reversal of impair-ment loss from previous year	As at December 31, 2020	Equity interest (%) as at December 31, 2020
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	**—**	100.0	1,955	—	—	516	**2,470**	**100.0**
Ustanova humanitarna fundacija Mercator, Ljubljana	**2**	100.0	—	—	—	—	**2**	**100.0**
Mercator−Velpro d.o.o.*	**8**	100.0	—	—	—	—	**8**	**100.0**
Platinum−A, d.o.o., Platinum−B, d.o.o., Platinum−C, d.o.o., Platinum−D, d.o.o., Mercator Maxi, d.o.o.	**45**	100.0	—	(38)	—	—	**8**	**100.0**
	5,160		**1,955**	**(38)**	**—**	**516**	**7,593**	**—**
Abroad:								
Mercator−S, d.o.o., Serbia	**82,145**	100.0	5,000	—	—	1,371	**88,516**	**100.0**
Mercator−H, d.o.o., Croatia	**126,599**	99.8	11	—	-28,487	—	**98,123**	**99.8**
Mercator−BH, d.o.o., Bosnia and Herzegovina**	**29,341**	56.6	—	—	-7,415	—	**21,926**	**56.6**
Mercator Makedonija, d.o.o.e.l., North Macedonia*	**—**	100.0	—	—	—	—	**0**	**100.0**
Mercator−CG, d.o.o., Montenegro**	**20,282**	56.3	—	—	-912	—	**19,370**	**56.3**
	258,368		**5,011**	**—**	**(36,815)**	**1,371**	**227,935**	
Total equity investments in Group companies	**263,528**		**6,966**	**(38)**	**(36,815)**	**1,886**	**235,528**	

*Companies Mercator Makedonija d.o.o.e.l., Skopje, and Mercator−Velpro d.o.o., Ljubljana, do not yet carry out business activities.

**The owner of the remaining equity interest is the company Mercator−S, d.o.o.

As at December 31, 2020 investments in subsidiaries were tested for impairment. In accordance with IAS 36 the recoverable amount of investment in each subsidiary was determined. Recoverable amount is higher of Value in use (VIU) and Fair value less costs of disposal (FVLCD).

Value in use was calculated using Discounted Cash Flow (DCF) method. Future cash flows were estimated based on the approved budgets and forecast for a period of five years. Growth rate in terminal value calculation was determinated in amount of nominal risk-free rate in combination with country risk premium. Cash flows were then discounted using an appropriate discount rate (WACC), which reflects the characteristics of the industry and country a company operates. Discount rates used range from 6.53% to 9.22%.

Fair value less costs of disposal was calculated using primarily Net Asset Value (NAV) method and DCF method. NAV focuses on company's market value of its total assets minus its total liabilities. Real estate and investment properties are measured at fair value (Level 3 measurement category). The valuation techniques, inputs and assumption used are disclosed in Note 6 in section a) ii). Other assets are either monetary assets (cash, account receivables, loans given, investments) and liabilities (loans received, trade account payables) or non-monetary assets (inventory) realisable in short term operating cycle, therefore their carrying values are assumed as reasonable and appropriate approximation of their fair values.

Based on the presented approaches and methods an impairment loss in total amount of EUR 36,815 thousand was recognized. Major drivers of negative financial results of the companies Mercator–H, d.o.o., Mercator–BH, d.o.o., and Mercator CG, d.o.o., were impairments of their real estate values, which were also booked as at December 31, 2020. Details of relevant fair value measurement are disclosed in Note 6.

Basis for measuring recoverable amount and discount rates used are summarized in the following table.

Company	Recoverable amount	Basis / Discout rate
Mercator– H d.o.o.	FVLCD	Net asset value
Mercator–S d.o.o.	FVLCD	DCF
Mercator–BH d.o.o.	FVLCD	Net asset value
Mercator–CG d.o.o.	VIU	8,63%
Mercator IP d.o.o.	VIU	7,92%
Mercator–Emba d.d.	VIU	7,83%
M–Energija d.o.o.	FVLCD	Net asset value

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

20. Investment in financial assets

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
As at January 1	**876**	**393**	**736**	**261**
Investments in insurance companies, shares and interests of other companies	(15)	101	(5)	57
Revaluation	71	453	71	450
Impairments	(5)	(71)	1	(32)
As at December 31	**927**	**876**	**803**	**736**

Revaluation to fair value of financial assets is recognized in other comprehensive income. Impairment of financial assets is recognized in the income statement. The 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

On December 31, 2020, the financial assets at the Mercator Group level amounted to EUR 927 thousand (2019: EUR 876 thousand).

Poslovni sistem Mercator d.d.

In the company Poslovni sistem Mercator d.d. these assets on December 31, 2020, amounted to EUR 803 thousand (2019: EUR 736 thousand).

21. Taxes

Taxes recognized in profit or loss

Taxes recognized in profit or loss	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Current tax	359	888	—	—
Deferred tax	(2,504)	5,426	100	5,983
Tax	**(2,146)**	**6,314**	**100**	**5,983**

Poslovni sistem Mercator d.d.

For 2020, the company Poslovni sistem Mercator d.d. does not disclose current tax liability. The amount of unused tax losses as at December 31, 2020 amounts to EUR 101,424 thousand (2019: EUR 101,424 thousand).

Taxes recognized in other comprehensive income

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 recognized directly in the other comprehensive income, deferred tax is credited directly to or against the other comprehensive income.

	Mercator Group			Poslovni sistem Mercator, d.d		
Tax recognized in other comprehensive income:	**2019**			**2019**		
in EUR 000	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	(20,351)	5,052	(15,299)	(26,042)	4,948	(21,094)
Gains/losses recognized in revaluation surplus related to investments in financial assets	525	(98)	427	491	(93)	397
Foreign currency translation differences - foreign operations	(53)	14	(40)	—	—	—
Provisions for termination benefits	(290)	65	(226)	(144)	60	(83)
Other changes	306	—	306	306	—	306
Other comprehensive income	**(19,864)**	**5,033**	**(14,831)**	**(25,388)**	**4,915**	**(20,474)**

	Mercator Group			Poslovni sistem Mercator, d.d		
Tax recognized in other comprehensive income:	2020			2020		
in EUR 000	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	7,007	(668)	6,338	13,138	(2,131)	11,007
Gains/losses recognized in revaluation surplus related to investments in financial assets	59	(13)	46	67	(13)	54
Foreign currency translation differences - foreign operations	(711)	121	(590)	—	—	—
Provisions for termination benefits	(193)	46	(146)	68	45	113
Other changes	—	—	—	—	—	—
Other comprehensive income	**6,161**	**(513)**	**5,648**	**13,272**	**(2,098)**	**11,174**

Reconciliation to effective tax rate

Reconciliation to effective tax rate:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Profit or loss for the year	(156,710)	4,666	(55,420)	(13,807)
Tax	(2,146)	6,314	100	5,983
Profit or loss before tax	**(158,856)**	**10,980**	**(55,320)**	**(7,824)**
Tax calculated at tax rate 19%	(11,146)	1,002	(10,869)	(1,487)
Decrease in income for tax purposes	519	—	433	—
Increase in income for tax purposes	(777)	(1,566)	(421)	(427)
Increase in expenses for tax purposes	(717)	3,279	(691)	9,068
Decrease in expenses for tax purposes	2,114	—	1,605	—
Tax effect of non-deductible expenses	10,772	7,259	10,103	7,001
Tax reliefs	(421)	(6,150)	(37)	(6,090)
Other reconciliations	(2,489)	2,489	(22)	(2,082)
Total tax	**(2,146)**	**6,314**	**100**	**5,983**
Effective tax rate	**1%**	**58%**	**0%**	**-76%**

In 2020, non-deductible expenses of the Mercator Group amounted to EUR 10,772 thousand (Poslovni sistem Mercator d.d.: EUR 10,103 thousand) and refers to impairment of investment into equity of subsidiaries, provisions for employee benefit, differences between accounting depreciation and tax depreciation, and write-off of goods above the allowable amount.

In 2020, tax reliefs of the Mercator Group in the amount of EUR 421 thousand EUR (Poslovni sistem Mercator d.d.: EUR 37 thousand) refers mainly to utilization of unused tax losses, investments in equipment and employment of people with disabilities.

In 2020, other reconciliations of the Mercator Group amounted to EUR (2,489) thousand (Poslovni sistem Mercator d.d.: EUR (22) thousand) and refers to current tax recognized directly in the other comprehensive income and tax loss.

Deferred taxes

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.

Movements in deferred taxes:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
At the beginning of the year – net deferred tax (liabilities)	**(11,677)**	**(11,670)**	**(4,715)**	**(3,999)**
Foreign exchange differences	123	41	—	—
Recognized in profit or loss	2,561	(5,426)	(113)	(5,983)
Recognized in other comprehensive income	(3,146)	382	(3,322)	319
Recognized in liabilities	2,697	4,996	1,441	4,948
At the end of the year – net deferred tax assets (liabilities)	**(9,442)**	**(11,677)**	**(6,708)**	**(4,715)**

Deferred tax liabilities:	Mercator Group				
in EUR 000	Revaluation of property, plant and equipment	Revaluation of investments in financial assets	Depreciation of property, plant and equipment under EUR 500	Differences between tax recognized and business depreciation	Total
Balance as at January 1, 2019	**45,954**	**12**	**1,099**	**3,132**	**50,198**
Foreign exchange differences	(29)	—	—	15	(14)
Recognized in profit or loss	(14)	—	49	3	38
Recognized in other comprehensive income	(417)	100	—	—	(317)
Recognized under liabilities	(4,948)	—	—	(48)	(4,996)
Balance as at December 31, 2019	**40,547**	**112**	**1,148**	**3,102**	**44,910**
Foreign exchange differences	(119)	—	—	(4)	(123)
Recognized in profit or loss	(232)	13	22	83	(114)
Recognized in other comprehensive income	3,195	(2)	—	—	3,193
Recognized under liabilities	(1,441)	—	—	(1,256)	(2,697)
Balance as at December 31, 2020	**41,949**	**123**	**1,170**	**1,926**	**45,168**

Deferred tax liabilities:	Poslovni sistem Mercator d.d.				
in EUR 000	Revaluation of property, plant and equipment	Revaluation of investments in financial assets	Depreciation of property, plant and equipment under EUR 500	Differences between tax recognized and business depreciation	Total
Balance as at January 1, 2019	**36,877**	**4**	**1,074**	**1,383**	**39,338**
Foreign exchange differences	—	—	—	—	—
Recognized in profit or loss	(14)	—	51	83	121
Recognized in other comprehensive income	(352)	93	—	—	(259)
Recognized under liabilities	(4,948)	—	—	—	(4,948)
Balance as at December 31, 2019	**31,564**	**97**	**1,126**	**1,466**	**34,253**
Foreign exchange differences	—	—	—	—	—
Recognized in profit or loss	(14)	13	24	83	106
Recognized in other comprehensive income	3,367	—	—	—	3,367
Recognized under liabilities	(1,441)	—	—	—	(1,441)
Balance as at December 31, 2020	**33,476**	**110**	**1,150**	**1,549**	**36,285**

In 2020, the Mercator Group discloses EUR 2,697 thousand of deferred tax liabilities recognized under liabilities (Poslovni sistem Mercator d.d.: EUR 1,441 thousand) which refers to elimination of fair value reserves and deferred tax liabilities from the sale of revaluated fixed assets.

Deferred tax assets	Mercator Group							
in EUR 000	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 investments in financial assets	Other	Total
Balance as at January 1, 2019	**2,346**	**3,919**	**24,685**	**—**	**4,165**	**3,105**	**308**	**38,528**
Foreign exchange differences	2	—	5	—	20	—	1	27
Recognized in profit or loss	(191)	(1,197)	(5,213)	—	1,794	(363)	(218)	(5,388)
Recognized in other comprehensive income	65	—	—	—	—	—	—	65
Balance as at December 31, 2019	**2,222**	**2,721**	**19,477**	**—**	**5,979**	**2,742**	**91**	**33,233**
Foreign exchange differences	—	—	—	—	—	—	—	—
Recognized in profit or loss	(78)	(415)	—	—	2,397	(98)	641	2,447
Recognized in other comprehensive income	47	—	—	—	—	—	—	47
Balance as at December 31, 2020	**2,191**	**2,306**	**19,477**	**—**	**8,375**	**2,644**	**733**	**35,726**

Deferred tax assets	Poslovni sistem Mercator d.d.							
in EUR thousand	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 investments in financial assets	Other	Total
Balance as at January 1, 2019	**2,030**	**3,904**	**23,357**	**—**	**2,807**	**3,105**	**137**	**35,339**
Foreign exchange differences	—	—	—	—	—	—	—	—
Recognized in profit or loss	(222)	(1,197)	(4,086)	—	52	(363)	(46)	(5,861)
Recognized in other comprehensive income	60	—	—	—	—	—	—	60
Balance as at December 31, 2019	**1,868**	**2,707**	**19,271**	**—**	**2,859**	**2,742**	**91**	**29,538**
Foreign exchange differences	—	—	—	—	—	—	—	—
Recognized in profit or loss	(193)	(409)	—	—	52	(98)	641	(7)
Recognized in other comprehensive income	45	—	—	—	—	—	—	45
Balance as at December 31, 2020	**1,720**	**2,298**	**19,271**	**—**	**2,911**	**2,644**	**733**	**29,577**

Mercator Group

As at December 31, 2020 the Mercator Group discloses EUR 29,577 thousand of deferred tax assets, which indicate an increase by EUR 2,493 thousand in 2020. The biggest share of deferred tax assets arising from unused tax reliefs relates to the company Poslovni sistem Mercator d.d. and can be used without time limitation in future tax periods. Deferred tax assets arising from unused tax reliefs were incurred in the years 2014 and 2017, mainly due to negative one-off business events. In the following years is planned a positive tax base, which may be reduced by the use of tax losses from previous years and consequently the recognized deferred tax assets arising from unused tax reliefs will be eliminated.

In 2020, companies of Mercator Group recognized both deferred tax liabilities and deferred tax assets. Deferred tax liabilities (through profit or loss) decreases the tax bases of the companies in 2020 while deferred tax asset increases it.

Deferred tax assets not recognized through profit or loss pertaining to tax loss and impairment of equity investment into subsidiaries in total amount of EUR 77,830 thousand. Deferred tax assets from impairment of equity investment into subsidiaries were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

Deferred tax assets and liabilities in the balance sheet are offset on the company level.

Poslovni sistem Mercator d.d.

In 2020, the company Poslovni sistem Mercator d.d. recognized both deferred tax liabilities and deferred tax assets. Deferred tax liabilities (through profit or loss) decreases the tax bases of the company in 2020, while deferred tax asset increases it.

Deferred tax assets not recognized through profit or loss, pertaining to the impairment of equity investment into subsidiaries Mercator−H d.o.o., Mercator – CG d.o.o. and Mercator−BH d.o.o. amounted to EUR 6,995 thousand. These deferred tax assets were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

Deferred tax assets and liabilities in the balance sheet are offset.

22. Inventories

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Merchandise	245,086	250,650	120,243	123,775
Materials	4,943	4,438	592	413
Work in progress	5	11	—	—
Finished goods	616	1,105	—	—
Less: allowance for merchandise impairment	(47,687)	(45,108)	(10,589)	(12,644)
Less: allowance for other inventory impairment	(12)	(7)	—	—
Total	**202,951**	**211,090**	**110,245**	**111,544**

Mercator Group

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress, and finished goods as at December 31, 2020 amounted to EUR 202,951 thousand and decreased by EUR 8,139 thousand mainly due to lower DIO (Days Inventory Outstanding) in retail FMCG business segment.

Inventory provisions have been reviewed in light of the expected net realisable value, driven by changes in customer buying behaviour as a result of COVID-19. All inventory provisioning requires judgement and is based on an assessment of current and expected market conditions, economic environment qualitative characteristics and other factors. Following Management's review, it was assessed no additional provisioning is required against the inventory held at December 31, 2020 due to the COVID-19 epidemic or other factors.

As at December 31, 2020, Mercator Group changed the methods of cost assignment to weighted average method for all groups (merchandise was previously measured by FIFO method). The total effect of changed method amounted to EUR 1,052 thousand.

The reversal of an allowance 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 net 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 goods as at December 31, 2020 amounted to EUR 110,245 thousand, and remained comparable to inventories at the end of the previous year.

The reversal of an allowance for impairment 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 net realizable value. The inventories are not pledged for loans received.

As at December 31, 2020, Poslovni sistem Mercator d.d. changed the methods of cost assignment to weighted average method for all groups (merchandise was previously measured by FIFO method). The total effect of changed method amounted to EUR 447 thousand.

23. Trade and other receivables

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Financial receivables				
Trade receivables	103,198	122,334	46,880	53,881
Other financial receivables	8,198	16,342	1,719	4,991
Non-current receivables	4,190	4,757	2,669	3,042
Total financial Trade and other receivables	**115,586**	**143,433**	**51,267**	**61,913**
Non-financial Trade and other receivables				
Prepaid expenses	4,254	13,217	2,399	3,140
Other non-financial receivables	9,025	10,918	3,934	4,821
Total non -financial trade and other receivables	**13,279**	**24,134**	**6,333**	**7,961**
Total trade and other receivables	**128,865**	**167,567**	**57,601**	**69,874**

Mercator Group

The carrying amounts of all trade and other receivables in all significant amounts are consistent with their fair value. Receivables are carried at amortized cost. The amount of secured receivables is disclosed in Note 31.

In 2020 the impairment expense of receivables amounted to EUR 3,980 thousand (2019: EUR 2,115 thousand) Changes in allowances for trade receivables are disclosed in Note 31.

Because of the nature of financial instruments, Mercator Group can divide trade and other receivables to:

(a) total financial trade and other receivables, which in 2020 amounted to EUR 115,586 thousand, and consisted mainly of trade receivables (EUR 103,198 thousand) and

(b) total non – financial trade and other receivables, which in 2020 amounted to EUR 13,279 thousand, and consisted mainly of prepaid expenses (EUR 4,254 thousand) and advances paid for goods and services (EUR 4,189 thousand).

As at December 31, 2020, trade receivables decreases by EUR 19,136 thousand in comparison to December 31, 2019, mainly due optimization of the business model of wholesale customers with higher profitability in Serbia, which resulted in the optimization of receivables, lower revenue but maintaining EBITDA, and lower revenue in Montenegro due to zero tourist season from May to September.

Poslovni sistem Mercator d.d.

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 secured receivables is disclosed in Note 31.

In 2020 the impairment expense of receivables amounted to EUR 790 thousand (2019: EUR 2,140 thousand) Changes in allowances for trade receivables are disclosed in Note 31.

Because of the nature of financial instruments, the company Poslovni sistem Mercator d.d. can divide trade and other receivables to:

(a) total financial trade and other receivables, which in 2020 amounted to EUR 51,267 thousand and consisted mainly of trade receivables (EUR 46,880 thousand) and

(b) total non – financial trade and other receivables, which in 2020 amounted to EUR 6,333 thousand and consisted mainly of prepaid expenses (EUR 2,399 thousand) and advances paid for goods and services (EUR 1,495 thousand).

24. Loans and deposits

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Deposits for rent payments	961	2,825	—	—
Loans to companies	2,374	12,527	33,012	25,179
Finance lease receivables	6,336	—	—	—
Deposits in banks	940	754	—	—
Total	**10,611**	**16,106**	**33,012**	**25,179**
Loans and deposits include:				
Non-current/long-term loans and deposits	8,246	13,600	—	30
Current/short-term loans and deposits	2,365	2,506	33,012	25,149

Mercator Group

Loans and deposits at the Mercator Group level as at December 31, 2020, amounted to EUR 10,611 thousand (2019: EUR 16,106 thousand) and relate to short-term loans in the amount of EUR 2,365 thousand (2019: EUR 2,506 thousand) and in the amount of EUR 8,246 thousand (2019: EUR 13,600 thousand) to long-term loans.

Deposits for rent payments relate to long-term paid in advance rents for trade facilities abroad and are charged with interest. The average interest rate on loans given and deposits is 3.51%.

Finance lease receivables at the Mercator Group level as at December 31, 2020, amounted to EUR 6,336 thousand and refers to financial receivables to parties within Fortenova Group from financial sublease.

The Mercator Group did not book provisions for deposits in banks, loans to companies, deposits forrent payments as expected credit losses are immaterial.

Poslovni sistem Mercator d.d.

As at December 31, 2020, loans in the amount of EUR 33,012 thousand (2019: EUR 25,179 thousand) relate to short-term loans in the amount of EUR 33,012 thousand (2019: EUR 25,149 thousand) and in the amount of EUR 0 thousand (2019: EUR 30 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.

The company Poslovni sistem Mercator d.d. did not book provisions for deposits in banks, loans to companies, deposits in rent payments as expected credit looses are immaterial.

25. Cash and cash equivalents

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Cash in hand	12,331	11,293	5,769	5,379
Cash in banks	37,553	34,484	23,195	5,759
Total cash and cash equivalents	**49,884**	**45,777**	**28,964**	**11,137**

Cash and cash equivalents includes cash in transit (daily proceeds of retail units), cash in hand, and deposits with maturity of less than 90 days.

26. Equity

Share capital

Share 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, non par value shares (2019: 6,090,943), that are all entered into the Companies Register as at December 31, 2020.

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, 2020, the company Poslovni sistem Mercator d.d. held 42,192 own shares in the amount of EUR 3,235 thousand (2019: 42,192 own shares, EUR 3,235 thousand).

Reserves

Reserves of the Mercator Group and the company Poslovni sistem Mercator d.d. comprise reserves for own shares, share premium, legal reserves, other profit reserves, fair value reserves and currency translation reserves. None of share premium, legal reserves, fair value reserve and currency translation reserve can be used for payment of dividends or other participation in profit.

Reserves, as at December 31, 2020, amounting to EUR 133,709 thousand on the Mercator Group level (2019: EUR 135,243 thousand) and EUR 153,867 thousand (2019: EUR 142,693 thousand), at the company Poslovni sistem Mercator d.d.:

- As at December 31, 2020, the company Poslovni sistem Mercator d.d. owned 42,192 *own shares* in the amount of EUR 3,235 thousand (2019: EUR 3,235 thousand).
- As at December 31, 2020 the company Poslovni sistem Mercator d.d. has *share premium* in the amount of EUR 2,571 thousand (2019: EUR 2,571 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.

- As at December 31, 2020, the Mercator Group has *legal reserves* in the amount of EUR 20,691 thousand (2019: 20,691 thousand), while the company Poslovni sistem Mercator d.d. has legal reserves in the amount of EUR 13,389 thousand (2019: EUR 13,389 thousand).
- *Other profit reserves* as at December 31, 2020 amount to EUR 11,969 thousand at the Mercator Group (2019: EUR 11,990 thousand), while the company Poslovni sistem Mercator d.d. has no other revenue reserves. Other profit reserves consist of redistributed residual retained earnings from previous years. They can be used for any purpose, except for own shares reserve.
- *Fair value reserve,* which as at December 31, 2020 amounts to EUR 186,215 thousand (2019: EUR 180,566 thousand) for the Mercator Group and EUR 134,672 thousand (2019: EUR 123,498 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 investments in financial assets and fair value reserve from actuarial gains or losses arising from creation of provisions for post employment benefits.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Property fair value reserve	190,758	184,975	139,039	128,000
Fair value reserve for investments in financial assets	641	583	579	512
Actuarial gain/loss of post employment benefits	(5,184)	(4,991)	(4,946)	(5,015)
Total fair value reserve	**186,215**	**180,566**	**134,672**	**123,498**

- *Currency translation reserve* at the Mercator Group level as at December 31, 2020 amounts to EUR (90,971) thousand which decreased in 2020 by EUR 7,160 thousand due to the changes in foreign currency because of consolidation of subsidiaries into consolidated financial statements.

Capital and legal reserves (tied reserves) can be used in surplus amount to increase the share 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 profit reserves for the distribution of profit to the shareholders are not used simultaneously.

Non-controlling interest

Non-controliing interest are not material to Group Mercator. Non-controling interest relates to subsidiary Mercator-H d.o.o. in ownership of share capital 0.02%.

Changes in equity in 2019 for the Mercator Group relate to:

in EUR 000	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserve	Currency trans. reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribu. to the contr. company owners	Non-control. interest	Total equity
As at January 1, 2019	**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**21,296**	**1,597**	**425,800**	**149**	**425,949**
Net profit/loss for the 2019 year	—	—	—	—	—	—	—	—	—	4,645	4,645	21	4,666
Change in fair value of financial assets	—	—	—	—	—	—	525	—	30	—	555	—	555
Deferred taxes	—	—	—	—	—	—	5,033	—	3,899	—	8,932	—	8,932
Foreign currency translation differences	—	—	—	—	—	—	—	(339)	—	—	(339)	(509)	(848)
Actuarial gain/loss of post employment benefits	—	—	—	—	—	—	(279)	—	—	—	(279)	—	(279)
Other changes	—	—	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**5,278**	**(339)**	**3,929**	**—**	**8,868**	**(509)**	**8,359**
Total comprehensive income for the year 2019	**—**	**—**	**—**	**—**	**—**	**—**	**5,278**	**(339)**	**3,929**	**4,645**	**13,513**	**(488)**	**13,025**
Disposal of land and buildings carried at fair value	—	—	—	—	—	—	(20,110)	—	20,110	—	—	—	—
Total transactions with owners	**—**	**—**	**—**	**(3,811)**	**1,305**	**953**	**—**	**—**	**3,151**	**(1,597)**	**—**	**—**	**—**
Balance as at December 31, 2019	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**

Changes in equity in 2020 for the Mercator Group relate to:

in EUR 000	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserve	Currency trans. reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribu. to the contr. company owners	Non-control. interest	Total equity
As at January 1, 2020	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**
Other changes	—	—	—	—	—	—	—	—	(740)	—	(740)	740	—
As at January 1, 2020	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**47,746**	**4,645**	**438,574**	**401**	**438,974**
Net profit/loss for the 2020 year	—	—	—	—	—	—	—	—	—	(156,710)	(156,710)	—	(156,710)
Change in fair value of land and buildings	—	—	—	—	—	—	7,006	—	7,726	—	14,733	—	14,733
Change in fair value of financial assets	—	—	—	—	—	—	59	—	—	—	59	—	59
Deferred taxes	—	—	—	—	—	—	(634)	—	209	—	(426)	—	(426)
Foreign currency translation differences	—	—	—	—	—	(21)	—	(7,160)	(204)	150	(7,236)	(170)	(7,405)
Actuarial gain/loss of post employment benefits	—	—	—	—	—	—	(193)	—	(148)	—	(341)	—	(341)
Other changes	—	—	—	—	—	—	(590)	—	1,767	—	1,177	—	1,177
Other comprehensive income	—	—	—	—	—	**(21)**	**5,649**	**(7,160)**	**9,349**	**150**	**7,966**	**(170)**	**7,797**
Total comprehensive income for the year 2020	—	—	—	—	—	**(21)**	**5,649**	**(7,160)**	**9,349**	**(156,560)**	**(148,744)**	**(170)**	**(148,913)**
Total transactions with owners	—	—	—	—	—	—	—	—	**6,630**	**(4,645)**	**1,984**	—	**1,984**
Balance as at December 31, 2020	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,969**	**186,215**	**(90,971)**	**63,725**	**(156,560)**	**291,814**	**231**	**292,046**

Dividends

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

As at December 31, 2020, 1,505 shareholders were registered in the company's share register, which means that the number of shareholders of the company decreased by 67 compared to December 31, 2019.

Detailed ownership structure is presented in the Business part of the Annual Report.

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

Identified accumulated loss for 2020 and 2019 comprises the following:

	Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**
Net profit/loss for the year	(55,420)	(13,807)
Net profit/loss for the previous year	(13,807)	—
Accumulated loss for the year	**(69,227)**	**(13,807)**

As of December 31, 2020 accumulated loss for the company Poslovni sistem Mercator d.d. amounted to EUR 55,420 thousand and as of December 31, 2019 amounted to EUR 13,807 thousand and remains uncovered for both years.

27. 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.

Basic net earnings (loss) per share:	Mercator Group		Poslovni sistem Mercator d.d.	
	2020	**2019**	**2020**	**2019**
Profit / (loss) attributable to the shareholders (in EUR 000)	(156,710)	4,666	(55,420)	(13,807)
Weighted average number of outstanding ordinary shares	6,048,751	6,048,751	6,048,751	6,048,751
Earnings / (loss) per share (in EUR)$^{\Delta}$	**(25.9)**	**0.8**	**(9.2)**	**(2.3)**

$^{\Delta}$ Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

Weighted number of ordinary shares:	Mercator Group		Poslovni sistem Mercator d.d.	
	2020	**2019**	**2020**	**2019**
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 earnings/losses per share are the same as basic earnings/losses per share.

28. Borrowings and lease liabilities

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Long-term financial liabilities				
Loans from banks	67,743	451,902	—	326,219
Loans from related parties and other companies	—	20,000	—	35,774
Lease liabilities	272,636	300,260	71,553	83,496
Total	**340,379**	**772,162**	**71,553**	**445,490**
Short-term financial liabilities				
Bank loans and short-term part of long-term bank loans	461,863	96,745	352,841	25,975
Loans from related parties and other companies and short-term part of long-term loans from related parites and other companies	22,675	17	42,592	4,200
Lease liabilities	73,036	76,100	21,354	19,541
Total	**557,574**	**172,862**	**416,786**	**49,716**
Total financial liabilities	**897,953**	**945,024**	**488,339**	**495,205**

December 31, 2020	Mercator Group	Poslovni sistem Mercator d.d.
Loans secured by pledged property	530,712	353,082

More information about pledged assets of the Mercator Group and the company Poslovni sistem Mercator d.d. is disclosed in Note 32 Contingent liabilities.

Effective interest rates as at the balance sheet date:	Mercator Group		Poslovni sistem Mercator d.d.	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Bank loans	3,55%	3.53 %	3.21 %	3.18 %
Other loans	1,83%	2.04 %	1.74 %	1.91 %

Floating interest rates are mostly interest rates related to EURIBOR. Fixed interest rates are mostly related to borrowings from domestic banks or related parties with fixed nominal interest rate.

Mercator Group

As at December 31, 2020, Mercator Group's financial liabilities amounted to EUR 897,953 thousand (December 31, 2019: EUR 945,024 thousand).

In 2020 major part of the proceeds from sale of the Roda Centre New Belgrade (as described in Note 16) was used to repay financial liabilities, resulting in the long-term loan payable balance to reduce down for EUR 11,250 thousand.

Mercator Group's bank loans decreased since December 31, 2019, mainly due to decrease of lease liabilities. Contractual maturity for the Super Senior[17] revolving credit line is March 2021, and for Wider Group Deal tranche[18] June 2021. Detailed information are disclosed in the table below.

[17] Super Senior Loan is a revolving loan in which lenders have the super senior status in terms of collateral ranking and in terms of having priority repayment before other creditors.
[18] Wider Group Deal (WGD) is an agreement between all the financial institutions that had financed all companies (except Mercator-S, d.o.o.) in the Mercator Group in the year of 2014. Agreement is valid till June 27, 2021 and it was restated to tranche A, tranche B and tranche C.

Mercator Group bank loans by finance documents	Dec. 31, 2020	
in EUR 000	Mercator Group	Poslovni sistem Mercator d.d.
Senior Wider-Group-Deal	315,519	248,365
Super Senior Facility Agreement	80,000	80,000
AIK Loan	103,633	—
PIK interest	31,560	24,717
Financial restructuring costs, effective interest rate, exchange differences	(1,105)	(241)
Total loans from banks	**529,607**	**352,841**

Mercator Group bank loans by finance documents	Dec. 31, 2019	
in EUR 000	Mercator Group	Poslovni sistem Mercator d.d.
Senior Wider-Group-Deal	335,630	258,452
Super Senior Facility Agreement	70,000	70,000
AIK Loan	112,474	—
PIK interest	31,560	24,717
Financial restructuring costs, effective interest rate, exchange differences	(1,017)	(976)
Total loans from banks	**548,647**	**352,193**

In December 2019, the company Mercator–S d.o.o. and AIK Bank signed contractual documentation for refinancing of the Serbian Deal on the restructuring of the financial debt of the company Mercator–S d.o.o. from the year 2014 and other short-term loan agreements, in the total amount of EUR 90 million. The new loan was taken out for a period of five years, and it is an important building block in the pursuit of our long-term strategy. Refinancing was completed on December 27, 2019, while refinancing of other short-term borrowings was completed in January 2020.

After active involvement in exploring potential refinancing scenarios the management adopted the decision to refinance the debt with the loan from Fortenova and VTB based on the extension of the existing financing agreement at the Fortenova level. The loan with a maturity of 5 years and a bullet repayment was signed on April 15, 2021 and disbursed on April 23, 2021.

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, 2020 amounted to 37.9%.

Poslovni sistem Mercator d.d.

As at December 31, 2020, the Poslovni sitem Mercaor d.d.'s financial liabilities amounted to EUR 488,339 thousand. Contractual maturity for the Super Senior[] revolving credit line is March 2021, and for Wider Group Deal tranche June 2021.

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, 2020 amounted to 14.7%.

29. Provisions

Mercator Group

in EUR 000	Mercator Group					
	Provisions for employee benefit		Other provisions			
	Provisions for post employment benefits	Provisions for jubilee awards	Provisions for company reorganization costs	Lawsuits received	Provisions for other purposes	Total
Balance as at January 1, 2019	**16,958**	**3,946**	**697**	**4,411**	**4,131**	**30,143**
Creation	2,177	674	—	708	2,715	6,274
Utilization	(1,237)	(611)	(2)	(1,599)	(2,490)	(5,938)
Reversal	(577)	(255)	—	(1,727)	(2,127)	(4,685)
Foreign exchange differences	10	—	—	—	—	10
Balance as at December 31, 2019	**17,331**	**3,755**	**696**	**1,793**	**2,230**	**25,804**
Creation	2,146	679	—	589	4,081	7,495
Utilization	(1,419)	(532)	(162)	(577)	2,378	(313)
Reversal	(558)	(155)	(96)	(511)	(4,111)	(5,431)
Foreign exchange differences	119	—	—	(130)	—	(11)
Balance as at December 31, 2020	**17,618**	**3,746**	**438**	**1,164**	**4,577**	**27,543**

Provisions at the Mercator Group level as at December 31, 2020 amounted to EUR 27,543 thousand (2019: EUR 25,804 thousand). Additionally, provisions for EUR 7,495 thousand were created, provisions for EUR 313 thousand were utilized, provisions for EUR 5,431 thousand were reversed, and EUR (11) thousand refers to foreign exchange differences. More details are presented below.

Poslovni sistem Mercator d.d.

	Poslovni sistem Mercator d.d.					
	Provisions for employee benefit		Other provisions			
in EUR 000	Provisions for post employment benefits	Provisions for jubilee awards	Provisions for company reorganization costs	Lawsuits received	Provisions for other purposes	Total
Balance as at January 1, 2019	**14,516**	**3,704**	**600**	**3,121**	**3,767**	**25,708**
Creation	1,685	623	—	117	325	2,750
Utilization	(1,072)	(584)	—	(1,104)	—	(2,759)
Reversal	(538)	(230)	—	(1,651)	(2,127)	(4,546)
Foreign exchange differences	—	—	—	—	—	—
Balance as at December 31, 2019	**14,591**	**3,514**	**600**	**482**	**1,965**	**21,152**
Creation	1,402	636	—	—	4,021	6,059
Utilization	(1,135)	(504)	(162)	—	—	(1,801)
Reversal	(439)	(134)	—	(372)	(1,640)	(2,585)
Foreign exchange differences	—	—	—	—	—	—
Balance as at December 31, 2020	**14,419**	**3,512**	**438**	**110**	**4,346**	**22,824**

As at December 31, 2020, provisions at the level of the company Poslovni sistem Mercator d.d. amounted to EUR 22,824 thousand (2019: EUR 21,152 thousand). Additionally, provisions for EUR 6,059 thousand were created, provisions for EUR 1,801 thousand were utilized and provisions for EUR 2,585 thousand were reversed.

Provisions for employee benefits

Development of provisions for post employment benefits and jubilee payments in Mercator Group	Mercator Group		
in EUR 000	Provisions for jubilee awards	Provisions for post employment benefits	Total
Provisions as at January 1, 2019	**16,835**	**3,946**	**20,781**
Interest cost	191	32	222
Current service cost	1,122	302	1,424
Past service cost	137	4	141
Actuarial gains (-) and losses (+)	125	85	210
- due to changes in financial assumptions	1,262	175	1,437
- due to changes in demographic assumptions	(2,022)	(543)	(2,565)
- due to experience adjustments	884	453	1,337
Payments during the year	(1,091)	(613)	(1,704)
Exchange rate difference	11	—	11
Provisions as at December 31, 2019	**17,331**	**3,755**	**21,086**
Interest cost	59	3	63
Current service cost	1,192	324	1,516
Past service cost	52	13	65
Actuarial gains (-) and losses (+)	204	176	380
- due to changes in financial assumptions	(637)	(36)	(673)
- due to changes in demographic assumptions	521	73	594
- due to experience adjustments	321	139	459
Payments during the year	(1,219)	(525)	(1,743)
Exchange rate difference	(1)	—	(1)
Provisions as at December 31, 2020	**17,618**	**3,746**	**21,364**

Development of provisions for post employment benefits and and jubilee payments in Poslovni sistem Mercator d.d.	Poslovni sistem Mercator d.d.		
in EUR 000	Provisions for jubilee awards	Provisions for post employment benefits	Total
Provisions as at January 1, 2019	**14,516**	**3,704**	**18,220**
Interest cost	129	30	159
Current service cost	834	282	1,116
Past service cost	9	4	13
Actuarial gains (-) and losses (+)	95	82	177
- due to changes in financial assumptions	970	162	1,131
- due to changes in demographic assumptions	(1,717)	(518)	(2,235)
- due to experience adjustments	842	438	1,280
Payments during the year	(992)	(588)	(1,580)
Exchange rate difference	—	—	—
Provisions as at December 31, 2019	**14,591**	**3,514**	**18,105**
Interest cost	13	3	16
Current service cost	892	304	1,197
Past service cost	(19)	9	(11)
Actuarial gains (-) and losses (+)	60	179	239
- due to changes in financial assumptions	(583)	(36)	(618)
- due to changes in demographic assumptions	404	75	479
- due to experience adjustments	239	140	378
Payments during the year	(1,118)	(497)	(1,615)
Exchange rate difference	—	—	—
Provisions as at December 31, 2020	**14,419**	**3,512**	**17,931**

The company Poslovni sistem Mercator d.d. and Mercator Group are exposed to long-term employee benefits risks, in particular:

- changes in legislation governing in relation to employment, retirement, contributions and taxes;
- changes in collective and corporate agreements, as well as other internal acts, affecting the type and level of benefits;
- significant changes in amounts to which benefits are related: average salaries in states, salaries of employees, fixed amounts of awards and non-taxable amounts of awards;
- changes in the economic environments – e.g. severance on termination of employment.

Present values of the long-term employee benefits are subject to the following risks:

- all risks to which long-term employee benefits are exposed;
- the difference between the actual experience and actuarial assumptions (mortality, fluctuation – termination of employment, earlier or later retirement, growth rates of wages and non-taxable amounts of awards);
- changes in discount rates used in measurements between different balance sheet dates.

The following actuarial assumptions were taken into account in the calculation of provisions for jubilee awards and post employment benefits:

- demographic assumptions:
  - expected mortality is determined on the basis of population mortality tables of each country (for RS published from 2007, for Croatia, Serbia and Montenegro from 2010-2012, for Bosnia from 2012-2014), reduced for 10% due to lower mortality of working population,
  - the fluctuation, which means the employee decision to leave a company, is determined linearly descending depending on employee's age, on average 8.5% for Poslovni sistem Mercator d.d. for 2020 and the Mercator Group averages 8,2% for 2021, weighted by the number of employees in each company, the estimated date of

retirement is set on the date on which the first condition for retirement is fulfilled, taking into account laws of each country.

- financial assumptions:
  - the expected growth of average wages in each country take into account inflation and real growth forecasts (source: IMF and UMAR); for RS is set according to UMAR forecasts for 2021 and 2022, from 2023 is set to 3% yearly, for Serbia is long-term set to 3.5% ,for Bosnia is long-term set 2.0% yearly (minimal salary) and for Montenegro is long-term set to 1,7% (minimal salary),
  - expected increase in employee salaries in Group Mercator takes into account the growth due to inflation, promotions and loading for services (for RS all together is set to 2.7%, for Bosnia and Herzegovina to 2.8 % yearly),
  - the expected growths of fixed amounts and non-taxed amounts of awards take into account the growth in relation to the inflation forecast (UMAR and IMF), for RS 2.0%, for Croatia 2,0% yearly from 2023 onwards and for Montenegro 1.7% yearly),
- the discount rates, which are set taking into account the average weighted liabilities of each company and the yield on high-quality (AA rating) corporate bonds denominated in EUR for companies in Slovenia and on corporate bonds for companies in other countries at the reporting date, amount to 0.0% for the Poslovni sistem Mercator d.d. (average weighted liabilities are 7,6 years) and on average to 0.4 % for the Mercator Group (range between 0.0% and 3.4%, average weighted liabilities are 8,5 years), weighted by undiscounted amount of liabilities.

Sensitivity analysis of actuarial assumption changes for Mercator Group

		Mercator Group			
Actuarial assumptions	Change in the assumptions (of p.p.)	Change in present value of obligations			
		jubilee awards as at		post employment benefits as at	
		Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.5	(105,841)	(104,461)	(718,402)	(693,538)
	(0.5)	112,039	110,213	772,091	744,265
Growth in amounts of benefits basis	0.5	109,410	107,911	781,715	751,458
	(0.5)	(104,701)	(71,384)	(742,220)	(717,050)
Fluctuation of employees	0.5	(112,089)	(110,941)	(743,042)	(719,127)
	(0.5)	112,602	111,779	584,029	585,922

Sensitivity analysis of actuarial assumption changes for Poslovni sistem Mercator d.d.

		Poslovni sistem Mercator d.d.			
Actuarial assumptions	Change in the assumptions (of p.p.)	Change in present value of obligations			
		jubilee awards as at		post employment benefits as at	
		Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.5	(98,360)	(96,676)	(561,661)	(561,647)
	(0.5)	104,121	101,903	604,092	600,980
Growth in amounts of benefits basis	0.5	101,675	99,768	610,938	605,608
	(0.5)	(97,298)	(65,738)	(581,279)	(580,947)
Fluctuation of employees	0.5	(104,326)	(102,830)	(579,256)	(580,931)
	(0.5)	105,085	103,730	482,574	489,872

Costs estimation for next year for Mercator Group and Poslovni sistem Mercator d.d.

	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Provisions for jubilee awards	Provisions for retirement severance	Total	Provisions for jubilee awards	Provisions for retirement severance	Total
Interest cost	1,010	4	1,014	859	4	863
Current service cost	1,243	—	1,243	1,120	—	1,120

Future benefit payments for Mercator Group and Poslovni sistem Mercator d.d.

	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Provisions for jubilee awards	Provisions for retirement severance	Total	Provisions for jubilee awards	Provisions for retirement severance	Total
Estimated Future Payments (Past and Future Service)*						
2021	553	1,038	1,591	527	878	1,405
2022	531	1,340	1,871	505	1,199	1,703
2023	576	1,674	2,250	542	1,446	1,988
2024	535	2,024	2,559	501	1,749	2,250
2025	532	2,226	2,757	501	1,921	2,423
Total undiscounted payments (past and future service)	**2,727**	**8,302**	**11,028**	**2,576**	**7,193**	**9,769**

*Fluctuation is not included in the calculation.

Other provisions

Mercator Group

Provisions for company reorganization costs

As at December 31, 2020, provisions for company reorganization costs amounted to EUR 438 thousand and are related to payments of termination benefits on early retirement. At this time, Mercator Group can not asses when those provisions will be released as these provisions related to future restructuring of Fortenova Group and were formed based on reorganization that will start in Fortenova Group as soon as Fortenova became Mercator Group owner.

Lawsuits received

Provisions for lawsuits received as at December 31, 2020 amounted to EUR 1,164 thousand (December 31, 2019: EUR 1,793 thousand). On the basis of the lawsuits received and the opinion of the legal profession, in 2020 the Mercator Group created additional provisions in total amount of EUR 589 thousand. In 2020 were utilized provisions in the amount of EUR 577 thousand and reversed EUR 511 thousand provisions.

The total value of lawsuits against Mercator Group as defendant totals to EUR 57,050 thousand (2019: EUR 54,880 thousand) at 31 December 2020. The management estimates that there is a possibility that some of these lawsuits will be lost, and as a result, set aside provisions. The amounts of provisions for lawsuits related are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for lawsuits are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. The recognized provision reflects the management best estimate of the most likely outcome.

Other provisions

Other provisions as at December 31, 2020 amounted to EUR 4,577 thousand (December 31, 2019: EUR 2,230 thousand). Increase referred mainly to issued credit notes for the closure period to our tenants in the second wave of COVID-19 epidemic and provisions regarding to COVID-19 Government aid, which is in detailed described in Note 11.

Poslovni sistem Mercator d.d.

Provisions for company reorganization costs

As at December 31, 2020, provisions for company reorganization costs amounted to EUR 438 thousand and are related to payments of termination benefits on early retirement. At this time, Mercator Group can not asses when those provisions will be released as these provisions related to future restructuring of Fortenova Group and were formed based on reorganization that will start in Fortenova Group as soon as Fortenova became Mercator Group owner.

Lawsuits received

Provisions for lawsuits received as at December 31, 2020 amounted to EUR 110 thousand (December 31, 2019: EUR 482 thousand). In 2020, provisions for lawsuits in the amount of EUR — thousand were created, EUR — thousand were utilized and EUR 372 were reversed.

The total value of lawsuits against the company Poslovni sistem Mercator d.d. as defendant totals to EUR 853 thousand (2019: EUR 2,728 thousand) at 31 December 2020. The management estimates that there is a possibility that some of these lawsuits will be lost, and as a result, set aside provisions. The amounts of provisions for lawsuits related are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for lawsuits are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. The recognized provision reflects the management best estimate of the most likely outcome.

Other provisions

As at December 31, 2020, the company Poslovni sistem Mercator d.d. had EUR 4,346 thousand of other provisions (December 31, 2019: EUR 1,965 thousand). Increase referred to issued credit notes for the closure period to our tenants in the second wave of COVID-19 epidemic and provisions regarding to COVID-19 Government aid, which is in detailed described in Note 11.

30. Trade and other payables

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade payables	466,493	495,526	242,226	248,602
- of which modified trade payables	26,651	22,347	14,264	11,881
Payables to employees	17,583	15,045	10,663	8,729
Liabilities for taxes and contributions	28,881	22,823	23,297	18,698
Other payables	15,945	19,347	8,142	5,792
Accrued costs	20,154	17,937	12,157	10,493
Deferred revenues	9,624	8,824	8,858	8,349
Total	**558,680**	**579,502**	**305,344**	**300,662**
Trade and other payables include:				
Non-current/long-term liabilities	—	—	—	—
Current/short-term liabilities	558,680	579502	305,344	300662

Mercator Group

Trade and other payables as at December 31, 2020 amounted to EUR 558,680 thousand (2019: EUR 579,502 thousand).

Trade payables comprise payables for merchandise, goods and services.

As at December 31, 2020 the amount of modified trade payables of Mercator Group as a result of supplier finance arrangements amounted to EUR 26,651 thousand (2019: EUR 22,347 thousand).

One type of these arrangements arises from the ordinary course of business where certain trade payables are contractually deferred. In those cases the original supplier has been paid (on or before the original contractual maturity date) by the new creditor and the new creditor has prolonged the original payment term for the obligor as well. Many of such trade payables are with recourse to the original supplier. The amount of such arrangements with deferred payment is EUR 3,984 thousand. The deferral period of such arrangements concluded in the course of 2020 is less than one year. The other type of these arrangements are concluded between the supplier and the new creditor and Mercator is only notified or has agreed to pay to the new creditor instead of the original supplier. Other than the change of the payee there is no change in payment terms or any other contractual terms. The amount of such arrangements is EUR 22,667 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, 2020, the Mercator Group does not have any operating liabilities due to the Supervisory Board members, members of the Management Board and other key management employees, although it has recognized undisbursed compensation for December 2020.

Because of the nature of financial instruments, Mercator Group can divide trade and other payables to (a) total financial trade and other payables, which as at December 31, 2020, amounted to EUR 466,493 thousand and represent trade payables in the whole amount and (b) total non – financial trade and other payables, which as at December 31, 2020, amounted to EUR 92,187 thousand for the Mercator Group.

Poslovni sistem Mercator d.d.

As at December 31, 2020, trade and other payables amounted to EUR 305,344 thousand (2019: EUR 300,662thousand).

Trade payables comprise payables for merchandise, goods and services.

As at December 31, 2020 the amount of modified trade payables of Poslovni sistem Mercator, d.d. as a result of supplier financing arrangements amounted to EUR 14,264 thousand (2019: EUR 11,881 thousand).

One type of these arrangements arises from the ordinary course of business where certain trade payables are contractually deferred. In those cases the original supplier has been paid (on or before the original contractual maturity date) by the new creditor and the new creditor has prolonged the original payment term for the obligor as well. The majority of such trade payables are with recourse to the original supplier. The amount of such arrangements with deferred payment is EUR 3,984 thousand. The deferral period of such arrangements concluded in the course of 2020 is less than one year.The other type of these arrangements are concluded between the supplier and the new creditor and Mercator is only notified or has agreed to pay to the new creditor instead of the original supplier. Other than the change of the payee there is no change in payment terms or any other contractual terms. The amount of such arrangements is EUR 10,281 thousand.

Accrued costs refer to the costs of unused annual leave, superrabates granted for and to other accrued costs.

Deferred revenue includes particularly deferred revenue for realization of discounts from collected points.

As at December 31, 2020, the company Poslovni sistem Mercator d.d. does not have any operating liabilities due to the Supervisory Board members, members of the Management Board and other key management employees, although it has recognized undisbursed compensation for December 2020.

Because of the nature of financial instruments, the company Poslovni sistem Mercator d.d. can divide trade and other payables to (a) total financial trade and other payables, which as at December 31, 2020, amounted to EUR 242,226 thousand and represent trade payables in the whole amount and (b) total non – financial trade and other payables, which as at December 31, 2020, amounted to EUR 63,117 thousand for the company Poslovni sistem Mercator d.d.

31. Financial instruments

Financial risk management

Risk overview

The Mercator Group and the company Poslovni sistem Mercator d.d. are monitoring and managing different types of financial risks to which their operations are exposed:

- credit risk;
- risk of payment capability (liquidity risk);
- market risk;
- business risk arising 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 Mercator Group's and the company's (Poslovni sistem Mercator d.d.) exposure to the risks listed above, as well as the objectives, policies, and processes for measurement and management thereof and the Mercator Group's and the company's (Poslovni sistem Mercator d.d.) 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 that were carried out in the current year for the purpose of managing this risk are described,
- planned risk management activities for the following year are defined, and
- it is determined whether a higher of 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. analyse 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 mitigated by the means of implementation of clear and concise accounting and reporting practices, efficient organization of the accounting function, regular internal and external audits and reviews of internal controls, business processes, and operations effectiveness.

Internal audit has been in operation at the Mercator Group and the company Poslovni sistem Mercator d.d. as an independent support function since year 2000. The basic function of internal audit is perpetual development and monitoring of the internal control systems from the aspect of management, or mitigation, 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 Mercator Group's and the company's (Poslovni sistem Mercator d.d.) exposure to customers default risk 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. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Limits on purchases, which represent the maximum amount of open positions, are determined for each customer individually. The compliance with credit limits by wholesale customers is regularly monitored by line management. The Mercator Group's and the company's (Poslovni sistem Mercator d.d.) 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.

The maximum exposure to credit risk at the reporting date:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade and other receivables	128,865	167,567	57,601	69,874
Deposits for rental payments	961	2,825	—	—
Loans to companies	2,374	12,527	33,012	25,179
Finance lease receivables	6,336	—	—	—
Deposits in banks	940	754	—	—
Total	**139,476**	**183,674**	**90,613**	**95,053**

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 Mercator Group and the company Poslovni sistem Mercator d.d. use a simplification from the general approach for trade receivables which is presented in Note 2 (d) iv. and 3 (c) i.

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 24. The Mercator Group and the company Poslovni sistem Mercator d.d. estimates low risk of default, so estimated ECL is not recorded, as it is assumed to be immaterial. Credit risk exposure is low (and not significant).

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 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Retail customers	260	7,216	749	5,260
Wholesale customers and related companies	83,336	96,562	41,772	47,039
Receivables from employees and the government, and other receivables	15,698	24,573	5,261	9,177
Prepaid expenses	4,254	13,217	2,399	3,140
Other receivables	25,318	26,000	7,419	5,258
Loans and deposits	10,611	16,106	33,012	25,179
Total	**139,476**	**183,674**	**90,613**	**95,053**

In the category of retail customers, 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 prepaid expenses and other receivables , and loans and deposits granted.

Security of receivables and loans (in gross amounts, excluding impairment):	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade receivables	136,318	150,457	55,510	61,583
secured receivables	19,222	20,624	11,572	15,323
unsecured receivables	117,096	129,833	43,938	46,260
Unsecured other receivables and loans	46,767	74,864	52,533	51,553
Total	**183,085**	**225,321**	**108,043**	**113,136**

The Mercator Group and the company Poslovni sistem Mercator d.d. applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The credit risk characteristics are mostly determined by the available collateral. Typical collateral types are bank guarantees, mortgages, enforcement notes and promissory notes. The Mercator Group and the company Poslovni sistem Mercator d.d. determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. 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 default rates.

Ageing of trade receivables and loans on the reporting date: in EUR 000	Mercator Group									Poslovni sistem Mercator d.d.								
	Gross carrying amount December 31, 2019			Credit loss allowance December 31, 2019						Credit carrying amount December 31, 2019			Credit loss allowance December 31, 2019					
	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL
Bank guarantee	6,852	51	349	3	0.05 %	4	7.21 %	95	27.26 %	6,302	40	344	3	0.05 %	4	9.23 %	95	27.63 %
Mortgage	3,283	123	442	118	3.59 %	1	0.49 %	280	63.22 %	3,182	123	228	117	3.69 %	1	0.49 %	70	30.77 %
Bill of exchange	5,670	934	498	90	1.27 %	12	1.38 %	64	17.16 %	4,104	114	65	86	1.58 %	6	5.10 %	14	16.18 %
Enforcement draft	910	62	319	4	0.43 %	1	1.95 %	54	16.66 %	729	34	59	1	0.15 %	1	2.82 %	3	5.76 %
Mercator/Agrokor Group	40,095	353	5,861	120	9.30 %	17	12.30 %	655	49.04 %	25,722	279	5,412	84	13.89 %	16	14.46 %	540	51.56 %
Other*	112,301	4,375	42,844	2,347	1.88 %	115	4.55 %	37,668	36.97 %	50,405	1,336	14,659	1,840	0.78 %	27	5.68 %	15,174	33.56 %
Total	**169,111**	**5,897**	**50,313**	**2,682**	**3.57 %**	**149**	**4.42 %**	**38,816**	**38.22 %**	**90,442**	**1,926**	**20,767**	**2,131**	**4.59 %**	**55**	**6.61 %**	**15,896**	**37.99 %**

Ageing of trade receivables and loans on the reporting date: in EUR 000	Mercator Group									Poslovni sistem Mercator d.d.								
	Gross carrying amount December 31, 2020			Credit loss allowance December 31, 2020						Gross carrying amount December 31, 2020			Credit loss allowance December 31, 2020					
	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL
Bank guarantee	4,429	176	124	2	0.04 %	18	9.80 %	9	6.66 %	3,661	124	63	2	0.05 %	18	13.88 %	7	11.00 %
Mortgage	3,113	15	202	112	3.58 %	1	3.38 %	196	96.77 %	3,016	15	10	111	3.69 %	1	3.38 %	4	35.62 %
Bill of exchange	5,077	1,263	1,216	53	1.02 %	14	0.97 %	67	4.11 %	3,067	180	119	49	1.61 %	11	6.12 %	18	14.31 %
Enforcement draft	1,316	266	438	—	0.03 %	33	12.61 %	108	24.53 %	1,108	117	90	—	— %	5	3.84 %	10	10.72 %
Mercator/Agrokor Group	49,772	252	1,574	105	10.11 %	17	7.59 %	336	21.28 %	33,574	134	744	82	14.44 %	17	14.23 %	222	37.38 %
Other*	67,349	3,637	42,867	3,279	2.29 %	106	3.12 %	39,152	39.26 %	47,506	901	13,612	2,583	1.05 %	41	4.64 %	14,250	30.01 %
Total	**131,056**	**5,608**	**46,421**	**3,552**	**5.14 %**	**189**	**3.50 %**	**39,867**	**37.76 %**	**91,933**	**1,472**	**14,638**	**2,828**	**5.99 %**	**92**	**6.40 %**	**14,511**	**30.06 %**

* The item »Other« includes all unsecured trade receivables from external wholesale customers.

Details about the group’s policies are provided in Note 3 c) i) *Financial assets.*

Changes in credit loss allowance to receivables and loans:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
As at January 1	**41,647**	**97,575**	**18,082**	**25,956**
Effect of foreign exchange differences	(96)	88	—	—
Allowances for receivables during the year	3,980	2,115	790	2,140
Decrease of allowance for impairment during the year	(1,836)	(17,769)	(1,442)	(1,123)
Final receivable write-off	(87)	(40,361)	—	(8,890)
Allowances for receivables recognized through equity upon IFRS 9 initial application	—	—	—	—
Balance as at December 31	**43,609**	**41,647**	**17,431**	**18,082**

in EUR 000	Mercator Group							
	Gross carrying amount				Credit loss allowance			
	0-30 days	30-9 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2020	6,852	51	349	7,251	3	4	95	102
Effect of foreign exchange differences	(2)	—	—	(2)	—	—	—	—
Allowances for receivables during the year	355	125	56	536	—	14	1	15
Decrease of allowance for impair. during the year	(2,775)	—	(280)	(3,055)	(1)	—	(88)	(89)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	4,429	176	124	4,729	2	18	9	28
Mortgage								
As at January 1, 2020	3,283	123	442	3,848	118	1	280	398
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	—	—	—	—	—	—	—
Decrease of allowance for impair. during the year	(170)	(108)	(239)	(518)	(6)	—	(83)	(90)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,113	15	202	3,330	112	1	196	308
Bill of exchange								
As at January 1, 2020	5,670	934	498	7,102	90	12	64	167
Effect of foreign exchange differences	(1)	—	—	(1)	—	—	—	—
Allowances for receivables during the year	—	66	54	120	—	5	14	18
Decrease of allowance for impair. during the year	(1,092)	(30)	(4)	(1,125)	(37)	(3)	—	(40)
Final receivable write-off	499	293	668	1,459	(1)	—	(11)	(12)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	5,077	1,263	1,216	7,555	53	14	67	134
Enforcement draft								
As at January 1, 2020	910	62	319	1,291	4	1	54	59
Effect of foreign exchange differences	(3)	(1)	(4)	(7)	—	—	(1)	(1)
Allowances for receivables during the year	408	205	122	735	—	32	54	87
Decrease of allowance for impair. during the year	—	—	—	—	(3)	—	—	(3)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	1,316	266	438	2,019	—	33	108	142
Mercator/Agrokor Group								
As at January 1, 2020	40,095	353	5,861	46,309	120	17	655	791
Effect of foreign exchange differences	(3)	—	—	(3)	—	—	—	—
Allowances for receivables during the year	9,971	(144)	2	9,829	—	1	—	1
Decrease of allowance for impair. during the year	(291)	44	(4,289)	(4,537)	(14)	—	(318)	(333)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	49,772	252	1,574	51,598	105	17	336	459
Other								
As at January 1, 2020	82,905	4,375	42,844	130,124	2,347	115	37,668	40,130
Effect of foreign exchange differences	(300)	(3)	(100)	(403)	(2)	—	(92)	(94)
Allowances for receivables during the year	5,534	54	1,122	6,710	962	13	2,883	3,859
Decrease of allowance for impair. during the year	(20,790)	(789)	(924)	(22,502)	(28)	(22)	(1,232)	(1,281)
Final receivable write-off	—	—	(75)	(75)	—	—	(75)	(75)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	67,349	3,637	42,867	113,854	3,279	106	39,152	42,538
Total								
As at January 1, 2020	**139,716**	**5,897**	**50,313**	**195,925**	**2,682**	**149**	**38,816**	**41,647**
Effect of foreign exchange differences	**(309)**	**(4)**	**(105)**	**(417)**	**(2)**	**—**	**(94)**	**(96)**
Allowances for receivables during the year	**16,267**	**305**	**1,356**	**17,929**	**962**	**66**	**2,952**	**3,980**
Decrease of allowance for impair. during the year	**(25,118)**	**(883)**	**(5,737)**	**(31,738)**	**(90)**	**(26)**	**(1,721)**	**(1,836)**
Final receivable write-off	**499**	**293**	**593**	**1,385**	**(1)**	**—**	**(86)**	**(87)**
Allowances for receivables recog. through equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
As at December 31, 2020	**131,056**	**5,608**	**46,421**	**183,085**	**3,552**	**189**	**39,867**	**43,609**

in EUR 000	Mercator Group							
	Gross carrying amount				Credit loss allowance			
	0-30 days	30-9 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2019	4,231	182	998	5,411	2	5	325	332
Effect of foreign exchange differences	5	—	—	5	—	—	—	—
Allowances for receivables during the year	2,799	(1)	—	2,798	2	—	—	2
Decrease of allowance for impair. during the year	(182)	(131)	(649)	(962)	—	(1)	(230)	(231)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	6,852	51	349	7,251	3	4	95	102
Mortgage								
As at January 1, 2019	3,668	30	168	3,866	183	—	110	294
Effect of foreign exchange differences	1	—	1	3	—	—	1	1
Allowances for receivables during the year	—	93	273	366	—	—	168	168
Decrease of allowance for impair. during the year	(385)	—	—	(386)	(65)	—	—	(65)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	3,283	123	442	3,848	118	1	280	398
Bill of exchange								
As at January 1, 2019	5,646	1,017	751	7,414	14	16	95	124
Effect of foreign exchange differences	7	—	—	7	—	—	—	—
Allowances for receivables during the year	22	24	40	86	76	3	4	83
Decrease of allowance for impair. during the year	(5)	(107)	(293)	(405)	—	(7)	(34)	(41)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	5,670	934	498	7,102	90	12	64	167
Enforcement draft								
As at January 1, 2019	427	125	177	729	—	1	17	18
Effect of foreign exchange differences	(1)	—	(1)	(2)	—	—	—	—
Allowances for receivables during the year	620	2	143	765	4	1	37	42
Decrease of allowance for impair. during the year	(136)	(66)	—	(201)	—	(1)	—	(1)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	910	62	319	1,291	4	1	54	59
Mercator/Agrokor Group								
As at January 1, 2019	18,621	322	43,438	62,381	230	46	39,075	39,350
Effect of foreign exchange differences	8	—	(24)	(16)	—	—	(23)	(23)
Allowances for receivables during the year	22,917	177	3,138	26,232	—	—	—	—
Decrease of allowance for impair. during the year	(1,451)	(147)	(3,579)	(5,177)	(110)	(30)	(1,286)	(1,425)
Final receivable write-off	—	—	(37,111)	(37,111)	—	—	(37,111)	(37,111)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	40,095	353	5,861	46,309	120	17	655	791
Other								
As at January 1, 2019	120,194	3,751	47,826	171,771	15,695	137	41,624	57,457
Effect of foreign exchange differences	625	18	148	791	(6)	1	115	110
Allowances for receivables during the year	27,058	1,020	176	28,254	1,618	17	184	1,819
Decrease of allowance for impair. during the year	(35,576)	(414)	(2,061)	(38,052)	(14,960)	(40)	(1,005)	(16,006)
Final receivable write-off	—	—	(3,245)	(3,245)	—	—	(3,250)	(3,250)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	112,301	4,375	42,844	159,519	2,347	115	37,668	40,130
Total								
As at January 1, 2019	**207,279**	**5,427**	**93,357**	**306,063**	**16,124**	**205**	**81,246**	**97,575**
Effect of foreign exchange differences	**645**	**19**	**125**	**789**	**(6)**	**1**	**94**	**88**
Allowances for receivables during the year	**53,415**	**1,315**	**3,770**	**58,500**	**1,700**	**22**	**393**	**2,115**
Decrease of allowance for impair. during the year	**(37,735)**	**(864)**	**(6,583)**	**(45,182)**	**(15,135)**	**(78)**	**(2,556)**	**(17,769)**
Final receivable write-off	—	—	**(40,356)**	**(40,356)**	—	—	**(40,361)**	**(40,361)**
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	**169,111**	**5,897**	**50,313**	**225,321**	**2,682**	**149**	**38,816**	**41,647**

in EUR 000	Poslovni sistem Mercator d.d.							
	Gross carrying amount				Credit loss allowance			
	0-30 days	30-9 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2020	6,302	40	344	6,685	3	4	95	102
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	84	—	84	—	14	—	14
Decrease of allowance for impair. during the year	(2,640)	—	(280)	(2,920)	(1)	—	(88)	(89)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,661	124	63	3,849	2	18	7	27
Mortgage								
As at January 1, 2020	3,182	123	228	3,533	117	1	70	188
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	—	—	—	—	—	—	—
Decrease of allowance for impair. during the year	(165)	(108)	(218)	(491)	(6)	—	(67)	(73)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,016	15	10	3,042	111	1	4	115
Bill of exchange								
As at January 1, 2020	4,104	114	65	4,283	86	6	14	105
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	66	54	120	—	5	4	9
Decrease of allowance for impair. during the year	(1,036)	—	—	(1,036)	(36)	—	—	(36)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,067	180	119	3,366	49	11	18	78
Enforcement draft								
As at January 1, 2020	729	34	59	823	1	1	3	6
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	379	83	31	493	—	3	6	10
Decrease of allowance for impair. during the year	—	—	—	—	(1)	—	—	(1)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	1,108	117	90	1,315	—	5	10	14
Mercator/Agrokor Group								
As at January 1, 2020	25,722	279	5,412	31,412	84	16	540	640
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	7,852	(144)	—	7,707	—	1	—	1
Decrease of allowance for impair. during the year	—	—	(4,668)	(4,668)	(2)	—	(317)	(319)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	33,574	134	744	34,452	82	17	222	322
Other								
As at January 1, 2020	44,762	1,336	14,659	60,757	1,840	27	15,174	17,042
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	2,744	—	—	2,744	743	13	—	757
Decrease of allowance for impair. during the year	—	(435)	(1,047)	(1,482)	—	—	(924)	(924)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	47,506	901	13,612	62,019	2,583	41	14,250	16,875
Total								
As at January 1, 2020	**84,799**	**1,926**	**20,767**	**107,493**	**2,131**	**55**	**15,896**	**18,082**
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	**10,975**	**89**	**85**	**11,148**	**743**	**37**	**10**	**790**
Decrease of allowance for impair. during the year	**(3,842)**	**(543)**	**(6,213)**	**(10,598)**	**(47)**	—	**(1,395)**	**(1,442)**
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	**91,933**	**1,472**	**14,638**	**108,043**	**2,828**	**92**	**14,511**	**17,431**

in EUR 000	Poslovni sistem Mercator d.d. Gross carrying amount 0-30 days	30-9 days	more than 90 days	Total	Credit loss allowance 0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2019	3,524	119	978	4,621	1	5	325	331
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	2,777	—	—	2,777	2	—	—	2
Decrease of allowance for impair. during the year	—	(79)	(634)	(713)	—	(1)	(230)	(231)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	6,302	40	344	6,685	3	4	95	102
Mortgage								
As at January 1, 2019	3,521	30	57	3,608	182	—	3	185
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	93	172	264	—	—	67	68
Decrease of allowance for impair. during the year	(339)	—	—	(339)	(65)	—	—	(65)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	3,182	123	228	3,533	117	1	70	188
Bill of exchange								
As at January 1, 2019	4,109	221	358	4,687	9	13	48	70
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	—	—	—	76	—	—	76
Decrease of allowance for impair. during the year	(5)	(107)	(293)	(405)	—	(7)	(34)	(41)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	4,104	114	65	4,283	86	6	14	105
Enforcement draft								
As at January 1, 2019	109	32	42	183	—	—	—	—
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	620	2	17	639	1	1	3	5
Decrease of allowance for impair. during the year	—	—	—	—	—	—	—	—
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	729	34	59	823	1	1	3	6
Mercator/Agrokor Group								
As at January 1, 2019	5,756	179	8,316	14,251	188	31	7,231	7,450
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	20,380	166	3,137	23,684	—	—	—	—
Decrease of allowance for impair. during the year	(414)	(66)	—	(481)	(105)	(15)	(649)	(769)
Final receivable write-off	—	—	(6,042)	(6,042)	—	—	(6,042)	(6,042)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	25,722	279	5,412	31,412	84	16	540	640
Other								
As at January 1, 2019	45,232	420	17,855	63,507	282	12	17,625	17,920
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	5,173	916	8	6,097	1,558	15	414	1,988
Decrease of allowance for impair. during the year	—	—	(359)	(359)	—	—	(18)	(18)
Final receivable write-off	—	—	(2,845)	(2,845)	—	—	(2,848)	(2,848)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	50,405	1,336	14,659	66,400	1,840	27	15,174	17,042
Total								
As at January 1, 2019	**62,250**	**1,001**	**27,606**	**90,856**	**663**	**61**	**25,232**	**25,956**
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	**28,951**	**1,178**	**3,334**	**33,462**	**1,638**	**17**	**485**	**2,140**
Decrease of allowance for impair. during the year	**(758)**	**(252)**	**(1,286)**	**(2,297)**	**(170)**	**(23)**	**(931)**	**(1,123)**
Final receivable write-off	—	—	**(8,887)**	**(8,887)**	—	—	**(8,890)**	**(8,890)**
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	**90,442**	**1,926**	**20,767**	**113,136**	**2,131**	**55**	**15,896**	**18,082**

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 as disclosed in the Note 32.

Liquidity 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.

The Mercator Group and the company Poslovni sistem Mercator d.d. manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Mercator Group has at its disposal to further reduce liquidity risk are set out below.

Management monitors rolling forecasts of the group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents on the basis of expected cash flows. 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 Mercator Group and the company Poslovni sistem Mercator d.d. had access to the following liquidity lines:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Cash and cash equivalents*	49,884	45,777	28,964	11,137
Standby revolving credit lines[Δ],**	6,723	42,326	254	37,228
Total	**56,607**	**88,103**	**29,218**	**48,366**

* The item includes also current deposit of companies Mercator−S d.o.o., and Mercator−Emba d.d.
** The item includes undrawn WGD Tranche A, undrawn Super Senior and undrawn factoring of cheques.
[Δ] Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

Total unused liquidity lines used as of December 31, 2020 were EUR 56,607 thousand (December 31, 2019: EUR 88,103 thousand) by the Mercator Group and was EUR 29,218 thousand (December 31, 2019: EUR 48,366thousand) by the company Poslovni sistem Mercator d.d. respectively.

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, 2020.

Contractual maturity of liabilities and estimated future interest payments - 2020	Mercator Group											
	Total as at December 31, 2020		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	532,270	520,725	415,418	12,476	13,623	2,738	20,214	6,375	47,512	2,369	—	—
Borrowings from related and other companies	20,011	56,783	39,962	774	15,535	512	—	—	—	—	—	—
Lease liabilities	345,672	416,902	42,236	8,436	30,800	7,733	135,025	26,533	67,214	14,258	70,369	14,298
Trade and other payables	558,680	558,725	554,287	—	343	—	2,834	—	1,023	—	239	—
Total	**1,456,633**	**1,553,136**	**1,051,903**	**21,685**	**60,300**	**10,984**	**158,073**	**32,907**	**115,749**	**16,628**	**70,607**	**14,298**

Contractual maturity of liabilities and estimated future interest payments - 2019	Mercator Group											
	Total as at December 31, 2019		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	556,030	631,825	88,482	11,360	51,476	10,358	408,821	14,148	43,644	3,536	1	—
Borrowings from related and other companies	25,026	26,652	9,209	720	6,785	636	9,032	271	—	—	—	—
Lease liabilities	371,100	376,706	43,291	3,419	21,818	3,217	137,129	13,514	118,356	6,195	25,333	4,433
Trade and other payables	572,370	561,149	429,466	—	128,727	—	2,285	—	373	—	297	—
Total	**1,524,526**	**1,596,332**	**570,448**	**15,499**	**208,807**	**14,211**	**557,267**	**27,932**	**162,374**	**9,731**	**25,630**	**4,433**

In April 2021, Mercator Group made refinancing of Mercator's bank debt. Details of refinancing are disclosed in Note 35.

Contractual maturity of liabilities and estimated future interest payments - 2020	Poslovni sistem Mercator d.d.											
	Total as at December 31, 2020		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	355,192	363,728	355,192	8,502	—	34	—	—	—	—	—	—
Borrowings from related and other companies	40,240	40,523	39,815	275	425	7	—	—	—	—	—	—
Lease liabilities	92,906	113,230	14,199	2,142	7,155	1,964	34,640	8,538	20,087	4,424	16,825	3,257
Trade and other payables	305,344	305,344	301,456	—	246	—	2,518	—	1,035	—	90	—
Total	**793,682**	**822,825**	**710,661**	**10,919**	**7,826**	**2,005**	**37,158**	**8,538**	**21,122**	**4,424**	**16,915**	**3,257**

Contractual maturity of liabilities and estimated future interest payments - 2019	Poslovni sistem Mercator d.d.											
	Total as at December 31, 2019		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	350,340	373,227	11,453	7,312	14,522	7,082	324,365	8,493	—	—	—	—
Borrowings from related and other companies	39,974	40,808	4,200	282	—	281	35,774	271	—	—	—	—
Lease liabilities	103,037	127,024	12,504	2,268	7,070	2,156	35,458	9,663	27,294	5,554	20,711	4,345
Trade and other payables	302,516	302,516	299,963	—	260	—	1,774	—	323	—	196	—
Total	**795,867**	**843,575**	**328,120**	**9,862**	**21,852**	**9,520**	**397,371**	**18,427**	**27,617**	**5,554**	**20,907**	**4,345**

As at December 31, 2020, the Company provided financial guarantees to its subsidiaries in total amount of EUR 136,934 thousand (2019: EUR 204,795 thousand), as disclosed in Note 32. Majority of these guarantees are up to 6 months due.

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 Mercator Group and the company Poslovni sistem Mercator d.d. 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 costs for the Mercator Group and the company Poslovni sistem Mercator d.d. Consequently, the Mercator Group and the company Poslovni sistem Mercator d.d. are managing and controlling the increase of finance costs in an appropriate centralized manner. The risk is managed by the Mercator Group and the company Poslovni sistem Mercator d.d. by maintaining an appropriate mix between fixed and floating rate borrowings. The Mercator Group and the company Poslovni sistem Mercator d.d. do not use derivative financial instruments for the interest rate risk hedging purposes.

Exposure to interest rate risk:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Fixed rate financial instruments				
Non-current and current financial assets	10,611	16,106	33,012	25,179
Non-current and current financial liabilities	173,470	105,890	40,180	63,969
Total	**184,081**	**121,996**	**73,192**	**89,148**
Floating rate financial instruments				
Non-current and current financial assets	—	—	—	—
Non-current and current financial liabilities	378,811	462,774	355,252	328,199
Total	**378,811**	**462,774**	**355,252**	**328,199**

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 2020 and 2019.

Cash flow sensitivity analysis for variable rate instruments (impact on net profit or loss)	Mercator Group		Poslovni sistem Mercator d.d.	
	2020	2019	2020	2019
in EUR 000	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp
Floating rate of financial instruments (increase)	3,788	4,628	3,553	3,282
Floating rate of financial instruments (decrease)	—	—	—	—

In outstanding debt facility documents we have floor on Euribor (set at 0.0%) therefore Mercator would not benefit from any future potential decrease of Euribor.

The Mercator Group and the company Poslovni sistem Mercator d.d. do not hold any significant financial instruments measured at fair value through other comprehensive income or other instances that might give rise to profit or loss to be recognized in other comprehensive income due to changes in floating interest rates.

Currency risk

Mercator Group

The Mercator Group's operations in the international environment necessarily involve exposure to currency risk. The Mercator 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 Mercator Group is currently primarily using the so-called natural hedging or matching.

The following tables shows the Mercator Group’s exposure to the relevant foreign currencies (currencies with fixed exchange rate to the EUR are not taken into account).

The Mercator Group's exposure to foreign currency risk was as follows: Dec. 31, 2019:	Mercator Group						
in EUR 000	**EUR**	**RSD**	**HRK**	**USD**	**GBP**	**PLN**	**CHF**
Trade and other receivables	—	72,099	2,098	289	9	—	—
Investments in financial assets	—	—	42	—	—	—	—
Cash and cash equivalents	—	25,382	564	19	—	2	—
Financial liabilities	—	(63,616)	(3,698)	—	—	—	—
Trade and other liabilities	—	(219,084)	(4,379)	(413)	(30)	—	—
Financial position statement exposure	**—**	**(185,219)**	**(5,373)**	**(105)**	**(21)**	**2**	**—**
Sales	—	702,526	21,237	—	—	—	—
Purchase	—	(545,683)	—	—	(200)	—	(2)
Estimated transaction exposure	**—**	**156,843**	**21,236**	**—**	**(200)**	**—**	**(2)**
Forward exchange contracts	—	—	—	—	—	—	—
Net exposure	**—**	**(28,377)**	**15,863**	**(106)**	**(221)**	**2**	**(2)**

The Mercator Group's exposure to foreign currency risk was as follows: Dec. 31, 2020:	Mercator Group					
in EUR 000	**EUR**	**RSD**	**HRK**	**USD**	**GBP**	**PLN**
Trade and other receivables	—	55,134	2,932	197	8	—
Investments in financial assets	—	—	35	—	—	—
Cash and cash equivalents	—	4,388	2,517	61	—	2
Financial liabilities	—	(30,612)	(3,845)	800	—	—
Trade and other liabilities	—	(199,254)	(5,139)	(336)	(89)	—
Financial position statement exposure	**—**	**(170,344)**	**(3,500)**	**722**	**(81)**	**2**
Sales	—	679,035	20,498	—	7	—
Purchase	—	(543,723)	—	—	(282)	—
Estimated transaction exposure	**—**	**135,312**	**20,498**	**—**	**(275)**	**—**
Forward exchange contracts	—	—	—	—	—	—
Net exposure	**—**	**(35,032)**	**16,998**	**721**	**(355)**	**2**

As at December 31, 2020 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	**2020**	**2019**	**2020**	**2019**
RSD	117.71	117.53	117.91	117.38
HRK	7.54	7.55	7.42	7.44
BAM	1.96	1.96	1.96	1.96

The following table details the Mercator Group's sensitivity to a +/10% increase and decrease in currency units against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. Impact on equity change is the similar as to the profit and loss after tax.

Mercator Group				
	2020		2019	
	10%	-10%	10%	-10%
change in currency rate	Profit or loss after tax	Profit or loss after ax	Profit or loss after tax	Profit or loss after tax
EUR	—	—	—	—
RSD	(3,503)	3,503	5	(5)
HRK	1,700	(1,700)	5	(5)
USD	72	(72)	(11)	11
GBP	(36)	36	(22)	22

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

Considerations in respect of COVID-19 epidemic and the current economic environment

The Mercator Group considered the impact of COVID-19 epidemic and the current economic environment when preparing these financial statements.

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

In the autumn, the number of daily illnesses began to rise again in the entire region. At the end of October the Government of the Republic of Slovenia again declared an epidemic with a similar set of measures as during the first wave. In other countries in the region, the epidemic was not formally declared, but strictly measures came into force, while the closure of certain economic activities was not happened.

The business of the Mercator Group performance remained successful also after the declaration of COVID-19 epidemic in all markets of Group's operations, mainly due to timely and responsible preparation for the crisis, effective crisis management and exceptional employees.

In 2020, Mercator Group's business performance despite of COVID-19 epidemic remained stable. Positive performance trends in core business activities are a result of successful execution of the business strategy and all operating plans and thought initiatives, such as revenue and margin initiatives, refurbishment, cost optimization, optimization of working capital management, divestments, brand differentiation and other initiatives.

Insistence on regular and precise monitoring of all operating plans have proven successful for accomplishment of all strategic goals set by the Mercator Group. Only timely and responsible preparation for the crisis allowed Mercator Group to sustain its positive performance trends started in the period before the coronavirus crisis. One of the factors contributing to Mercator's success in maintaining the positive performance trends is the fact that during the crisis, coordination, analysis, planning and decision-making sessions were held in all markets of Mercator's operations daily, and in the most critical moments even twice daily.

Impact on key KPI's

Analysis prepared by the Group has shown the following impacts resulting from COVID-19 epidemic in 2020:
- increase of retail revenue due to shopping basket increase, commodity goods sale increase and shopping online;
- uptick in margins due to higher revenue, which is attributed to change in sales structure and optimization and promotional activities;
- synergies of employees' optimization between various business segments, new set-up of supporting function processes (work from home, etc.) and government subsidies;
- optimization of costs due to changed business environment; lower education costs and costs of business trips, redefinition of marketing budget, other costs of services:
- decrease in revenue from rents due to monetization effect (sale of shopping centers in Slovenia in 1-3, 2019 and Serbia at the end of 2019), termination of one lease agreement in Serbia with loss of rental income from subleases in 2020, and given rent discounts for tenants in closed stores because COVID-19 situation
- decrease of non-core segments and companies' revenue (wholesale, DIY, manufacturing companies etc.) due to closing of certain industries which affected their business partners;
- based on the significant change of country risk premiums which have significant impact on capitalization rates used by the Group, Mercator Group performed an revaluation of property, plant and equipment's fair values (for detailed disclosure of revaluation please refer to Note 6).

In 2020, Mercator Group saw its retail revenue increasing by 3.7% relative to the same period last year. In 2020, Mercator Group had an operating loss of EUR 108,227 thousand mostly due to impairment and revaluation of PP&E, investment properties and right of use assets.

In 2020, Mercator Group's net loss amounted to EUR 156,710 thousand.

Liquidity

In the first half of the year the impact of higher sales has been positive from a working capital perspective. After the first wave of COVID-19 we have seen the reopening of the closed businesses which was then followed by a new lockdown after the start of the second wave in the fourth quarter. In contrast with the first wave the impact of the second wave on sales numbers was less pronounced as the customers were not stocking up with the essential items as much. However, on the other side Mercator was well prepared for the second wave, the initially increased operating costs (i.e. cost of disinfectants, masks etc.) came down considerably and the business successfully adapted to the changed circumstances.

The major part of receivables refers to wholesale segment. In spite of some payment delays in the second and third quarter from wholesale customers, especially the ones which were closed due to COVID-19 epidemic related government measures, Mercator Group recognized no major deviations compared to the amount of receivables or payments received in the previous year.

During the epidemic, the Government of the Republic of Slovenia adopted measures that allowed tenants to apply for change in payment terms. Consequently, after March 31, 2020, Mercator made individual arrangements on a regional level in order to help its partners overcoming liquidity issues, by approving rent concessions. The impact was therefore seen in lower rental income, which in the period from April to December 2020 amounts to EUR 1.7 million. On the other hand, for the same period Mercator Group received credit notes for closure period in the amount of EUR 0.6 million from its lessors.

After successful refinancing of financial debt (more details on **Refinancing risk** below), we are confident that we have sufficient cash and committed funding in place to meet our obligations for the foreseeable future. Further, a cash flow forecast prepared by Mercator Group for the following 12 months indicates that the Mercator Group will have sufficient funds to meet its obligations when they fall due. Given that the refinancing has been successfully concluded, Mercator is much less exposed to risks related to the current financial markets. Moreover, in spite of the third wave of COVID-19 in late Q1 of 2021 the financial markets have returned the pre-COVID-19 levels mostly due to envisaged vaccination plans within 2021. The above circumstances also contribute positively to the preparedness our suppliers to deliver goods on credit.

Under our current working capital management model, our current liabilities significantly exceed our current assets.

Supply chain

As the largest retailer in Slovenia and the region, we have a special responsibility for uninterrupted supply of goods to the population. We are maintaining and ensuring safe supply chains and we care for uninterrupted logistics even in circumstances of considerably higher daily and hourly sales. Before the start of the crisis we ensured an adequate amount of inventory, especially of essential food products, which helped us to keep adequate stock of high-demand items and suppliers' stock the lowest during the crisis. Delivery periods from other countries of the European Union were extended. Due to the measures adopted in a timely manner, supply remained uninterrupted.

Mitigation of business uncertainty arising from the Agrokor restructuring

Further to a detailed assessment in the recent reports, we set out below the update on our assessment of the impact of the Agrokor restructuring.

Status of the Agrokor restructuring

In June 2020, the District court Ljubljana reduced the EUR 53.9 million fine imposed on Croatian concern Agrokor in 2019 by the Slovenian competition authority (AVK) to EUR 1 million.

In late July 2020 the Slovenian Supreme Court has ordered the Competition Protection Agency (AVK) to release 70% of shares of retailer Mercator which were seized from Croatian Agrokor in December 2019.

On September 22, 2020 the European Commission cleared the intention of Fortenova Group to acquire control over Poslovni sistem Mercator, Ljubljana.

On March 5, 2021, the Commission for Protection of Competition of the Republic of Serbia approved the intention of Fortenova Group to acquire control over the company Poslovni sistem Mercator d.d., Ljubljana also on the Serbian market. With such decision of the Serbian Commission, Fortenova Group has fully met the regulatory prerequisites of obtaining approval for the concentration with Mercator from the competent national regulatory authorities for the protection of market competition in all required territories - Serbia, Bosnia and Herzegovina, Montenegro and Northern Macedonia. At the same time, with the concentration approval issued by the European Commission, this prerequisite has been met for the entire EU territory.

On March 12, 2021 at the Meeting of Holders of Depositary Receipts issued by Fortenova Group STAK Stichting, the shareholders have voted in favour of the decision regarding the consolidation of Fortenova Group's operations related to the transfer of shares of Poslovni sistem Mercator from Agrokor to Fortenova Group. Thus Fortenova Group has received approval to extend the existing financial arrangement with HPS Partners and VTB Bank by the amount of not more than EUR 390 million, to be used as a loan from Fortenova Group to Mercator intended to refinance Mercator's bank debt. The shareholders have also adopted the decision to swap the shares held by Sberbank in Mercator for Fortenova Group shares, whereby the 18.53% of Mercator shares owned by Sberbank shall be transferred to Fortenova Group. At the same time, with this swap Sberbank's share in Fortenova Group's ownership rises to 44%.

On March 19, 2021 Mercator reported that it had received a notification from the company Sberbank of Russia and the company Fortenova Group TopCo B.V., by which they informed that on March, 12 2021 they entered into a put option contract relating to shares of the company Poslovni system Mercator, d.d.. Pursuant to the Put Option Agreemant, the company Fortenova Group TopCo granted to Sberbank a put option, which grants Sberbank a right to require Fortenova Group TopCo to purchase for agreed consideration at maximum 1,128,803 ordinary registered no-par value shares with the security code MELR, which represents 18.53% share in the share capital of Poslovni sistem Mercator, d.d.

On April 23, 2021, the Mercator share transfer to Fortenova Group was completed.

For the purpose of assessing Mercator Group's exposure to specific risks arising from Agrokor/Fortenova Group, we set out below the update of our recent assessment of Mercator Group's exposure from the point of view of 1) its operations and 2) its financing arrangements:

1) Exposure to the risk from Business operations with Agrokor d.d./Fortenova Group and its subsidiaries

Agrokor

There is no exposure on the Mercator Group to the business risk related to Agrokor Group financial performance as of December 31, 2020 as there was no revenue generated with Agrokor Group during 2020.

Fortenova

The exposure of Mercator Group to the business risk related to Fortenova Group financial performance remained minimal. As of December 31, 2020, revenue generated with Fortenova Group amounted to EUR 529 thousand or 0.0% of total consolidated revenue, while purchase of goods amounted to 69,747 thousand EUR or 4.6% of the Group's costs of goods sold. As of December 31, 2020 total trade and other receivables from Fortenova Group amounted to EUR 8,765 thousand (7.0% of consolidated trade of other receivables and 0.5% of total assets), while trade liabilities to Fortenova Group amounted to 28,161 thousand EUR (5.0% of consolidated trade and other liabilities and 1.6% of total equity and liabilities).

Fortenova grupa d.d. and Nomad Foods Limited have signed SPA on March 29, 2021 for the Frozen Food business Group consisting of Ledo plus d.o.o., Ledo d.o.o. Čitluk, and Frikom d.o.o., alongside several smaller affiliated companies. The value of transaction is EUR 615 million, on debt free, and cash free basis, with completion planned for Q3 2021. This transaction is part of the process of the capital structure optimization that will enable the further development of the Fortenova Group and its substantial deleveraging.

All companies within Fortenova Group which are Mercator Group's suppliers will benefit from the capital structure optimization and will improve their stability strong market position, exposing Mercator Group to no significant and unusual business risks.

2) Refinancing risk

Mercator Group net financial debt as of December 31, 2020 amounts to EUR 848,068 thousand including lease liabilities that arose as a result of IFRS 16 implementation (IFRS 16 effect), and EUR 547,842 thousand without IFRS 16 effect.

The terms of our principal financial debt agreements comprise several provisions directly linked to Agrokor Group. These comprise (i) cross-default, (ii) change of control and (iii) material adverse effect provisions.

(i) Cross default: To proactively address the potential triggering of the cross default resulting from the opening of Agrokor's restructuring proceedings in Spring 2017; we already obtained (in Spring 2017) a waiver from the necessary majority of lenders. The waiver was valid during the existence of financial documentation with the lenders with no expiration date. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, above mentioned financial documentation was refinanced with new Fortenova debt facilities in the amount of EUR 480 million, and the transfer from Agrokor to new owner Fortenova has been concluded the same day, so a waiver on cross default is not relevant anymore.

(ii) Change of control: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. As of April 23, 2021 the Changer of control topic is not relevant anymore for WGD, as it was resolved through refinancing of existing debt on April 23, 2021. The change of control clause for the remaining debt related to SSF was amended in March 2021, when the amendments to the SSF agreement were signed, where moving the control to Fortenova was now allowed.

(iii) Material adverse effect: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. Indeed, if anything, the three years since the commencement of Agrokor's restructuring have consistently demonstrated the ability of Mercator Group to survive and thrive independently of circumstances affecting the Agrokor Group. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, Mercator is not anymore related to Agrokor group.

In assessment of the risk of default clause discussed above Mercator has considered the following factors:

- Mercator is and remains, both for cashflow and EBITDA, one of the most significant entities within the Agrokor/ Fortenova Group. Poslovni sistem Mercator d.d has the clear working assumption that stakeholders in both Agrokor/ Fortenova Group and Mercator Group are 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.
- The Change of Control issue related to Wider Group Deal has been successfully solved through refinancing as of April 23, 2021.

Conclusion

As explained in Note 28 (Borrowings and lease liabilities), as at December 31, 2020, the Group had amounts due under the Wider Group Deal ("WGD") and Super Senior Loan ("SSFA") falling due in June 2021 or earlier, amounting to EUR 427,079 thousand.

On April 16, 2021, the wider refinancing was signed, whereunder the Company entered into debt facilities with Fortenova grupa d.d. ("FNG") in the total amount of EUR 480 million (the "FNG Facility").

On April 23, 2021, EUR 385 million (out of EUR 480 million of the total facility available) was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes. Out of total debt that was falling due on June 2021 of EUR 427,079 thousand, as explained above, EUR 326,696 thousand was refinanced on April 23, 2021, while the remaining EUR 100,000 thousand (EUR 80,000 thousand of existing upsized for additional 20,000 thousand at closing of WGD refinancing) related to the SSFA remains open, and is due in September 2021 based on the rescheduling agreement dated March 25, 2021. The remaining limit of EUR 95 million under the FNG Facility is available, if needed, to refinance that SSFA at maturity later this year. It is anticipated that certain real estate disposals will also be applied towards prepayment of the SSFA, mitigating the need to draw on this facility.

The FNG Facility has a 5-year bullet maturity and does not contain any financial covenants on the Company, with defaults limited to non-payment and Mercator group insolvency events. The FNG Facility is guaranteed by the Company and the following of its subsidiaries: Mercator–H d.o.o., Mercator–BH d.o.o., Mercator–CG d.o.o., Mercator IP d.o.o., Mercator–Emba d.d. and M–Energija d.o.o. (the "guarantors"). The FNG Facility will be secured on asset collateral over all material assets of the Company and the guarantors (properties, intra-group loan receivables, bank accounts, bills of exchange, intellectual property). Where appropriate, such collateral will rank behind the collateral granted to the SSFA.

In order to pre-fund the FNG Facility, FNG increased its existing bond facility with HPS Partners and VTB Bank (the "Noteholders") by EUR 380 million (as a new "Tranche C"). The Tranche C notes are secured, amongst other means, by the same Company's and the guarantors' assets as provided for the FNG Facility, as explained above. Importantly to note, there is a cap on recourse against the Company and the guarantors (other than for their own default, gross negligence or fraud) such that aggregate recourse to the Company and the guarantors under the FNG notes shall not exceed the amounts recoverable under the FNG Facility.

The Tranche C notes fall due on January 15, 2022, and prescribe certain financial covenants for which quarterly and annually FNG would need to provide compliance certificates to the Noteholders. Failure to comply with debt covenants represents an event of default. FNG's cash flow plans assume settling the debt under the Tranche C notes with proceeds from the recently announced sale of its frozen food business group ("FFBG") to Nomad Foods Limited. This is already expected to happen in September 2021, well ahead of the Tranche C maturity. As explained in the Note 31 below, FNG and Nomad Foods Limited have signed an SPA on March 29, 2021 for the FFBG, consisting of Ledo plus d.o.o., Ledo d.o.o. Čitluk, and Frikom d.o.o., alongside several smaller affiliated companies. The value of the transaction is EUR 615 million, with completion planned for Q3 2021. The closing of transaction is subject to merger control approval in six jurisdictions (Austria, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) and foreign direct investment ("FDI") approval in two jurisdictions (Hungary and Slovenia) (collectively, the "Regulatory Approvals"). On current timing, it is anticipated that the last of the Regulatory Approvals will have been obtained by early-to-mid July 2021 (on an optimistic basis) or early-to-mid September 2021 (on a more conservative basis) given the clear statutory deadlines and processes involved. Regulatory approvals are focused on the assessment of market concentration, and, as there is no material overlap of market share or trading in any of the Regulatory Approval jurisdictions, management believes the risk of not obtaining regulatory approvals, and thus completing the sale, is remote.

Based on the facts and circumstances known at this moment, including the planned completion of the sale of the FFBG and agreed use of received funds, management expects that FNG will be able to meet its obligations under the Tranche C notes, including compliance with financial covenants linked to this debt, and that there will be no need for the Noteholders to collect their receivables through Mercator Group's pledged assets. Management has thus determined that the use of the going concern assumption is fully appropriate in respect of the preparation of the consolidated and separate financial statements for the year ended December 31, 2020. However, considering that the sale of FFBG is not "business as usual" transaction, and that its completion requires a third party approval (Regulatory Approvals), the uncertainty behind the Regulatory Approvals and realization of this transaction represents a material uncertainty that may cast a significant doubt upon the Group's and the Company's ability to continue as a going concern.

Capital management

Mercator Group and the company Poslovni sistem Mercator d.d., have complied with all imposed capital requirements during 2019 and 2020.

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 Mercator Group and the company Poslovni sistem Mercator d.d.

Ratio between equity and net financial debt:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Financial liabilities	897,953	945,024	488,339	495,205
Less:				
Cash and cash equivalents	49,884	45,777	28,964	11,137
Net financial debt $^{\Delta}$	**848,068**	**899,247**	**459,375**	**484,068**
Equity	**292,046**	**438,974**	**365,696**	**402,141**
Ratio between equity and net financial debt $^{\Delta}$	1:2,9	1:2,05	1:1,26	1:1,2

$^{\Delta}$ Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

As at December 31, 2020, the company Poslovni sistem Mercator d.d. held 42,192 own shares (2019: 42,192 own shares).

Net debt reconciliation for 2020 in EUR 000	Mercator Group					Poslovni sistem Mercator d.d.				
	Liabilities from financing activities			Other assets		Liabilities from financing activities			Other assets	
	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL
Net debt January 1, 2020	**568,664**	**376,361**	**945,024**	**45,777**	**899,247**	**392,168**	**103,037**	**495,205**	**11,137**	**484,068**
Cash inflows	107,214	36	107,250	4,107	**103,143**	44,986	36	45,022	17,826	**27,196**
Cash outflows	(151,383)	(85,645)	(237,028)	—	**(237,028)**	(67,164)	(19,696)	(86,860)	—	**(86,860)**
Non-cash increase	30,460	61,110	91,571	—	**91,571**	28,529	9,754	38,283	—	**38,283**
Non-cash decrease	(27,979)	(5,121)	(33,100)	—	**(33,100)**	(19,915)	(585)	(20,500)	—	**(20,500)**
Other non-cash changes	(108)	(1,069)	(1,177)	—	**(1,177)**	—	360	360	—	**360**
Net debt December 31, 2020	**552,281**	**345,672**	**897,953**	**49,884**	**848,068**	**395,433**	**92,906**	**488,339**	**28,964**	**459,375**

Mercator Group

Borrowings cash outflows of the Mercator Group in the amount of EUR 151,383 thousand refer to repayment of principal and interest payment, and *borrowings non-cash increas*e in the amount of EUR 30,460 thousand refer to interest accrued.

Leases cash outflows of the Mercator Group in the amount of are EUR 85,645 thousand composed of principal elements of lease payments and related interests from leases.

Non-cash lease increase in the amount of EUR 61,110 thousand refers to new leases (Note 16) and interest accrued.

Non-cash lease decrease refers to terminations of lease agreement (Note 16).

Other non-cash changes refer mainly to translation differences and received unpaid invoices.

Poslovni sistem Mercator d.d.

Borrowings cash outflows of the company Poslovni sistem Mercator d.d*.* in the amount of EUR 67,164 thousand refer to repayment of principal and interest payment, and *borrowings non-cash increas*e in the amount of EUR 28,529thousand refer to interest accrued.

Leases cash outflows of the Mercator Group in the amount of are EUR 19,696 thousand.

Non-cash lease increase in the amount of EUR 9,754thousand refers to new leases (Note 16) and interest accrued.

Non-cash lease decrease refers to terminations of lease agreement (Note 16) .

Other non-cash changes refer mainly to received unpaid invoices.

For comparability purposes, below table presents net financial debt reconciliation for the year 2019:

Net debt reconciliation for 2019	Mercator Group					Poslovni sistem Mercator d.d.				
	Liabilities from financing activities			Other assets		Liabilities from financing activities			Other assets	
in EUR 000	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL
Net debt January 1, 2019	679,544	**105,218**	**784,761**	**15,074**	**769,687**	**477,348**	**74,857**	**552,206**	**6,298**	**545,908**
Cash inflows	318,493	—	318,493	31,360	287,133	186,865	—	186,865	4,840	**182,025**
Cash outflows	(443,819)	(45,759)	(489,578)	(657)	(488,921)	(308,973)	(7,096)	(316,069)	—	**(316,069)**
Non-cash increase	1,480	316,902	318,381	—	318,381	580	35,275	35,855	—	**35,855**
Non-cash decrease	12,967	—	12,967	—	12,967	36,348	—	36,348	—	**36,348**
Other non-cash changes	—	—	—	—	—	—	—	—	—	—
Net debt December 31, 2019	**568,664**	**376,361**	**945,024**	**45,777**	**899,247**	**392,168**	**103,037**	**495,205**	**11,137**	**484,068**

Fair Values

Fair Values	Mercator Group			
	Dec. 31, 2020		Dec. 31, 2019	
in EUR 000	**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
Financial assets carried at amortised cost				
Trade and other receivables	115,586	115,586	143,433	143,433
Loans given and deposits	10,611	10,611	16,106	16,106
Investments in financial assets	927	927	876	876
Cash and cash equivalents	49,884	49,884	45,777	45,777
Total financial assets	**177,008**	**177,008**	**206,193**	**206,193**
Non-financial assets				
Buildings	489,106	489,106	544,237	544,237
Land	219,620	219,620	242,864	242,864
Investment property	198,978	198,978	273,006	273,006
Total non-financial assets	**907,703**	**907,703**	**1,060,106**	**1,060,106**
Total assets	**1,084,711**	**1,084,711**	**1,266,299**	**1,266,299**
Financial liabilities carried at amortised cost				
Fixed rate bank borrowings	173,470	173,470	105,890	105,890
Floating rate bank borrowings	356,136	356,136	434,345	434,345
Loans from subsidiaries and other companies	22,675	22,675	28,429	28,429
Trade and other payables	466,493	466,493	495,526	495,526
Total financial liabilities	**1,018,774**	**1,018,774**	**1,064,190**	**1,064,190**

Fair Values	Poslovni sistem Mercator d.d.			
	Dec. 31, 2020		Dec. 31, 2019	
in EUR 000	**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
Financial assets carried at amortised cost				
Trade and other receivables	51,267	51,267	61,913	61,913
Loans given and deposits	33,012	33,012	25,179	25,179
Investments in financial assets	803	803	736	736
Cash and cash equivalents	28,964	28,964	11,137	11,137
Total financial assets	**114,046**	**114,046**	**98,966**	**98,966**
Non-financial assets				
Buildings	324,134	324,134	325,776	325,776
Land	165,513	165,513	175,854	175,854
Investment property	3,043	3,043	4,081	4,081
Total non-financial assets	**492,690**	**492,690**	**505,711**	**505,711**
Total assets	**606,736**	**606,736**	**604,676**	**604,676**
Financial liabilities carried at amortised cost				
Fixed rate bank borrowings	40,180	40,180	63,969	63,969
Floating rate bank borrowings	312,661	312,661	288,224	288,224
Loans from subsidiaries and other companies	42,592	42,592	39,974	39,974
Trade and other payables	242,226	242,226	248,602	248,602
Total financial liabilities	**637,659**	**637,659**	**640,769**	**640,769**

Based on the calculation of fair value, financial instruments are divided into three levels:

Level 1: quoted (stock exchange) prices for assets or liabilities at the end of reporting period;

Level 2: the fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. Level 2 net assets are either monetary assets (loans given, account receivables) or liabilities (loans received, trade account payables) realisable in short term operating cycle, therefore their carrying values are assumed as reasonable and appropriate their fair values.

Level 3: if one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

in EUR 000	Mercator Group December 31, 2020 Level 1	Level 2	Level 3	Total	Poslovni sistem Mercator d.d. December 31, 2020 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	12,331	37,553	—	**49,884**	5,769	23,195	—	**28,964**
- of which cash in hands	12,331	—	—	**12,331**	5,769	—	—	**5,769**
- of which cash on current account	—	37,553	—	**37,553**	—	23,195	—	**23,195**
Financial assets	138	—	789	**927**	120	—	683	**803**
Loans and deposits	—	10,611	—	**10,611**	—	33,012	—	**33,012**
Trade and other receivables	—	115,586	—	**115,586**	—	51,267	—	**51,267**
Land	—	—	489,106	**489,106**	—	—	324,134	**324,134**
Buildings	—	—	219,620	**219,620**	—	—	165,513	**165,513**
Investment property	—	—	198,978	**198,978**	—	—	3,043	**3,043**
Borrowings	—	(552,281)	—	**(552,281)**	—	(395,433)	—	**(395,433)**
Trade and other payables	—	(466,493)	—	**(466,493)**	—	(242,226)	—	**(242,226)**

in EUR 000	Mercator Group December 31, 2019 Level 1	Level 2	Level 3	Total	Poslovni sistem Mercator d.d. December 31, 2019 Level 1	Level 2	Level 3	Total
Cash and cash equivalents	11,293	34,484	—	**45,777**	5,379	5,759	—	**11,137**
- of which cash in hands	11,293	—	—	**11,293**	5,379	—	—	**5,379**
- of which cash on current account	—	34,484	—	**34,484**	—	5,759	—	**5,759**
Financial assets	179	—	697	**876**	119	—	616	**736**
Loans and deposits	—	16,106	—	**16,106**	—	25,179	—	**25,179**
Trade and other receivables	—	143,433	—	**143,433**	—	61,913	—	**61,913**
Land	—	—	544,237	**544,237**	—	—	325,776	**325,776**
Buildings	—	—	242,864	**242,864**	—	—	175,854	**175,854**
Investment property	—	—	273,006	**273,006**	—	—	4,081	**4,081**
Borrowings	—	(568,664)	—	**(568,664)**	—	(392,168)	—	**(392,168)**
Trade and other payables	—	(495,526)	—	**(495,526)**	—	(248,602)	—	**(248,602)**

The carrying value of financial assets carried at amortised cost approximates their fair value due to short term nature. The carrying value of financial liabilities recognized approximates their fair value.

32. Contingent liabilities

Pledged properties

In line with Mercator Group financial restructuring agreement signed in June 2014 (hereinafter "Finance Documents") companies Poslovni sistem Mercator d.d., Mercator-IP d.o.o., Mercator–Emba d.d., M–Energija d.o.o., Mercator–H d.o.o., Mercator–BH d.o.o., Mercator–CG d.o.o. have signed common transaction security agreements by which all liabilities arising from Finance Documents are being subject of cross-collateralisation meaning that each company is guaranteeing for liabilities of other companies and vise-versa. In addition to this, lenders under Finance Document also have pledges of all material assets of those companies.

Financial liabilities in the framework of Finance Documents	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Senior Wider-Group-Deal	**315,519**	335,630	**248,365**	258,452
Super Senior Facility Agreement	**80,000**	70,000	**80,000**	70,000
PIK interest	**31,560**	31,560	**24,717**	24,717
Total	**427,078**	**437,190**	**353,082**	**353,169**

Financial liabilities of the company Mercator –S, d.o.o.	Dec. 31, 2020	Dec. 31, 2019
Loans secured by pledged property	103,633	112,474

Book value of pledged properties by Poslovni sistem Mercator d.d., Mercator–H d.o.o., Mercator–BH, d.o.o., Mercator–CG, d.o.o., Mercator–Emba d.d., Mercator IP d.o.o.

Companies owning the properties and types of assets pledged	Mercator Group (exc. Mercator – S d.o.o.)		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Real estate	337,295	417,840	182,094	199,621
Share pledges owned by Poslovni sistem Mercator, d.d.	236,423	263,473	236,423	263,473
Bank Accounts and deposits	9,242	4,999	—	<
Trade, insurance, lease, intra-group loan and credit card receivables (except for PIKA receivables)	6,878	6,849	—	—
Non-possessory pledge over tangible assets	4,820	5,892	—	—
IP rights pledge	—	—	—	—
Promissory notes				
Poslovni sistem Mercator, d.d.	Maximum amount = EUR 635,514 thousand	Maximum amount = EUR 635,514 thousand	Maximum amount = EUR 635,514 thousand	Maximum amount = EUR 635,514 thousand
Mercator–H d.o.o.	Maximum amount = EUR 98,600 thousand	Maximum amount = EUR 98,600 thousand		
Mercator–BH d.o.o.	Maximum amount = EUR 44,546 thousand	Maximum amount = EUR 44,546 thousand		
Mercator–CG d.o.o.	Maximum amount = EUR EUR 6,628 thousand	Maximum amount = EUR EUR 6,628 thousand		
Mercator–Emba, d.d.	Maximum amount = 3,022 thousand	Maximum amount = 3,022 thousand		

Security instruments and properties pledged by Mercator – S d.o.o. for its liabilities

	Mercator – S d.o.o.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**
Real estate mortgage	105,181	130,198
IP Rights pledges	3,795	3,795
Equipment pledge	9,127	11,152
Share pledges	37,472	37,468
Receivables pledges	2,815	2,787
Total	**158,390**	**185,400**

Properties pledged by Mercator Group for its financial payables

	Dec. 31, 2020	
in EUR 000	**Mercator Group**	**Poslovni sistem Mercator d.d.**
Outstanding amount of financial leases collateralized through pledged real estate	44,897	30,822
Book value of collateral real estate	105,700	75,471

Properties pledged by Poslovni sistem Mercator d.d. for its trade payables

	Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**
Outstanding amount of trade payables collateralized through pledged real estate	20,299	19,166
Book value of collateral real estate	94,589	78,232

Properties pledged by Mercator – S, d.o.o for its trade payables

Financial liabilities of the company Mercator –S, d.o.o.	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade payables secured by pledged property	—	—

Properties pledged by Mercator Group for its financial payables

Guarantees issued

The company Poslovni sistem Mercator d.d. is providing guarantees to its subsidiaries for borrowing from banks.

Corporate guarantees issued to Mercator Group entities as of Dec. 31, 2020:	Poslovni sistem Mercator d.d.				
in EUR 000	**Bank loans**	**Financial leases**	**Rent contracts**	**Suppliers**	**Total**
Mercator-S, d.o.o.	—	—	12,029	—	**12,029**
Mercator-H, d.o.o.	47,268	14,076	34,552	—	**95,896**
Mercator-BH, d.o.o.	24,077	—	2,120	—	**26,197**
Mercator-CG, d.o.o.	2,651	—	161	—	**2,812**
Mercator–Emba, d.d.	—	—	—	—	—
M-Energija, d.o.o.	—	—	—	—	—
Total	**73,996**	**14,076**	**48,862**	—	**136,934**

Corporate guarantees issued to Mercator Group entities as of Dec. 31, 2019:	Poslovni sistem Mercator d.d.				
in EUR 000	Bank loans	Financial leases	Rent contracts	Suppliers	Total
Mercator-S, d.o.o.	—	—	16,672	—	**16,672**
Mercator-H, d.o.o.	52,844	24,081	67,900	—	**144,826**
Mercator-BH, d.o.o.	26,662	—	8,979	—	**35,642**
Mercator-CG, d.o.o.	4,514	—	133	—	**4,647**
Mercator–Emba, d.d.	3,008	—	—	—	**3,008**
M-Energija, d.o.o.	—	—	—	—	—
Total	**87,029**	**24,081**	**93,685**	—	**204,795**

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:

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Property, plant and equipment	3,080	2,949	2,844	2,281

Security instruments issued for liabilities of Poslovni sistem Mercator d.d.

Security instruments held by Poslovni sistem Mercator d.d. as of Dec. 31, 2020:	Poslovni sistem Mercator d.d.				
in EUR 000	Public tender	Supliers	Rent contracts	Duties	Total
Bank Guarantees	84	2,882	—	705	3,671
Promissory notes	1,648	22,503	132	—	24,283
Enforcement notes	—	21,112	—	—	21,112
Total	**1,732**	**46,497**	**132**	**705**	**49,066**

Security instruments held by Poslovni sistem Mercator d.d. as of Dec. 31, 2019:	Poslovni sistem Mercator d.d.				
in EUR 000	Public tender	Supliers	Rent contracts	Duties	Total
Bank Guarantees	58	3,032	—	705	3,795
Promissory notes	1,648	12,919	113	—	14,680
Enforcement notes	—	18,957	—	—	18,957
Total	**1,706**	**34,908**	**113**	**705**	**37,432**

33. Related-party transactions

The company Poslovni sistem Mercator d.d. has transactions with its subsidiaries and other subsidiaries of Agrokor d.d. (controlling shareholder holding 69.57% of shares)

The management personnel

The related parties 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 2020, 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 performing supervision in subsidiaries, so the amounts presented refer only to the parent company. In 2020, no member of the management personnel and Supervisory Board of Poslovni sistem Mercator d.d. did receive any remuneration for the performance of duties 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 2020 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 2020 (in EUR)

Name and surname	Function	Fixed remuner. - gross (1)	Variable remuneration – gross			Deferred income (3)	Severance pays (4)	Benefits				Profit sharing (6)	Options and other rewards (7)	Refund payment – (claw-back) (8)	Total gross (1+2+3+4+5+6+7+8)	Total net
			based on quanti. criteria	based on quality. criteria	Total (2)			Refund of work related costs	Insurance premiums	Other	Total (5)					
Tomislav Čizmić	President	300,368	—	—	—	—	—	89,142	1,156	891	91,188	—	2,819	—	394,375	134,126
Draga Cukjati	Member	220,971	—	—	—	—	—	13,276	339	790	14,405	—	2,819	—	238,195	104,200
Igor Mamuza	Member	243,831	—	—	—	—	—	28,312	344	544	29,200	—	2,819	—	275,850	110,181
Gregor Planteu	Extraordinary Member	223,978	—	—	—	—	—	6,448	340	925	7,713	—	2,819	—	234,509	104,237

Compensation of the Supervisory Board of the company Poslovni sistem Mercator d.d. in 2020 (in EUR)

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 and reimbursement of costs	Insurance premiums	Options and other rewards
Sergei Volk	Member of SB and Member of SF	27,000	4,106	31,106	22,623	—	220	—
Miodrag Borojević	Member of SB, President of AC and Member of SF from June 5, 2019	45,000	7,700	52,700	38,328	—	220	—
Paul Michael Foley	Member of SB and President of SF from June 5, 2019	43,210	6,350	49,560	38,409	—	220	—
Fabris Peruško	Member of SB	25,210	3,717	28,927	21,039	—	220	—
Matej Lahovnik	Vice-president of SB, Member of AC, President of HR and Member of SF	45,000	9,625	54,625	39,728	—	220	—
Ivica Mudrinić	Member of SB, Member of HR and Member of SF	36,000	5,092	41,092	29,886	—	220	—
Vesna Stojanović	Member of SB and Member of HR	27,000	3,300	30,300	22,037	—	—	—
Veljko Tatić	Member of SB from May 21, 2019	18,000	2,200	20,200	14,691	—	—	—
Jože Lavrenčič	Member of SB	18,000	2,200	20,200	14,691	—	—	—
Aleksander Igličar	Extraordinary Member of AC	9,000	2,200	11,200	8,146	—	—	—

SB = Supervisory Board AC = Audit Commit HR = Human Resource Committee SF = Strategy and Finance Committee

Compensation of the Supervisory Committee of the company Poslovni sistem Mercator d.d. in 2020 (in EUR)

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 and reimbursement of costs	Insurance premiums	Options and other rewards
Filipović Nenad	—	6,000	—	6,000	4,364	—	—	—

Transactions with related parties in the Agrokor Group

Transactions of Poslovni sistem Mercator d.d. with subsidiaries (eliminated on the consolidation level)

As for 2020 year and as at December 31, 2020	Transactions						Balances			
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
Mercator–S d.o.o.	405	—	—	—	322	—	954	—	—	—
Mercator–H d.o.o.	—	—	—	—	941	—	49	—	32,973	—
Mercator–BH d.o.o.	225	—	—	—	—	76	133	—	—	1,802
Mercator–CG d.o.o.	39	—	—	—	—	169	27	—	—	4,337
Mercator–Emba d.d.	20	2,278	—	—	—	182	75	464	—	5,215
Mercator IP d.o.o.	123	12,134	212	—	—	272	203	2,877	—	8,460
M–Energija d.o.o	—	—	4	—	38	41	1	3	—	463
Total	**813**	**14,411**	**216**	—	**1,301**	**739**	**1,441**	**3,343**	**32,973**	**20,278**

As for 2019 year and as at December 31, 2019	Transactions						Balances			
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
Mercator–S d.o.o.	562	2	—	—	64	—	1,339	—	5,000	—
Mercator–H d.o.o.	93	296	—	—	507	—	3,241	59	18,194	—
Mercator–BH d.o.o.	423	3	—	—	—	127	139	8	—	2,633
Mercator–CG d.o.o.	118	1	—	—	—	230	6	232	—	6,381
Mercator–Emba d.d.	20	1,793	—	—	—	135	68	376	—	4,200
Mercator IP d.o.o.	597	17,029	266	—	—	208	174	2,842	—	6,761
M–Energija d.o.o	52	401	4	1	60	39	116	307	1,955	—
Total	**1,866**	**19,525**	**270**	**1**	**632**	**739**	**5,083**	**3,824**	**25,149**	**19,974**

Transactions with Agrokor d.d. and its subsidiaries

As for 2020 and 2019 year	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Sales	Purchases	Rental income	Rental costs	Interes income	Interest expenses
2020	—	—	—	—	—	—	—	—	—	—	—	—
2019	1,793	8,789	1,629	20	136	—	(20)	6,764	13	20	—	—

Balances open with Agrokor d.d. and its subsidiaries as of reporting date

As at December 31, 2020 and December 31, 2019	Mercator Group				Poslovni sistem Mercator, d.d.			
in EUR 000	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
2020	52	981	—	20,000	34	780	—	20,000
2019	81	1,323	—	20,000	39	779	—	20,000

Terms of transactions with related parties

In determining the prices in transactions with affiliated companies, Mercator Group observes its internal rules and Regulations on transfer pricing, and the arm's length principle as laid down by the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

In the reporting period, *sales* were consistent with the adopted sales and payment terms and conditions for agro and transit (opposite/offsetting transactions that hedge the credit risk due to the possibility of netting, reciprocity of payment terms, agreed mark-up on the purchase price of material), and it was conducted based on the effective purchase and sale agreements for the requirements of agro and transit sales for all customers. Prices of *services* provided by Mercator were based on relevant price lists. The same price list is used for both affiliated and non-affiliated persons/entities. The prices are based on comparable market prices or based on the actual ratio between supply and demand.

Purchase of goods were consistent with the General Terms and Conditions of the Mercator in Procurement of Goods, effective as of January 1, 2017, and as of January 1, 2019, for all suppliers. General Terms and Conditions are a constituent part of the Goods Procurement Agreement signed by the company Mercator with suppliers of goods, non-affiliated and affiliated companies.

In determining or setting the prices for *lease of real estate* to affiliated companies, Mercator observes both market aspects that are relevant in determining the price of lease in relation to non-affiliated parties (arm's length principle) and other comparable circumstances.

Mercator Group manages liquidity on a group level. Since additional borrowing from non-related parties is limited by the MRA, Mercator Group manages liquidity within the group. Subsidiaries which had surplus cash have *given loans* to the parent company Poslovni sistem Mercator, d.d. and companies which required cash were given loans by the parent.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given to or received from Agrokor d.d. and its subsidiaries. Financial guarantees provided by Poslovni sistem Mercator d.d t to its subsidiaries are disclosed in Note 32.

34. Fortenova Group transactions

As of April 1, 2019, the company Fortenova grupa d.d. commenced its operations. The company was founded based on the implementation of the agreement between the Agrokor creditors, and with the intent of transferring to this new company the healthy core operations from the Agrokor Group system. The company Fortenova grupa d.d. and the companies affiliated to it are separate in terms of ownership and management from Agrokor and the parties affiliated to it, and they are not an affiliate party of Agrokor. The company Fortenova grupa d.d. and the companies affiliated to it are also not affiliated to Mercator.

In 2020, Mercator Group and the company Poslovni sistem Mercator d.d. also conducted business with the Fortenova grupa d.d. and its subsidiaries. In order to ensure transparency of Mercator's operations, are below presented the transactions effected with the companies from the Fortenova Group.

Transactions with Fortenova grupa d.d. and its subsidiaries

As for 2020 and 2019 year	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Sales	Purchases	Rental income	Rental costs	Interest ncome	Interest expenses
2020	529	69,747	6,811	129	452	1,441	38	30,327	39	65	1	—
2019	6,529	61,987	5,087	59	375	1,659	(3)	23,538	27	59	—	—

Balances open with Fortenova grupa d.d. and its subsidiaries as of reporting date

As at December 31, 2020 and December 31, 2019	Mercator Group				Poslovni sistem Mercator, d.d.			
in EUR 000	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
2020	8,765	28,161	—	12,674	284	6,221	—	—
2019	12,003	34,722	—	—	209	3,614	—	—

35. Major events after the balance sheet date

As at March 1, 2021, Poslovni sistem Mercator d.d. became the 100% owner of the Mercator H d.o.o., Croatia, after the purchase of the share from the Republic of Croatia and one private person in the total amount of EUR 22 thousand.

In 2021, Mercator Group continued with monetization processes in Slovenia. In March 2021, the Supervisory Board agreed with sale of 22 Mercator's existing retail facilities (operating units) and the lease back of these retail facilities with the exception of the one building, and sale of 5 Mercator's properties/real estates (land areas with existing non-functional buildings) as a part of development project transaction with regard to opening of new stores. Total value price of the transaction is estimated to EUR 34 million.

The company Poslovni sistem Mercator, d.d. received a notification from the company Sberbank and the company Fortenova Group TopCo by which they informed that on March, 12 2021 entered into a put option contract relating to shares of the company Poslovni sistem Mercator, d.d. Pursuant to the Put Option Agreement, the company Fortenova Group TopCo granted to Sberbank a put option, which grants Sberbank a right to require Fortenova Group TopCo to purchase for agreed consideration at maximum 1,128,803 ordinary registered no-par value shares with the security code MELR, which represents 18.53% share in the share capital of Poslovni sistem Mercator, d.d.

At at March 31 2021, the company Poslovni sistem Mercator d.d. received a notification from Sberbank and Fortenova Group TopCo whereby the latter informs of the transfer of of 1,128,803 Mercator shares (18.53%), from Sberbank to Fortenova Group TopCo.

On April 16, 2021, the wider refinancing was signed, whereunder the Company entered into debt facilities with Fortenova grupa d.d. (“FNG”) in the total amount of EUR 480 million (the “FNG Facility”).

On April 23, 2021, EUR 385 million (out of EUR 480 million of the total facility available) was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes. More details are provided in Note 2. d) and Note 31.

On April 23, 2021, also the transfer to Fortenova Group of Agrokor’s shareholding in Mercator was completed. After the transfer Fortenova Group owns 5,366,179 or 88.1% ordinary registered no-par values shares with the security code MELR.

On 26 April 2021, the Fortenova Group announced to the public, pursuant to Article 24 of the Takeovers Act ("Zakon o prevzemih") its intention of making a takover bid for all Mercator shares. Fortenova will announce its takeover bid for the purchase of the shares of Poslovni sistem Mercator, d. d., no later than 30 days and no sooner than 10 days following the announcement of its intention of taking over.

Independent auditor's report

Independent Auditor's Report

To the Shareholders of Poslovni sistem Mercator d.d.:

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Poslovni sistem Mercator d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2020, and the Company's consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 21 April 2021.

What we have audited

The Company's consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2020;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the consolidated and separate cash flow statements for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (the "Regulation"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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The company is entered into the company register at Ljubljana District Court under Insert no. 12156800 per resolution Srg. 200110427 dated 19 July 2001 and into the register of audit companies at the Agency for Public Oversight of Auditing under no. RD-A-014/94. The registered share capital is EUR 34,802. The list of employed auditors with valid licenses is available at the company's registered office.

Independence

We are independent of the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Slovenia. We have fulfilled our other ethical responsibilities in accordance with those requirements and with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in Slovenia and that we have not provided non-audit services that are prohibited under Article 5(1) of the Regulation.

The non-audit services that we have provided to the Company and its subsidiaries, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 11 "Cost of goods sold, selling costs and administrative expenses" to the consolidated and separate financial statements.

Material uncertainty relating to going concern

We draw attention to Note 2. d) x. "going concern" in the consolidated and separate financial statements, which explains that the Group and the Company pledged their assets as collateral for Fortenova Grupa d.d.'s debt upon refinancing transactions after the end of the reporting period. This Fortenova Grupa d.d.'s debt requires compliance requirements with certain debt covenants at the end of each quarter and next annual period. Fortenova Grupa d.d. may breach some of these obligations as a result of a risk of not completing the transaction of sale of a business as disclosed in Note 2. d) x. "going concern". These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

- Overall Group and Company materiality: Group – EUR 21,700 thousand, Company – EUR 12,500 thousand, which represent approximately 1% of Sales revenue and Rental income of the Group and the Company.

- We conducted audit work at five reporting units in five countries.
- Our audit scope addressed 99.4% of the Group's Sales revenue and Rental income and 98.1% of the Group's Property, plant and equipment and Investment property.

- Subsequent measurement of Property, plant and equipment using the revaluation model and Investment property using the fair value model (Group and Company)
- Subsequent measurement of Investments in subsidiaries (Company)

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and the Company materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated and separate financial statements as a whole.

Overall Company and Group materiality	The Group: EUR 21,700 thousand The Company: EUR 12,500 thousand
How we determined it	Approximately 1% of Sales revenue and Rental income
Rationale for the materiality benchmark applied	We chose Sales revenue and Rental income as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the Company is most commonly measured by users, and is a generally accepted benchmark. Additionally, profit or loss has been volatile for years, while Sales revenue and Rental income were a more consistent measure of performance. We chose the threshold of 1% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate 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.

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Key audit matter	How our audit addressed the key audit matter
Subsequent measurement of Property, plant and equipment using the revaluation model and Investment property using the fair value model (Group and Company)	
Refer to Note 2.d (Use of estimates and judgements), Note 3.f and 3.h (Significant accounting policies – Property, plant and equipment and Investment property), Note 6.a and 6.c (Fair value determination – Property, plant and equipment and Investment property), Note 15 and Note 18 to the financial statements. The Group's and the Company's property portfolio is split between Property, plant and equipment and Investment property, amounting to EUR 708,726 thousand and EUR 198,978 thousand respectively for the Group and EUR 489,647 thousand and EUR 3,043 thousand respectively for the Company as at 31 December 2020. The valuation of the Group's and the Company's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and future income and returns expected from the property. The valuations for all properties were carried out by external third-party valuers (the "external valuers"). The external valuers were engaged by the management and performed their work in accordance with the International Valuation Standards. *We draw attention to Note 6 "Fair value determination" to the consolidated and separate financial statements, which explains that there is a significant estimation uncertainty in relation to the valuation of the Group's and the Company's properties. The third-party valuers engaged by management have reported that the valuation of the Group's properties as at 31 December 2020 was prepared under material valuation uncertainty due to COVID-19. This highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic.*	We engaged PwC valuation experts in relevant jurisdictions to review the property valuation report. We assessed whether the valuation methodology used was in accordance with the International Valuation Standards and was suitable for use in determining the fair value for the purpose of the financial statements. We assessed the external third-party valuers' qualifications and expertise and read their terms of engagement with the Company and the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Company, the Group and the external valuers. We found no evidence to suggest that the objectivity of any external valuers in their performance of the valuations was compromised. We attended meetings with management, our internal PwC valuation experts and the external valuers, at which the valuations and the key assumptions therein were discussed. We carried out procedures, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the external valuers. We compared the investment yields used by the external valuers with the range of expected yields and the year on year capital movement to our expected range.

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Management considered that external valuers used by the Company and the Group have relevant experience of the markets in which the Company and the Group operate. The results of the external valuations were reviewed and approved by the management.

In determining the value of the Group's and the Company's property portfolio, the external valuers took into account property specific information such as the current rent agreements (e.g: contracted rents and expiry terms). They analyzed current market rents at the valuation date and applied them to the periods after the expiry of current rent agreements, as well as to the vacant space assuming gradual decrease in vacancy. To arrive at the final value of the properties, they applied relevant assumptions for capitalization yields sourced from market analysis based on comparable market transactions, and the external valuers' professional judgement on the investor sentiment. For some properties, the comparable transactions method is used. The comparable transactions method estimates fair value on the basis of recent transactions for comparable assets in the market, adjusted to reflect the characteristics of the valued property.

The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus in this area.

Where assumptions were outside the expected range or otherwise appeared unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with management and the external valuers and obtained evidence to support explanations received. The valuation commentaries provided by management and the external valuers and the supporting evidence received, enabled us to consider the property specific factors that may have had an impact on value, including recent comparable transactions where appropriate.

We received evidence that alternative assumptions had been considered and evaluated by management and the external valuers, before determining the final valuations. We considered whether the assumptions used in the valuations were supportable in light of available and comparable market evidence.

We have assessed the completeness and accuracy of information disclosed in the notes to financial statements.

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Subsequent measurement of Investments in subsidiaries (Company)

Refer to Note 2.d.v (Use of estimates and judgements – Impairment of Investments in subsidiaries), Note 3.m (Significant accounting policies – Impairment of non-financial assets) and Note 19 to the financial statements.

In its statement of financial position as at 31 December 2020, the Company reported Investments in subsidiaries of EUR 235,520 thousand, after recording the net impairment of EUR 34,929 thousand.

In line with the requirements of IAS 36 – Impairment of Assets, management of the Company assessed indicators that the Investments in subsidiaries as at 31 December 2020 may be impaired. Management's assessment showed that there are impairment indicators, and accordingly management engaged external third-party valuers to estimate the recoverable amount of these assets.

External third-party appraisers (the "external appraisers") performed their work in accordance with the International Valuation Standards.

Management considered that external appraisers used by the Company have relevant experience of the markets in which the Company and its subsidiaries operate. The results of the external appraisers were reviewed and approved by the management.

The recoverable amount of Investments in subsidiaries is considered to be a key audit matter due to its significance to the Company's statement of financial position.

We engaged PwC valuation experts to review the external appraisers' report on the recoverable amount of Investments in subsidiaries.

We assessed the external third-party valuer's qualifications and expertise and read their terms of engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Company, the Group and the external appraisers. We found no evidence to suggest that the objectivity of any external appraisers in their performance of the valuations was compromised.

We evaluated whether the approach used by the external third-party appraisers to determine the recoverable amount of individual investments complies with the requirements of IAS 36.

Our internal valuation expert evaluated the approach and methods used by the external third-party valuators.

We have assessed the completeness and accuracy of information disclosed in the notes to financial statements.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Company is located in Slovenia and the consolidated financial statements are a consolidation of the Company and its subsidiaries operating in Slovenia, Serbia, Croatia, Bosnia and Herzegovina and Montenegro.

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In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us, as the lead engagement team, or by auditors from other PwC network firms. Where the work was performed by auditors from other PwC network firms, we determined the level of involvement we needed to have in directing, supervising and challenging their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

Material components and operations were identified primarily on the basis of their contribution to total Sales revenue and Rental income and total Property, plant and equipment and Investment property of the Group. Our scoping resulted in a coverage of 99.4% of total Sales revenue and Rental income and 98.1% of total Property, plant and equipment and Investment property.

Reporting on other information including the Business Report

Management is responsible for the other information. The other information comprises the "Introduction", "Business Report", "Non-financial Report", "Management Responsibility Statement" and "Other information" sections (but does not include the consolidated and separate financial statements and our auditor's report thereon).

Our opinion on the consolidated and separate financial statements does not cover the other information, including the Business Report and except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report we also performed procedures required by the Slovenian Companies Act. Those procedures include assessing whether the Business Report is consistent with the consolidated and separate financial statements and whether the Business Report was prepared in accordance with valid legal requirements.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements; and
- the Business Report has been prepared in accordance with the requirements of the Slovenian Companies Act.

In addition, in the light of knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 ISAs 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 and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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 material 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 and the Company's internal control.
- 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 and 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 consolidated and separate 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 Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group and the Company at the shareholders meeting of the Company on 5 June 2019 for the financial year ended 31 December 2019. The deputy president of the supervisory board signed the audit contract on 19 August 2019. The contract was concluded for three years. Uninterrupted period of our appointment for the Group and the Company as a public interest entity is two years.

The certified auditors on the audit resulting in this independent auditor's report are Aleš Grm and Damjan Ahčin.

For and on behalf of PricewaterhouseCoopers d.o.o.:

Aleš Grm	Damjan Ahčin
Certified auditor	Certified auditor
	Director

26 April 2021

Ljubljana, Slovenia

This version of our report is a translation from the original, which was prepared in Slovenian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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Independent auditor's report on the assurance engagement in relation to compliance of the format of the separate and consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

To the Shareholders of Poslovni sistem Mercator d.d.

Introduction

We have been engaged by the Management Board of Poslovni sistem Mercator d.d. (the "Company") on the basis of an agreement to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the electronic reporting format of the separate and consolidated financial statements of Group Poslovni sistem Mercator d.d. (the "Group") for the year ended 31 December 2020 included in the accompanying 2020 Annual Report of the Group (the "Electronic Reporting Format of the Separate and Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Electronic Reporting Format of the Separate and Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Electronic Reporting Format of the Separate and Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Electronic Reporting Format of the Separate and Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

An independent auditor issues an opinion on whether the Electronic Reporting Format of the Separate and Consolidated Financial Statements has been prepared in accordance with the requirements of the ESEF Regulation. This report fulfils this requirement.

Responsibility of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for the application of the Electronic Reporting Format of the Separate and Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility incudes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and for designing, implementing and maintaining internal controls relevant for the

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preparation of the Electronic Reporting Format of the Separate and Consolidated Financial Statements which is free from material non-compliance with the requirements of ESEF Regulation.

The Supervisory Board is responsible for overseeing the preparation of the Electronic Reporting Format of the Separate and Consolidated Financial Statements as part of the financial reporting process, which should also be understood as the preparation of financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Electronic Reporting Format of the Separate and Consolidated Financial Statements complies with the ESEF Regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements Other than an Audit or Review of Historical Financial Information 3000 (Revised). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Electronic Reporting Format of the Separate and Consolidated Financial Statements complies prepared, in all material aspects, in accordance with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000 (R) will always detect the existing material misstatement (material non-compliance with the requirements).

Quality Control requirements

We apply the provisions of the International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Electronic Reporting Format of the Separate and Consolidated Financial Statements was applied, in all material aspects, in accordance with the applicable requirements and such application is free from material errors or omissions. Our procedures included, in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Separate and Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;

- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the XBRL mark-up language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of XBRL tags selected from the ESEF taxonomy and the creation of extension mark-ups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We draw your attention to the fact that the application of ESEF Regulation was not subject to audit as defined in International Standards on Auditing. Furthermore, in the course of performing the assurance procedures, we have not conducted an audit or review of the historical financial information used in the process of preparation of the consolidated financial statements and therefore we do not accept any responsibility for the issuance or update of any reports or opinions on historical financial information of the Group.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, based on the procedures performed, the Electronic Reporting Format of the Separate and Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Restrictions on distribution[1] and use

This report has been prepared by PricewaterhouseCoopers d.o.o. for the shareholders of the Company and is intended solely to fulfil the purpose described in the section "Description of a subject matter and applicable criteria". It should not be used for any other purpose or distributed to any other parties.

In connection with this report, PricewaterhouseCoopers d.o.o. does not accept any liability resulting from contractual and non-contractual relationships (including for negligence) with entities other than the Company in the context of this report. The above does not relieve us of liability where such release is excluded by law.

[1] Poslovni sistem Mercator d.d's management is responsible for placing information on the Company's web-site and for accuracy of such information. The scope of our performed work does not include reviewing these matters; consequently, we do not assume any responsibility for any amendments that might have been made to the Electronic Reporting Format of the Separate and Consolidated Financial Statements underlying this Independent auditor's report or any differences between the report issued by us and the information presented on the Company's web-site

On behalf of PricewaterhouseCoopers d.o.o.:

Aleš Grm
Certified auditor

Damjan Ahčin
Certified auditor
Director

26 April 2021
Ljubljana, Slovenia

This version of our report is a translation from the original, which was prepared in Slovenian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

WE PAY ATTENTION TO DETAIL, BUT LOOK BEYOND THE BOX.

Other informations

List of abbreviations

APM - Alternative Performance Measures

B2B - Business to business

B2C - Business to costumers

GDP - Gross Domestic Product

C&C - Wholesale (Cash & Carry)

CAPEX - Capital expenditures

CEETV - The leading media platform for television intelligence in Central and Eastern Europe

COVID-19/SARS-CoV-2 - New coronavirus

EBIT - Earnings before interest and taxes (operating profit)

EBITDA - Earnings before interest, taxes, depreciation and amortization

EURIBOR - Interbank interest rate in the euro zone (abbreviation of EURO Interbank Offered Rate)

FFS (WPF) - Waste phytopharmaceuticals

FURS - Financial Administration of the Republic of Slovenia

HACCP - Hazard Analysis Critical Control Point

HoReCa - Hotel, restaurants, catering

ISO - International Organization for Standardization

IT - Information Technology

KPI - Key performance indicators

LDC - Logistics and distribution centre

IFRS - International Financial Reporting Standards

NAPTE - The National Association of Television Program Executives

NIJZ - National institute of Public Health

NKO - National Infectious Diseases Coordination Body

NSV - Net sales value

OEEO (WEEE) - Waste electric and electronic equipment

OEM (WP) - Waste packaging

PKP 6 - The sixth package of anti-corona measures

RS - Republic of Slovenia

SCO - Self-checkouts

SEOnet - Ljubljana Stock Exchange electronic information dissemination system

SLA - Service-level agreements

SOF - Slovenian Advertising Festival

VCP - Value Creation plan

WGD - Wider Group Deal

WMS - Warehouse Management Sistem

ZGD-1 - Companies Act

ZIUZEOP - Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy

Alternative Performance Measures (APM)

Following is a review of alternative performance measures (APM) that offer additional insight into the trends and performance of Mercator Group, and which are defined based on the ESMA Guidelines on Alternative Performance Measures (APM). Thus, an APM is an indicator not specified in the International Accounting Standards. It is likely that the indicator is not directly comparable to other competitors and enterprises in other industries, due to differences in the methodology applied. All specified alternative performance measures pertain to business performance in the preceding reporting period and they include benchmark periods against which they are compared[19].

APM	▪ The most equivalent/closest IFRS item ▪ Definition ▪ Purpose	Calculation basis

Income statement

Sales revenue and rental income

- Sales revenue and rental income
- Sales revenue and rental income includes total sales revenue and total rental income from Mercator Group in the markets of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina
- The indicator is an important measure of Mercator Group performance, as the represent the size and indirectly the growth of the Mercator Group in the markets of its operations

Mercator Group (in EUR 000)	2020	2019
Sales revenue	2,127,256	2,091,021
Rental income	42,761	47,718
Change in methodology	—	(2,031)
Sales revenue and rental income	**2,170,018**	**2,136,707**

Retail revenue

- Sales revenue and rental income
- Retail revenue includes total revenue from Mercator Group core activity in the markets of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina.
- The indicator is an important measure of Mercator Group performance, since retail revenue accounts for the predominant share of total revenue.

Mercator Group (in EUR 000)	2020	2019
Retail	1,756,844	1,693,485
Other activities/businesses	413,174	447,285
Change in methodology	—	(2,031)
Sales revenue and rental income	**2,170,018**	**2,138,739**

Labour force cost

- No direct item
- The indicator is calculated as a sum of expenses pertaining to regular work based on collective and individual employment contracts, costs of student service agencies, hired workers, and costs related to other employment contracts.
- The indicator represents the total cost of labour.

Mercator Group (in EUR 000)	2020	2019
Labour costs from collective and individual employment contracts	275,993	254,012
Costs of student labour, hired workers, and other employment contracts	19,960	22,379
Labour force cost	**295,953**	**276,390**

EBIT

- Operating profit (EBIT)
- Earnings before interest and taxes
- The indicator is a measure of operating profitability, which is the key for attainment of Mercator Group's long-term goals

The calculation is presented in the income statement in the Financial Report section of the Business Report.

Normalized EBITDA

- Operating profit (EBIT)
- Earnings before interest, taxes, depreciation and amortization, excluding the effect of non-recurring business events. Non-recurring business events pertain especially to revaluation adjustments to inventory and receivables, revaluation adjustments to property, plant, and equipment (fixed assets), effect of divested activities, recognized gains and losses in divestment of real estate in the process of monetization etc.
- The indicator is a measure operating performance, and it is an approximation of cash flow from operating activities.

Mercator Group (in EUR 000)	2020	2019
Operating profit (EBIT)	-108,227	59,830
Depreciation and amortization	109,560	111,235
EBITDA	1,333	171,065
Change in methodology	—	(2,032)
Non-recurring business events	161,422	1,388
Normalized EBITDA	**162,755**	**170,422**

[19] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

APM	▪ The most equivalent/closest IFRS item ▪ Definition ▪ Purpose	Calculation basis
Normalized EBITDA margin	• Sales revenue and rental income, Operating profit (EBIT) • The indicator is calculated as the ratio between normalized EBITDA and sales revenue and rental income. • Improvement in this indicator is an important sign of operating performance, and it allows comparison with competitors and other industries, regardless of the scope of operations.	see table below

Mercator Group (in EUR 000)	2020	2019
Normalized EBITDA	162,755	170,422
Sales revenue and rental income	2,170,018	2,136,707
EBITDA margin (in %)	**7.5**	**8.0**

Productivity per retail employee

- Sales revenue and rental income
- The indicator is calculated as the ratio between retail revenue and number of FTE (number of employees based on hours worked) in retail.
- The use of this indicator is common in the retail industry, and it measures performance in the company's core activity.

Mercator Group	2020	2019
Retail revenue (EUR thousand)	1,756,844	1,693,485
Number of FTE (employees based on hours worked) in retail	14,108	13,980
Productivity per Employee in retail (EUR thousand)	**124.5**	**121.1**

Value added per retail employee

- The indicator is calculated as earnings before interest, taxes, and depreciation and amortization (EBITDA) excluding labour costs, divided by FTE (number of employees based on hours worked). The indicator is annualized (adjusted to annual level). The indicator measures the contribution of each employee in the company's core business.

Mercator Group (in EUR 000)	2020	2019
Normalized EBITDA in retail	237,250	227,439
Short-term and low value lease expense in retail	990	981
Labour force cost in retail	181,096	164,502
Number of retail employees based on hours worked (FTE)	14,108	13,980
Value added per employee in retail	**29.7**	**28.1**

Statement of financial position

Long-term coverage of non-current assets with non-current liabilities

- Non-current assets, non-current liabilities, equity
- The indicator is calculated as the ratio between the sum of equity and non-current liabilities, and non-current assets.
- It is a measure of coverage of long-term assets with longterm liabilities, and it indicates adequacy of financing.

Mercator Group (in EUR 000)	2020	2019
Equity	292,046	438,974
Non-current liabilities	382,985	809,643
Change in methodology		—
Non-current assets	1,409,966	1,581,592
Change in methodology		—
Long-term coverage of non-current assets with non-current liabilities	**47.9%**	**78.9%**

Net financial debt*

- Borrowings, lease liabilities, cash and cash equivalents
- The indicator is calculated a: non-current and current borrowings + non-current and current lease liabilities – cash and cash equivalents
- The indicator measures indebtedness and Mercator Group's ability to settle all of its financial liabilities if they matured immediately.

Mercator Group (in EUR 000)	2020	2019
Financial liabilities	897,952	945,024
Change in methodology		3,197
Cash and cash equivalents	49,884	45,777
Change in methodology		7,199
Net financial debt	**848,068**	**895,244**

Net financial debt/equity

- Borrowings, lease liabilities, cash and cash equivalents, equity
- The indicator is calculated as the ratio between net financial debt and equity.
- The indicator measures Mercator Group's ability to finance its assets with equity (share capital).

The calculation is presented in Note 31 in the Financial Report section of the Annual Report.

*2019 figures in the Business section of the Annual Report are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

APM	▪ The most equivalent/closest IFRS item ▪ Definition ▪ Purpose	Calculation basis
Net financial debt / normalized EBITDA	• Borrowings, lease liabilities, cash and cash equivalents, operating profit (EBIT) • The indicator is calculated as the ratio between net financial debt and 12-month normalized EBITDA. • The indicator measures the ability to repay the Mercator Group's financial debt from existing sources of liquidity and the generated cash flow from operating activities, and thus indicates the number of years required to repay the financial debt.	The calculation is presented in chapter Financial Management in the Business Report section of the Annual Report.
Available liquidity	• Cash and cash equivalents • The indicator is calculated as the sum of cash and cash equivalents and undrawn approved revolving lines. • The indicator presents the balance of all liquidity lines available to the company on a particular date.	The calculation is presented under the chapter Financial Management in the Business Report section of this Annual Report, and Note 31 in the Financial Report section of the Annual Report.
Other performance indicators		
Capital expenditure	• No direct item • Capital expenditure presents investment into expansion of retail network, refurbishment of existing units, investment into information technology and distribution centres, and investments into non-trade operations. • The indicator allows the attainment of the business strategy laid down	Calculation, broken down by respective types of investment in markets, is presented in the chapter Real Estate Management and Retail Network Development in the Business Report section of the Annual Report, and in the Cash Flow Statement in the Financial Report section of the Annual Report.
Earnings per share	• Net profit for the year • The indicator is calculated as the ratio between net profit for the year and weighted average number of ordinary shares in the period at hand, excluding own shares. • The indicator is an estimate of performance and returns for shareholders	The calculation is presented in Note 27 in the Financial Report section of the Annual Report.

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Mercator
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