Annual report **2019**

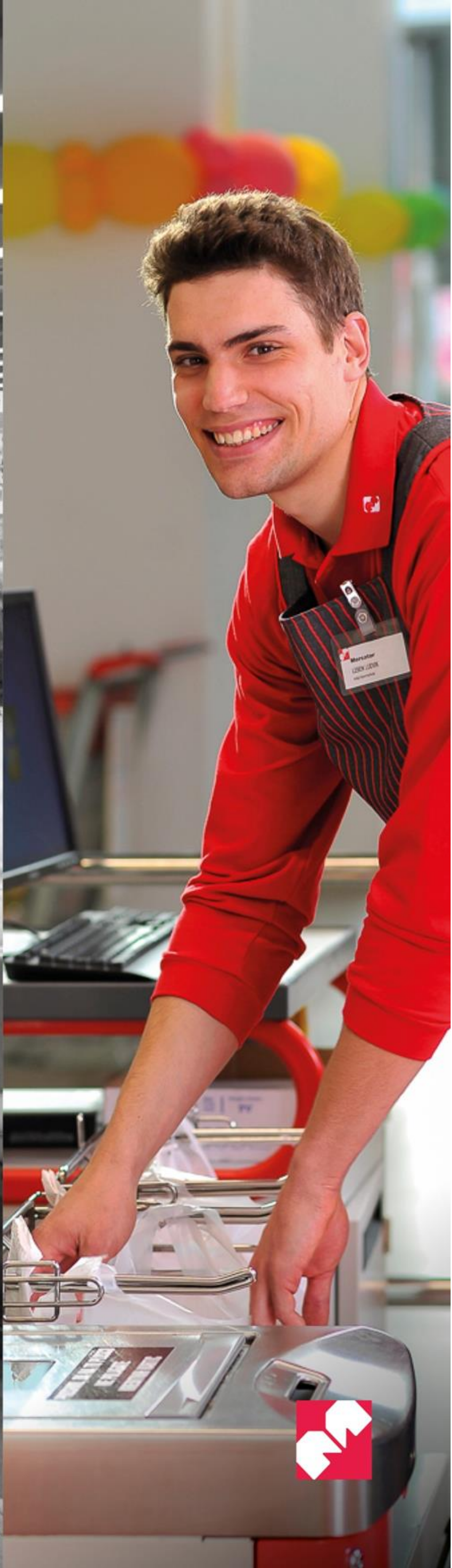
MUZEJ NOVEJŠE ZGODOVINE SLOVENIJE

author: Svetozar Busić

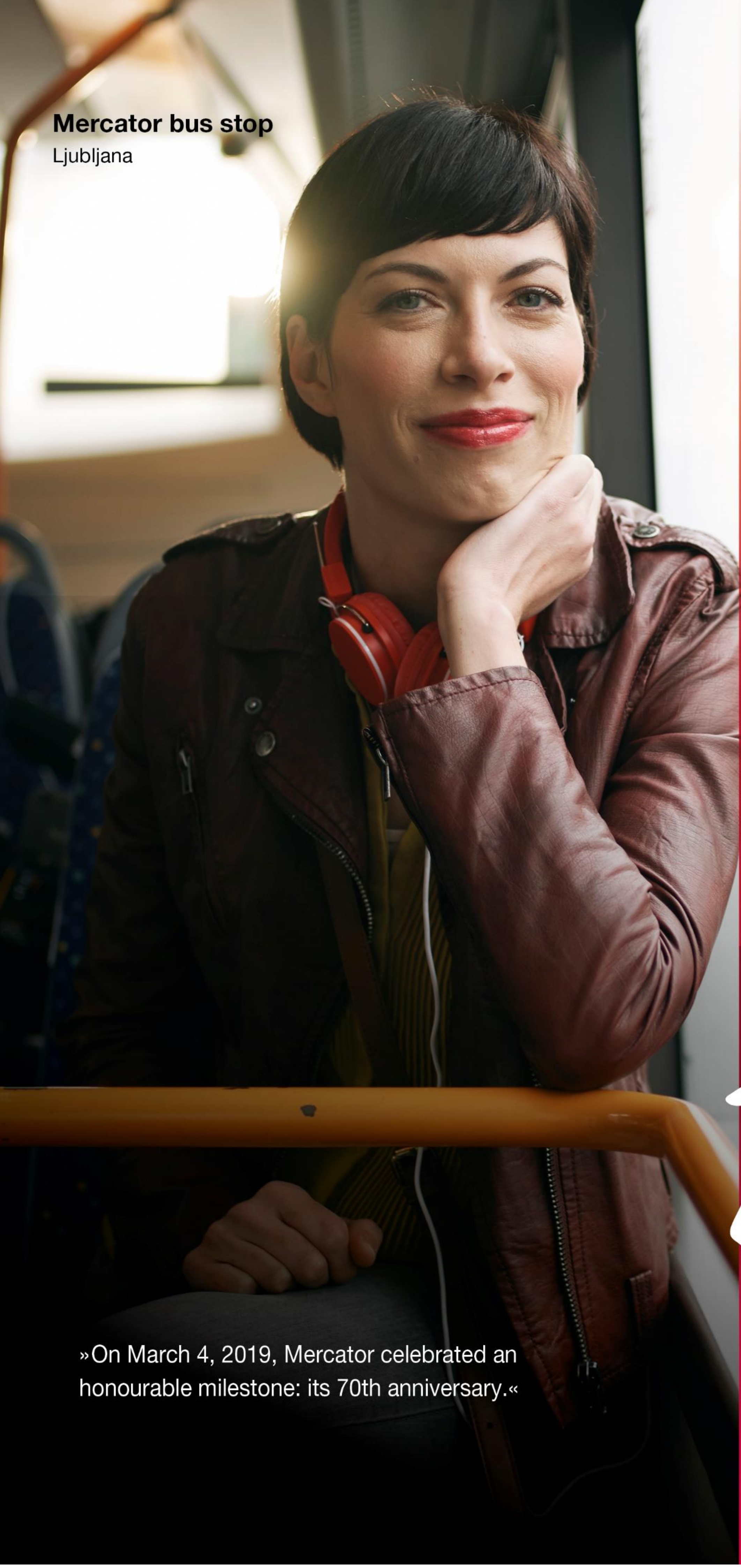

maxi
maxi
GOURMET MARKET

MUZEJ NOVEJŠE ZGODOVINE SLOVENIJE

author: Rudi Paškulin



Content



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.

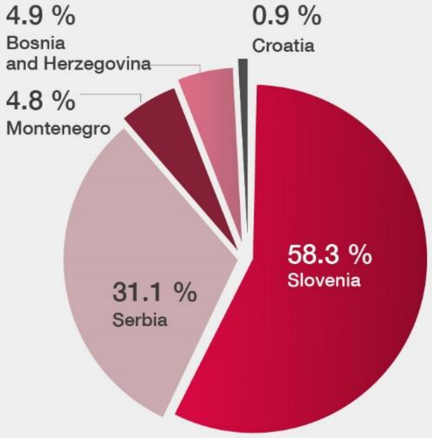
24 new units and
113 refurbished or updated units in 2019.

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

EUR 172 million
of normalized EBITDA
in 2019.

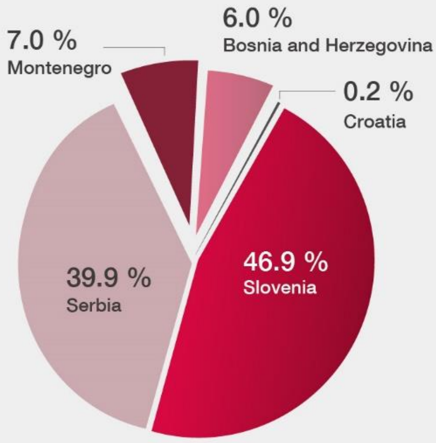
EUR 4.7 million
of net profit for
the year 2019.

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

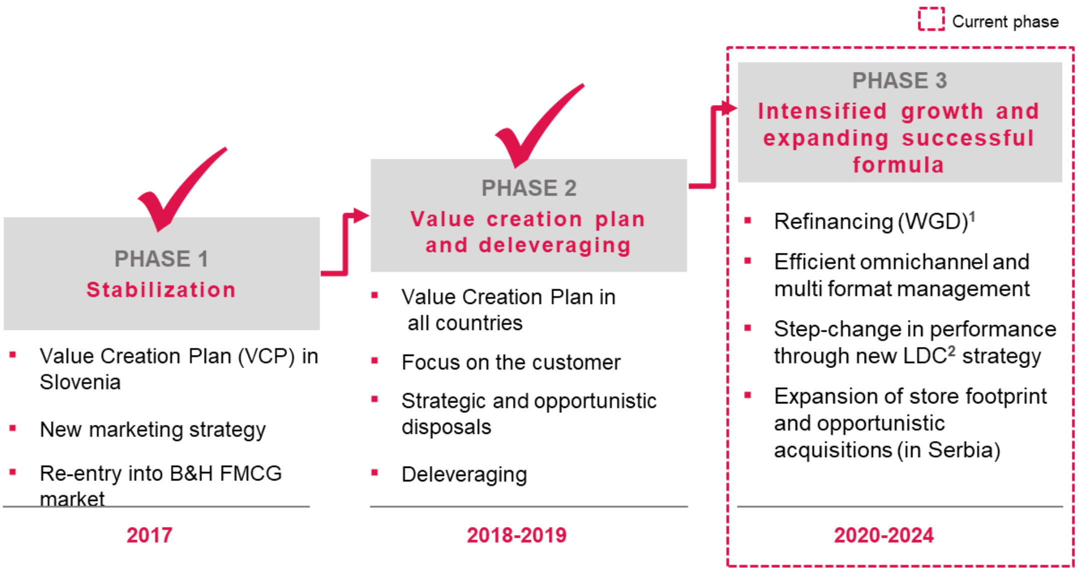
Mercator is the best local retailer offering cutting-edge store concepts in every market of its operations.

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:

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.

[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*

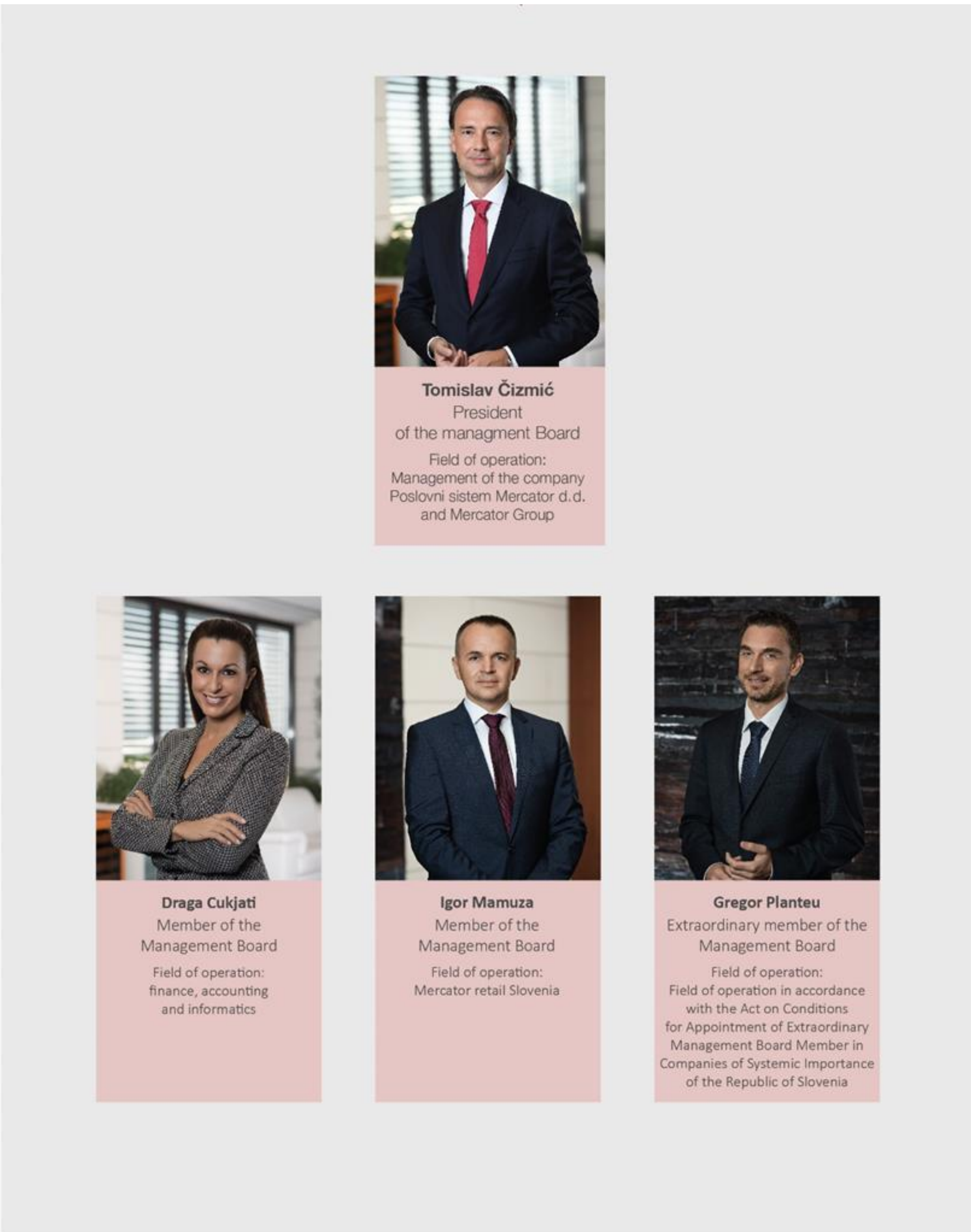
LinkedIn *www.linkedin.com/company/335027*

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**

moje znamke | VREDNO JE ZAJEDNO | moji brendovi | moji brendovi

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.

radi imamo domače | UKUSI MOGA KRAJA

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

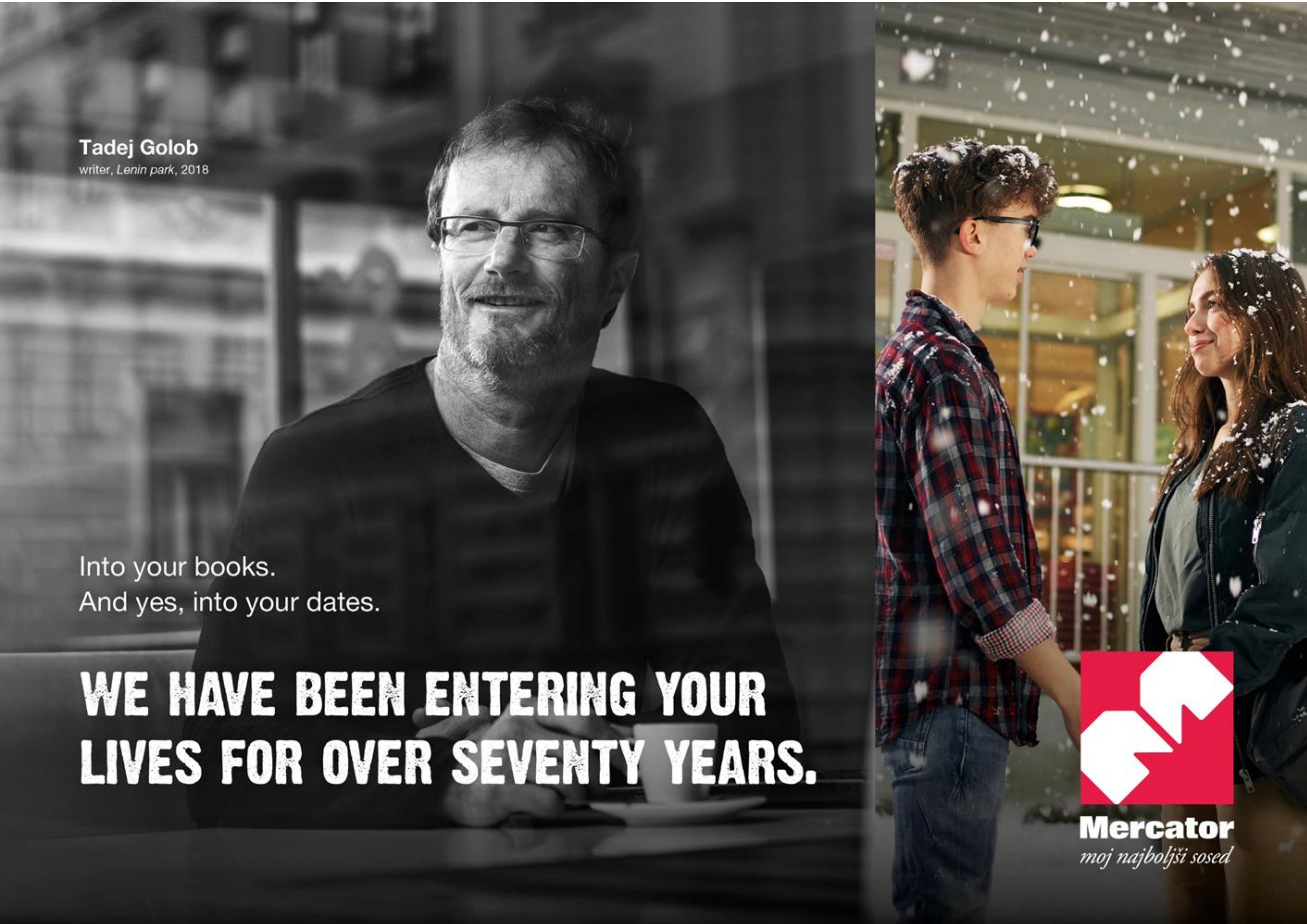
In 2019, wholesale business segment set ambitious goals in all segments of sales, which were also defined in particular activities of VCP initiatives. A total of 32 franchise stores were refurbished, to which we also offered our know-how and support in the implementation of sound practices. V the HoReCa 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 Mercator IP 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 .

MAXIM
RESTAVRACIJA

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-ntative	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.sessions
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

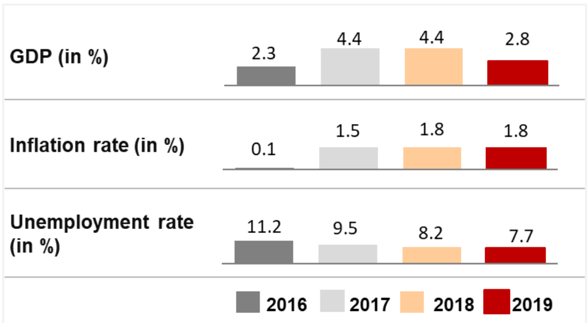
Effect of economic conditions and competition on operations

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

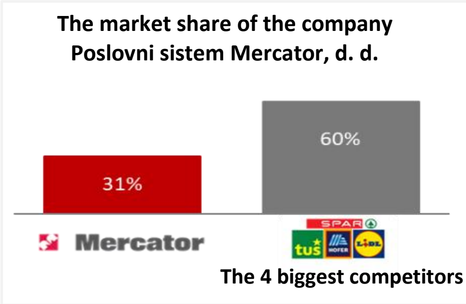


Slowdown in the main trade partners within the euro zone was reflected in lower growth of international trade. Increase of employment (activity) and decrease of unemployment in were less intensive in 2019 than they were in 2018; in the first ten months of 2019, active population increased year-on-year 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.

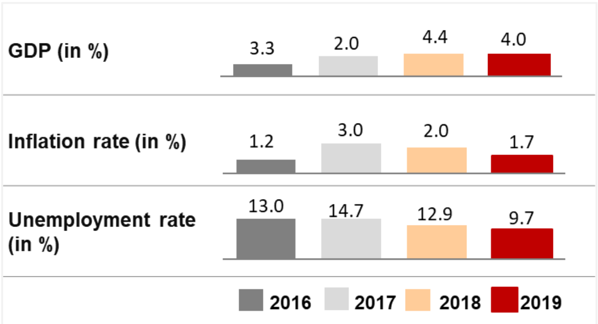
Effect of market situation on consumption: consumer confidence[5] in Slovenia in 2019 improved, which had a positive effect on private spending. Also contributing positively to consumer confidence were employment possibilities, financial security, and willingness to spend. Twenty-eight percent of respondents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

[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.



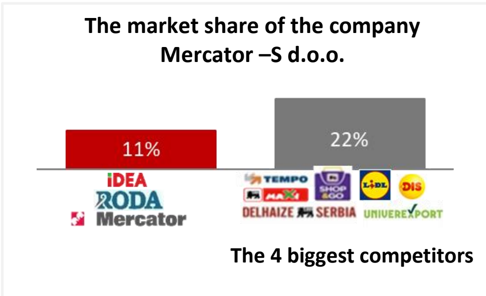
Serbia



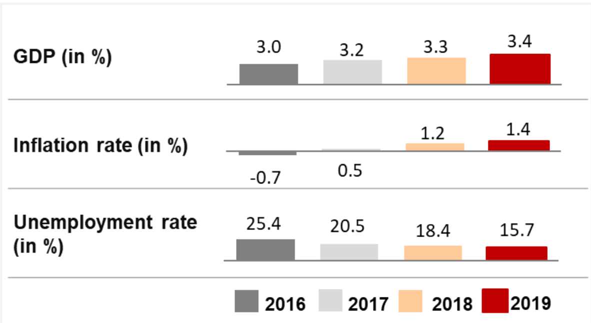
In 2019, Serbian GDP was 4.0%. Unemployment rate decreased to 9.7%. Inflation rate in 2019 was at 1.7%. The country's rating for 2019 is BB+ with a positive outlook.

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).



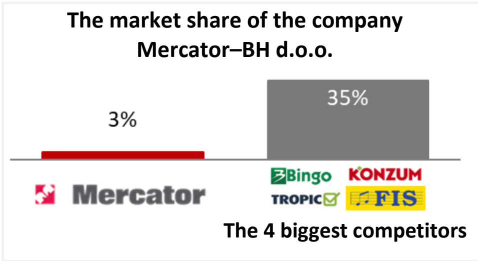
Bosnia and Herzegovina



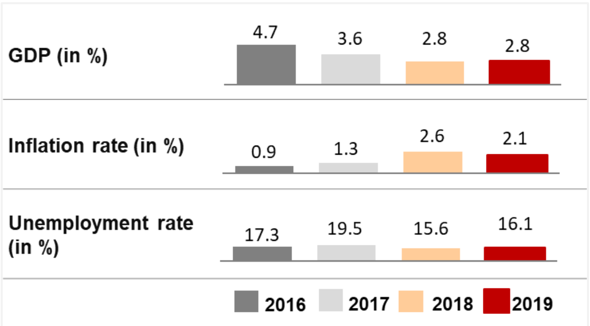
Economic growth rate in 2019 was 3.4%; unemployment rate remains high at 15.7%. The country's rating for 2019 is B with a stable outlook.

[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]

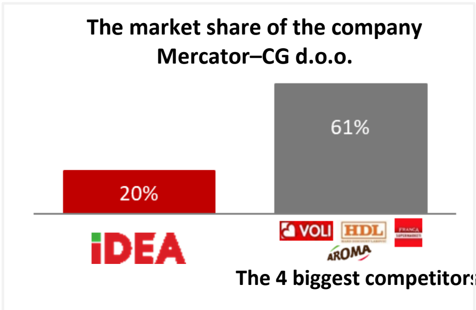


Montenegro



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*

	Loyalty program	Brand
Slovenia Active card holders: **714 thousand**		Mercator M Tehnika MAXEN MAXIMALNA ENERGIJA
Serbia Active card holders: **732 thousand**		Mercator IDEA RODA
Montenegro Active card holders: **69 thousand**		IDEA
Bosnia and Herzegovina Active card holders: **219 thousand**		Mercator

*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

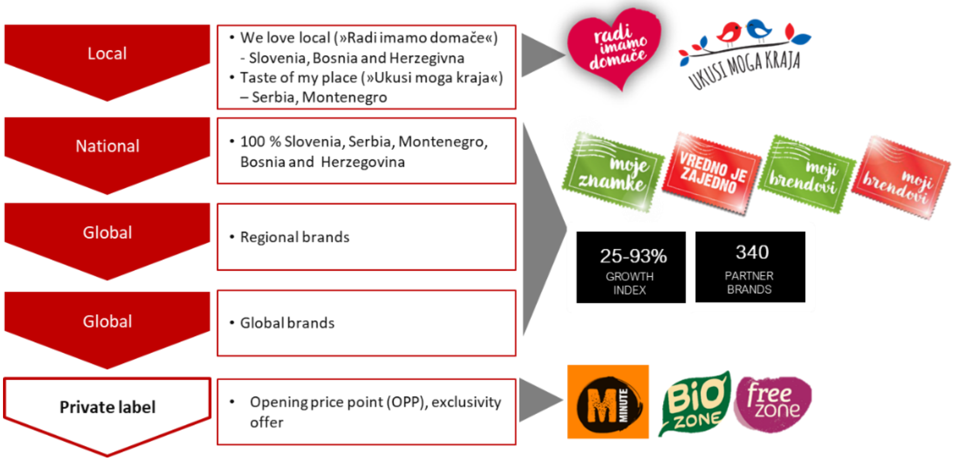
We Like Good Deeds project

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.

Electronic discount stamps

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.

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 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.

Prize game Experience the Fairy

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.

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.

The Flavours of my Town project

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.

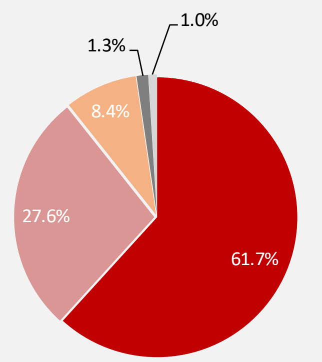
Following are Mercator's key goals in real estate management:

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%**

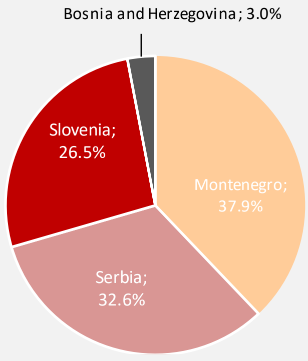


Capital expenditure in 2019 by market

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 m²)		
	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.

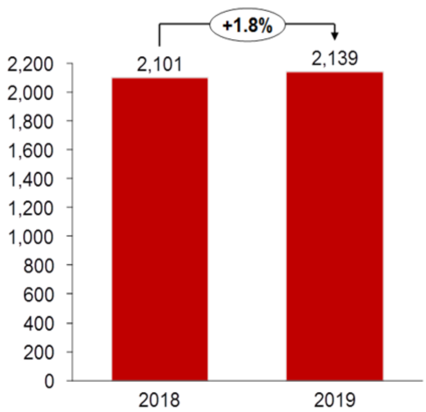
Analysis of key performance in year 2019

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)



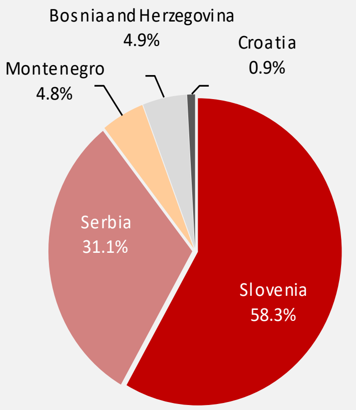
In 2019, sales revenue in the Slovenian market increased by 3.6% relative to the year before. Growth rates was recorded in FMCG retail (5.2%), which is a result of Value Creation Plan initiatives for the revenue and profit margin part, and initiatives related to new store concept development.

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.

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.



Consolidated sales revenue by markets for 2019 (in %)

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$^{\Delta}$	1,693,485	1,656,578	2.2%

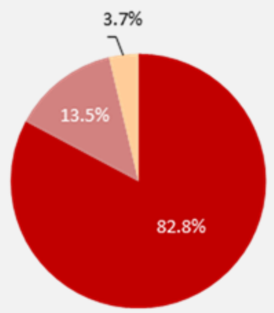
* Retail revenue in the period 2018 is adjusted for the effect of transfer of the operations of leased Velpro centres to Roda Mega retail facilities in Serbia
$^{\Delta}$ Alternative measures are presented in more detail in the chapter Alternative performance measures (APM).

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.

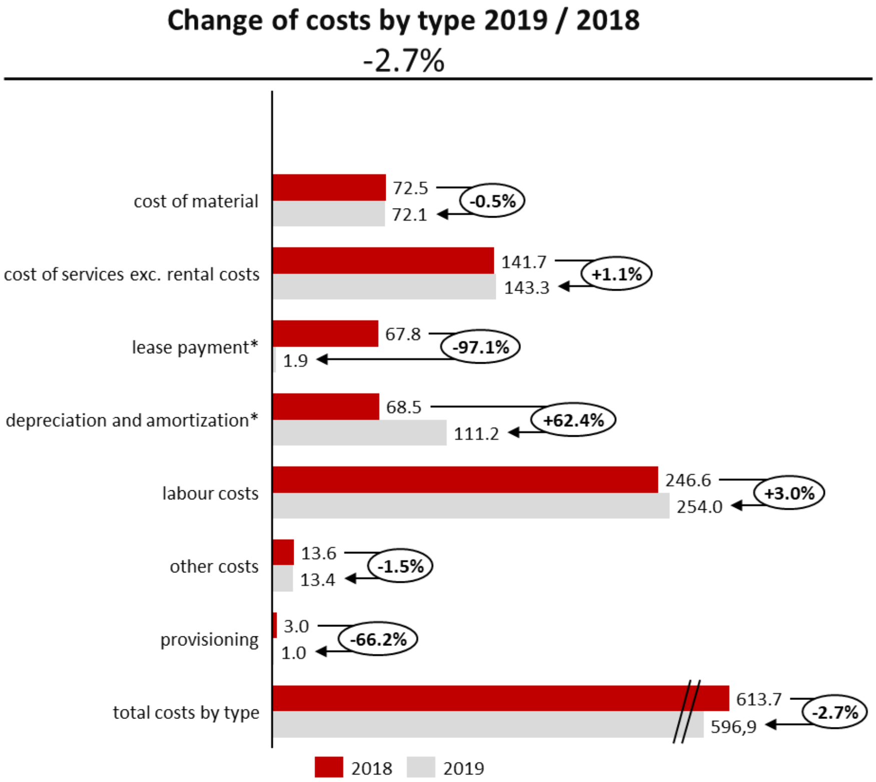
Development by respective types of expenses was as follows:

- **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 ∆	78.9%	82.2%
Net financial debt/ EBITDA normalized	5.2x	7.2x

∆ 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%**

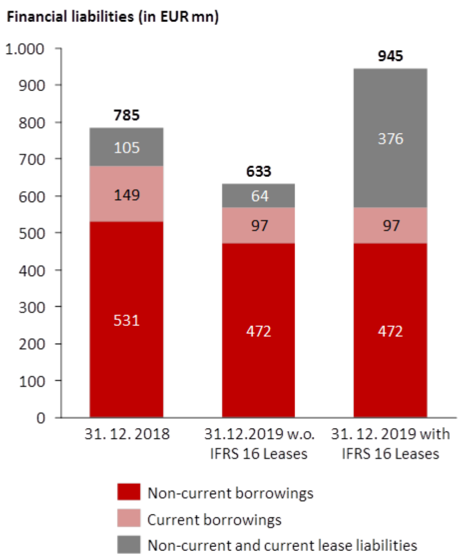
* Items »Financial leases« and »new non-current and current lease liabilities« are presented in Statement of financial position as »Lease liabilities«.

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$^{\Delta}$:

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.

$^{\Delta}$ 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.

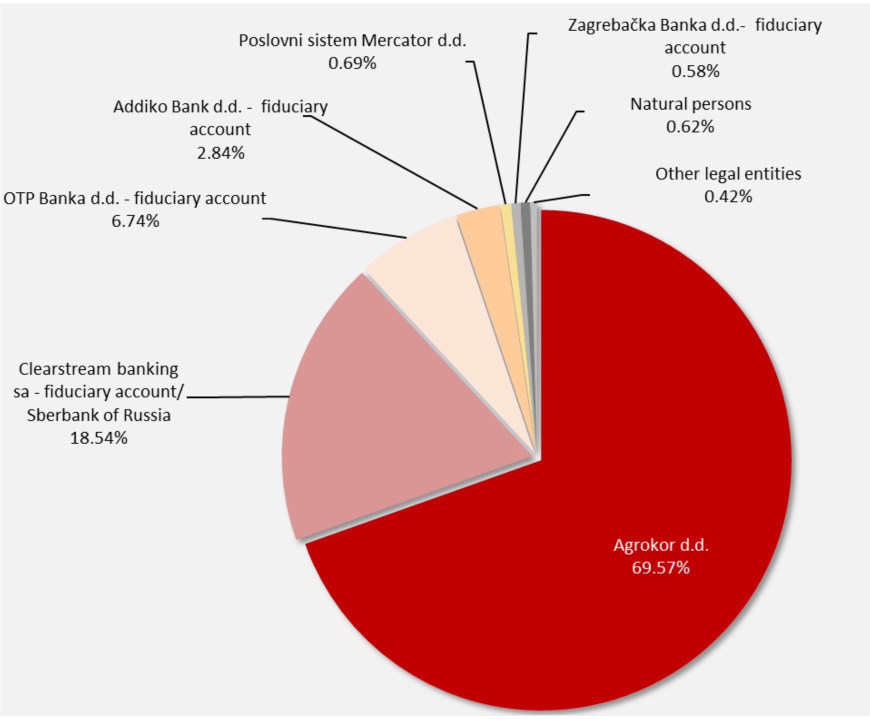
Mercator share and investor relations

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.

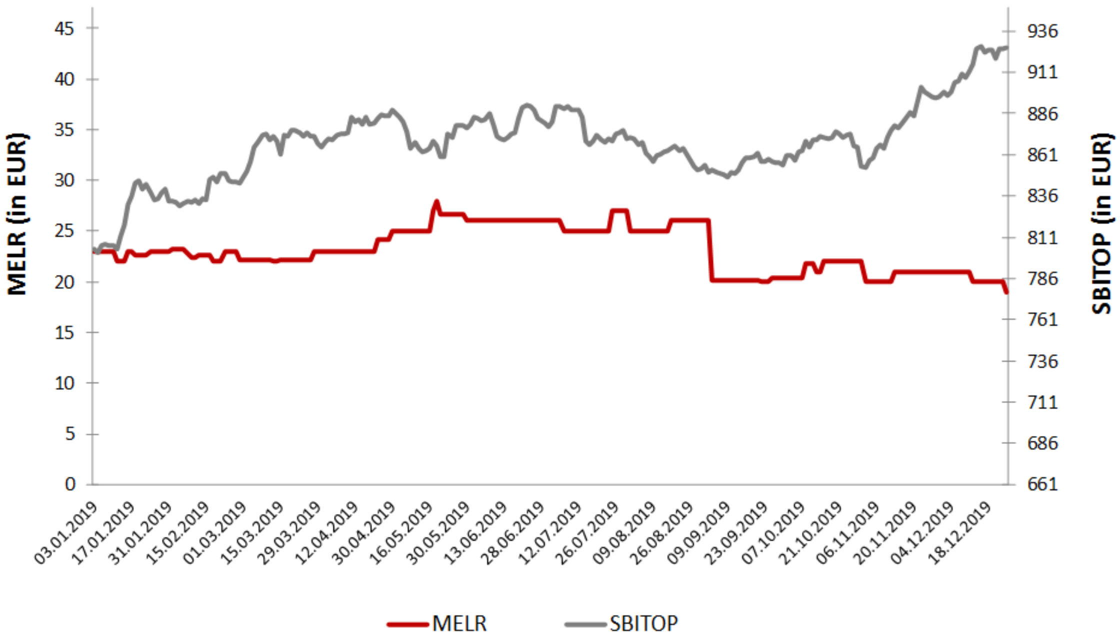
Shares held by Management and Supervisory Board members as at December 31, 2019

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) $^{\Delta}$	-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.

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

Taxes and other charges

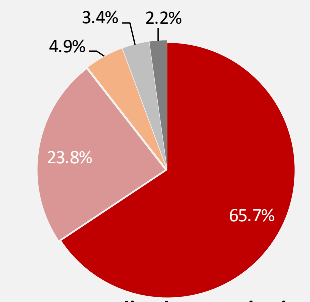
Taxes are of key importance for economic and social development of the entire society or country. **At Mercator Group, we comply with the effective tax legislation in all countries of our operations, the international regulations, and with the sound taxation practices based on the principles of sustainability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

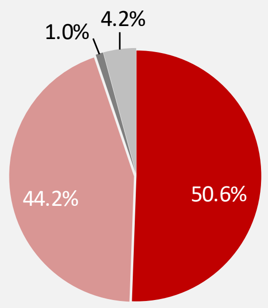
Corporate income taxes – these are taxes related to profits of the company, such as: corporate income tax, tax on profit, withholding tax, tax after withholding.

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.

3. Non-financial report

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

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 – 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.

Training for retail network

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.

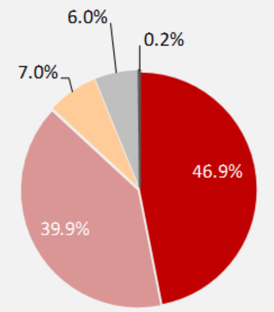
Mercator Humanitarian Foundation

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.

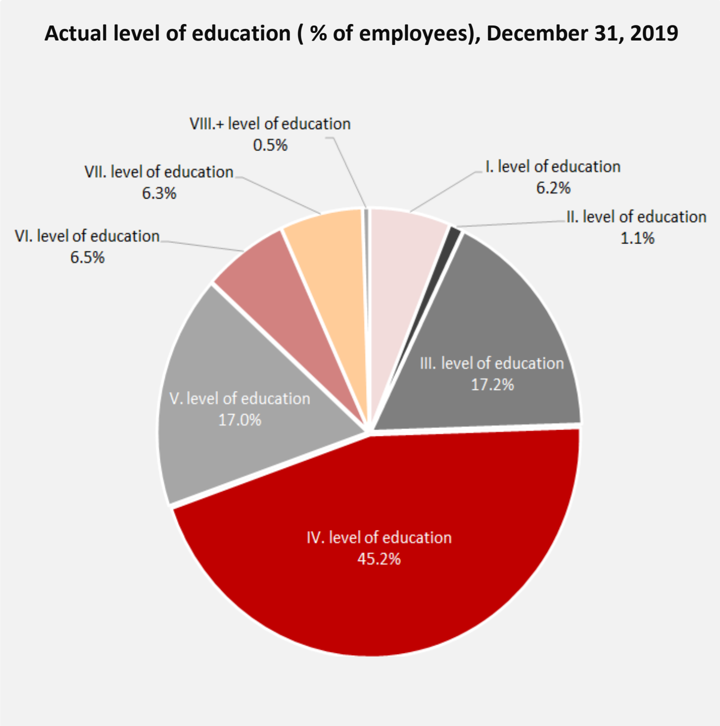
- ### Employees by gender

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.

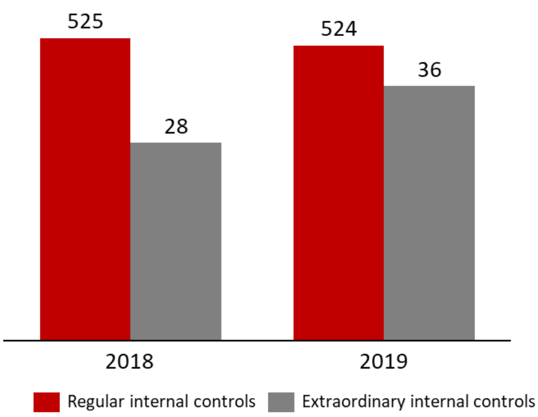
Superior Quality Certificate by the Faculty of Biotechnology

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.

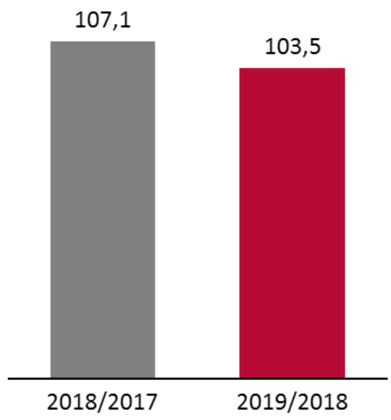
Key performance indicator

- **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

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.

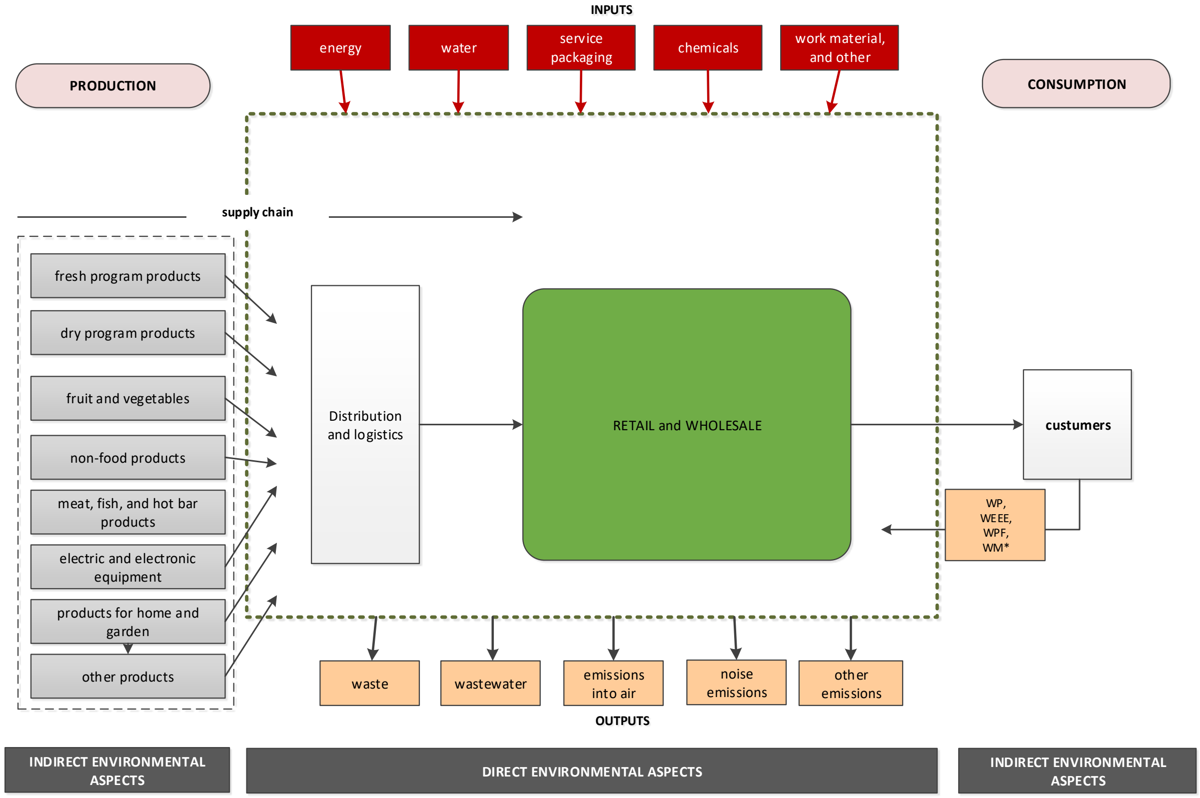
Thus, we are aware at Mercator Group that by conducting our business activity, especially in terms of use of energy and the resulting greenhouse gas emissions, we also contribute to climate change. Consistently with our goal of cutting the use of energy, we are conducting a number of measures and activities.

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

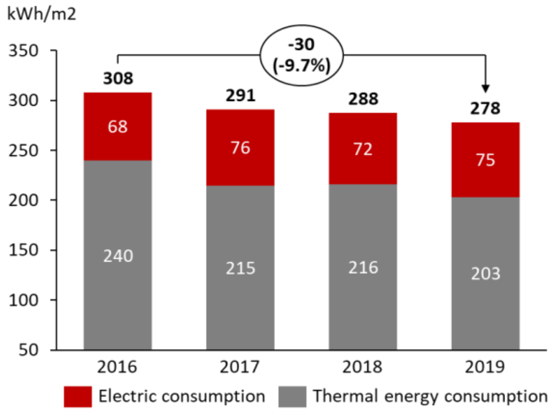
The pace and purpose of exploitation of renewable and non-renewable natural resources are increasingly reducing the ability of our planet to restore the sources of energy on which our welfare and growth depend. Therefore, Mercator Group is making every effort to preserve the natural resources and reduce 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.

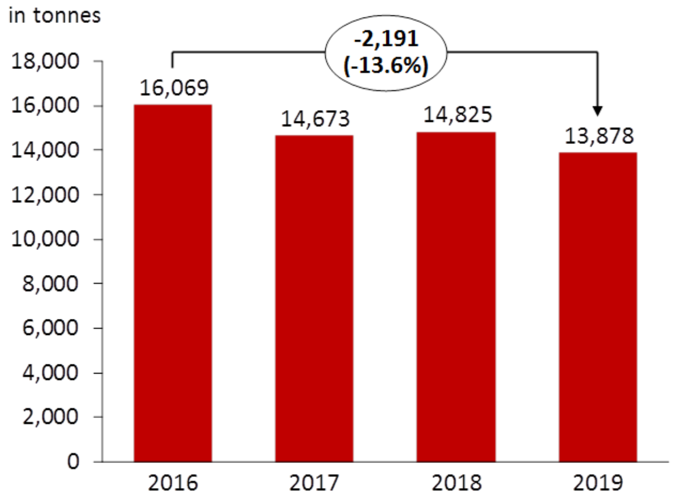
Bring your old batteries project

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

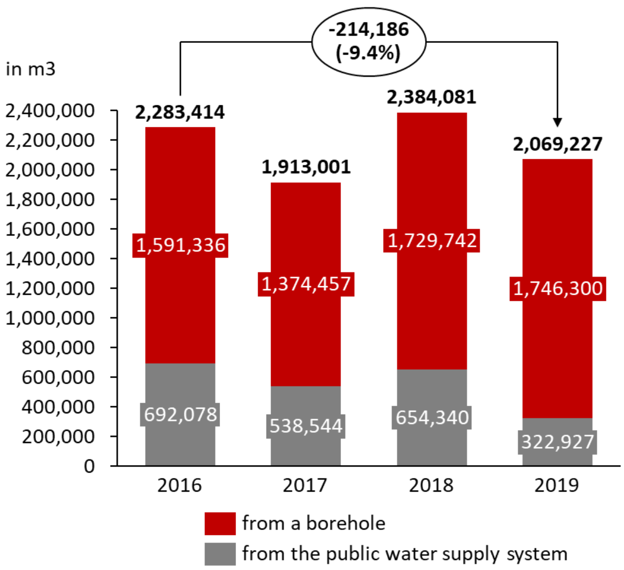
Water and wastewater

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

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

Responsibility to social environment

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

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

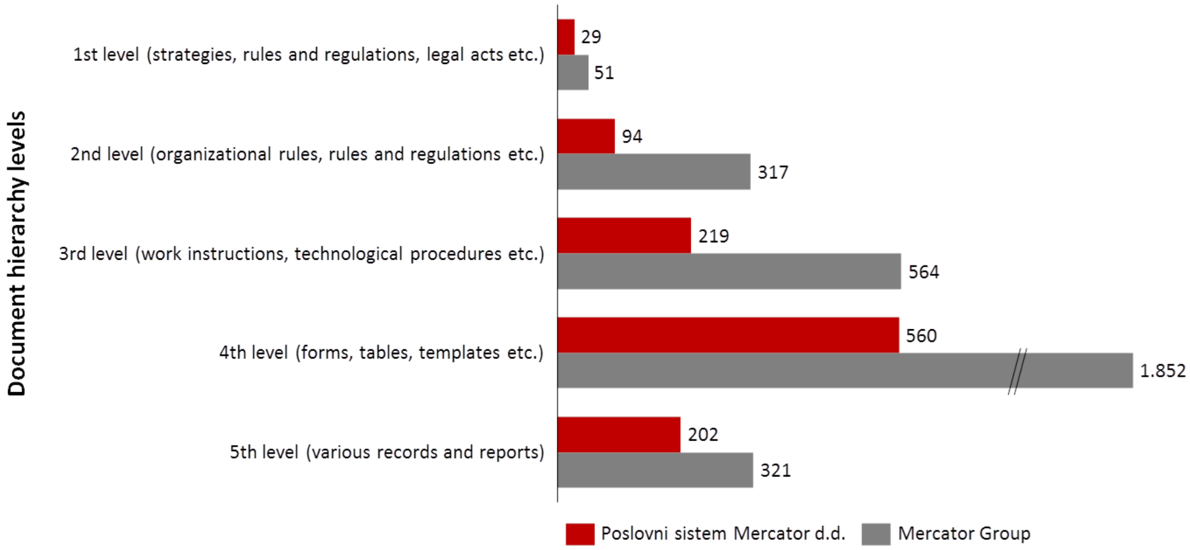
	Poslovni sistem Mercator d. d.	Mercator IP d.o.o.	Mercator–Emba d.d.	Mercator–S d.o.o.	Mercator–CG d.o.o.
ISO 9001 – Quality management system	✓			✓	
ISO 10002 – Quality Management – Customer Satisfaction				✓	
Protected Consumer Seal				✓	
ISO 14001 – Environmental management system	✓			✓	
HACCP – Ensuring 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.

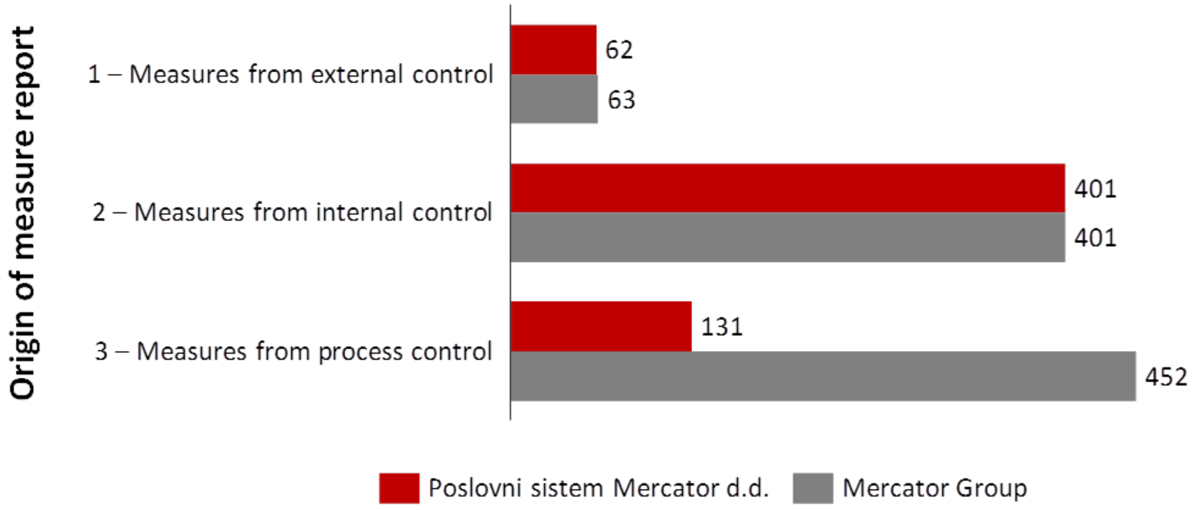
Internal control includes checking the quality of goods, documentation, and conducting business processes in compliance with the requirements of respective forms of internal control, Mercator standards, and good practices. Employees in charge of activities and process administrators control respective 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

in EUR thousand	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, 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	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, 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.

		Poslovni sistem Mercator d.d.									
				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	Retained net profit or loss	Net profit or loss for the period	**Total equity**
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.

	Poslovni sistem Mercator d.d.										
				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	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**	**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	Poslovni sistem Mercator d.d. Land	Buildings	Equipment and other assets	Assets not yet available for use	Total
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

in EUR thousand	Mercator Group Goodwill	Trade-marks	Material rights and licenses	Assets not yet available for use	Total	Poslovni sistem Mercator d.d. 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

in EUR thousand	Mercator Group Dec. 31, 2019	Mercator Group Dec. 31, 2018	Poslovni sistem Mercator d.d. Dec. 31, 2019	Poslovni sistem Mercator d.d. 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 Dec. 31, 2019	Mercator Group Dec. 31, 2018	Poslovni sistem Mercator d.d. Dec. 31, 2019	Poslovni sistem Mercator d.d. 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**

in EUR thousand	Mercator Group							
	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	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**

in EUR thousand	Mercator Group							
	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, 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**

	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, 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 Dec. 31, 2019	Mercator Group Dec. 31, 2018	Poslovni sistem Mercator d.d. Dec. 31, 2019	Poslovni sistem Mercator d.d. 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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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.

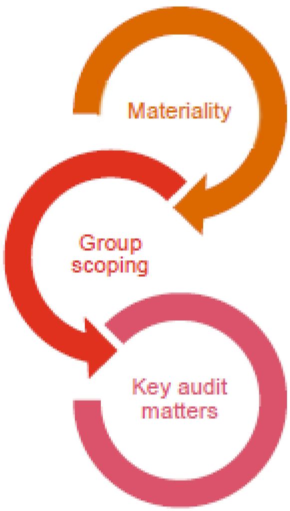
The non-audit services that we have provided to the Group and the Company, in the period from 1 January 2019 to 31 December 2019, are disclosed in Note 11 *"Cost of goods sold, selling costs and administrative expenses"* to the financial statements.

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.

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.

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:

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- 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.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group and the Company on 5 June 2019. Our appointment for the year ended 31 December 2019 was approved by the shareholders resolution on 5 June 2019. President of Supervisory board signed the audit contract on 19 August 2019. The audit contract was concluded for a period of 3 consecutive years.

On behalf of PricewaterhouseCoopers d.o.o., the key audit partner on the audit resulting in this independent auditor's report is Mr. Aleš Grm.

On behalf of PricewaterhouseCoopers d.o.o.

Aleš Grm
Certified auditor

Ljubljana, Slovenia, 24 April 2020

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.

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

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**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
Menges

Anja
Ljubljana

Ema
Domžale

Vesna
Medvode

MUZEJ NOVEJŠE
ZGODOVINE SLOVENIJE

author: Svetozar Busić


MEMO