



**BUSINESS REPORT OF
THE MERCATOR GROUP
AND THE COMPANY
POSLOVNI SISTEM
MERCATOR D.D. FOR
THE PERIOD 1-6, 2020**



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Executive summary

The first half of the 2020 business year was under a strong impact of the COVID-19 epidemic whose effect was felt at several levels. Despite the pronouncedly negative effects of the epidemic, Mercator Group succeeded in sustaining the positive trends especially in its core activity – fast-moving consumer goods retail. With responsible, systematic and above all timely and comprehensive preparation and daily monitoring of all agreed and necessary activities for alleviating the negative effects of the epidemic in all markets, Mercator Group succeeded in ensuring continuous and sufficient stock of all strategically important items, and this ensure unimpeded supply to population in all markets of its operations, and especially to ensure uninterrupted and successful operations.

In early February of 2020, before the potential negative effects of the epidemic were generally evident, Mercator Group management, aware of the potentially huge risks related to an epidemic, immediately launched organized and structured procedures for ensuring three key responsibilities: responsibility for the safety and health of employees and customers; responsibility for providing uninterrupted supply of goods to the population with a broad choice of basic food products, defined in advance; and responsibility for successful operations and performance during the epidemic. Only timely and responsible preparation for the negative effects of the declaration of an epidemic allowed Mercator Group to sustain the positive business trends from 2019 and the beginning of 2020. Despite the expiry of the government relief measures related to the COVID-19 epidemic, Mercator continued to carry out all protective measures for its employees and its customers Mercator, consistently with the recommendations of the national institutes of public health.

Compared to the equivalent period of the preceding year, Mercator Group's revenue in the core activity of retail grew at a rate of 7.4%, while Mercator Group's overall sales revenue in the first half of 2020 increased by 4.4% to reach EUR 1,066,115 thousand. Before the declaration of the COVID-19 epidemic, Mercator Group recorded revenue growth that had resulted from its focus on a number of value creation plan initiatives. Core activity revenue growth continued during the epidemic and it offset the negative effects related to the declaration of the COVID-19 epidemic on the activities of technical consumer goods retail, wholesale and manufacturing.

The company Poslovni sistem Mercator d.d. as the largest company in the Mercator Group, **recorded growth of 8.2% in its core activity of retail**. Compared to the same period of last year, its sales revenue grew by 4.8% and amounted to EUR 616.2 million in the period 1–6, 2020.

The company Mercator–S d.o.o. increased its revenue from the **core activity of retail by 7.1%** compared to the same period of last year. The company Mercator BH d.o.o. was also successful, as it increased its revenue from the core activity of retail by **9.2%** relative to the equivalent period of the year before. The company Mercator CG, d.o.o., as the smallest company performing its core business within the Mercator Group, realized a 1.4% drop in revenues from core business due to the marked decline in tourism due to the COVID-19 epidemic. Revenue growth in markets outside Slovenia, both before and after the declaration of the epidemic, is proof of timely and responsible preparation, and constant and systematic adjustments of the entire system in the Group. The transfer of best practices within the Group in individual companies is carried out with the help of teams composed of experts from all companies. This ensures timely and systematic adjustments of the entire system in the Group.

By strictly executing the value creation plan initiatives, Mercator Group successfully offset all negative effects on its operations and performance, and wrapped up the period 1–6, 2020, with a normalized **EBITDA** of EUR 83,438 thousand, which is **1.7% more than in the same period one year earlier**. Normalized EBITDA margin in the period 1–6, 2020, amounted to 7.8%.

Positive result for the period 1–6 are even more commendable if we take into account the various negative effects exerting pressure on business performance, such as higher labour costs, especially due to the increase of

minimum wage in the Republic of Slovenia, payment of bonuses or allowances for employees based on decisions passed by governments or parliaments during the epidemic, and the measure adopted by the Group management to reward all employees working in extraordinary circumstances of the state of emergency, as well as the increase in other costs, also resulting from the declaration of the epidemic, and the related measures of restrictions and lock-downs in respective markets.

Wholesale activity was also negatively affected by the closing down of all hospitality establishments and all public institutes (schools, kindergartens etc.), which are our customers especially in Mercator Group's wholesale operations. Moreover, Mercator Group also felt the impact of the epidemic in its manufacturing operations, mostly due to considerable decrease in orders. The same applies to technical consumer goods, due to the temporary lock-down of its units. Regardless of all effects referred to above, Mercator Group realized **sales growth in its retail operations, which successfully offset all negative effects of the epidemic on business performance**. The credit for success of core activity of course goes especially to timely, responsible, systematic and comprehensive preparation for the crisis, and regular, daily monitoring of all key activities at the Mercator Group by the management. Another key to success in this respect was the transfer of experience from Slovenia where epidemic was first declared to all other markets of the Group's operations. During the epidemic, Mercator continuously provided an adequate supply of strategically important items in all markets of its operations in the core activity.

Adjusting for the effect of property revaluation and other impairments to property, plant, and equipment, Mercator Group's **comparable net income for the period 1–6, 2020, is EUR 86 thousand**. This result was achieved despite the increase in labour costs due to higher minimum wage and increase in costs of services from labour-intensive industries, and of course additional expenses for provision of safety for the customers and the employees.

Mercator Group ended the period 1–6, 2020, with a negative net income of EUR 69.2 million, which is mostly a result of revaluation of property and impairment of other fixed assets due to COVID-19 effect. We emphasize that these impairments were made in accordance with the International Accounting Standards (IAS 36) and did not affect the cash flow and business performance of the Mercator Group. At the end of June 2020, Mercator Group analyzed whether there were material indicators that could trigger the revaluation of fair value of Mercator's assets. In assessing whether there were indicators requiring reappraisal of fair value, the management reviewed independent sources of information (including the rate of return and changes in the real estate market) and examined the increased uncertainty resulting from the COVID-19 epidemic. As at June 30, 2020, real estate was thus reappraised. It was found that fair value of property, plant, and equipment (fixed assets) was considerably different than it had been in 2017, and that this difference was to be recognized in Mercator's business records. On the one hand, in accordance with The International Financial Reporting Standards, real estate revaluation resulted in an increase of equity (fair value reserve) due to increase in the value of real estate in the amount of EUR 23.3 million; on the other hand, net revaluation of real estate value in the amount of EUR 69.0 million had a negative effect on Mercator Group's operating results. Net effect of property revaluation reduced the value of real estate (impairment) by EUR 45.7 million, which is equivalent to 4.6% of total value of property (land), plant (buildings), and investment property. After the revaluation at June 30, 2020, the value is EUR 1 billion, where the negative impact of the revaluation on the operating result, due to the applied accounting standards, amounts to EUR 69.0 million. Regardless of the revaluation of real estate, the Mercator Group therefore remains one of the largest real estate owners in Slovenia and the region.

Regardless of the epidemic, Mercator Group continued all activities that are key for its further successful development, both immediate and short-run. In this respect, continuation of the construction project for the new logistics and distribution centre in Ljubljana has the highest priority. Mercator Group also continued to expand and update its business network. Provision of adequate liquidity has a high priority at Mercator Group.

Net debt to normalized EBITDA ratio amounted to **5.2 as at June 30, 2020**, which means that this ratio continues to reduce and successfully meet the key goal of deleveraging set out in the business strategy. During the crisis, Mercator Group proved that it was a responsible part of the society in which it operates. This was evident in the number of corporate social responsibility activities carried out during the epidemic.

1.

Introduction

Profile and organization

Mercator Group Profile as at June 30, 2020

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



Branch Offices: As at June 30, 2020, Mercator Group companies did not have any branch offices.

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

Presentation of the company Poslovni sistem Mercator d.d.



Mercator

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

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Youtube www.youtube.com/user/mercatorslo

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

In the period 1–6, 2020, the Supervisory Board of Poslovni sistem Mercator d.d. held four correspondence session and three regular session.

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

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

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

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

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

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

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

Business strategy

VISION

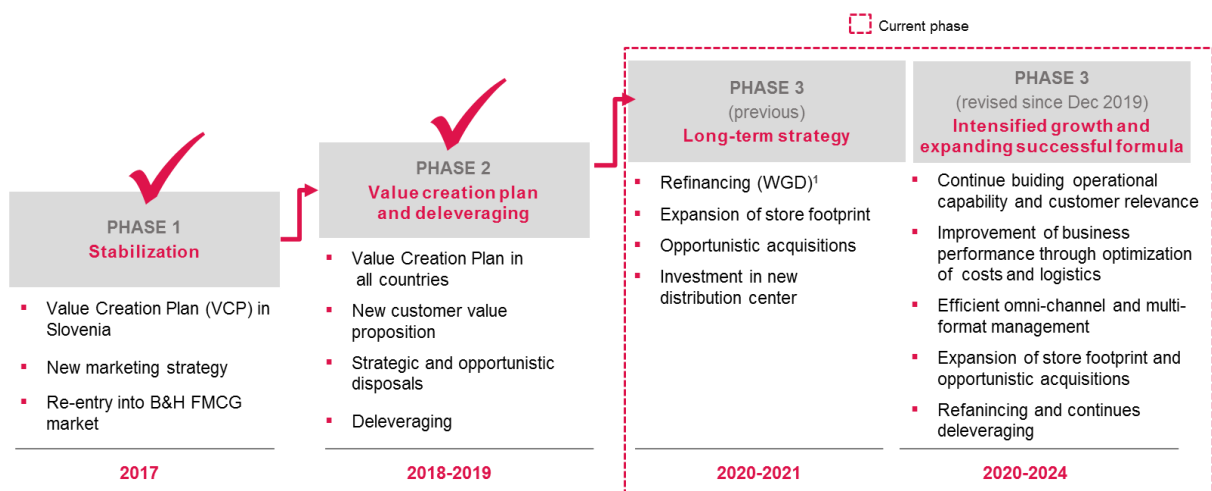
Mercator is the best local retailer offering cutting-edge store concepts in every market of its operations.

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.

Value Creation Plan

In the first quarter of 2020, the Value Creation Plan was executed in all markets of Mercator Group's operations, and it included 126 initiatives, of which 59 were in Slovenia, 28 in Serbia, 18 in Bosnia and Herzegovina, 16 in Montenegro, and 5 in Croatia. Implementation of initiatives was strictly monitored and we responded with corrective measures in case of any deviations. In March, a new initiative was identified in all markets of Mercator's operations, related to the declared novel coronavirus epidemic. The initiative includes over 500 activities in all key areas of operations. In June, we again tightened some measures and preventively prepared a response plan in case of a second wave of the COVID-19 epidemic. We shall continue to closely monitor the situation related to COVID-19, and continuously adapt our measures to the needs in our respective markets.

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



Performance highlights

Mercator Group				
		1–6, 2020	1–6, 2019	Change 1–6, 2020/ 1–6, 2019
INCOME STATEMENT	(in EUR 000)			
	Sales revenues ^{1, 2}	1,066,115	1,021,488	4.4%
	Sales revenue from retail ^Δ	860,185	801,156	7.4%
	Net profit for the period ⁴	-69,213	2,358	-
STATEMENT OF FINANCIAL POSITION	(in EUR 000)			
	Total assets as at June 30	1,896,711	2,015,569	-5.9%
	Equity as at June 30	385,413	426,141	-9.6%
	Net financial debt as at June 30 ^Δ	898,245	964,441	-6.9%
CASH FLOWS+	(in EUR 000)			
	Net financial debt / equity as at June 30 ^Δ	2.3	2.3	3.0%
OTHER INDICATORS	Net financial debt / EBITDA normalized ^{5, Δ}	5.2x	6.9x	-23.8%
	Capital expenditure ^Δ (in EUR 000)	12,953	9,713	33.4%
	Number of employees as at June 30	20,381	20,200	0.9%
	Productivity per employee in retail ^Δ (in EUR 000)	123.7	114.0	8.5%
	Value added per employee in retail ^Δ (in EUR 000)	30.4	27.2	11.9%
	Market value per share as at June 30 (in EUR)	15.0	26.0	-42.3%
	Market capitalization as at June 30 (in EUR 000)	91,364	158,365	-42.3%

¹ Data for 2019 is adjusted for the part pertaining to transit operations, as it only includes the net margin generated based on transit operations contracts.

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

³ Normalized EBITDA, adjusted for the effect of IFRS 16 Leases, amounts to EUT 50,815 thousand for the period 1-6, 2020, and to EUR 48,901 thousand in the period 1-6, 2019.

⁴ The result was affected by the negative effects of revaluation and other impairments of fixed assets, which include EUR 69,028 thousand of impairments of owned real estate and EUR 270 thousand of net impairments of ROU. Excluding the stated effects, the comparable net profit for the business period amounts to EUR 86 thousand.

⁵ EBITDA normalized is presented for the period of the last 12 months. As at June 30, 2020 net financial debt/EBITDA normalized without IFRS 16 Leases amounted to 5.7x, and as at June 30, 2019 amounted to 6.0x.

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

Review of key events

Retail network development and divestment activities:

In the period 1–6, 2020:

- we invested EUR 12,953 thousand into property, plant, and equipment;
- we divested EUR 1,494 thousand worth of property, plant and equipment;
- in all markets of our operations, we acquired a total of 8 new retail units, or 3,263 m² of new gross area, as well as a logistics and distribution centre (warehouse) in Novi Banovci in Serbia, spanning 4,153 m².

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

In the first three months of 2020, we continued to develop the concept for technological equipment of our new distribution centre. This was the basis for preparing the documentation for the tender to which we invited the world's largest warehouse process automation providers. Fourteen equipment providers expressed their interest for taking part in the tender. Consistently with the project timeline, we selected in the second quarter the providers based on previously defined scoring criteria, and we shall complete the tender with them. Simultaneously with the selection of the provider of technological equipment for the distribution centre, we have also started to work with the selected building designers in order to define the architecture and functional concept of the new distribution centre, which will best fit the needs of our logistics processes. The process of choosing the technological equipment and the building design process have to take place concurrently, since the final solutions for both technology and the building will be the basis for the start of the procedure for obtaining the building permit. All processes of planning the new logistics and distribution centre are taking place based on the project management principles.

Events related to the developments at the Agrokor Group

In March 2020, a report by the extraordinary Management Board member, whose appointment was proposed by the Government of the Republic of Slovenia, for the period from November 1, 2019, to January 31, 2020, was released. The report indicates that all transactions signed between the company Poslovni sistem Mercator d.d. and the company Agrokor d.d. and the companies affiliated with it, complied with the principles of diligence, good management and credibility, and that the company did not sustain any loss or damage with regard to such transactions.

Revaluation of real estate

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

As at June 30, 2020, real estate was reappraised. It was found that fair value of property, plant, and equipment (fixed assets) is considerably different that it was in 2017. Reappraisal was conducted consistently with the requirements of IAS 16. Reappraisal or revaluation of 833 properties across all markets of Mercator Group operations is a challenging task, and Mercator Group is a rather atypical retailer in terms of property ownership, as retailers are normally not the owners of the real estate they use.

On 30 June 2020, real estate appraisal was conducted by a certified real estate appraiser, KF Finance d.o.o. The final report was reviewed by the auditing company PriceWaterhouseCoopers, d.o.o., who confirmed the findings of the original report.

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

Events related to the declaration of epidemic

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

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

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

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

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

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

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

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

Government aid

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

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

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

Events following the end of the financial period

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

In June, the Serbian government also briefly announced the end of the epidemic, which resulted in reopening of industrial plants that had been closed during the epidemic. Unfortunately, Serbia was hit by a second wave of the epidemic, which resulted in resumption of protective measures in Serbia and measures introduced by other countries who restricted entry for Serbian citizens. Such restriction strengthened the trend of increasing local consumption; in a normal summer tourist season, this would typically be spent in other countries.

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

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

2.

*Business
report*

Effect of economic conditions and competition on operations

The COVID-19 pandemic had a strong effect on the forecasts of macroeconomic conditions and developments for **Slovenia**. As public life, and therewith a predominant part of economic activity both at home and globally, came to a halt, private spending (household consumption) decreased considerably, as did foreign demand (exports), which will be reflected in the exports of Slovenian exporting companies. Severe restrictive measures instituted to stem the spread of the virus in recent months have paralyzed much of the economy; at the same time, as shops offering non-essential goods and services were closed, household spending was heavily limited. The largest deficit in private spending is expected in spending on hotel services, hospitality services, transport, recreation and culture, holiday packages, and personal care.

The economic climate indicator, published by the Statistical Office of the Republic of Slovenia, recorded a sharp decline on an annual basis compared to 2019, by 29.3 percentage points. Increase in the monthly economic climate indicator was a result of indicators of confidence in the service activities processing activities, among consumers, in retail and in construction. In March, conditions in the labour market took a notable turn for the worse. After a quick surge, growth of the number of unemployed persons only steadied in early June. As a result of the spread of the COVID-19 pandemic, first-quarter GDP decreased by 3.3% year-on-year. In May, consumer prices were lower by 1.2% year-on-year. Contributing the most in this respect were energy prices, especially refined petroleum products (petrochemicals), due to very low prices of oil in the global markets, and measures introduced by the government of the Republic of Slovenia to cut the prices of electricity. Due to greater demand, food prices continued to grow (especially for fresh fruit and meat). Increase in the price of services steadied somewhat in May after a few months of growth. Due to the uncertainty regarding the spread and responses to it, economic effects of the virus are very difficult to predict. A recession is expected, along with decrease in private spending and investment, and an increase in unemployment.

According to research conducted by the Statistical Office of the Republic of Slovenia, consumer confidence indicator improved at a monthly basis in June 2020 relative to the preceding month, by 9.0 percentage points. After a record low in April 2020, consumer confidence is gradually improving, although it remains 16.0 percentage points below the long-term average. The highest improvement was seen in consumer expectations regarding the economic conditions in the country; this is followed by expectations regarding the financial position, number of unemployed persons, and expectations regarding savings.¹

In **Serbia**, inflation rate reached 0.7% in May 2020. Average net salary increased by 9.6% in April 2020. Unemployment rate remains the same (at 9.7%) in the first quarter of 2020.² After April 2020, consumer confidence in **Serbia** is improving again. Employment possibilities, financial security and willingness to spend had a positive impact in this respect. In the next months of 2020, a decrease in private spending, exports, imports, and investment is expected as a result of the measures to control the spread of the COVID-19.

In **Montenegro**, inflation rate in May 2020 was -1.0%. Average net salary was higher by 1.8% relative to the preceding year. Due to lower economic activity and higher uncertainty, a decrease in private spending and investment is expected, while government spending is expected to increase.

In **Bosnia and Herzegovina** inflation rate in May 2020 was -1.0%. Registered unemployment rate increased in April 2020 to 34.2%, while average net salary increased by 1.5% relative to the preceding year.³ Due to uncertainty and adopted measures, a recession is expected, along with a decrease in private spending and investment.

¹ SORS, Consumer Survey, Slovenia, June 2020; Bank of Slovenia: Summary of Macroeconomic Developments

² Izvozno okno (Export Window), Statistical Indicators for the period 2021–2017, Review of Economic Trends, Serbia; National Bank of Serbia

³ Izvozno okno (Export Window), Statistical Indicators for the period 2021–2017, Review of Economic Trends, Economic Planning Agency of Bosnia and Herzegovina

Sales

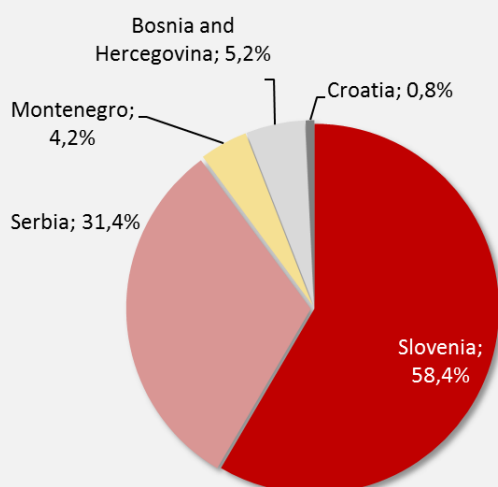
In the first half of 2020, Mercator Group succeeded in sustaining and elevating the positive business trends from 2019. In the period 1–6, 2020, Mercator Group sales revenue in retail operations that are Mercator Group's core activity, increased by 7.4%. In the retail markets of Slovenia, Serbia, and Bosnia and Herzegovina, positive trends in sales revenue growth were seen in the period 1–6, 2020 compared to the equivalent period of the preceding year. The company Poslovni sistem Mercator d.d. as the largest company in the Mercator Group, recorded growth of 8.2% in its core activity of retail. Compared to the same period of last year, its sales revenue grew by 4.8% and amounted to EUR 616.2 million in the period 1–6, 2020.

The company Mercator–S d.o.o. increased its revenue from the core activity of retail by 7.1% compared to the same period of last year. The company Mercator BH d.o.o. was also successful, as it increased its revenue from the core activity of retail by 9.2% relative to the equivalent period of the year before. The company Mercator CG, d.o.o., as the smallest company performing its core business within the Mercator Group, realized a 1.4% drop in revenues from core business

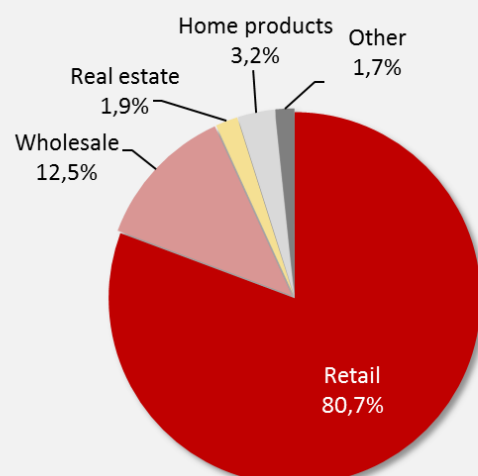
In the period 1–6, 2020, sales revenue was up 4.4% relative to the comparable period of the preceding year, as it reached EUR 1,066,115 thousand. Slovenia remains Mercator Group's largest market. Here, the trade company Poslovni sistem Mercator d.d. recorded a 4.8% rise in its sales revenue. Total sales revenue in the market of Slovenia grew by 4.5%. Mercator Group saw the largest revenue growth in the first half of 2020 in the market of Bosnia and Herzegovina (7.8-percent growth). Additionally, sales revenue increased in the period 1–6, 2020, in the market of Serbia, by 5.1%, while sales revenue in the market of Montenegro decreased by 1.0%. In the Croatian market, Mercator operates only in the real estate business, which was strongly affected by the COVID-19 epidemic, which is largely the reason why revenues fell by 14.5%.

Revenue growth was mainly driven by retail that more than offset the negative effects of the COVID-19 epidemic that, due to the closing down of some industries and the resulting impact on their business partners, affected the Group's non-core segments and companies (wholesale, home and construction products, manufacturing companies etc.). Moreover, the COVID-19 situation also exerted pressure on our HoReCa tenants.

Mercator Group sales revenue structure by markets in the period 1-6, 2020:



Mercator Group sales revenue structure by programs in the period 1-6, 2020:



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

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

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

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 2020, particular stress was placed on cooperation of all markets where we are present with a variety of store formats. 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.

The first half of 2020 was a heavy impact of the coronavirus, which strongly affected the dynamics execution of planned refurbishments, updates, and constructions of new facilities. A strong need for effective operation of the **online store** became evident, as a good part of shopping moved from brick-and-mortar stores to the online channel. After the coronavirus outbreak, shopping behaviour in the online store changed considerably, moving from mostly non-food purchases to food purchases. Thus, at the peak of the epidemic, we recorded demand that was ten times what it was before the epidemic. Since the situation has settled down, online sales are still up by 30%, with larger shopping baskets and fewer shopping sessions. As a result, revenue from online sales are up by no less than **105.8%**. Thus, the epidemic increased the interest in online store in a very short period of time. Online store is a major advantage for Mercator, as it covers delivery to as many as 98% of all addresses in Slovenia.

In the period 1–6, 2020, there were a total of **48 pick-up locations of online store** in Slovenia, Serbia, and Montenegro, of which **15** were in Slovenia, **24** in Serbia, and **9** in Montenegro. During the coronavirus, **5 new locations** were opened in Slovenia: in Ptuj, Brežice, Rudnik, Velenje, and Kamnik.

The online store draws customers of all generations. Therefore, the platform has to be user-friendly and efficient, allowing simple and transparent ordering; all shopping steps should be logical and simple, and delivery should be as punctual as possible. Even before the epidemic, we launched the strategic project of comprehensive overhaul of the online store, which would ensure long-term growth and development and allow us to be positioned as the leading retailer in the region. Online store will continue to develop, and the epidemic only accelerated this process.

Despite the restrictions and obstacles, we continue to invest intensively into refurbishment of the existing retail network in 2020; in addition, we are planning to construct some new facilities. In the period 1–6, 2020, **9 units were newly opened** in the markets of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina, while **92 units saw refurbishments or layout updates**, including **31 units** 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.

In Slovenia, we entirely or partly renovated several market (FMCG) units and one supermarket, and opened one new market unit in the first half. Due to the coronavirus situation, the **Minute** unit development process, defined as a priority for 2020, was slowed down somewhat. The Minute stores are a convenience store concept that offers customers convenience, speed, and "healthy and local" products.



New Market Šentvid pri Stični unita classic neighborhood store, well stocked for small and large purchases.



Renovated supermarket SM Bohinjska Bistrica, a convenient shopping experience for locals and tourists.

Refurbishments also took place in other markets where we are present with three store formats: Mercator, Roda, and Idea.

In **Serbia**, we opened two new units and comprehensively renovated six of them; we re-branded one unit from Roda to IDEA Super. We updated the layout of over 50 retail units.

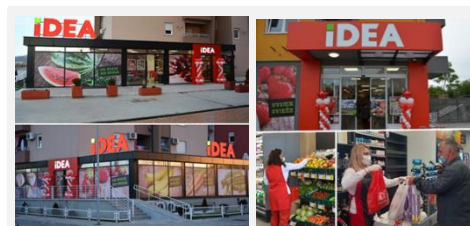


New IDEA Patrijarha Pavla unit, Novi Sad.

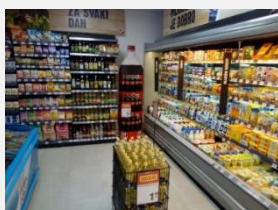


Rearrangement and rebranding of IDEA Blok 62, rearrangement of IDEA Stari grad and IDEA Maxim.

In the market of **Montenegro**, we opened three new stores in the first half of 2020: **IDEA Krivi most**, **IDEA Zabjelo**, and **IDEA Stari Aerodrom**. All three units are modern facilities that offer the customers a broad assortment of products in a pleasant environment; in terms of offer, the emphasis is on fresh fruit and vegetables, delicatessen, and bakery with daily offer of fresh baking products.



Newly opened stores: IDEA Krivi most, IDEA Zabjelo 4 and IDEA Stari Aerodrom 3.



Newly opened unit Market Brčko.

In the market of **Bosnia and Herzegovina**, we opened a new unit **Market Brčko** spanning an area of **177 m²**. This is a typical neighbourhood unit offering self-service bake-off in the bakery department. Later on, all activities were halted.

Category management



Slovenia

In the period 1–6, 2020, we continued to **actively support domestic/local suppliers and promote Slovenian and local offer** at our retail units. Education of our employees and process standardization contributed to the **quality of service** at the point of sale. Our comprehensive offer was based on quality and introduction of established market trends, taking into account all new legislative guidelines. As the markets, circumstances, and trends constantly change, we were constantly focused on customer satisfaction, fostering positive user experience, return of our customers, and customer loyalty.

Particular stress was placed on continuation and upgrade of our latest platform, the My Brands project, with the successful TV campaign Little Chef.

The global health crisis introduced new conditions to our daily lives, and requires adapting to new demands and trends in the market. One of Mercator's key goals in this period was to provide unimpeded operation of its units and to ensure adequate supply of basic food products and food in general for consumers, taking into account all policies and rules to protect the health of everyone. Our focus was on sourcing additional assortment, both with new products and with the products that respond to the changes in shopping behaviour/needs, including multiple packaging for major shopping sessions, accelerated introduction of home-bake-off products, expansion of distribution of key products upon lockdown of respective municipalities etc.

The changes in shopping behaviour resulted in changes of relative importance of some assortments in respective departments. We adapted to these changes by cutting the assortment of to-go products and focusing on the products with a longer shelf life. From the aspect of to-go assortment, we redesigned our offer and increased the "ready to reheat" segment, thus coming closer to meeting the needs of our customers during COVID-19, especially during the quarantine when most meals had to be prepared at home. In the bakery segment, we complied with all guidelines provided by our healthcare institutions and provided pre-packed food.

We also provided additional space for secondary positioning of products that were important for hygiene and disinfection. We adjusted the intervals of changes to assortment and positioning as a result of the changed regime of work in retail, and primarily changed the positions of hygiene and disinfection products, and impulse-purchase products.

We also adapted our promotional activities, placing greater stress on large-quantity shopping, which also offered a better overall price on the shopping basket for our customers. We still took note of competitiveness of our pricing.

From the aspect of inventories, we anticipated the increase in needs after the first changes took place, and we increased our leverage to ensure availability of delivered quantities at our units. We saw great progress in our online operations, as we took another step further in keeping up with the global digitalization trends.

Key category management activities at the Mercator Group level remain focused on the pursuit of the following key goals:

- upgrade the portfolio of quality private label lines and provide the best value for money;
- introduce a number of various non-food products;
- manage the commodity market products and seasonal products in a quality and prudent way;
- monitor competition's pricing for products of renowned brands and private labels, and ensure competitiveness;
- provide appealing offer in sales promotion activities and place particular stress on promotion of activities related to the Pika customer loyalty program;

- efficiently manage the retail area down to the level of each product.
- provide and upgrade services at the point of sale, with key stress on our fresh departments.



Serbia

The company Mercator–S d.o.o. entered the year 2020 with ambitious goals and plans for implementation of projects set up through the planning process and the value creation plan. Attainment of key business goals for 2020 is based on further differentiation from the competition in all segments, improvement of the fresh food department, optimization of promotional work, with emphasis on new types of promotion, development of a specific price management model, and intensive negotiations with suppliers in order to improve profitability and at the same time attain synergistic effects in sale of goods.

We remain focused on new private label product development, promotion of homemade and local products, and continuous improvement of quality services, particularly in fresh produce departments.

The global health crisis has brought about challenges that include adapting to the new living and business conditions. One of our key tasks in the second quarter was to ensure unimpeded operation of our facilities and adequate inventories at our stores, in order to meet the needs of consumers, while also protecting the health of all participants in the goods trade/retail business. We did our best to show our customers that we were still their reliable fast-moving consumer goods retailer.

Key category management activities in the period 1–6 2020:

- Efficient assortment management was provided with comprehensive category management processes taking place according to a steady schedule, in order to attain the results for particular categories, and continuous education and training of their respective managers. The importance of our offer of homemade and local assortment was fully evident during the COVID-19 pandemic when this assortment was further enriched with alternative solutions for goods that were otherwise not in stock. Private label development continued both with regard to the launch of new products and in terms of announcing calls for applications for new products in all segments in which we recorded or perceived potential for profitable private label development.
- Regarding price management and competitiveness, we observed the need to adapt to regional and local differences. In this respect, we analyzed in detail our competition in order to assess their approaches to price management and to define the areas for differentiation of Mercator–S d.o.o. prices, while attaining the best operating results. In the first quarter of 2020, preparations for pricing strategy revision were under way. Following the introduction of national emergency due to the pandemic, we had to comply with the government decision on restriction of prices and profit margins for products that were important during the crises. Considering the market conditions affected by the healthcare crisis, we postponed the revision of our pricing strategy to 2021.
- Promotional activities, considerably optimized until 2020, have to be adapted to the restrictions on maximum campaign duration as specified by the law. Moreover, we worked in 2020 on improvement of promotional combination in order to increase customer visits without additional investment into promotions. Combined promotional tool for various banners were smartly used in order to stress the power of our promotion. The healthcare crisis brought about optimization of promotional activities, including a notable decrease in frequency and power of advertising. Moreover, it directed us towards focusing on the promotion of groups/categories of products that are not as frequently advertised in standard conditions. As of June 2020, we resumed our normal frequency and intensity of advertising, as the market returned to a steady path.
- We have completed the preparation for the implementation of a new project that will allow us to more efficiently manage our sales area – both primary and secondary position. With the new allocation of space among categories, as a part of the refurbishment and layout update project in targeted retail units, the business performance of these units can be maximized. We are working intensively on inventory optimization with a project that was launched with the goal of improving our business performance.
- We remain focused on our employees, not only in education intended for improving the negotiating power of our category managers/leaders, but also in terms of provision of aid to colleagues from retail in order to optimize their processes in facilities that operate in emergency or extraordinary conditions in Serbia. During

the crisis, we attained a high level of teamwork, which gave our employees the strength to contribute even more to the development of the company.

- The processes are focused on simplification that allows human resource optimization and improvement of business performance in the crisis conditions in which we find ourselves.
- We launched the projects aimed at business performance improvement.



Montenegro

Mercator CG d.o.o. continued its practice of laying down clear goals of focusing on fresh produce, fresh meat, fruit and vegetables, and the bakery department. We also continued to focus on improvement of service with constant teamwork and employee training in order to ensure quality offer and services at key departments for our customers.

We also carried on the following activities:

- monitoring pricing competitiveness for the best-selling products across regions;
- innovative promotional activities for improving the offer within the customer loyalty projects; here, additional investments are required, focused on the suppliers;
- Attainment of planned returns involves constantly increasing pressure on suppliers in order to increase their participation in marketing and to adjust their prices.
- Redesign of promotional and marketing activities an increasing online shopping capacity.
- Timely monitoring and ordering of key goods and looking for replacement products from regional orders.



Bosnia and Herzegovina

Key activities in Bosnia and Herzegovina in the first half of 2020:

- Negotiations with suppliers.
- Category management process for key segments: prepacked, fresh, and non-food.
- Activities with suppliers regarding the non-food segment projects.
- Activities with suppliers for the My Brands project.
- In the first quarter, more intensive activities at fresh produce departments with stronger marketing activities, focusing on breadth of offer; in the second quarter, activities were adapted to the new circumstances – focus was on basic food products, hygiene and non-food segment.
- Agreement with suppliers for further cooperation in the project Discount for You.
- Stress on special activities for units in Republika Srpska (Republic of Srpska), with emphasis on Centre Borik.
- Due to the circumstances related to the coronavirus, we redirected our market strategy in March, by decreasing the number of releases and focusing on the adjusted assortment. In the second quarter, we adjusted to the new circumstances and responded in a timely manner with activities and protective measures at retail units.
- Special activities in March and in the second quarter in the non-food segment, with emphasis on negotiations on the quantity of assortment.
- Activities related to the changes in the method of distribution and procurement of basic food products in order to ensure continuous supply to the retail network.
- Adapting to new legal decisions that constantly change both at the national level and at the level of entities and towns.

Marketing

In the period 1–6, 2020, we continued our activities to support our business strategy that allows long-term stability and profitable growth. In marketing projects, we were focused especially on Mercator brand differentiation, which is also the basis for the Mercator marketing strategy.

Differentiation as a competitive advantage is based on

a) *the broadest offer of local and regional brands,*



- b) the best customer loyalty program,
 c) introduction of new store formats,
 d) innovation.

Regardless of the business and marketing strategy, the first half of the year was under a strong impact of the emergency circumstances related to the coronavirus epidemic, which required an adjustment to the current conditions, adoption of relevant business measures, and changes in market communication. In June, we started carrying out the projects laid down in the marketing strategy.



Slovenia

Communication during the epidemic

In light of the new conditions, we adapted our communication messages. These are conceived at three levels:

- care for the welfare of the community,
- strengthening of cooperation with local suppliers,
- adjustment of offer for the customers.

Upon introduction of extraordinary measures, we made an appeal for moderation and solidarity, and for avoidance of excessive reactions and stockpiling. In the campaign titled "A Good Neighbour is There for You", we emphasized the comprehensive social awareness of all of us, and respect for each other, as well as the fact that now is the time to take care of each other and for all that are close to us. We worked even closer with our partners and suppliers, since the importance of the food industry is even greater now in every market.

With the My Brands platform, we offer our customers the products of their favourite local brands. In our year-long project We Love Local, we supported small local growers and producers to enable a better future for them and the successive generations of local products.

In these challenging weeks, we made shopping easier for our customers in several ways. Online shopping for food has increased, which is why we allocated our resources accordingly, increased our capacity, and introduced a special **crisis food online store**. We offered convenient shopping for major domestic appliances, small domestic appliances and other technical consumer goods at the online store of our M Tehnika, and further increased the number of dispatch points to allow faster delivery. For all who are short on time for cooking, we have developed larger family packs of ready-to-eat Minute products. In addition, we are preparing other convenient solutions. Thus, our customers can finish baking the "bake-off" breads at home in just a few minutes.



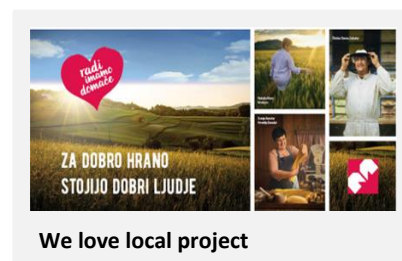
Campaign "A Good Neighbour is There for You"

Activities related to the epidemic situation took place in all markets of our operations – including Serbia, Montenegro, and Bosnia and Herzegovina, where key messages were derived from the previously presented umbrella campaign.

Marketing strategy projects

We Love Local

We conduct activities to support the local micro-economy on a consistent weekly basis. We present suppliers and their products in regular flyers. The focus is on products and suppliers who have developed to the point when they can meet the needs of stores with a high sales potential for local products. In February, the Agrobiznis (Agro Business) conference took place. We took part as partners, as we selected the award winners and included them in our business process. In May, we revised the We Love Local website. We enriched it with additional content, presented more local suppliers and products, and established a better link with the online store.



We love local project



Good Choice

Good Choice was a project in January, developed in the spirit of awareness and encouragement of a "healthier" diet. Working with suppliers of renowned brands, who had developed products with lower sugar content, lower fat, without preservatives etc., we prepared for our customers a condensed offer of good choices, paired with the story of fulfilling the new year's resolutions.

Little Chef Slovenia 2020

At Mercator, we are aware of the importance of encouraging young people to develop healthy habits, including a responsible diet. Thus, we teamed up this spring with POP TV to prepare the new season of the TV show **Slovenia's Little Chef** for which we received an award for innovation by international media associations NAPTE and CEETV. We donated funds to each participating elementary school to help carry out their projects for better well-being of their students. The amount of funds allocated to each school was decided by customers with their votes.





Picnics connect, My Brands reward

"We can only bring the best from Slovenia to your homes by working together. That is why we are forging strong links with top Slovenian brands who have enjoyed a good reputation in our lives for a long time. These brands are my, yours, and ours." Thus, we conducted an activity of bonding between May 14 and June 20, 2020. During this time, we also prepared an SMS sweepstakes that involved an award of a EUR 1,000 gift card, 5 portable grills, Intex swimming pool, and one hundred gift cards worth EUR 40 each.

Collect all stickers and discover the oceans in the company of the smart creatures from the depths

From June 11, 2020, to August 26, 2020, the activity of collecting stickers for the album **Happy Waves**. Stickers were awarded for every purchase of EUR 10, for purchases of products with the My Brands symbol and purchases of products with the Happy Waves logo. This is a children's customer loyalty program titled Happy Waves, which has an environmental awareness tone, since we also offer, in addition to the album and stickers, complementary products, such as bracelets, towels and socks made of specially processed fabric, fishing nets, and other plastic waste. In addition to this assortment, we also offer three plush heroes: Hugo the octopus, Rozi the crab, and Živa the turtle.



Merry waves

Assortment

During the epidemics, we regularly adjusted the product assortment to the changes in the customers' shopping behaviour.

Private label with emphasis on quality and differentiation in the market

With regard to our private label, we started the year 2020 by communicating the brands that respond to the needs of modern consumers:

- In **January**, we carried out a campaign for our organically grown Bio Zone products under the slogan "Good Food Will Do You Good", highlighting the advantages of organic products in terms of their production, both for humans and for nature.
- In **February**, we prepared a broader campaign for convenient offer of Minute products that we develop intensively both in the ready-to-eat and ready-to-reheat segment.
- In **March**, in the spirit of the COVID-19 crisis, we adapted our Minute offer and focused on family-sized packs of ready-to-reheat products. In addition, we prepared special offers for our employees and business partners. For the latter, delivery was included. Moreover, we offered our assortment via the Wolt.com online application for the Ljubljana area.
- In **May**, we added new flavours to our popular line of Gelatissimo ice cream.
- In **June**, we added Minute ready-to-eat meals as a solution for a meal when children are at home during holiday, while their parents are at work and want their children to eat something other than a sandwich. Moreover, these meals are suitable for older people living alone and who find it difficult or impractical to cook for themselves. We also prepared presentation materials for Mercator IP that makes the Minute products. These materials included price lists for sale to bars and major customers, as well as for sale with delivery to home or office in Ljubljana.



Communication of the Bio Zone, Minute and Gelatissimo brands



Mehrzer customer loyalty program

In February, we prepared an attractive customer loyalty program "Mehrzer". Customers collected stickers for up to 79% discounts on top-class versatile cookware.

Parbaked bread to be finished at home

Working with the Grosuplje bakery, we launched a new line of parbaked bread **to be finished at home** (bake-off bread) in May. This new addition in our offer is a result of the changes in shopping behaviour that occurred during the crisis. Due to less frequent shopping sessions, customer prefer to buy pre-packed bread or to bake their own bread at home. The new offer was advertised in all communication channels, and we prepared new in-store labels.

Hypermarket Šiška and Maxi Gourmet Market

At the start of 2020, we intensified our activities related to Mercator's largest hypermarket Šiška, and for the Maxi Gourmet Market refurbished at the end of 2019. We prepared monthly flyers and treated our customers to discount coupons for the hypermarket Šiška and to special offer.

For **Maxi Gourmet**, we established online communication on social networks in early May: Facebook, Instagram, TripAdvisor, and Google Maps. The campaigns include advertising the Maxi Gourmet Market, Maxi pastry shops, and the restaurants Romansa and Maxim.



Advertising Šiška's florist's and Maxi confectionery in Šiška.

Pika customer loyalty program

Number of active card holders

In Slovenia, there were 691,325 card holders in the first quarter, which is 1.2% more than in the same period last year. In the second quarter, there were 641,821 card holders, which is 4.5% less than in the equivalent period of the preceding year. The decrease is likely the result of the quarantine.



Pika Bonus Project

In March, we started a new long-term activity for the Pika card holders, with which we want to improve the perception of well-priced shopping with Pika. The project will take place until the end of October, with activities of collecting points for a discount coupon and sweepstakes alternating on a monthly basis. The activities include a variety of suppliers, and the project has media support across different channels.

Campaign "Something for Everyone, Good for All"

Pika card activities were particularly intensive in May this year. For Pika card promotion, we prepared a **campaign** in which we **highlighted all Pika benefits and functionalities**.



Introduction of a PIN code for Pika card operations

In the second half of May, we introduced **PIN codes** for payments with a Pika card. This was a major step forward in protecting the transactions of all our Pika card holders, and we also completely eliminated the signing of purchase receipts.

Launch of the contactless Pika card

As of June 1, 2020, we are issuing contactless Pika cards. In addition to the new functionality, these cards have also been redesigned.

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. Encouraged by solid response from our customers, we continue to further adapt our offer for our customers with the **1-2-3 Campaign** that includes awarding coupons with extra points. Thus, we additionally reward our best customers and maintain the amount of their purchases. Additionally, we also send out birthday cards and direct mail in cooperation with our suppliers.



Prize game Wheel of fortune

Collecting statements of consent

In April, we started collecting statements of consent. Users of the Moja Pika (My Pika) Portal and the My M mobile app, who have not yet provided their consent, were sent a personalized notification to set up one of the apps that they do not have yet. Response by our users is solid, as we perceived a considerable increase in the number of registrations and application downloads. In May, we launched an additional activity, the online sweepstakes The Wheel of Fortune.

Pika Magazine

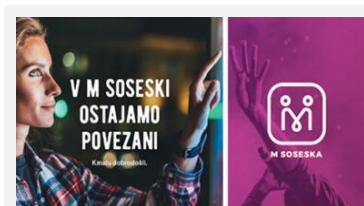
In April 2020, we issued the seventh Mercator Pika Magazine and the second Easter edition of the Pika Magazine that brings fresh spring colours, and especially many original Easter recipes. The summer editions of Pika in June also included an issue for children. Pika Junior is intended for young school children; thus, we are starting our strategic focus on young families with children.



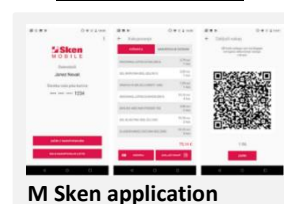
Digital projects and innovation

In digital channels, our communication supported the key projects in progress at Mercator (e.g. Good Choice, Bio Zone, Little Chef, Minute). In addition to support role, we highlight the following development projects:

- **M neighbourhood:** Crisis communication related to COVID-19 included the launch of the M Neighbourhood platform. The main hub is a website that includes a schedule of events taking place on social networks. We post daily content on Facebook and Instagram. In terms of contents, we worked with the Ljubljana Marathon, Blogomani, Drama, Radio Center, and others.
- **Launch of a new mobile application and website – mi.Mercator** At the end of December 2019, we launched the test operation of the new mobile application mi.Mercator and the website mi.Mercator.si, as a hub for all internal communication for all markets in which Mercator is present. This is an internal portal intended exclusively for all Mercator Group employees. New content is constantly added to the website, such as coupons for the employees, order notes etc.
- **We have revised the Mercator website (www.mercator.si):** the new website www.mercator.si was intensively introduced during the first quarter. The revised website was launched in early April. The pages are actively refreshed with new contents and pages; thus, a special page for Mercator wholesale was added at the end of June.
- **M sken mobile:** our application M Scan Mobile allows all users to scan their products as they shop using their mobile phones, and only pay at the check-



Platform M Soseska

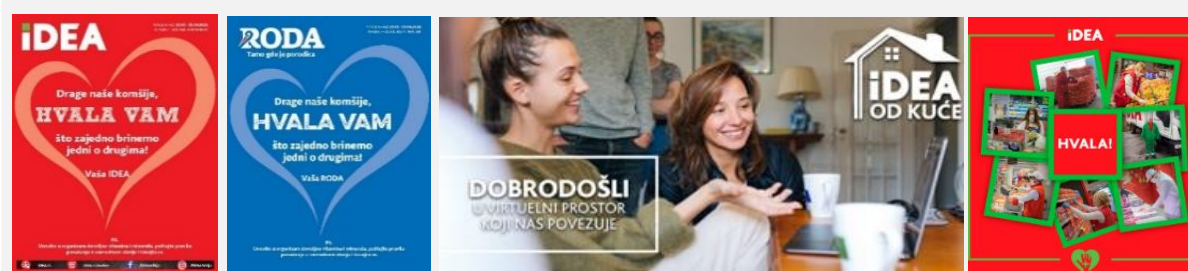


M Sken application

out counter. This service is currently available at 7 of our stores. Marketing communication activities are currently being prepared for this activity.

Other markets

In other markets, the first quarter was also affected by the activities related to the coronavirus. In all markets of our operations, communication was based on a strategically devised concept at the Mercator Group level. At first, customers were informed about the preventive measures introduced; then, communication was focused on establishing trust and mutual care; this was followed by an expression of gratitude to our employees; and finally, we established a digital platform for spending quality free time while in isolation. We also made sure all our employees were adequately informed via the **mi.Mercator** platform. Other marketing projects in respective markets are presented below.



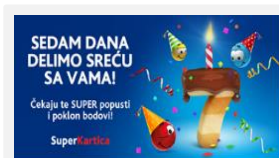
Activities related to koronavirusom



Serbia

Key regular corporate projects of Mercator-S d.o.o. include in particular the following ones:

- Introduction of **fast payments with mobile phone**, which ensure safe, fast and simple shopping without cash or payment cards.
- In the first quarter, promotions of the project **Flavours of my Town** (We Love Local in Slovenia) continued
- Project **Better Together** (My Brands in Slovenia) that includes over 60 suppliers. Brands that are popular among Serbian consumers are a part of a new wave of the campaign in which sales of soft drinks have seen the highest growth.
- In May, the Super card celebrated its seventh birthday. Under the slogan "Sharing Happiness with You for Seven Days", customers were rewarded between May 25, 2020, and May 31, 2020, with numerous benefits and extra points for their shopping within the partner network. The customers received double points on their Super card for their shopping; if they used the Super payment card, Sberbank also awarded double bonus points.



At **IDEA**, we conducted a campaign for the IDEA bakery in the first half of the year, and introduced a new service Order and Collect at Idea Online. We started cooperation with Glovo that allows ordering via a mobile app and delivery of products in less than 60 minutes.

In the first three months of the year, **RODA** as the proud sponsor of the KSS (Basketball Federation of Serbia) supported many sporting events, and it also takes part in the humanitarian campaign with Tamara Grujić and her team of craftspeople. In February, we carried out a special prime time activity for gardening, which included offering our customers a 30-percent discount on the Villager hand tools.



Montenegro

In addition to regular activities or issuing a catalogue, weekend campaigns, and minor temporary campaigns, Mercator Montenegro carried out the following activities:

- **Campaign for fruit, vegetables and delicatessen:** the purpose of the campaign for delicatessen was to present the broad offer of products in this category and to present the offer of K Plus private label. In the **fruit and vegetables** campaign, Idea is presented as a destination for daily shopping for fruit and vegetables. Due to the circumstances related to the epidemic, the campaign was discontinued.
- **Super card:** at the end of June 2020, the Super card had 69,575 active users, of whom 17,220 are retirees. With this card, its holders enjoy benefits such as a 10% discount on shopping, a 20% discount coupon for one product of the customer's choice, and a 20–50% discount on top products or a product category. They also conduct activities related to particular customer segments in order to increase the frequency of shopping sessions and the value of the shopping cart. We newly introduced the activity SUPER SATURDAY to replace the triple points campaign.
- **My Brands project:** In the first half of 2020, 4 waves of the campaign were carried out, which included 74 brands and 314 items.
- **Project "The Treasures of Our Montenegro":** to support our local producers and the local economy, we launched the campaign The Treasures of Our Montenegro that steers the consumers towards choosing quality local products offered at their stores.
- **Project "Ideal Offer":** in the first half of the year, we carried out a special project for our customers, called Ideal Offer. Super card users were awarded extra points for purchasing products included in the project. Suppliers also take part in the project.
- **Innovations:** consistently with the recent trends, we have developed a new service in the online store, called Order and Collect. The service is available at 6 locations: Podgorica, Bar, Herceg Novi, Tivat, Kotor, and Nikšić. This way, we offer our customers speed, efficiency, comfort, as well as safety.

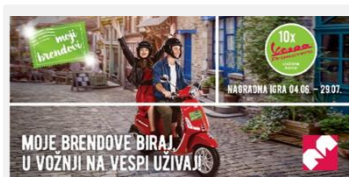


Project Ideal offer, Treasures of our Montenegro and Orfer and takeover



Bosnia and Herzegovina

Early in the year, the first wave of the campaign **Always the Right Choice**, intended for presentation of the Mercator brands, was dedicated to communication of the My Day label, which is a new addition to the nektar juice category. The goal of the campaign was to improve recognition among the buyers, provide a perception link with the Mercator label, and to foster growth of sales for the label in total revenue.



After four successful waves of the campaign **My Brands, Our Values**, Mercator–BH launched the fifth wave in early June in order to further promote renowned domestic and regional brands. In addition to the brand promotion, we also prepared the sweepstakes Chose My Brands, Enjoy the Vespa Ride.

Sales network

Composition of units by store formats as at June 30, 2020

Slovenia



FMCG retail units **466**

- Markets: 397
- Supermarkets: 46
- Hypermarkets: 23



Wholesale units (Cash & Carry) **13**



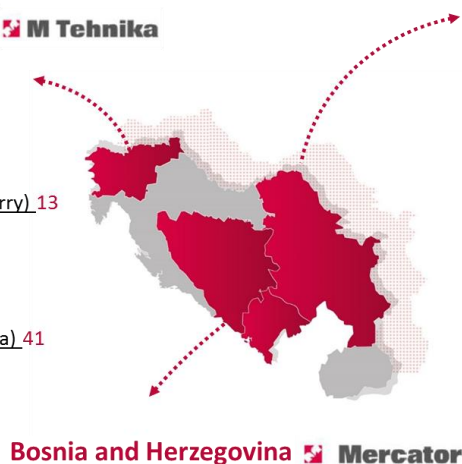
Restaurants **6**



Franchise stores **168**



Technical program (M Tehnika) **41**



Bosnia and Herzegovina



FMCG retail units **78**

- Markets: 61
- Supermarkets: 10
- Hypermarkets: 7

Serbia



FMCG retail units **323**

- Idea Small: 249
- Idea Super: 39
- Roda: 27
- Roda Megamarkets: 6
- Mercator Hypermarkets: 2



Wholesale units (VELPRO) **6**

Montenegro



FMCG retail units **124**

- Idea Small: 121
- Idea Super: 3

MERCATOR GROUP	Gross sales area (in m ²)	Net sales area (in m ²)
FMCG retail units 991	811,292	519,079
Wholesale units (Cash & Carry/VELPRO) 19	56,231	33,663
Restaurants 6	1,690	1,019
Technical program (M Tehnika) 41	62,033	36,981
Total units under management 1,057	931,246	590,742
Franchise stores 168	35,868	23,591
TOTAL 1,225	967,114	614,333

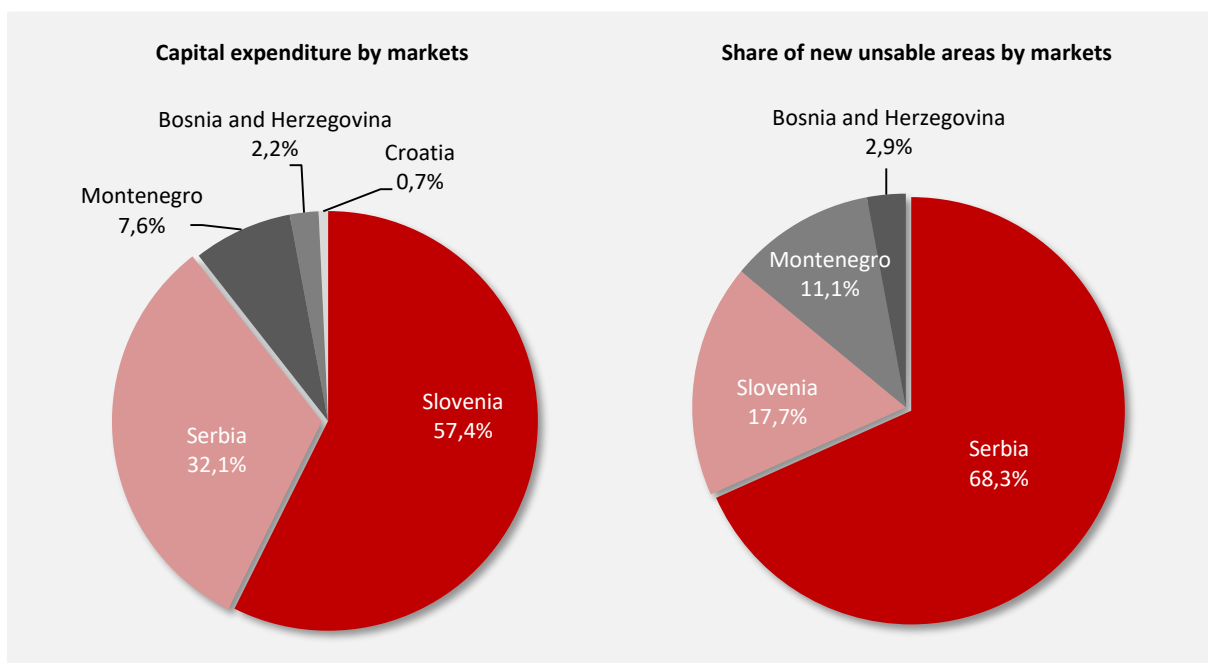
Investment and divestment

In the 1-6 2020 period, Mercator Group's investment into property, plant, and equipment (CAPEX) amounted to EUR 13.0 million. Of the total investment amount, 57.4% was used for investments in Slovenia and 42.6% was used for investments in international markets.

	Capital expenditure in the period 1-6, 2020 (in EUR 000)	Structure (in %)
Slovenia	7,430	57.4%
Serbia	4,153	32.1%
Montenegro	990	7.6%
Croatia	286	2.2%
Bosnia and Herzegovina	93	0.7%
Total	12,953	100.0%

Investment into refurbishment and updates of existing units accounted for 53.5% of total investments; IT investments accounted for 19.2%; expansion of new retail units represented 12.6%; investments into distribution centres accounted for 6.2%; and the remaining 8.5% was invested in non-trade activities.

In the period 1–6, 2019, Mercator Group newly acquired 7,416 square meters of gross store area, namely 6,516 square meters through operating leases and 900 square meters through the filling of its own- available space.



In the period 1–6, 2020, Mercator Group divested property, plant, and equipment worth EUR 1.49 million, of which EUR 1.45 million pertains to the divestment of property (real estate) and EUR 0.04 million pertains to plant and equipment.

Summary of total gross usable area as at June 30, 2020

	Gross usable area in square meters		
	Used for own operations	Leased out	TOTAL
Owned retail area	460,629	330,205	790,834
Leased retail area	470,617	150,418	621,035
Total retail area	931,246	480,623	1,411,869
Owned warehouse capacity	153,464	20,091	173,555
Leased warehouse capacity	60,346	10,508	70,854
Total warehouse capacity	213,810	30,599	244,409
Owned commercial facilities	17,921	3,714	21,635
Leased commercial facilities	8,051	806	8,857
Total commercial facilities	25,972	4,520	30,492
GROSS AREA UNDER MANAGEMENT	1,171,028	515,742	1,686,770
- of which owned	632,014	354,010	986,024
- of which leased	539,014	161,732	700,746

Overview of newly opened and updated units by markets in the period 1-6 2020



Slovenia

Area of new facilities: 1,310 m²

Number of new units: 2

Openings: Center Tehnike Logatec,
Market Šentvid pri Stični

Refurbishments/layout updates:

Number of units: 31



Center Tehnike Logatec



Market Zrenjanin and Market Patriarha Pavla



Serbia

Area of new facilities: retail 914 m², Logistics and distribution centre: 4,153 m²

Number of new units: retail: 2, logistics and distribution centre: 1

Openings: Market Patriarha Pavla, Novi Sad; Market Zrenjanin, LDC Novi Banovci.

Refurbishments/layout updates:

Number of units: 61



Montenegro

Area of new facilities: 822 m²

Number of new units: 3

Openings: Market Krivi most, Podgorica;
Market Zabjelo, Podgorica; Market Stari aerodrom 3, Podgorica.



Market Krivi most



Market Brčko



Bosnia and Herzegovina

Area of new facilities: 217 m²

Number of new units: 1

Openings: Market Brčko

Risk management

KEY RISKS IDENTIFIED	RISK DEFINITION	RISK MITIGATION
Inventory management	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> In the first half of 2020, activities pertaining to optimization and central inventory management took place. We increased the number of automatic goods orders and maintained balance between actual and planned inventory value. In logistics, activities were in progress to optimize the costs and to accommodate the changes of delivery frequency. We continued the activities related to the construction of a new logistics and distribution centre in Slovenia.
Change management and process improvement	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> We are preparing the appointment of a special team for change management and process improvement. The key goal of the team will be to manage the changes based on the selected methodology, and fully documented, which will allow us to prioritize key processes that require changes. Proposal for process revision methodology has been prepared.
Risk of non-operation of cooling and air-conditioning systems	<ul style="list-style-type: none"> Refrigeration and air-conditioning systems must be fully operational to ensure the continuity of business processes.. 	<ul style="list-style-type: none"> In the period 1–6, 2020, we started looking for the best possible option and optimization of service providers for refrigeration and equipment maintenance. Criteria and priorities were defined for equipment maintenance. We launched the measures pertaining to the changes in internal maintenance processes. We are preparing a new contract for investment and maintenance, in cooperation with third-party service providers.

KEY RISKS IDENTIFIED	RISK DEFINITION	RISK MITIGATION
Provision of security and protection	<ul style="list-style-type: none"> Risk events coupled with increased cost of security services triggered the need to review the existing security and protection measures in Mercator. 	<ul style="list-style-type: none"> A special team was appointed to propose solutions for improved cost efficiency and level of security services. In the first half of 2020, we signed a new agreement with security agencies. We started collecting the data to prepare an estimate of the investments required for essential updates to our security systems.
HR related group of risks	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> In the period 1–6, 2020, we regularly posted vacancies at Mercator website and in both major employment portals. For key job categories we, where necessary, conducted recruitment campaigns that included mailing out flyers, and distributing flyers and posters at our stores. We are also looking for key employees in administration via LinkedIn and head-hunting agencies. We worked with the National Employment Agency and major private employment agencies. We also hired international workers for certain jobs. We are conducting a succession program for future shop managers, and the Stock Assistant School that train participants for work as shop assistants. In administration, we trained leaders in middle management, and we also launched a program to develop leadership competences at IT. High school students were offered internships and scholarships.
Inadequate IT Infrastructure	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> In the period 1–6, 2020, we conducted regular replacements of some older IT systems and replacements of IT equipment, as well as prepared for replacements to be carried out by the end of the year. In May, we successfully implemented the project NFC Pika and PIN. Both projects are in the roll-out stage. Measures related to COVID-19 included an update to IT support for work from home and online trading, with particular emphasis on provision of effectiveness, improvement of user experience, and security. In order to improve internet communication and digitalization, we introduced a new, modern, multi-language internet portal. At the Mercator Group level, we devised a new strategy for our IT infrastructure.

KEY RISKS IDENTIFIED	RISK DEFINITION	RISK MITIGATION
Business continuity and crisis management/Hazards and Catastrophic Loss	<ul style="list-style-type: none"> ▪ 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. 	<ul style="list-style-type: none"> ▪ At the entire Mercator Group level, over 500 activities were prepared, related to the COVID-19 epidemic, which allow comprehensive risk management across six key points: employee safety, customer safety, supply chain safety, revenue growth management, corporate social responsibility, and liquidity management. In Slovenia alone, 196 activities were prepared.

Employees

Commitment of the Mercator Group

We are dedicated to attaining our business goals with competent, satisfied and motivated employees. In order to successfully accomplish these goals, the following starting points of our efforts are of key importance:

- focus on the customer,
- efficiency and
- agility.

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

Number of employees

Market	Number of employees as at June 30, 2020	Number of employees as at June 30, 2019	Index number of employees June 30, 2020/ June 30, 2019	Number of employees based on hours worked in the period 1–6 2020
Slovenia	9,574	9,499	100.8%	8,307
Serbia	7,988	7,969	100.2%	7,402
Montenegro	1,590	1,508	105.4%	1,377
Bosnia and Herzegovina	1,199	1,188	100.9%	1,145
Croatia	30	36	83.3%	31
Total	20,381	20,200	100.9%	18,262

Mercator Group's permanent and sustainable development activities

In the first half of 2020, Mercator Group devoted nearly 45,160 hours to training and education that involved 8,270 employees.

Mercator Humanitarian Foundation paid out humanitarian aid in the total amount of EUR 35,274 in the first quarter of the year to assist 52 employees of the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o. In Serbia, humanitarian aid was provided to 103 employees, in the total amount of EUR 44,953. In Montenegro, 18 employees received total aid of EUR 4,200.

In February, we launched organized work and adjustment of all business segments in order to prevent the spread of the COVID-19 pandemic. A crisis task force was appointed in order to coordinate all legislative, external and internal regulations and instructions regarding work in the resulting state of emergency, and to adopt measures with particular attention to protection and welfare of our employees, especially those at operating units. Adequate measures at every Mercator Group company are being introduced and adjusted depending on the epidemiological situation, emergency relief legislation, professional guidelines, and government measures in respective countries. Information support to human resource management systems had to be quickly adapted to accommodate the specificities of COVID-19 and new forms of work or absence (work from home, furlough, protection of vulnerable employee categories and absence due to force majeure, quarantine), as well as compensation and payment of the crisis bonus/allowance in cases when employees were entitled to it. Consistently with the instructions, business hours of our retail units had to be adjusted, and observation of safety measures had to be ensured (physical distance, use of protection gear, restriction of the number of customers in the sales area/store etc.).



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

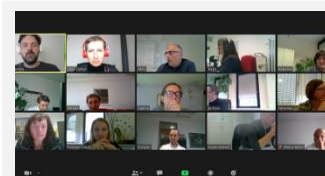
Sales coaches in training – In September 2020, we shall launch the pilot project involving two training centres with sales coaches. Their key task will be to train newly hired shop assistants for independent work in the bread, delicatessen, hot bar and fruit and vegetables departments, and at the check-out counters. In June, the sales coaches started their training that lasted several weeks. In the course of the training, they will acquire professional knowledge in a systematic way. In this fall, they will start training the newly hired shop assistants for the first time.



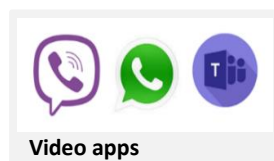
Sales training

Training in wholesale – In June, numerous training and education courses started in wholesale. All sales managers started group coaching intended for development of individuals who above all need feedback from the group; in addition, coaching also enables learning from actual cases and experience of other group members. Field sales agents are strengthening their sales commitment and upgrading their selling skills in interactive workshops that will be completed at the end of this summer. Employees at call centres are also trained in efficient sales communication and methods and techniques for selling by telephone, as we wish our call centres to have an active role and offer an all-around service for the customers. We are also preparing training for our drivers who will focus on their communication with the customers.

Today for tomorrow – training of leaders in administration – Solid management is of key importance for successful company operation and efficiency of our teams. This is even more true when circumstances suddenly change. This time, leaders find themselves in a new, different situation that requires even more of their effort and commitment. Over 50 leaders in administration attended online workshops on modern leadership and motivation approaches in June.



Training of leaders in administration



Video apps

Selection and hiring – During the epidemic, we had to adapt to the situation in terms of our selection; hence, job interviews took place via video apps (MS Teams, Viber, WhatsApp etc.); our psychological testing was adapted accordingly. In April, we thus hired a record 168 new employees.



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

Open Door Days – opportunity to encourage future high school students to pursue our vocations – On February 14 and 15, 2020, we took part in the open door days at Biotechnical Centre Naklo, with which we had collaborated for many years by offering internships for the programs of pastry chef, food technician, and assistant in biotechnology and supply. In addition to work with the high school students, we also work with this institution by offering holiday work, training mentors, and – last but not least - recruitment and hiring. Several of our pastry chefs attended the BC Naklo, learned about our company during their high school internship, and were hired by our company in the pastry workshop Kranjski kolaček (Kranj Cupcake) after they had completed their training. At this year's open door days, two of our employees who are former students of this school shared their experience with future students.



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

Selection process in a state of emergency – we adapted our selection process to the recommendations by the national authorities regarding social distancing. Thus, interviews are conducted by telephone or via conference calls.

E-learning for the management and retail employees – We are developing an e-learning project that includes ensuring conditions of IT support and contents for transfer of knowledge. The plan is to launch a test version of e-training in retail in August.



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

Retail conference – On January 15, 2020, a Retail Conference was held in Sarajevo, during which business events and results for the year 2019 were presented, along with goals for this year and the years ahead. The conference was designed as a combination of interactive presentations, and it was intended to raise the level of professional knowledge and skills of retail shop managers. We presented awards for 12 best shop assistants in four regions; they received plaques and cash prizes.



Retail conference



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

Succession in retail – In January, we launched one of this year's major projects: succession in retail. This is a strategic plan aimed at providing qualified and competent people for leadership positions in retail. Based on previous interviews with the employees in whom we had recognized the potential, and psychological testing, we selected 20 individuals to be included in retail succession training.

New training program for newly appointed shop managers – Early in the year, we prepared a new training program for newly appointed shop managers, which will allow systematic training for newly appointed shop managers and defining standards for their work. The program is consistent with previously specified criteria that the candidate should meet in order to become a good shop manager. This is a product of the shop manager candidate's work under the leadership of the regional coordinator and under the mentorship of some of the best shop managers in the region. We are also planning to establish a database of new shop manager candidates, so that we have adequately trained candidates for this position already available when they are needed.

Financial management

Stable Financial Operations

As at June 30, 2020, Mercator Group's net financial debt (not taking into account the IFRS 16 Leases) amounted to EUR 591.8 million, which is 0.8% more than as at the end of 2019, and 8.6% less than as at June 30, 2019. Changes in net debt are a result of overpayments resulting from disposals, in the amount of EUR 6.9 million, regular repayment of financial liabilities in the amount of EUR -37.5 million, additional use of operating facilities in the amount of EUR 31.8 million, increase in cash and cash equivalents by EUR 17.4 million, and increase in liabilities pertaining to right of use of assets, in the amount of EUR 5.8 million.

Mercator Group's total financial liabilities decreased since December 31, 2019, by EUR 12,535 thousand, which is mostly a result of the fact that Mercator Group drew additional revolving lines and maintained a high level of cash and cash equivalents as a preventive measure before the declaration of epidemic, in case of any unforeseen events in financial markets. Net financial debt/normalized EBITDA ration decreased from 6.9 as at June 30, 2019, to 5.2 as at June 30, 2020. As at June 30, 2020, it was 0.1 lower than as at the end of 2019, when it amounted to 5.3.

Net financial debt

in EUR 000	June 30, 2020	June 30, 2019	Dec. 31, 2019	Change June 30, 2020/ June 30, 2019	Change June 30, 2020/ Dec. 31, 2019
Non-current borrowings	73,092	471,902	454,361	-84.5%	-83.9%
Current borrowings	495,333	96,771	148,791	411.9%	232.9%
Financial leases*	51,771	64,057	70,816	-19.2%	-26.9%
Total financial liabilities	620,196	632,730	673,969	-2.0%	-8.0%
Cash and cash equivalents**	28,387	45,777	26,508	-38.0%	7.1%
Net financial debt (without the effect of IFRS 16 Leases)	591,808	586,953	647,461	0.8%	-8.6%
Present value of future rent IFRS 16 Leases					
New non-current and current lease liabilities*	306,437	312,303	316,980	-1.9%	-3.3%
Total lease liabilities related to the new standard IFRS 16 Leases	306,437	312,303	316,980	-1.9%	-3.3%
Net financial debt (with the effect of IFRS 16 Leases)	898,245	899,256	964,441	-0.1%	-6.9%
EBITDA normalized***	171,641	170,422	140,520	0.7%	22.1%
Net financial debt / EBITDA normalized	5.2x	5.3x	6.9x	-0.8%	-23.8%

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

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

*** The "Normalized EBITDA" item for the periods 1–6, 2020, and 1–6, 2019, is adjusted to annual level. It is based on last twelve months normalized EBITDA for referred period. For the period June 2019 to 2020 (LTM) it is based on IFRS 16 standard, while for the period June 2018 to 2019 (LTM) it includes two methodologies: normalized EBITDA based on new IFRS 16 standard for period from January to June 2019, while for period from June 2018 until December 2018 it is based on normalized EBITDA methodology prior implementation of IFRS 16.

Financing costs

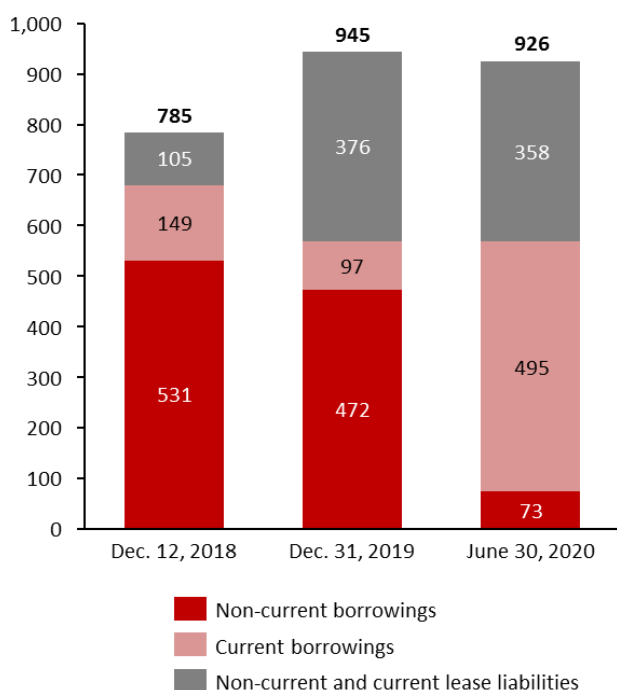
In the period 1–6, 2019, the 6-month EURIBOR averaged at -0.270%. At the end of the period, it was at -0.295%. Compared to the equivalent period of the year before when the 6-month EURIBOR averaged at -0.242%, this rate fell by 2.78 percentage point.

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.

Debt to equity and financial liability ratio

Financial liabilities (in EUR mn)



As at June 30, 2020, Mercator Group's ratio between equity and net financial debt^Δ was at 1 : 2.33.

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

The share of non-current financial liabilities⁴ in total financial liabilities as at June 30, 2020, amounted to 38.7% (81.7% as at December 31, 2019). Coverage of non-current assets with non-current liabilities at the Mercator Group as at June 30, 2020, is at 52.2%. ^Δ

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 June 30, 2020

As at June 30, 2020 Mercator Group had access to the following liquidity lines or sources^Δ:

In EUR 000	30. 6. 2020
Cash and cash equivalents	28,387
Standby revolving credit lines*	5,536
Total	33,923

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

⁴ Non-current financial liabilities decreased due to the maturity of credit lines within one year, which affects the increase in current financial liabilities.

Mercator share and investor relations

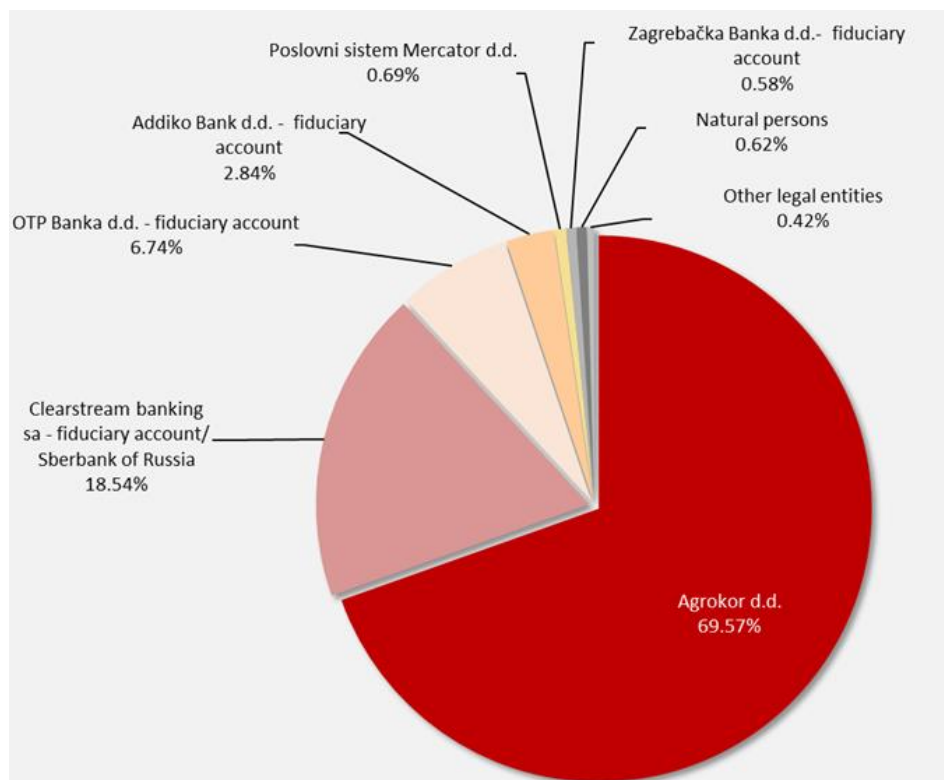
Mercator share and ownership structure

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



Code/Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska borza, d. d.
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of own shares	42,192
Number shareholders	1,545

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



Structure of company shareholders as at June 30, 2020

As at June 30, 2019, the four largest shareholders combined owned **97.68%** of the company.

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

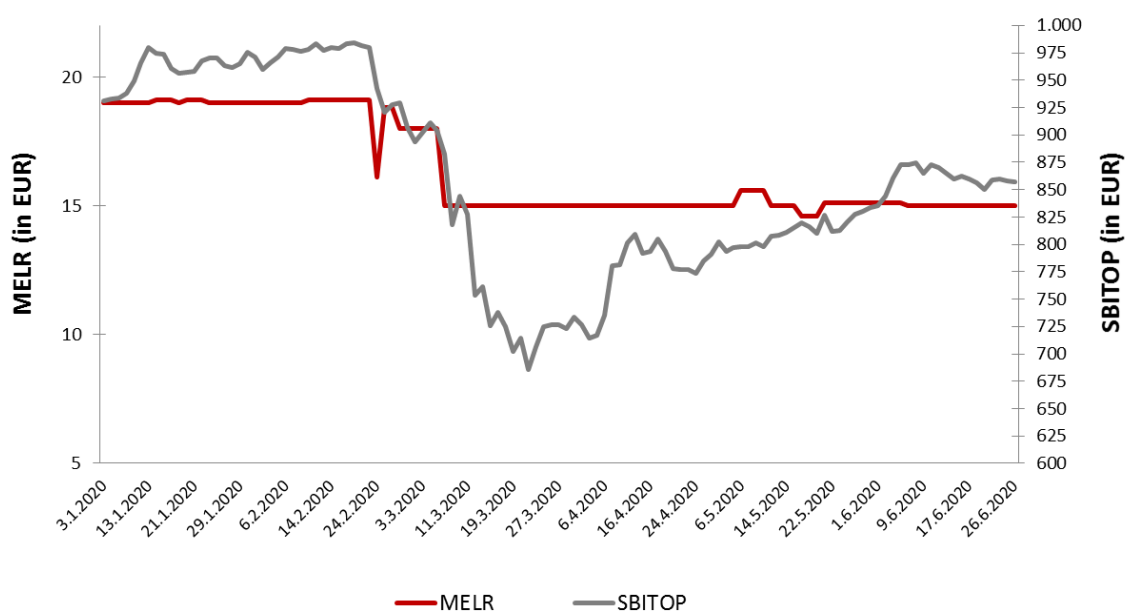
Shares held by Management and Supervisory Board Members as at June 30, 2020

Management Board and Supervisory Board Members of Poslovni sistem Mercator d.d. did not own shares of the company Poslovni sistem Mercator d.d. as at June 30, 2019.

Foreign shareholders

As at June 30, 2020, the share of international shareholders in the company Poslovni sistem Mercator d.d. was **98.67%**, and in comparison with the end of 2019 has not changed.

Movement of closing price per MELR share in the period 1–6, 2020, compared to the movement of the SBITOP index



Key information for the shareholders

	June 30, 2020	June 30, 2019	Change June 30, 2020/ June 30, 2019
Number of shares registered in Court Register	6,090,943	6,090,943	0.0%
Number of own shares	42,192	42,192	0.0%
Market capitalization (in EUR)	91,364	158,365	-42.3%
Market value of share (in EUR)	15.0	26.0	-42.3%
Book value per share (in EUR)	71.4	70.1	1.9%
Minimum close rate in the period (in EUR)	14.6	22.0	-33.6%
Maximum close rate in the period (in EUR)	19.1	28.0	-31.8%
Average close rate in the period (in EUR)	16.4	23.8	-30.9%
Earnings per share (in EUR)	1.5	1.8	-16.9%

Market capitalization is calculated by multiplying the number of shares entered into the court register as at June 30 with market price per share as at June 30.

Book value per share is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator d.d. as at June 30, and the weighted average number of ordinary shares in the period at hand, excluding own shares.

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

Dividend policy

In 2020 no dividend payment relating to accumulated net profit for 2019 is planned.

Own shares

As at June 30, 2020, the company Poslovni sistem Mercator d.d. held 42,192 own shares. In the period 1–6, 2020, the company Poslovni sistem Mercator d. d, neither acquired nor disposed of own shares.

Investors

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

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

3.

*Financial
report*

Accounting policies

All financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–6, 2020, are drawn up in compliance with the International Financial Reporting Standards and they are unaudited.

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

Poslovni sistem Mercator d.d. is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. Consolidated financial statements for the period 1–6, 2020, include the company Poslovni sistem Mercator d.d. and its subsidiaries (hereinafter jointly referred to as the "Mercator Group"), as follows:

- in Slovenia: Mercator–Emba d.d., Mercator IP d.o.o., M–Energija d.o.o.,
- abroad: Mercator–H d.o.o., Croatia; Mercator–S d.o.o., Serbia; Mercator–BH, d.o.o., Bosnia and Herzegovina; Mercator–CG d.o.o., Montenegro; Mercator Macedonia, d.o.o.e.l., North Macedonia.

Mercator Group's predominant operating activity is retail and wholesale of fast-moving consumer goods.

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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	June 30, 2020	Dec. 31, 2019*	June 30, 2020	Dec. 31, 2019*
ASSETS				
Property, plant and equipment	887,710	915,896	574,751	558,429
Right of use assets	350,817	352,908	166,519	168,723
Investment property	231,917	273,006	4,168	4,081
Intangible assets	20,901	20,548	13,044	12,733
Deferred tax assets	2,104	1,702	0	-
Trade and other receivables	4,195	4,757	2,501	3,042
Loans/deposits given	8,466	13,600	-	30
Investments in financial assets	875	876	736	736
Investments in subsidiaries	-	-	263,520	263,520
Total non-current assets	1,506,986	1,583,293	1,025,240	1,011,293
Inventories	204,523	211,090	112,706	111,544
Trade and other receivables	153,940	162,795	72,366	63,543
Current tax assets	676	93	520	-
Loans/deposits given	2,198	2,521	39,122	28,438
Cash and cash equivalents	28,387	45,777	11,910	11,137
Total current assets	389,725	422,276	236,625	214,663
Total assets	1,896,711	2,005,570	1,261,864	1,225,956
EQUITY				
Share capital	254,175	254,175	254,175	254,175
Own shares	(3,235)	(3,235)	(3,235)	(3,235)
Reserves	148,173	135,243	161,268	142,693
Retained earnings	(14,011)	52,392	19,789	8,508
Equity attributable to the owners of the company	385,102	438,574	-	-
Non-controlling interests	311	401	-	-
Total equity	385,413	438,974	431,996	402,141
LIABILITIES				
Trade and other payables	-	-	-	-
Borrowings	73,092	471,902	-	361,993
Lease liabilities	285,803	300,260	78,106	83,496
Deferred tax liabilities	19,476	13,379	10,861	4,715
Provisions	23,016	25,804	18,650	21,152
Non-current liabilities	401,388	811,345	107,618	471,356
Trade and other payables	538,454	579,492	290,279	300,603
Borrowings	495,333	96,771	406,554	30,234
Lease liabilities	72,405	76,100	22,016	19,541
Current tax	3,719	2,887	3,401	2,082
Current liabilities	1,109,910	755,251	722,250	352,459
Total liabilities	1,511,298	1,566,595	829,868	823,816
Equity and liabilities	1,896,711	2,005,570	1,261,864	1,225,956

*Adjustments and effects of changes on the financial statements for December 31, 2019, pertain exclusively to transfers between respective accounting items. The following changes were taken into account for December 31, 2019, with the aim of comparability to the period 1-6, 2020.

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

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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	1–6, 2020	1–6, 2019*	1–6, 2020	1–6, 2019*
Sales revenue	1,066,115	1,021,488	616,202	587,927
Costs of sales	(1,015,742)	(971,766)	(587,477)	(554,112)
Administrative expenses	(34,124)	(29,842)	(16,309)	(15,646)
Impairment of land, buildings, investment properties and RoU	(82,398)	-	(10,859)	-
Other operating income	25,937	9,458	21,011	6,808
Results from operating activities	(40,212)	29,338	22,568	24,977
Finance income	807	1,817	950	644
Finance costs	(27,174)	(25,090)	(11,994)	(11,252)
Net finance costs	(26,367)	(23,273)	(11,044)	(10,608)
Profit or loss before tax	(66,579)	6,065	11,524	14,369
Tax	(2,633)	(3,707)	(2,471)	(3,292)
Net profit (loss) for the period	(69,213)	2,358	9,053	11,077
Net profit (loss) for the period attributable to:				
Owners of the Company	(69,130)	2,357		
Non-controlling interests	(83)	1		

* Adjustments and effects of changes on the financial statements in the period 1–6, 2019, pertain exclusively to transfers between respective accounting items or to reporting based on net method, and they do not affect the amount of net income for the period. The following changes were taken into account for the period 1–6, 2019, with the aim of comparability to the period 1–6, 2020:

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

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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	1-6, 2020	1-6, 2019	1-6, 2020	1-6, 2019
Net profit/loss for the period	(69,213)	2,358	9,053	11,077
Other comprehensive income:				
Items that subsequently cannot be reclassified to profit or loss	18,338	(2,688)	20,803	670
Change in fair value of assets	-	-	-	-
Change in fair value of property, plant and equipment and investment property	23,290	-	25,798	-
Remeasurements of post-employment benefit obligations	(1)	2	-	-
Deferred tax	(4,951)	(2,690)	(4,995)	670
Other changes	-	-	-	-
Items that may be reclassified subsequently to profit or loss	(2,686)	549	-	-
Foreign currency translation differences	(2,686)	549	-	-
Total other comprehensive income/(loss) for the period	15,652	(2,139)	20,803	670
Total comprehensive income/(loss) for the period	(53,561)	218	29,856	11,748
Total comprehensive income for the period attributable to:				
Owners of the company	(53,472)	252		
Non-controlling interests	(89)	(33)		

Consolidated statement of changes in equity of the Mercator Group

Mercator Group													
in EUR thousand	Share capital	Own shares	Reserves						Retained earnings		Equity attribute. to the control. company owners	Non-control. interests	Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period			
As at January 1, 2019	254,175	(3,235)	3,235	6,381	19,386	11,037	202,393	(83,471)	14,046	1,597	425,544	378	425,922
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	2,357	2,357	1	2,358
Other comprehensive income for the period	-	-	-	-	-	-	2,381	583	(5,070)	-	(2,105)	(34)	(2,139)
Total comprehensive income for the period	-	-	-	-	-	-	2,381	583	(5,070)	2,357	252	(33)	218
Disposal of land and buildings carried at fair value	-	-	-	-	-	-	(19,499)	-	19,499	-	-	-	-
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)	-	-	-
Coverage of losses pursuant to the Management Board decision	-	-	-	-	-	961	-	-	(961)	-	-	-	-
Total transactions with owners	-	-	-	-	-	961	-	-	636	(1,597)	-	-	-
Balance as at June 30, 2019	254,175	(3,235)	3,235	6,381	19,386	11,998	185,275	(82,888)	29,112	2,357	425,796	345	426,141

Mercator Group													
in EUR thousand	Share capital	Own shares	Reserves						Retained earnings		Equity attribute. to the control. company owners	Non-control. interests	Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period			
As at January 1, 2020	254,175	(3,235)	3,235	2,571	20,691	11,990	180,566	(83,810)	47,746	4,645	438,574	401	438,974
Net loss for the period	-	-	-	-	-	-	-	-	-	(69,130)	(69,130)	(83)	(69,213)
Other comprehensive income for the period	-	-	-	-	-	-	15,635	(2,680)	2,703	-	15,658	(6)	15,652
Total comprehensive income for the period	-	-	-	-	-	-	15,635	(2,60)	2,703	(69,130)	(53,472)	(89)	(53,561)
Transactions with owners directly recognized in equity													
Contributions by and distributions to owners													
Transfer of net profit for the previous year to retained earnings*	-	-	-	-	-	-	-	-	4,645	(4,645)	-	-	-
Coverage of losses pursuant to the Management Board decision	-	-	-	-	-	(25)	-	-	25	-	-	-	-
Total transactions with owners	-	-	-	-	-	(25)	-	-	4,670	(4,645)	-	-	-
Balance as at June 30, 2020	254,175	(3,235)	3,235	2,571	20,691	11,965	196,202	(86,491)	55,119	(69,130)	385,102	311	385,413

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

Poslovni sistem Mercator d.d.										
in EUR thousand	Share capital	Own shares	Reserves					Retained earnings		Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	
As at January 1, 2019	254,175	(3,235)	3,235	6,381	13,389	-	144,277	4,795	(10,882)	412,136
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	11,077	11,077
Other comprehensive income for the period	-	-	-	-	-	-	2,404	(1,734)	-	670
Total comprehensive income for the period	-	-	-	-	-	-	2,404	(1,734)	11,077	11,748
Disposal of land and buildings carried at fair value	-	-	-	-	-	-	(12,959)	12,959	-	-
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	-
Total transactions with owners	-	-	-	-	-	-	-	(10,882)	10,882	-
Balance as at June 30, 2019	254,175	(3,235)	3,235	6,381	13,389	-	133,723	5,138	11,077	423,884

Poslovni sistem Mercator d.d.										
in EUR thousand	Share capital	Own shares	Reserves					Retained earnings		Total equity
			Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	
As at January 1, 2020	254,175	(3,235)	3,235	2,571	13,389	-	123,498	22,315	(13,807)	402,141
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	9,053	9,053
Other comprehensive income for the period	-	-	-	-	-	-	18,575	2,228	-	20,803
Total comprehensive income for the period	-	-	-	-	-	-	18,575	2,228	9,053	29,856
Transactions with owners directly recognized in equity										
Contributions by and distributions to owners										
Transfer of net loss for the previous year to retained earnings	-	-	-	-	-	-	-	(13,807)	13,807	-
Total transactions with owners	-	-	-	-	-	-	-	(13,807)	13,807	-
Balance as at June 30, 2020	254,175	(3,235)	3,235	2,571	13,389	-	142,073	10,736	9,053	431,996

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

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	1–6, 2020	1–6, 2019*	1–6, 2020	1–6, 2019*
Cash flows from operating activities				
Cash from operating activities before the change of working capital	78,535	77,244	38,570	39,352
Change in inventories	7,894	7,086	991	(2,755)
Change in trade and other receivables	13,868	6,588	(9,264)	(20,804)
Change in trade and other payables, and provisions	(48,327)	(43,853)	(7,609)	(17,096)
Tax paid	-	-	-	-
Cash from operating activities	51,969	47,064	22,689	(1,303)
Cash flows from investing activities				
Acquisition of property, plant and equipment, investment property and intangible assets	(12,953)	(9,713)	(6,698)	(5,487)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets	1,494	124,408	1,456	122,462
Interest received	575	470	809	513
Loans granted	(9)	(16)	(9,700)	(9,895)
Repayment of loans granted	19	42	73	5,063
Cash from investing activities	(10,873)	115,192	(14,060)	112,656
Cash flow from financing activities				
Repayment of borrowings	(77,294)	(291,237)	(23,576)	(230,658)
Proceeds from borrowings	77,203	219,236	34,496	173,981
Interest paid	(23,709)	(23,911)	(10,998)	(10,419)
Principal elements of lease payments	(34,594)	(54,931)	(7,777)	(35,262)
Cash from financing activities	(58,395)	(150,842)	(7,856)	(102,358)
Net increase/decrease in cash and cash equivalents	(17,299)	11,414	772	8,995
Cash and cash equivalents at beginning of the year	45,777	15,074	11,137	6,298
Effect of exchange rate fluctuations on cash and cash equivalents	(91)	20	-	-
Cash and cash equivalents at the end of the period	28,387	26,508	11,910	15,293

* Adjustments relative to the Business Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–6, 2019, are made to ensure methodological comparability of the cash flow statement with the year 2020.

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

Notes to consolidated Statement of Financial Position of the Mercator Group and the Statement of Financial Position of the company Poslovni sistem Mercator d.d.

MERCATOR GROUP

Assets

Mercator Group assets as at June 30, 2020, amounted to EUR 1,892,311 thousand, which is EUR 113,259 thousand less than at the end of 2019.

As at June 30, 2020, the value of Mercator Group's non-current assets amounted to EUR 1,506,896 thousand, which is EUR 76,307 thousand less than as at December 31, 2019. The decrease in non-current assets are mostly a result of real estate revaluation as at June 30, 2020, resulting the changes in the market and events related to the COVID-19 epidemic. The result of the real estate revaluation is a downward adjustment in the real estate value in the statement of financial position in this respect by an amount of EUR 45.6 thousand. Details regarding the revaluation are provided in the chapter Review of Key Events. Tangible fixed assets (property, plant, and equipment) (58.9%) and right to use of assets (23.3%) account for the largest share of non-current assets.

As at June 30, 2020, the value of Mercator Group's current assets amounted to EUR 385,325 thousand, which is EUR 36,951 thousand less than as at the end of 2019. The largest share pertains to inventories (53.1%), as Mercator constantly ensured an adequate stock of strategically important items

POSLOVNI SISTEM MERCATOR, D. D.

Assets of the company Poslovni sistem Mercator d.d. as at June 30, 2020, amounted to EUR 1,257,464 thousand, which is EUR 31,508 thousand more than at the end of 2019.

As at June 30, 2020, the value of the company's non-current assets amounted to EUR 1,025,240 thousand, which is EUR 13,947 thousand less than as at December 31, 2019. The decrease in non-current assets are mostly a result of real estate revaluation as at June 30, 2020, resulting the changes in the market and events related to the COVID-19 epidemic. The result of the real estate revaluation is a downward adjustment in the real estate value in the statement of financial position in this respect by an amount of EUR 25.5 thousand. Details regarding the revaluation are provided in the chapter Review of Key Events. Tangible fixed assets (property, plant, and equipment) (56.1%) and investments into subsidiaries (25.7%) account for the largest share of non-current assets.

As at June 30, 2020, the value of company current assets was EUR 232,225 thousand EUR, which is EUR 17,561 thousand more than at the end of 2019. The largest share in current assets pertains to inventories (48.5%), as Mercator constantly ensured an adequate stock of strategically important items during the

during the epidemic, and trade and other receivables (38.8%). Despite some defaults by our partners in the wholesale segment in the second quarter of the year, which were related to the COVID-19 epidemic, Mercator Group did not perceive any major deviations of the amount of trade receivables or payments in comparison to the year before.

Equity and liabilities

As at June 30, 2020, Mercator Group share capital amounted to EUR 385,413 thousand, which is EUR 53,561 thousand less than as at the end of 2019. Equity increase pertaining to real estate revaluation was affected by the change of fair value reserve due to increase in the value of real estate in the amount of EUR 23.2 million, while net impairment of real estate value in the amount of EUR 68.8 million had a negative effect on Mercator Group's operating results.

As at June 30, 2020, Mercator Group's total borrowings amounted to EUR 568,425 thousand EUR thousand, which is EUR 248 thousand less than as at the end of 2019. The reason for maintaining the level is on the one hand the payment of regular installments and, on the other hand drew additional revolving lines and maintained a high level of cash and cash equivalents as a preventive measure before the declaration of epidemic, in case of any unforeseen events in financial markets. As at June 30, 2020, total lease liabilities amounted to EUR 358,208 thousand, which is EUR 18,153 thousand less than as at the end of 2019. Net financial debt of the Mercator Group, calculated as the difference between Mercator Group's financial liabilities and financial assets, amounted to EUR 898,245 thousand as at June 30, 2020 (December 31, 2019: EUR 899,256 thousand).

As at June 30, 2020, Mercator Group's provisions amounted to EUR 23,016 thousand. Compared to the end of 2019, provisions have decreased by EUR 2,788 thousand.

Mercator Group's trade and other payables as at June 30, 2020, amounted to EUR 534,054 thousand, which

epidemic, and trade and other receivables (29.3%). Despite some defaults by our partners in the wholesale segment in the second quarter of the year, which were related to the COVID-19 epidemic, the company did not perceive any major deviations of the amount of trade receivables or payments in comparison to the year before.

Equity of the company Poslovni sistem Mercator d.d. as at June 30, 2020, amounts to EUR 431,996 thousand, which is an increase of EUR 29,856 thousand relative to the end of 2019. Equity increase pertaining to real estate revaluation was affected by the change of fair value reserve due to increase in the value of real estate in the amount of EUR 25.8 million, while net impairment of real estate value in the amount of EUR 0.3 million had a negative effect on Mercator Group's operating results.

As at June 30, 2020, the company's total borrowings amount to EUR 406,554 thousand, which is an increase of EUR 14,326 relative to December 31, 2019. The reason for the increase is mostly a result of the fact that Poslovni sistem Mercator d.d. drew additional revolving lines and maintained a high level of cash and cash equivalents as a preventive measure before the declaration of epidemic, in case of any unforeseen events in financial markets. As at June 30, 2020, total lease liabilities amounted to EUR 100,123 thousand, which is EUR 2,915 thousand less than as at the end of 2019. Net financial debt, calculated as the difference between financial liabilities and financial assets, amounted to EUR 494,767 thousand as at June 30, 2020 (December 31, 2019: EUR 484,127 thousand).

As at June 30, 2020, the company's provisions amounted to EUR 18,650 thousand. Compared to the end of 2019, provisions have decreased by EUR 2,502 thousand.

The company's trade and other payables as at June 30, 2020, amounted to EUR 285,879 thousand, which

is EUR 45,439 thousand less than at the end of 2019. Major part of the decrease pertains to trade payables that decrease seasonally, and repayment to suppliers, pertaining to the received purchase amount from the divestment of the Roda Centre in Novi Beograd, Serbia.

As at June 30, 2020, long-term coverage of non-current assets with non-current liabilities at the Mercator Group was at 52.2%, which is 30.3 percentage point less than as at the end of 2019.

Compared to the end of 2019, non-current financial liabilities have decreased by EUR 398,810 thousand. The reason for the decrease is maturity of credit lines within one year, which affects the increase in current financial liabilities.

is EUR 14,723 thousand less than at the end of 2019. A major part of the decrease pertains to trade payables that decrease seasonally.

Notes to consolidated Income Statement of the Mercator Group and the Income statement of the company Poslovni sistem Mercator d.d.

MERCATOR GROUP

Sales revenue

In the period 1–6, 2020, Mercator Group's sales revenue amounted to EUR 1,066,115 thousand, which is 4.4% more than in the equivalent period of the year before. Retail revenue also increased, by 7.4%. Slovenia (57.8% of total revenue) remain Mercator Group's largest market. In the Slovenian market, the retail company Poslovni sistem Mercator d.d. saw its revenue increase by 4.8% relative to the same period of the preceding year. In the first month of the 2020 fiscal year, Mercator Group identified a strong trend of solid performance and profitability. With strategic focus on all key aspects of differentiation, and especially the coordinated execution of all value-creation plan initiatives in all markets, Mercator Group succeeded in sustaining and upgrading the positive business trends throughout the first quarter of 2020. Mercator Group's business performance remained successful after the declaration of an epidemic in Slovenia, followed by similar declarations in all markets of our operations. Regardless of the fact that the declaration of epidemic and introduction of measures by governments in respective markets had a negative

POSLOVNI SISTEM MERCATOR D. D.

In the period 1–6, 2020, the company Poslovni sistem Mercator d.d. generated revenue of EUR 616,202 thousand, which is 4.8% more than in the period 1–6, 2019. Retail revenue increased by 8.2%. In the first month of the 2020 fiscal year, the company Poslovni sistem Mercator d.d. identified a strong trend of solid performance and profitability. With strategic focus on all key aspects of differentiation, and especially the coordinated execution of all value-creation plan initiatives, the company succeeded in sustaining and upgrading the positive business trends throughout the first quarter of 2020. The company's business performance remained successful after the declaration of an epidemic in Slovenia. Regardless of the fact that the declaration of epidemic and introduction of measures to curtail it had a negative impact on performance of almost all operating activities of the company, it succeeded in sustaining the positive performance trends that started early in this fiscal year.

impact on performance of almost all Mercator Group's operating activities, the Group succeeded in sustaining the positive performance trends that started early in this fiscal year.

Costs

Mercator Group's costs of goods sold in the period 1–6, 2020, amounted to EUR 1,015,742 thousand, which is 4.5% more than in the comparable period last year; this is consistent with the increase of sales.

Mercator Group's administrative expenses in the period 1–6, 2020, amounted to EUR 34,123 thousand, which is 14.3% more than in the comparable period last year.

Results from operating activities (EBIT)

In the period 1–6, 2020, Mercator Group generated EUR 40,212 thousand of operating profit (EBIT), which is EUR 69,550 thousand less than the figure for the same period of last year, mostly due to revaluation of property as at June 30, 2020.

Net finance expenses

Mercator Group's net finance expenses in the period 1–6, 2020 amounted to EUR 27,174 thousand.

Mercator Group's finance income in the period 1–6, 2020, amounted to EUR 807 thousand, which is 1,010 thousand EUR less than in the comparable period of last year, predominantly due to effect of net currency translation differences that were negative in the period 1–6, 2020, while they were positive in the comparable period of the year before.

In the period 1–6, 2020, Mercator Group's finance costs amounted to EUR 27,174 thousand, which is EUR 2,084 thousand more than in the comparable period of the year before, especially due to effect of currency translation differences that were negative in the period 1–6, 2020, while they were positive in the comparable period of the year before.

Cost of goods sold at the company Poslovni sistem Mercator d.d. in the period 1–6, 2020, amounted to EUR 587,477 thousand, which is 6.0% more than in the comparable period last year; this is consistent with the increased in sales.

Administrative expenses of the company Poslovni sistem Mercator d.d. in the period 1–6, 2020, amounted to EUR 16,309 thousand, which is 4.2% more than in the comparable period last year.

In the period 1–6, 2020, operating profit (EBIT) of the company Poslovni sistem Mercator d.d. reached EUR 22,568 thousand, which is an decrease of EUR 2,409 thousand, mostly as a result of the revaluation of property as at June 30, 2020.

Net finance expenses of the company Poslovni sistem Mercator d.d. in the period 1–6, 2020 amounted to EUR 11,994 thousand.

Finance income of the company Poslovni sistem Mercator d.d. in the period 1–6, 2020, amounted to EUR 950 thousand, which is EUR 306 thousand more than in the comparable period of the preceding year.

Finance costs in the period 1–6, 2020, amounted to EUR 11,994 thousand which is EUR 743 thousand more than in the comparable period of last year.

Profit before tax

In the period 1–6, 2020, Mercator Group's results profit before income tax amounted to EUR -66,579 thousand, which is EUR 72,644 thousand less than in the equivalent period of last year. Lower profit before tax is mostly a result of revaluation of property as at June 30, 2020.

Net profit for the period

Mercator Group's net profit for the period 1–6, 2020, amounts to EUR -69,213 thousand, which is an decrease of EUR 71,571 thousand relative to the equivalent period of the preceding year. Lower profit before tax is mostly a result of revaluation of property as at June 30, 2020. Details regarding the revaluation are provided in the chapter Review of Key Events.

Normalized EBITDA

Mercator Group's normalized EBITDA in the period 1–6, 2020, amounted to EUR 83,438 thousand (decrease by EUR 1,385 thousand relative to the same period of the preceding year). Lower profit before tax is mostly a result of revaluation of property as at June 30, 2020. Details regarding the revaluation are provided in the chapter Review of Key Events.

Profit before income tax of the company Poslovni sistem Mercator d.d. in the period 1–6, 2020 amounted to EUR 11,524 thousand, which is EUR 2,845 thousand less than the profit in the same period of the preceding year. Lower profit before tax is mostly a result of revaluation of property as at June 30, 2020.

Net profit of the company Poslovni sistem Mercator d.d. for the period 1–6, 2020, amounted to EUR 9,053 thousand, which is EUR 2,025 thousand less than in the equivalent period of the preceding year. Lower profit before tax is mostly a result of revaluation of property as at June 30, 2020. Details regarding the revaluation are provided in the chapter Review of Key Events.

Normalized EBITDA of the company Poslovni sistem Mercator d.d. in the period 1–6, 2020, amounted to EUR 43,712 thousand (decrease by 2.6% relative to the same period of the preceding year). Lower profit before tax is mostly a result of revaluation of property as at June 30, 2020. Details regarding the revaluation are provided in the chapter Review of Key Events.

Management Responsibility Statement

The Management Board of the company Poslovni sistem Mercator d.d. hereby confirms that the interim financial report of the company Poslovni sistem Mercator d.d., and the Mercator Group for the period ended on June 30, 2020, to their best knowledge, is compiled in compliance with the International Financial Reporting Standards and that it presents a true and fair account of assets and liabilities, financial position, and the net income of the company Poslovni sistem Mercator d.d., and other companies included in the consolidated statements. The Management Board also declares that the transactions between associated entities within the Mercator Group were conducted based on the signed sale and purchase agreements, according to arm's length principle.

Ljubljana, September 24, 2020

Tomislav Čizmić
President of the Management Board

Draga Cukjati
Member of the Management Board

Igor Mamuza
Member of the Management Board

Gregor Planteu
Extraordinary Member of the Management Board

4.

*Other
informations*

Alternative Performance Measures (APM)

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

APM	<ul style="list-style-type: none"> The most equivalent/closest IFRS item Definition Purpose 	Calculation basis															
Income statement																	
Retail revenue	<ul style="list-style-type: none"> 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. 	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-6, 2020</th><th>1-6, 2019</th></tr> <tr> <td>Retail</td><td>860,185</td><td>801,156</td></tr> <tr> <td>Other activities/businesses</td><td>205,930</td><td>220,332</td></tr> <tr> <td>Sales revenue</td><td>1,066,115</td><td>1,021,488</td></tr> </table>	Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019	Retail	860,185	801,156	Other activities/businesses	205,930	220,332	Sales revenue	1,066,115	1,021,488			
Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019															
Retail	860,185	801,156															
Other activities/businesses	205,930	220,332															
Sales revenue	1,066,115	1,021,488															
Labour force cost	<ul style="list-style-type: none"> 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. 	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-6, 2020</th><th>1-6, 2019</th></tr> <tr> <td>Labour costs from collective and individual employment contracts</td><td>136,447</td><td>123,487</td></tr> <tr> <td>Costs of student labour, hired workers, and other employment contracts</td><td>9,954</td><td>9,665</td></tr> <tr> <td>Labour force cost</td><td>146,401</td><td>133,152</td></tr> </table>	Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019	Labour costs from collective and individual employment contracts	136,447	123,487	Costs of student labour, hired workers, and other employment contracts	9,954	9,665	Labour force cost	146,401	133,152			
Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019															
Labour costs from collective and individual employment contracts	136,447	123,487															
Costs of student labour, hired workers, and other employment contracts	9,954	9,665															
Labour force cost	146,401	133,152															
EBIT	<ul style="list-style-type: none"> Earnings before interest and taxes. Data for 2019 is adjusted and it only includes the net margin generated based on transit operations contracts. Moreover, the data observes the transfers of a part of the early payment discounts from the financial section to the business section of the Income statement. The indicator is a measure of operating profitability, which is the key for attainment of Mercator Group's long-term goals. 	The calculation is presented in the income statement in the Financial Report section of the Business Report.															
Normalized EBITDA	<ul style="list-style-type: none"> Operating profit (EBIT) Earnings before interest, taxes, depreciation and amortization, excluding the effect of non-recurring business events. Non-recurring business events refer to the revaluation of real estate as at 30 June 2020 and other business events of the same nature. Data for 2019 is adjusted and it only includes the net margin generated based on transit operations contracts. Moreover, the data observes the transfers of a part of the early payment discounts from the financial section to the business section of the Income statement. The indicator is a measure operating performance, and it is an approximation of cash flow from operating activities. 	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-6, 2020</th><th>1-6, 2019</th></tr> <tr> <td>Operating profit (EBIT)</td><td>-40,212</td><td>29,338</td></tr> <tr> <td>Depreciation and amortization</td><td>54,420</td><td>54,521</td></tr> <tr> <td>Non-recurring business events</td><td>69,064</td><td>-1,806</td></tr> <tr> <td>Normalized EBITDA</td><td>83,272</td><td>82,053</td></tr> </table>	Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019	Operating profit (EBIT)	-40,212	29,338	Depreciation and amortization	54,420	54,521	Non-recurring business events	69,064	-1,806	Normalized EBITDA	83,272	82,053
Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019															
Operating profit (EBIT)	-40,212	29,338															
Depreciation and amortization	54,420	54,521															
Non-recurring business events	69,064	-1,806															
Normalized EBITDA	83,272	82,053															

APM	<ul style="list-style-type: none"> The most equivalent/closest IFRS item Definition Purpose 	Calculation basis																					
Normalized EBITDA margin	<ul style="list-style-type: none"> Sales revenue, Operating profit (EBIT) The indicator is calculated as the ratio between normalized EBITDA and total sales revenue. 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. 	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>1-6, 2020</th><th>1-6, 2019</th></tr> <tr> <td>Normalized EBITDA</td><td>83,272</td><td>82,053</td></tr> <tr> <td>Sales revenue</td><td>1,066,115</td><td>1,021,488</td></tr> <tr> <td>EBITDA margin (in %)</td><td>7.8</td><td>8.0</td></tr> </table>	Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019	Normalized EBITDA	83,272	82,053	Sales revenue	1,066,115	1,021,488	EBITDA margin (in %)	7.8	8.0									
Mercator Group (EUR thousand)	1-6, 2020	1-6, 2019																					
Normalized EBITDA	83,272	82,053																					
Sales revenue	1,066,115	1,021,488																					
EBITDA margin (in %)	7.8	8.0																					
Productivity per retail employee	<ul style="list-style-type: none"> 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 indicator is annualized (adjusted to annual level). Sales revenue The use of this indicator is common in the retail industry, and it measures performance in the company's core activity. 	<table> <tr> <th>Mercator Group</th><th>1-6, 2020</th><th>1-6, 2019</th></tr> <tr> <td>Retail revenue (EUR thousand) – annualized</td><td>1,720,369</td><td>1,602,312</td></tr> <tr> <td>Number of FTE (employees based on hours worked) in retail</td><td>13,906</td><td>14,059</td></tr> <tr> <td>Productivity per Employee in retail (EUR thousand)</td><td>123.7</td><td>114.0</td></tr> </table>	Mercator Group	1-6, 2020	1-6, 2019	Retail revenue (EUR thousand) – annualized	1,720,369	1,602,312	Number of FTE (employees based on hours worked) in retail	13,906	14,059	Productivity per Employee in retail (EUR thousand)	123.7	114.0									
Mercator Group	1-6, 2020	1-6, 2019																					
Retail revenue (EUR thousand) – annualized	1,720,369	1,602,312																					
Number of FTE (employees based on hours worked) in retail	13,906	14,059																					
Productivity per Employee in retail (EUR thousand)	123.7	114.0																					
Value added per retail employee	<ul style="list-style-type: none"> Operating profit (EBIT) The indicator is calculated as earnings before interest, taxes, depreciation and amortization, and rents, excluding labour costs, divided by FTE (number of employees based on hours worked). The indicator is annualized (adjusted to annual level). The indicator measures the contribution of each employee in the company's core business. 	<table> <tr> <th>Mercator Group</th><th>1-6, 2020</th><th>1-6, 2019</th></tr> <tr> <td>EBIT</td><td>171,739</td><td>155,466</td></tr> <tr> <td>Depreciation and amortization</td><td>68,648</td><td>64,326</td></tr> <tr> <td>Rents</td><td>949</td><td>1,008</td></tr> <tr> <td>Total cost of labour</td><td>181,973</td><td>161,556</td></tr> <tr> <td>Number of retail employees based on hours worked (FTE)</td><td>13,906</td><td>14,059</td></tr> <tr> <td>Value added per retail employee (EUR thousand)</td><td>30.4</td><td>27.2</td></tr> </table>	Mercator Group	1-6, 2020	1-6, 2019	EBIT	171,739	155,466	Depreciation and amortization	68,648	64,326	Rents	949	1,008	Total cost of labour	181,973	161,556	Number of retail employees based on hours worked (FTE)	13,906	14,059	Value added per retail employee (EUR thousand)	30.4	27.2
Mercator Group	1-6, 2020	1-6, 2019																					
EBIT	171,739	155,466																					
Depreciation and amortization	68,648	64,326																					
Rents	949	1,008																					
Total cost of labour	181,973	161,556																					
Number of retail employees based on hours worked (FTE)	13,906	14,059																					
Value added per retail employee (EUR thousand)	30.4	27.2																					
Statement of financial position																							
Long-term coverage of non-current assets with non-current liabilities	<ul style="list-style-type: none"> 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. 	<table> <tr> <th>Mercator Group (EUR thousand)</th><th>June 30, 2020</th><th>June 30, 2019</th></tr> <tr> <td>Equity</td><td>385,413</td><td>426,141</td></tr> <tr> <td>Non-current liabilities</td><td>401,388</td><td>851,470</td></tr> <tr> <td>Non-current assets</td><td>1,506,986</td><td>1,548,952</td></tr> <tr> <td>Long-term coverage of non-current assets with non-current liabilities</td><td>52.2%</td><td>82.5%</td></tr> </table>	Mercator Group (EUR thousand)	June 30, 2020	June 30, 2019	Equity	385,413	426,141	Non-current liabilities	401,388	851,470	Non-current assets	1,506,986	1,548,952	Long-term coverage of non-current assets with non-current liabilities	52.2%	82.5%						
Mercator Group (EUR thousand)	June 30, 2020	June 30, 2019																					
Equity	385,413	426,141																					
Non-current liabilities	401,388	851,470																					
Non-current assets	1,506,986	1,548,952																					
Long-term coverage of non-current assets with non-current liabilities	52.2%	82.5%																					
Net financial debt	<ul style="list-style-type: none"> Received borrowings, lease liabilities, cash and cash equivalents The indicator is calculated as: Non-current and current received borrowings + non-current and current lease liabilities – cash and cash equivalents. The indicator measures indebtedness of Mercator Group. 	The calculation is presented in chapter Financial Management in the Business Report section of the Business Report.																					
Net financial debt/equity	<ul style="list-style-type: none"> Received borrowings, lease liabilities, cash and cash equivalents, equity The indicator is calculated as the ratio between net financial debt and equity. The indicator measures Mercator Group's ability to finance its assets with equity (share capital). 	<table> <tr> <th>Mercator Group</th><th>June 30, 2020</th><th>June 30, 2019</th></tr> <tr> <td>Net financial debt (EUR thousand)</td><td>898,245</td><td>964,441</td></tr> <tr> <td>Equity (EUR thousand)</td><td>385,413</td><td>426,141</td></tr> <tr> <td>Net financial debt/equity</td><td>2.3</td><td>2.3</td></tr> </table>	Mercator Group	June 30, 2020	June 30, 2019	Net financial debt (EUR thousand)	898,245	964,441	Equity (EUR thousand)	385,413	426,141	Net financial debt/equity	2.3	2.3									
Mercator Group	June 30, 2020	June 30, 2019																					
Net financial debt (EUR thousand)	898,245	964,441																					
Equity (EUR thousand)	385,413	426,141																					
Net financial debt/equity	2.3	2.3																					
Net financial debt / normalized EBITDA	<ul style="list-style-type: none"> Received borrowings, lease liabilities, cash and cash equivalents, operating profit (EBIT) The indicator is calculated as the ratio between net financial debt and normalized EBITDA in the last twelve months (LTM) of business operations. The indicator measures the ability to repay the Mercator Group's financial debt from existing sources of liquidity and the generated cash flow from operating activities, and thus indicates the number of years required to repay the financial debt. 	The calculation is presented in chapter Financial Management in the Business Report section of the Business Report.																					
Available liquidity	<ul style="list-style-type: none"> 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 available to the company on a particular date. 	The calculation is presented in chapter Financial Management in the Business Report section of the Business Report.																					

APM	The most equivalent/closest IFRS item		Calculation basis												
	Definition														
	Purpose														
Other performance indicators															
Capital expenditure	<ul style="list-style-type: none">No direct itemCapital 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 Sales Network in the Business Report section of the Business Report, and in the Cash Flow Statement in the Financial Report section of the Business Report.													
Earnings per share	<ul style="list-style-type: none">Net profit for the periodThe indicator is calculated as the ratio between net income (profit or loss) and weighted average number of ordinary shares, excluding treasury shares, of the company Poslovni sistem Mercator d.d. in the period at hand.The indicator is an estimate of performance and returns for shareholders.	<table><tr><th>Poslovni sistem Mercator d. d.</th><th>1-6, 2020</th><th>1-6, 2019</th></tr><tr><td>Profit attributable to shareholders (EUR thousand)</td><td>9,053</td><td>11,077</td></tr><tr><td>Weighted average number of ordinary shares being exercised</td><td>6,048,751</td><td>6,048,751</td></tr><tr><td>Earnings per share (in EUR)</td><td>1.5</td><td>1.8</td></tr></table>		Poslovni sistem Mercator d. d.	1-6, 2020	1-6, 2019	Profit attributable to shareholders (EUR thousand)	9,053	11,077	Weighted average number of ordinary shares being exercised	6,048,751	6,048,751	Earnings per share (in EUR)	1.5	1.8
Poslovni sistem Mercator d. d.	1-6, 2020	1-6, 2019													
Profit attributable to shareholders (EUR thousand)	9,053	11,077													
Weighted average number of ordinary shares being exercised	6,048,751	6,048,751													
Earnings per share (in EUR)	1.5	1.8													