

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

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

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

The responsibility of the Majority shareholder for the Report

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

Auditor's Responsibility

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

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

Criteria definition

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

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

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

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

Our independence and quality control

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

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

Summary of the work done

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

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

Our review of determining cash compensation included:

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

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

Limitations

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

The methodology used for the determination of the cash compensation

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

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

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

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

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

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

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

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

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

Conclusion

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

Restriction of use

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

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Urška KIŠ
CERTIFIED AUDITOR

Trzin, 03.11.2021

For signature, please refer to the original Slovenian version.
