Annual report
2020

Mercator
moj najboljši sosed

CORDIAL

Mercator is home
to kind-hearted
and friendly people.

COSINESS

as we want everyone
to feel pleasant and
right at home with us.

FOCUSED ON SOLUTIONS

We work with people and for the people, and we strive to effectively solve the challenges we face in the course of our work.

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EFFICIENT WORK WILL BEAR FRUIT.

Introduction

Report by the President of Management Board

In 2020, Mercator Group's revenue amounted to EUR 2,170.0 billion, which is an increase of 1.6%; while retail revenue rose by 3.7%. In the market of Slovenia, its largest market of operation at the level of retail as the Group's core activity, revenue growth was even higher, reaching 5.1% relative to 2019[1]. Retail revenue is all the more important since the epidemiologic measures had a pronouncedly negative impact on wholesale, real estate, manufacturing, and technical consumer goods (M Tehnika).

Adjusting for non-recurring business events, Mercator Group’s net profit for 2020 was EUR 4.7 million. In this regard, it should also be considered that the direct negative impact of the COVID-19 epidemic on performance was EUR 18.8 million.

The Group further cut its leverage, as its net financial debt at as December 31 was 5.3% lower than it was in 2019. For comparison, net financial debt adjusted for the effect of IFRS 16 was lower by 6.0%. Mercator Group's normalized EBITDA for 2020 reached EUR 162.8 million. Net financial debt to normalized EBITDA ratio stood at 5.2.

With successful operations and performance, Mercator Group succeeded in attaining its key strategic goals in 2020.

Due to the revaluation of property and impairments to other assets, including those due to the effects of COVID-19, Mercator Group's operating income (EBIT) in 2020 was at EUR -108.2 million, while result for the period was negative at EUR -156.7 million. The main reason for the decrease in operating income (EBIT) is the revaluation of property, plant, and equipment in 2020, which had negative effect on income statement in the amount of EUR 128 million. It should be emphasized that total normalization effects on business results amounted to EUR 161.4 million.

The 2020 business year was under heavy impact of the coronavirus epidemic. Already in early February, Mercator Group's Management Board responded to then potential crisis situation and appointed a crisis task force that held two virtual meetings each day during the harshest periods. The crisis task force that included over 100 key employees in all markets of operation, analyzed six key points on a daily basis: employee safety, customer safety, supply chain safety, revenue growth management, corporate social responsibility, and liquidity Mercator. Even before the epidemic was

[1] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

formally declared, the crisis task force prepared and ran several scenarios, and carried out a number of preparatory measures. After the declaration of the epidemic, over 500 activities were conducted consistently with the six key crisis management points. The crisis task force continues to operate in 2021: it analyzes the conditions and lays down the activities that pave the way for the Group's successful performance, regardless of the effective measures. As the largest national and regional retailer, Mercator Group is aware of its particular responsibility for uninterrupted supply of goods to the general population. We maintain and ensure a safe supply chain and care for continuous logistics. It was of utmost importance for the Mercator Group to ensure even before the declaration of the epidemic additional and adequate amounts of especially the essential food products, and to analyze sales on a daily basis in order to secure adequate amounts of the goods that saw the highest level of customer demand. In this regard, it was very important that Mercator Group had been developing and deepening strategic cooperation with local and regional suppliers even before the crisis. This has proven a major competitive advantage for the Mercator Group. In terms of revenue growth management, we focused on offering competitive prices, offering the essential consumer goods, and offering volume discounts. We increased the capacity of our online store and advertised placement of joint orders between families and neighbours in order to improve the availability of delivery slots.

Declaration of the epidemic and additional measures for its containment, adopted by governments and relevant authorities, however, had a negative impact on Mercator Group operations and performance.

Mercator Group's performance in 2020 was successful. Following, however, are the major aspects that had an negative impact on our operations and performance: Authorities cut the working hours of retail units; an amended came into force in Slovenia to restrict opening hours on Sundays; the entire HoReCa sector as closed down for at least five months (hotel accommodation, all restaurants, bars etc.); along with closing down of schools, this resulted in a major loss of revenue for Mercator Group's wholesale operations, which had to be compensated with additional measures. A similar finding applies to the technical consumer goods (Tehnika) sector that was closed for over a quarter of 2020. Mercator Group's manufacturing operations also saw a decline in demand resulting from the lockdowns in respective markets, which presented an additional challenge for ensuring good business performance. Mercator IP saw a decline in the "to-go" segment, especially due to closing down of schools, a decline in tourism etc. We should add that closing down the country to tourists led to a drop of sales by 10.5% for us. The real estate segment also saw pronouncedly negative effects on its performance as our tenants' operations were closed down.

Epidemiologic measures had a major impact on performance from the aspect of costs. Mercator Group invested heavily in the safety of customers and employees. In 2020, for example, it used nearly 1.5 million litres of disinfectant and purchased over 2.7 million face masks. Mercator Group management introduced a number of activities to cut the negative effects of the increase in the costs of material and services. Nevertheless, epidemiologic measures drove up the costs in 2020 considerably: they rose by 4.4%, or EUR 26.2 million. Labour costs, amounting to nearly EUR 276.0 thousand, increased at the level of the entire Mercator Group by 8.7% relative to 2019. Labour costs increased due to changes in the minimum wage legislation in all markets of our operations. Payments of aid during the epidemic to all employees, consistently with the law, and payment of bonuses for increased risk exposure during the epidemic for all active workers in operations, contributed further to the increase of labour costs.

Despite the restrictions brought about by the year 2020 and the declaration of epidemic in all markets, and which affected the Mercator Group and all economic and social systems, Mercator Group continued to develop and update its network, and continued its activities on all key development projects, including, most notably, the project of constructing a new logistics and distribution centre in Ljubljana. The Management Board and all persons responsible for preparing the required bases for the decisions regarding the planned organization, choice of technology, investment optimization, and development of documentation for the launch for formal procedures for obtaining all necessary documentation, continued their work without impediments and further intensified it, regardless of all headwinds encountered by the Mercator Group as a result of the epidemic.

Also notable in the 2020 fiscal year were the project of anticipated merger with the Fortenova Group, and the project of refinancing Mercator Group's debt. The Management Board prepared everything necessary for successful completion of the transfer procedures and especially for refinancing of the existing agreement on restructuring of Mercator Group's financial liabilities.

In conclusion, I should add that 2020 was a highly challenging year that put additional strain on all Mercator Group employees. Without extra effort by all employees, and active social dialogue regarding the most important measures within the Group, it would have been much harder or nearly impossible to meet all responsibilities laid down as Mercator Group's priorities during the epidemic. The epidemic changed the relations and structure in many aspects. Timely adjustment remains the key to success of further operations. Mercator Group will continue to pursue a clear strategy and vision. It will have clearly defined factors of success, and especially a stable owner that will ensure Mercator Group's long-term development. In recent years, Mercator Group has proven its ability to manage change and its understanding of the future of retail. This provides excellent foundations upon which we can build Mercator Group's future success.

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

Tomislav Čizmić

Ljubljana, April 26, 2021

Supervisory Board Report

Pursuant to the legislation and company Articles of Association, operations of the company Poslovni sistem Mercator d.d. as Mercator Group's controlling company were supervised in 2020 by a Supervisory Board that met at eight regular sessions and three correspondence sessions in the course of the year.

As at December 31, 2020, the Supervisory Board consisted of capital representatives Sergei Volk, Miodrag Borojević, Paul Michael Foley, Fabris Peruško, Matej Lahovnik and Ivica Mudrinić; and of labour representatives Vesna Stojanović, Jože Lavrenčič and Veljko Tatić.

No changes took place in the Supervisory Board in the course of the year.

Major Supervisory Board resolutions

In 2020, the Supervisory Board addressed the following issues and adopted the following major resolutions:

- The Supervisory Board discussed and adopted the Annual Report for the Mercator Group and the company Mercator d.d. for the year 2019, and confirmed the wording of the Supervisory Board Report on the 2019 Annual Report audit.
- The Supervisory Board received comprehensive information regarding the refinancing process, liquidity, and financial covenants.
- The Supervisory Board was presented the Report on all transactions concluded with the majority shareholder Agrokor d.d. and companies affiliated to it for the periods from November 1, 2019, to January 31, 2020; from February 1, 2020, to April 30, 2020; from May 1, 2020, to July 31, 2020; and from August 1, 2020, to October 31, 2020.
- The Supervisory Board approved the agenda for the 27th Shareholders Assembly (AGM) of the company Poslovni sistem Mercator d.d.
- The Supervisory Board was presented the business results of the Mercator Group and the company Poslovni sistem Mercator d.d. for the periods, 1–3, 2020; 1–6, 2020; and 1–9, 2020.
- The Supervisory Board was also presented the report on the work of Internal Audit in 2019; it adopted the Internal Audit annual plan for 2020, and the Internal Audit charter.
- The Supervisory Board was presented the information about the construction project for the logistics and distribution centre in Slovenia, and the various options of its financing.
- The Supervisory Board got acquainted with the information on refinancing the debt of the Mercator Group;
- The Supervisory Board agreed with capital increase at the company M–Energija d.o.o. and the company Mercator–S d.o.o.
- The Supervisory Board approved the five-year strategy for the Mercator Group and the company Poslovni sistem Mercator d.d., and the Business Plan for the year 2021.

Activities of the Audit Committee

As at December 31, 2020, the composition of the Audit Committee was as follows: Miodrag Borojević (Audit Committee chair since June 6, 2019), Matej Lahovnik (Audit Committee member), and Aleksander Igličar (Audit Committee member and independent expert on accounting and auditing).

In 2020, the Audit Committee held ten sessions, of which eight were regular meetings and two were correspondence sessions. At these sessions, the Committee addressed the following issues:

- Internal Audit report for the period 1–12, 2019;
- 2020 annual plan for the internal audit department;
- report by the independent auditor on the progress and findings of the audit of Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2019;
- Annual Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2019;
- quarterly reports of the Mercator Group and the company Poslovni sistem Mercator d.d. in the year 2020;
- review of risk management at the Mercator Group;
- five-year strategy for the Mercator Group and the company Poslovni sistem Mercator d.d., and the Business Plan for the year 2021;
- report by the third-party auditor on the preparatory work for the 2020 audit.

Human Resource Committee

As at December 31, 2020, the Human Resource Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. had the following members: Matej Lahovnik (chair), Ivica Mudrinić (member), Vesna Stojanović (member) and Paul M. Foley (member since March 13, 2020). The Human Resource Committee held four meetings in 2020.

Strategy and Finance Committee

As at December 31, 2020, the Strategy and Finance Committee of the Supervisory Board of the company Poslovni sistem Mercator d.d. had the following members: Paul Michael Foley (chair), Matej Lahovnik (member), Sergei Volk (member), Miodrag Borojević (member) in Ivica Mudrinić (member), and Fabris Peruško (member since March 13, 2020). The Committee held six meetings in 2020.

Semiannual and Annual Report for 2020

At their correspondence session held on September 23, 2020, The Supervisory Board was presented the non-audited Semi-annual Business Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the period 1–6, 2020. The company announced its non-audited semi-annual report pursuant to the relevant legislation and the Rules and Regulations of the Ljubljana Stock Exchange.

At its regular session held on April 22, 2021, the Supervisory Board discussed draft consolidated and separate financial statements for the year ended December 31, 2020, subject to audit of the annual report for the year 2020, which will be in line with events planned for April 23, 2021 (described in the Note 2 and 31 in Financial Part of Annual Report), audited by the audit firm PricewaterhouseCoopers d.o.o., Slovenia, and was presented the Corporate Governance Statement, as a part of the process of adopting the annual report. The draft Annual Report had been previously reviewed by the Audit Committee of the company Poslovni sistem Mercator d.d. at their session held on April 21, 2021. The Audit Committee session was also attended by the certified auditor who provided all and any additional explanations required by the Audit Committee. The Supervisory Board verified the Report on Relations with Affiliated Companies and the Statement prepared in this respect by the management of the company Poslovni sistem Mercator d.d. The Supervisory Board had no objections to the statement regarding relations with affiliated companies. The Supervisory Board was also presented the Independent Auditor's Report on the said statement, by which the auditor confirms and concludes that the information in the Report on Relations with Affiliated Companies is true and accurate in all material respects.

The Supervisory Board had no objections to the submitted draft Annual Report of the Mercator Group and the company Poslovni sistem Mercator d.d. for the year 2020, and confirmed it unanimously at the session held on April 22, 2021.

Mercator Group wrapped up the year 2020 with a net loss of EUR 156,710 thousand, which is mainly a result of revaluation of real estate owned by Mercator Group amounting to EUR 128 million.

In 2020, the company Poslovni sistem Mercator d.d. generated a net loss in the amount of EUR 55,420 thousand. The company proposes not to offset the distributable loss in the amount of EUR 55,420 thousand.

The Supervisory Board compiled this Supervisory Board report pursuant to the provisions of Article 282 of the Companies Act. The Report is intended for the Shareholders Assembly.

Supervisory Board Deputy Chairman
Poslovni sistem Mercator d.d.
Lahovnik Matej

Ljubljana, April 22, 2021

1.7 MILION
of active customer loyalty card holders.

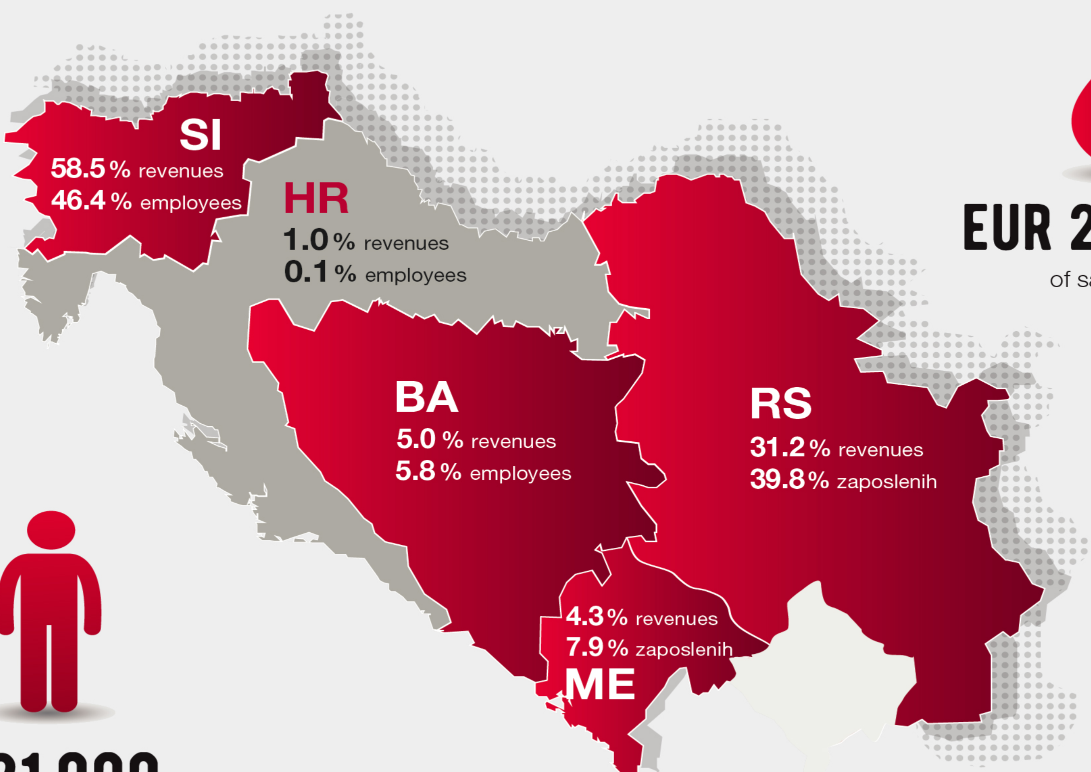
EUR 181 MILION
of paid taxes, contributions, and charges.

1,005 retail and
169 franchise stores

26
new retail units

EUR 163 MILION
of normalized EBITDA in 2020.

Total financial liabilities decreased by
EUR 47 MILION
in 2020.



EUR 2,2 BILION
of sales revenue

~ 21.000
employees

Performance highlights of Mercator Group

		Mercator Group		
		2020	**2019****	**Change 2020/2019**
INCOME STATEMENT	(in EUR 000)			
	Sales revenue and rental income[1,2,Δ]	2,170,018	2,136,707	1.6 %
	Sales revenue from retail[Δ]	1,756,844	1,693,485	3.7 %
	Net profit for the year*	(156,710)	4,666	— %
	EBITDA normalized[2,3, Δ]	162,755	170,422	(4.5)%
STATEMENT OF FINANCIAL POSITION	(in EUR 000)			
	Total assets as at Dec. 31	1,791,483	2,003,869	(10.6)%
	Equity as at Dec. 31	292,046	438,974	(33.5)%
	Net financial debt as at Dec. 31[Δ]	848,068	895,244	(5.3)%
	Net financial debt as at Dec. 31 (w.o. IFRS 16 Leases)	547,842	582,942	(6.0)%
CASH FLOWS	(in EUR 000)			
	Net financial debt / equity as at Dec. 31[Δ]	2.9	2.0	42.4 %
	Net financial debt / EBITDA normalized[4, Δ]	5.2 x	5.3 x	(0.8)%
	(in %)			
	EBITDA normalized / sales revenue and rental income[3,Δ]	7.5	8.0	(47.6)%
OTHER INDICATORS (INVESTMENTS, EMPLOYEES,PRODU-CTIVITY, VALUE ADDED AND SHARE)	Capital expenditure[Δ] (in EUR 000)	41,836	29,905	39.9 %
	Number of employees as at Dec. 31	20,960	19,963	5.0 %
	Number of employees based on hours worked	18,529	18,396	0.7 %
	Productivity per employee in retail[Δ] (in EUR 000)	124.5	121.1	2.8 %
	Value added per employee in retail[Δ] (in EUR 000)	29.7	28	5.8 %
	Market value per share as at Dec. 31 (in EUR)	17.1	19	(10.0)%
	Market capitalization as at Dec. 31 (in 000 EUR)	104,155	115,728	(10.0)%
	Number of companies in the Group as at Dec. 31	11	16	(31.3)%

* Operations in 2020 were affected by non-recurring business events in the amount of EUR 161.4 million, mainly due to the revaluation of fixed assets. **Net profit for the year excluding the impact of non-recurring business events in 2020 amounted to EUR 4.7 million.**

** 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

[1] In 2019, sales revenue is adjusted and present only the net margin earned on arrangements from Transit sales.

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

[3] Normalized EBITDA, excluding the effect of IFRS 16 Leases, amounts to EUR 97,829 thousand for the year 2020, and to EUR 102,840 thousand for the year 2019. The cause for the decrease in normalized EBITDA is the considerable drop in tourist operations in Montenegro as a result of the COVID-19 epidemic and the containment measures introduced by the governments (closing down of non-grocery stores, HoReCa etc.).

[4] Net financial debt/normalized EBITDA ratio, excluding the effect of IFRS 16 leases was at 5.6 x as at December 31, 2020, and at 5.7 x as at December 31, 2019.

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

Business strategy

VISION

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

MISSION

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

STRATEGY

At the end of 2020, Mercator Group renovated a long-term strategy and started to consistently implement it across all key processes at the Mercator Group. The strategy was developed for the period until the year 2025.

Current phase

PHASE 1
Stabilization

- Value Creation Plan (VCP) in Slovenia
- New marketing strategy
- Re-entry into B&H FMCG market

2017

PHASE 2
Value creation plan and deleveraging

- Value Creation Plan in all countries
- New customer value proposition
- Strategic and opportunistic disposals
- Deleveraging

2018-2020

PHASE 3
Intensified growth and expansion of a successful formula

- Refinancing and continuation of deleveraging
- Continue with building operational capability and customer relevance
- Improvement of business performance through optimization of costs and logistics (new logistic center)
- Acceleration and expansion omni-channel and multi-format management
- Building the next level of commercial excellence and pricing & promo optimization with big data (MLink monetization) and advanced analytics
- Expansion of store footprint and opportunistic acquisitions

2021-2025

Value Creation Plan for business efficiency

In the first quarter of 2020, the Value Creation Plan was executed in all markets of Mercator Group's operations, and it included 127 initiatives[2], of which 60 were in Slovenia, 28 in Serbia, 18 in Bosnia and Herzegovina, 16 in Montenegro, and 5 in Croatia. Implementation of initiatives was strictly monitored and we responded with corrective measures in case of any deviations. In March, a new initiative was identified in all markets of Mercator's operations, related to the declared novel coronavirus epidemic. The initiative includes over 500 activities in all key areas of operations. In June, we again tightened some measures and preventively prepared a response plan in case of a second wave of the COVID-19 epidemic. We are closely monitoring the situation regarding COVID-19, constantly adapting the measures to the needs, in view of the changing epidemiological situation, in each market separately.

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

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

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

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

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

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

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

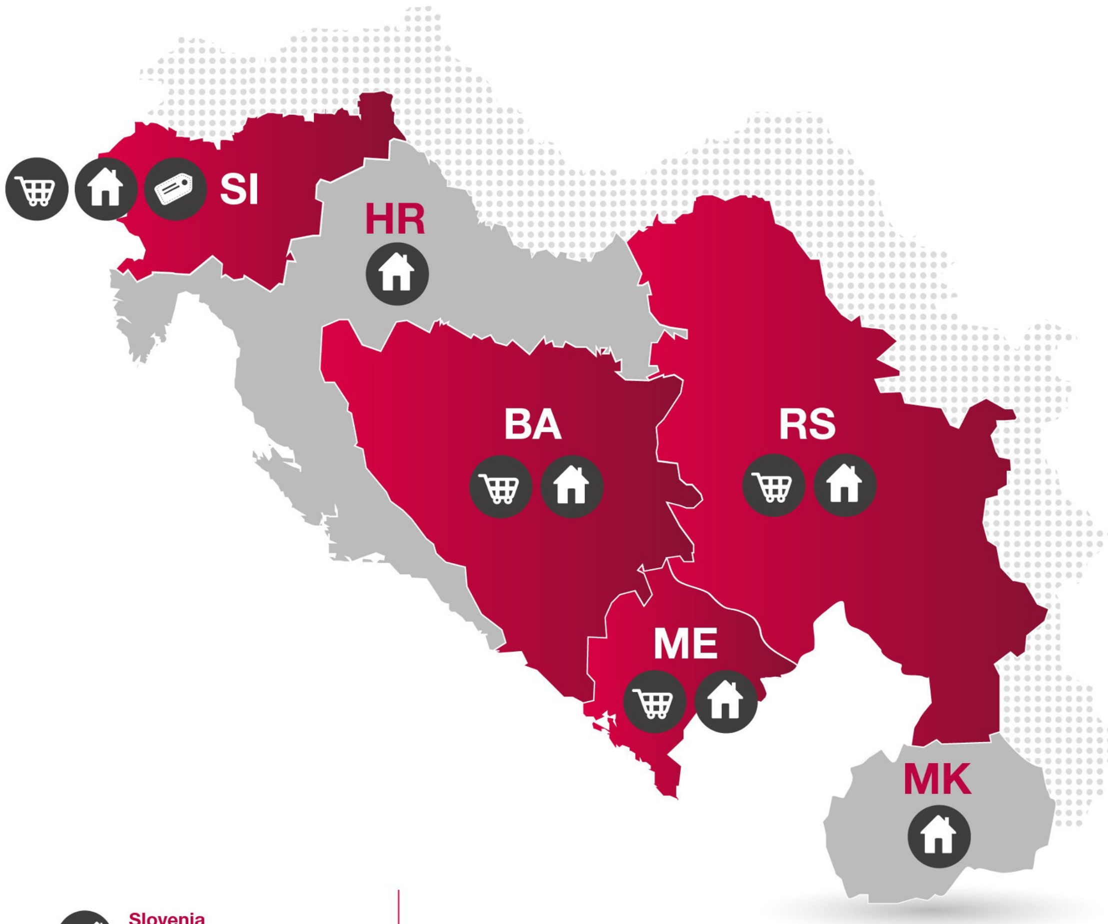
7 **Non-core operations**
Initiatives related to the improvement of operations and performance of wholesale, technical consumer goods (home products and construction supplies – M Tehnika), and other non-core activities or businesses.

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

Introduction and organization

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

Mercator Group compositions as at December 31, 2020



Slovenia
Poslovni sistem Mercator, d.d.

Mercator - Velpro, d.o.o.
(100.0 %)*

Mercator IP, d.o.o.
(100.0 %)

Mercator - Emba, d.d.
(100.0 %)

M - Energija, d.o.o.
(100.0 %)

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

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

Bosnia and Herzegovina
Mercator - BH, d.o.o.
(100.0 %)

M - BL, d.o.o.
(100.0 %)*

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

North Macedonia
Mercator Makedonija, d.o.o.e.l
(100.0 %)*

Mercator operations

Mercator real estate

Other operating activities

* The company does not conduct business operations.

Branch Offices: As at December 31, 2020, Mercator Group companies did not have any branch offices.

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

Presentation of the parent company of Mercator Group

Company name	Poslovni sistem Mercator d.d.
Company head office	Dunajska cesta 107, 1113 Ljubljana
Activity	Retail in non-specialized food retail outlets (G 47.110)
Registration number	5300231
VAT tax code	SI45884595
LEI (Legal Entity Identifier)	549300X47J0FW574JN34
Company share capital as at December 31, 2020	EUR 254,175,051.39
Number of shares issued and paid-up as at December 31, 2020	6,090,943
Share listing	Ljubljanska borza, d. d., offical market, prime market, symbol MELR

Contact

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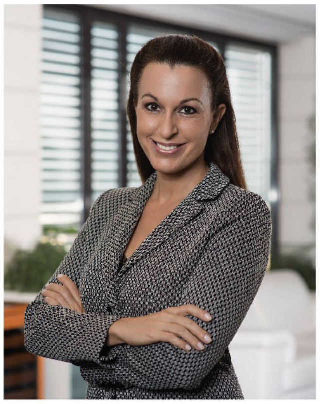
Facebook	*www.facebook.com/mercator*	
Twitter	*www.twitter.com/mercator_sl*	
LinkedIn	*www.linkedin.com/company/335027*	
Instagram	*@mercatorslovenija*	
Youtube	www.youtube.com/user/mercatorslo	

Organization of the parent company of Mercator Group as at December 31, 2020

The Management Board represents the company. It manages its business independently and at own responsibility. As at December 31, 2020, the Management Board of the company Mercator d.d. consisted of four members: President of the Management Board, two members, and the extraordinary member.

Tomislav Čizmić
President
of the management Board
Field of operation:
Management of the company
Poslovni sistem Mercator d.d.
and Mercator Group



Draga Cukjati
Member of the
Management Board
Field of operation:
finance, accounting
and informatics

Igor Mamuza
Member of the
Management Board
Field of operation:
Mercator retail Slovenia

Gregor Planteu
Extraordinary member of the
Management Board
Field of operation:
Field of operation in accordance
with the Act on Conditions
for Appointment of Extraordinary
Management Board Member in
Companies of Systemic Importance
of the Republic of Slovenia

Business operations

Fast-moving consumer goods

Mercator Group's core activity is fast-moving consumer goods retail, in a dense and extensive retail network in **Slovenia, Serbia, Montenegro,** and **Bosnia and Herzegovina.**

We are striving to provide the broadest offer of local, national, and regional brands

In 2020, we continued the **»My Brands«** (»Moje znamke«) campaign, which includes forging links with suppliers and creating a joint story and new offer for our customers, in foreign markets of our operations. This long-term strategic platform for joint development in the region allows joint marketing activities, the broadest offer of local brands, and development of special offer for the customers. The campaign already includes over 5,960 products and 240 suppliers.

As we are looking to offer our consumers what they wish and need, and since most customers want local products that they know and trust, we upgraded in 2020 the broad sales assortment within the project **»Radi imamo domače«** (We Love Local) and **»Ukusi moga kraja«** (My Local Flavours). Thus, we are pursuing the vision of being the best local retailer in all markets of our operations. The campaign already includes over 220 local suppliers and 2,300 items in all markets of our operations. Annually, we sell 1.1 billion worth of goods by local and regional suppliers, which is 61.5% of total Mercator Group retail revenue.

Online store is becoming a key pillar of our business strategy

Mercator's online store that has been operating successfully for 22 years is becoming a key part of Mercator's digital transformation aimed at Mercator's omnipresence, consistent with its omni-channel approach, as we are looking to be the customers' first choice wherever and whenever they want. This year, offer of technical consumer goods in our **M Tehnika online store** was of particular importance, since sale of technical consumer goods was temporarily restricted at brick-and-mortar stores, and home improvement and electronics stores were closed for a long period.

In most cases, fast-moving consumer goods were delivered the day after the order was placed. We also introduced Sunday deliveries, while collection and the pick-up spots was possible in 4 hours after order. A special hotline was established for support to online customers (at 080 2081), since Mercator is the only one to deliver the products purchased at its online store across Slovenia, to over 98% of addresses in the country. An increasing number of customers are reaping the many benefits of Mercator's online store for their usual weekly shopping. while greater shopping frequency is also a sign of customer confidence in Mercator, both off- and online.

Keeping up with the changing lifestyle by developing a new assortment

Consistently with the needs and the changing lifestyle of our consumers, we have developed our own offer of convenience products Minute, Bio Zone, and Free Zone. Mercator's assortment already includes 49 private labels (store brands) with over 3,000 products. Particular emphasis is placed on development of private labels that contribute differentiation for the customers and are consistent with the customers' lifestyles. In terms of convenience offer, we continued to develop the Minute »to-go« offer in 2020. This includes sandwiches, salads and other dishes, including some innovative ones, which are ready for immediate consumption. We prepared an extensive communication campaign for these products early in the year. These products accounted for nearly 30% of total sales for our Minute line that included a total of 320 products, of which 70 are »to-go« products. From the aspect of pursuit of trends, the line of organically grown products Bio Zone is also very important. It is consistent with the wellness and healthy diet lifestyle. This line, too, was supported by an extensive communication campaign at the start of the year, which stressed especially fresh fruit and vegetables that are an important aspect of selection for buyers of organic products. This line, too, is continuously expanded with new products; to date, there are 213. Responding to the increasing needs of our customers for gluten-free diet, we have developed our own line of gluten-free products called Free Zone; today, it includes 17 products.

In 2020, we enriched our offer, consistently with the conditions mostly stipulated by the corona crisis. Immediately after the outbreak of the crisis, our Minute offer focused on large family packs of ready-made dishes that only require reheating. Thus, we relieved our customers of the burden of home cooking. In addition, by offering these dishes, we expanded our focus from B2C (business-to-consumer) operations to B2B (business-to-business) operations. We prepared presentational materials including price lists for sale of dishes to bars and major customers, and for sale by delivery to home or office. In the Ljubljana area, we also included our offer in the Wolt.com online application. In the middle of the year, we upgraded our offer with smaller single-portion packaging of ready-made dishes. Considering the circumstances, we also included cakes and other home celebration products in our private label offer.

In 2020, we launched an updated line of Mercator water, new Finesse chocolates, and new line of Mercator pre-packed meat that helped boost the sales of total live fresh packed meat segment. The line was launched in October 2020. By the end of the year, the total annual net sales value index for the private label red meat products increased to 121, while the index for this type of meat for Mercator rose to 107, for private label chicken to 118, and overall index for meat rose to 103. The Gelatissimo line of ice cream was also expanded with new flavours in 2020; there are now 31.

Mercator real estate

Real estate is a separate business field at the Mercator Group, since the extent of our real property ownership requires particular care and management from the aspect of environmental care and energy efficiency, and from the aspect of other improvements. Within this field, we seek to reach the optimum in managing our buildings and tenants, developing our retail network, and improving the attractiveness of our shopping centres. Mercator Group is the owner of buildings with a combined total value of EUR 1 billion (this includes buildings for our own business activities, as well as investment property and land).

Mercator wholesale

IP Veleprodaja (Wholesale) set ambitious goals for the year 2020, which were also defined in activities of value-creation plan initiatives. Despite the epidemic that has had a negative effect since March especially on the HoReCa and public procurement segment, we compensated for the lost revenue by increasing our sales in other segments (franchise stores and retailers). In agricultural equipment and transit segments, our well-prepared risk mitigation activities during the year allowed us to compensate for loss of revenue in the agricultural program with an increase in transit deals. With diligent management of profit margin and cost control, we exceeded last year's EBITDA by nearly 3%.

Twenty franchise units were refurbished or updated, and we acquired 4 new franchise units. After the completion of the WMS (warehouse management system) the intensity of the work on the project to cut delivery failures was stepped up. In addition to other benefits, the introduction of WMS allowed us to start managing our assortments, as well as macro and micro positioning of goods at the C&C units. We also started developing the projects and tools to increase sales and efficiency (tools for work of our field sales agents, tools for the work of call centre operators, tools for managing the public procurement tenders, establishment of required databases in back-office systems, comprehensive solution for warranty claims management, business analytics tools).

Home products

The M Tehnika (technical consumer goods) retail units across Slovenia offer products for home and landscaping at favourable payment terms. The offer includes small and major home appliances, consumer electronics, tools and accessories, construction and gardening equipment and machinery, products for a cosy home and ambient, kitchen cabinetry of Slovenian origin, and landscaping products for a well-kept environment. The offer of traditional stores is rounded off by the **M Tehnika online store** that offers over 17,000 well-priced products in ten categories, including construction and home improvement, with the option of payment in instalments with the Pika card and free delivery for all orders of over EUR 200. In recent years, M Tehnika succeeded in maintaining the position of the largest home appliance retailer, and to improve its recognition in the segments of construction, gardening, and home improvement. With our approach of upgrading our service, we are looking to offer our customers all-around services for their needs during construction, renovation, or decoration of their homes.

Service activities and manufacturing

Also operating as a part of the Mercator Group are two independent manufacturing companies: **Mercator–Emba d.d.** and **Mercator IP d.o.o.** Production program of the company Mercator–Emba d.d. includes production of instant cocoa products, dessert toppings, cereal products, and packaging of other products. The company Mercator IP d.o.o. as a service and manufacturing company operates according to a modern concept of employment of persons with disabilities, to whom Mercator Group dedicates particular attention. Mercator Group also offers its customers other service activities like self-service petrol stations **Maxen** and **catering**.

Review of key events

January - December 2020

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

We continued to develop the concept for technological equipment of our new distribution centre. This was the basis for preparing the documentation for the tender to which we invited the world's largest warehouse process automation providers. Fourteen equipment providers expressed their interest for taking part in the tender. Simultaneously with the selection of the provider of technological equipment for the distribution centre, we have also started to work with the selected building designers in order to define the architecture and functional concept of the new distribution centre, which will best fit the needs of our logistics processes. The Final solutions for both technology and the building will be the basis for the start of the procedure for obtaining the building permit. All processes of planning the new logistics and distribution centre are taking place based on the project management principles.

February 2020

Events related to the declaration of epidemic

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

June 2020

Revaluation of real estate

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

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

On 30 June 2020, real estate appraisal was conducted by a certified real estate appraiser.

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

Avgust 2020

Virtual tour of M Tehnika Črnuče

By digitalizing the M Tehnika Črnuče store, we allowed a virtual walk around the store to make customers' decision to visit the store and shop there easier. We decided for the virtual approach due to the changed conditions that restrict a trip to the store or make it entirely impossible for the customer.

August 2020

Updated hypermarket Kranj Primskovo

During the summer, we fully updated our second most successful hypermarket in terms of revenue. Upon opening on August 27, 2020, we prepared an attractive sweepstakes for our customers, supported by our partners. The main prize was a brand-new car **Citroën C3**. The opening campaign reached the entire population of the wider Kranj area. The hypermarket spans 4,340 m^2 of sales area. New features include a corner for manual prosciutto slicing, a sushi island, offer of special sports diet products Polleo, a department with tables that allows a brief pause during shopping, larger departments with ready-to-eat food, and a modern wine department. The customers can also use the M sken and M sken Mobile services that allow a fully independent shopping experience. Thus, the store is even better tailored to the preferences and needs of the customers who shop there on a daily basis.

Events related to the developments at the Agrokor Group

August 2020

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

September 2020

In September 2020, the European Commission approved the transfer of Group Mercator from Agrokor to Fortenova Group. Permits have been obtained from all competent competition authorities, except Serbia.

September 2020

Donation of ski equipment to 22 ski jumping clubs

In September 2020, we presented **101 pairs of skis**, **28 pairs of ski boots**, and **53 pairs of ski bindings** to representatives of 22 ski jumping clubs. This was our contribution to further development of junior ski jumping.

October 2020

Striking of five companies from the court register

In October 2020, the District Court in Ljubljana removed five companies of the Mercator Group from the court register. On October 6, 2020, the companies Mercator Maxi, catering and services, d.o.o., Platinum A, real estate management, d.o.o., and Platinum B, real estate management, d.o.o. were deleted.

The companies Platinum C, real estate management, d.o.o. and Platinum D, real estate management, d.o.o. were deleted on October 14, 2020. The companies did not conduct any business activities.

November 2020

Updated Cash&Carry in Škofja Loka

The wholesale unit in Škofja Loka was partially refurbished. We built a precipitation drainage system outside of the unit, resurfaced the parking lot and the area underneath the unit, and built a packaging area, surrounded with netting. At the same time, we installed additional shelving inside the unit to improve the positioning of beverages. A key improvement is the delineation between the outbound and the inbound section, which simplified and streamlined the process of flow of goods.

November 2020

Closing down of M Tehnika stores

In November, M Tehnika stores were closed down in compliance with the government order. Owing to quick reactions and our colleagues' vision, we were able to respond promptly to this challenge and started offering the products via other sales channels. We remained available to our customers at all our stores, both via electronic mail and by phone. We offer quick shopping **online**, as well as remote shopping for individuals and shopping for businesses/legal persons. We installed bells in front of our sales units, so that the customers could call sales assistants to help them with their purchases via a pro-forma invoice or to answer any other questions.

November 2020

MTikTok Academy

Mercator was the first retailer to establish a TikTok Academy on the rapidly expanding TikTok social network, aimed at all aspiring young creators. Our MTikTok Academy is already live, as it has received the first submissions by contestants. With the MTikTok Academy, Mercator is looking to create a community of young creators who have a chance to become **TikTok stars**. We are pleased to support both young creative spirits and established Slovenian musicians with this project.

Under the tutelage of our mentors, the youngsters will develop their creativity, and they will get the opportunity to work with TikTok influencers and acquire their first working experience by creating video content. The best video content will be rewarded with a cash prize. Contestants will learn from renowned Slovenian TikTok influencers: Žiga Kukovič, Robert Kladnik in Maks Levstek. Music will be provided by Slovenian musicians **Challe Salle** and **MRFY**.

November 2020

Test by the Slovenian Consumers Association

At Mercator, we are proud to see our Minute French salad take the first place in the test by the Slovenian Consumers Association (ZPS) which included three samples of such products by different private labels. In the test, the ZPS tested the chemical properties, conducted some microbiological tests, checked the presence of additives and aromas, and sensory quality. Final score also took into account the compliance of labelling on the packaging. It was confirmed that the winning French salad did not contain any preservatives.

The winning product is made by Mercator's social enterprise. Such awards are proof that freshness and careful selection of ingredients can please the culinary tastes of the most demanding customers, and proof of faithfulness to traditional recipes.

December 2020

Fifty-four employees successfully complete the Health Promoter School

In December, the fourth generation of Health Promoter School participants completed their training. Thus, Mercator already has **157 trained health promoters** from all fields of operation.

December 2020

Revaluation of real estate

As in June 30, 2020, real estate appraisal was conducted in December 31, 2020 by a certified real estate appraiser. Calculation of property revaluation pointed to a net decrease in real estate value (impairment) of EUR 71.3 million, which is equivalent to 7.1% of total value of property (land), plant (buildings), and investment property. After the revaluation, the value is EUR 0.9 billion. Real estate revaluation resulted in an decrease of equity (fair value reserve) due to decrease in value of real estate in the amount of EUR 12.3 million, while net impairment of real estate value in the amount of EUR 59.0 million had a negative effect on Mercator Group's operating results.

Major events following the end of the financial period

After the acquisition of business share from the Republic of Croatia and the business share from Jana Vujnović, Poslovni sistem Mercator d.d. became as of March 1, 2021, the **100% and thus the sole owner of the subsidiary Mercator–H d.o.o.**

msoseska.tv is one of our **most important projects in 2021** that once again proves what we have proven so many times to date: Mercator as the largest and best retailer sets the trends and the direction for the future. At msoseska.tv, we offer content on active leisure time, promote a diverse lifestyle, bust the myths and taboos on vegan diet, offer ideas for delicious lunches and romantic dinners, invite viewers to make the best desserts, unveil the secrets of housewives and technology buffs, as well as culture and music. This online content platform with live video content is freely available to all neighbours. The content of the »town« is available on different Mercator social networks: **www.msoseska.tv** internet site, **Facebook**, **Instagram**, **TikTok**, **YouTube** and **Pinterest**.

ATVP (competition protection agency) Serbia – On March 5, 2021, Fortenova Group acquired permission from the competition protection agency in Serbia, which opened up the way to **transfer of Mercator to Fortenova Group.**

Poslovni sistem Mercator d.d. received a notification by the company Sberbank and the company Fortenova Group TopCo, informing Mercator that the two companies signed on March 12, 2021, a**n agreement on put option involving the shares of the company Poslovni sistem Mercator d.d.** According to the option agreement, the company Fortenova Group TopCo granted to the company Sberbank the put option, which entitles Sberbank to request from the Fortenova Group TopCo to acquire in exchange for adequate consideration from the Sberbank up to 1,128,803 ordinary registered no-par value shares with the symbol MELR, accounting for 18.53% of total MEL share capital of the company Poslovni sistem Mercator d.d.

At the end of March 2021, we received a notification from the company Sberbank and the company Fortenova Group TopCo, informing us of the **transfer of significant ownership involving 1,128,803 Mercator shares, or 18.53% of total Mercator share capital, from the company Sberbank to the company Fortenova Group TopCo**.

On March 9, 2021, Mercator Supervisory Board **approved** the financial arrangement with the **Fortenova Group**, the purpose of which was the restructuring of Mercator's financial liabilities maturing in June 2021. This will allow reaping all synergistic benefits and improving the retail position in all markets.

On March 25, 2021, Mercator entered into an amendment agreement relating to its **maturing EUR 80 million Super Senior Facility with VTB Europe**. This amendment envisaged an initial three-month extension in order to provide a stable framework to finalise the wider refinancing (wider refinancing was then closed on April, 23 2021). This amendment also provided the framework to extend the maturity until end of September 2021 and to roll-in a further EUR 20 million of existing senior debt beyond the wider refinancing.

On April 16, 2021, **the wider refinancing was signed**, whereunder the Company entered into debt facilities with Fortenova grupa d.d. (»FNG«) in the total amount of EUR 480 million (the »FNG Facility«).

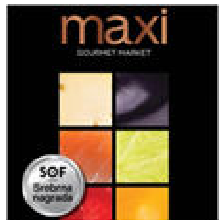
On April 23, 2021, **EUR 385 million** (out of EUR 480 million of the total facility available) **was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes**. More details are provided in Note 2. d) and Note 31 in the Financial section of the Annual Report.

On April 23, 2021, also **the transfer to Fortenova Group of Agrokor's shareholding in Mercator was completed**. After the transfer Fortenova Group owns 5,366,179 or 88.1% ordinary registered no-par values shares with the security code MELR.

On 26 April 2021, **the Fortenova Group announced to the public, pursuant to Article 24 of the Takeovers Act** (»Zakon o prevzemih) its intention of making a takover bid for all Mercator shares. Fortenova will announce its takeover bid for the purchase of the shares of Poslovni sistem Mercator, d. d., no later than 30 days and no sooner than 10 days following the announcement of its intention of taking over.

Awards and other achievements

The project Slovenia's Little Chef, co-created by Mercator team with the POP TV station, won the **golden award at the Slovenian Advertising Festival (SOF).**



We also received the **silver award at the Slovenian Advertising Festival (SOF)** for our third-party advertising of the **Maxi Gourmet market**, in the »**Innovate«** category.

Three products of the **Minute** vegetable meal line were amount the **most innovative food products of 2021** in the ready-made category, according to the expert review of the Nutrition Institute.

The Chamber of Agricultural and Food Producing Companies presented their **golden awards** for excellent quality to **9 Mercator pastry and fine bakery products** made by the company Mercator IP d.o.o., and to 47 different types of bread and small pastry by different bakeries, which are available at Mercator.

At the **58th international agriculture and food fair Agra**, Mercator products of the **Minute** brand won medals for the fifth consecutive year. This year, the medals were presented to 19 products.

In a test by the **Slovenian Consumers Association**, the **Minute French salad made by the company Mercator IP d.o.o.** won among the samples of deli French salads, while the **fresh cheese made of semi-skimmed pasteurized milk** under the **Mercator** private label took the first place among the cottage/fresh cheese samples.

The **Maxim restaurant** won the **Michelin Plate** award presented by the world's most famous restaurant guide – the **Michelin Guide**.

THE MICHELIN GUIDE

Two products by the company Emba d.o.o. received the award for **innovation in decreasing the sugar content**, presented by the **Nutrition Institute.**

A product by the company Emba d.o.o., the BenQuick cocoa with 30 percent less sugar, won the **2020 product of the year award** in the category of instant cocoa beverages.

At the festive award ceremony where military awards and commendations were presented to enterprises, individuals, and the media, the company Mercator–S d.o.o. received a plaque of gratitude for donating funds and offering support to the **Serbian Ministry of Defence and the Serbian Army** during the COVID-19 epidemic.

At the sixth integrated communications festival called »**Kaktus 2020«**, the company Mercator–S d.o.o. won an award for its project **»We believe in Idea – Novi Sad 2020«** in the Outdoor Campaign category.

The Serbian chamber of commerce and industry organized a campaign Made in Serbia, in which it awarded »**Čuvarkuća«** (»houseleek«) labels to brands. To earn the label, over 80% of a product's value has to be made in Serbia. The brand **»Ukusi moga kraja«** (»My Local Flavours«) won **111 »Čuvarkuća« labels.**

Corporate Governance Statements

Pursuant to Article 70, Paragraph 5 of the Companies Act (ZGD-1), Business Report of the company Poslovni sistem Mercator, d.d., for the year 2020, available on the company website at www.mercatorgroup.si also includes a Corporate Governance Statement.

Reference to the Corporate Governance Code

The governance of the company Poslovni sistem Mercator, d.d., is based on legal provisions, sound business practice, and the principles of the Corporate Governance Code (hereinafter referred to as the Code).

Compliance with the provisions of the Code

The Management Board and the Supervisory Board of the company Poslovni sistem Mercator d.d found for the year 2020 that corporate governance at the company Poslovni sistem Mercator d.d. and the Mercator Group complies with the provisions of the Code, with particular deviations explained below.

Diversity policy (Recommendation 4 and 10.0): The Management Board and the Supervisory Board are aware that heterogeneity of composition of all supervisory and managerial bodies is important for their efficiency. The current composition of the Supervisory Board and the Management Board reflect the different personality characteristics and experience in a variety of field of business, different educational profile, and different nationality of the members of these bodies. In light of the planned transfer of Mercator to the Fortenova Group, preparation and implementation of more concrete policies and guidelines for further work all corporate bodies of the company can only commence after the transfer.

Statement of corporate governance and compliance with the Code (Recommendations 5.7 and 14.4): Third-party audit of the corporate governance statement and third-party audit of Supervisory Board operation for 2020 were not conducted due to the anticipated transfer of the company Poslovni sistem Mercator d.d. to the company Fortenova Grupa d.d. (Fortenova Group); therefore, the company Poslovni sistem Mercator d.d. shall commission such external audit later on.

Relations with shareholders (Recommendation 6.2): Two largest shareholders (Agrokor d.d. and Sberbank of Russia) independently communicate their intents regarding the management policy for their investment into the publicly traded stock corporation; therefore, the company did not make any additional invitations to shareholders to publicly disclose their management policies with regard to their investment in this publicly traded stock corporation.

Supervisory Board, independence (Recommendations 18.7, 22, 23): Due to the current ownership structure of the company Poslovni sistem Mercator d.d. (the company Agrokor d.d. holds 69.57% of total company shares and the company Sberbank of Russia holds 18.54% of shares), the company Supervisory Board and the Supervisory Board committees also include members with close economic ties to the said two shareholders.

Statement of independence (Recommendation 11): All Supervisory Board members signed a special statement specifying their position regarding the compliance with each criterion of independence. However, the company did not disclose their statements on its official website, since compliance with each particular criterion of independence is a matter of personal integrity of respective Supervisory Board members.

Supervisory Board tasks and payment to the Management Board (Recommendations 12.10 and 21.1): In 2020, Management Board member receipts only included the fixed part, while the decision on the variable part of the reward to Management Board members is subject to Supervisory Board decision that is made based on the performance in the preceding year.

Supervisory Board member training (Recommendation 13.1): Supervisory Board members take part in training and education courses consistently with the needs of each member. Therefore, the Supervisory Board does not specify an annual training plan for members of the Supervisory Board and its committees.

Composition and appointment of the Management Board (Recommendation 20.7): The term of contract of the extraordinary Management Board member at the company Poslovni sistem Mercator d.d. Gregor Planteu is related to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia, pursuant to which he was appointed to the Management Board.

Public disclosure of important information (Recommendation 29.9): At its website at www.mercatorgorup.si, the company makes available, in Slovenian and English, all rules of procedure for its corporate bodies, except for rules of procedure for the shareholders assembly, since such rules of procedure have not been in place for a number of years, as the shareholders assemblies (annual general meetings) are always presided over by a renowned attorney, in compliance with the effective legislation.

Consistently with the Appendix C of the Corporate Governance Code for Publicly Traded Companies (the LJSE Code), the composition of the Management Board and the Supervisory Board is presented in more detail below in this chapter, while the receipts of the Management Board and the Supervisory Board are disclosed in the Financial part of the Annual Report under section 33, Related Party Transactions.

The company Poslovni sistem Mercator d.d. shall continue to observe the recommendations of the Corporate Governance Code in the future, as it is looking to preserve a transparent governance system and the level of confidence by all company stakeholders and the broad public.

Description of key characteristics of internal control and risk management at the company, with regard to the financial reporting process

Mercator Group companies compile their financial statements **pursuant to the International Financial Reporting Standards (IFRS)**, making sure that the financial position, income, and cash flows are presented fairly and consistently with the actual effects of business events.

Internal controls include policies and procedures put into place and conducted by the Mercator Group at all levels in order to control the risks related to financial reporting. The purpose of internal controls is to provide reliability of financial reporting and compliance with the applicable laws and other internal and external regulations. The purpose of internal controls in accounting is to manage the risks pertaining principally to the following:
- credibility of accounting information based on valid and credible bookkeeping documents, and evidence of the existence of business events, complete with a clear presentation of all information relevant for correct bookkeeping of such events;
- accuracy of financial data which is appropriately reviewed before announcement; controls are conducted at several levels by comparing and aligning or harmonizing the data of analytic bookkeeping to the data in the bookkeeping documents, as well as to the data of business partners or actual physical status of assets, and bringing into line the analytical accounting and the general ledger;
- completeness and timeliness of financial information, provided by uniform accounting policies and precisely defined procedures and recording deadlines as laid down in the accounting rules and regulations of the Mercator Group, and in other internal acts of the Mercator Group companies; also important is appropriate delineation of powers and responsibilities.

The information system plays a vital role in the provision of quality accounting information from the aspect of the use of modern technology. Most Mercator Group companies employ **SAP** as the **central IT system**. It is fittingly integrated with other IT solutions implemented at respective companies. Operation of the SAP system and the internal controls integrated therein are checked annually in cooperation with authorized third-party service providers.

Risks occurring in financial reporting are also managed and mitigated by the following:
- good internal communication (provision of information) and notification;
- clear and concise accounting practices and their strict implementation;
- harmonized accounting policies throughout the entire Mercator Group;

- continuous improvement of organization of the accounting function at each company, as well as at the Mercator Group level;
- timely preparation, detailed treatment, and suitable concept in terms of contents and substance in statements relevant for business decision-making;
- comprehensive and extensive disclosures and explanations;
- regular internal and external audits and reviews of business processes and operations.

The above is only possible with highly professional, meticulous, and persistent employees complying with the relevant legislation and sharing Mercator's values. Therefore, we devote a lot of care to their regular education. We provide both internal and third-party professional education, as well as training to acquire the »soft« skills.

The internal audit report on page 25, we described the operation of the internal audit.

Structure of the company shareholders as at December 31, 2020

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

Legal transaction between the company Poslovni sistem Mercator d.d., and the majority shareholder Agrokor d.d. and the companies affiliated to it

On May 6, 2017, the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (ZIČUDSP) came into effect (Official Journal of the RS, 23-1204/2017; hereinafter referred to as the Act). At its session on May 8, 2017, the government of the Republic of Slovenia established that Poslovni sistem Mercator d.d. was a company of systemic importance to the Republic of Slovenia. Pursuant to the Act, the District Court in Ljubljana appointed on May 18, 2017, upon proposal by the Government of the Republic of Slovenia, **Gregor Planteu** as the extraordinary Management Board member at the company Poslovni sistem Mercator d. d.

The extraordinary Management Board member at the company Poslovni sistem Mercator d.d.:
- is responsible exclusively for the management of transactions with the majority shareholder Agrokor d.d. and its subsidiaries;
- does not deal with regular operations of the company Poslovni sistem Mercator d.d.;
- prevents, pursuant to the Act specified above, any financial draining of the company Poslovni sistem Mercator d.d. by its majority shareholder Agrokor d.d.;

President of the Management Board, two Management Board members and the extraordinary Management Board Member jointly represent the company of systemic importance Poslovni sistem Mercator d.d. and adopt unanimously the decisions regarding management of all transactions related to the majority shareholder Agrokor d.d. and companies affiliated to the it.

For operational execution of the Act, the Management Board of Poslovni sistem Mercator d.d. adopted an Organizational Rule for Managers and Executives of the company Poslovni sistem Mercator d.d. and its subsidiaries for concluding and managing any transactions in relation to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia. This Organizational Rule specifies particularly the following:
- more precise definition of the transactions between the company Mercator d.d. with the majority shareholder Agrokor d.d. or companies affiliated to it, which are regulated pursuant to the Act;
- status of transactions effected before the Act came into force;

- obligations of Mercator Group managers and executives for which joint representation and adoption of decisions, or approval by the extraordinary Management Board member, is required in accordance with the Act.

The company Poslovni sistem Mercator d.d. shall, pursuant to the Act, **compile every three months a report on all transactions concluded with the majority shareholder Agrokor d.d. and the companies affiliated to it** and present the report to the Supervisory Board, while the extraordinary Management Board member shall present it to the Minister of Economy. In 2020, reports were released for the following periods: in March 2020 for the period from November 1, 2019, to January 31, 2020; in June 2020 for the period from February 1, 2020, to April 30, 2020; in September 2020 for the period from May 1, 2020, to July 31, 2020; and in November 2020 for the period from August 1, 2020, to October 31, 2020. All reports conclude that **all transactions effected with the majority shareholder Agrokor d.d. and its subsidiaries conformed to the principles of diligence, good management and credibility, and that the company Poslovni sistem Mercator d.d. did not sustain any loss or damage with regard to such transactions.**

All transactions between the company Poslovni sistem Mercator d.d. and the company Agrokor d.d. comply with the principles of diligence, prudence, and credibility.

Pursuant to Article 545 of the Companies Act (ZGD-1), the company Poslovni sistem Mercator d.d. also prepared its Report on Relations with Affiliated Companies in 2020, which lists all legal transactions executed by the company in 2020 with the controlling/parent company or any company affiliated to it. The Report finds that Poslovni sistem Mercator d.d. as a subsidiary did not conclude in 2020 any legal transaction with the parent company of the Agrokor Group, which would have any harmful effects on the operations of the company Poslovni sistem Mercator d.d. Moreover, there were not any legal transactions between the parent company and its subsidiaries in this period, executed based on an obligatory instruction. Pursuant to Articles 545 and 546 of the Companies Act (ZGD-1), the parent company did not exert its influence in a way to coerce or induce the subsidiary into conducting a legal transaction disadvantageous or damaging to the subsidiary, or to to anything to its disadvantage. Moreover, the company did not perform or omit any action at the initiative or in the interest of such companies.

Internal audit

The Internal Audit department is organized within the controlling company and it operates at the level of the entire Mercator Group. Its operations are independent and unbiased. In terms of organization, it is subordinate to and reports directly to the President of the Management Board; in terms of function, it reports to the Audit Committee and the Supervisory Board. The Mercator Group recognizes the importance of internal audit. Therefore, the Mercator d.d. expanded its internal audit team in 2020. Early in the year, assistant to the President of the Management Board (senior vice president) was appointed to be in charge of internal audit. In the second half of the year, the company hired three more internal auditors.

Mercator Group internal audit complies with the Hierarchy of Rules for Internal Auditors and operates in compliance with the International Standards of Professional Conduct in Internal Auditing, Code of Professional Ethics for Internal Auditors, and the Code of Internal Auditing Principles.

The Internal Audit plan is based on identified risks, strategy, and business plans of the Mercator Group companies. In planning the internal audits, the internal audit department observes the following starting aspects: risk assessment; importance of the field (key processes) for the company and the Group; size of company; time since most recent audit; deficiencies established in previous audits; major changes in leadership, management or processes; legislative requirements; extraordinary or unexplained changes in operations or performance; availability of human resources in terms of number and level of expertise.

In 2020, internal audit completed 14 internal audits, of which four were consulting assignments. Two audits were commenced in 2019 and completed in early 2020. The audits involved business continuity system management, merchandise inventory management, personal data protection, security, lack of human resources, quality of master data in material operations, procurement of non-trade goods and services, commute allowances, and compliance of operations with the amended Agricultural Act and Employment Rehabilitation and the Employment of the Disabled Act.

Corporate social responsibility is viewed by Mercator Group as a cornerstone of Mercator Group's further success. We support the culture of openness according to the highest standards of integrity and responsibility. Following an initiative by the Supervisory Board and the Audit Committee, Mercator Group companies established a whistle-blowing system called »Say it out loud« (»Povejmo«), which allows reporting dubious or disputable conduct. Mercator Group internal audit is in charge of this activity.

The rules in this regard were written in the document titled »Policy of Motivating Responsibility and Integrity of Conduct«, available on the company website[3]. It is the goal of this policy to encourage all benevolent reports of any concerns, objections, reservations, and observations of non-transparent conduct or disputable business practices at Mercator, in order to prevent by prompt action any disputable business practices and the resulting damage to the Mercator Group before such damage is incurred, to provide all employees providing such benevolent reports protection from any retaliation (especially mobbing, harassment, or intimidation), and to additionally encourage by responsible treatment and resolution of such reports more ethical, moral, and fair conduct.

External audit

Pursuant to the Companies Act, audit of financial statements is mandatory for Mercator Group companies. The purpose of the audit is to increase the level of trust among the users of financial information. The auditor applies appropriate audit procedures and methods to review the financial statements and passes an opinion as to whether they are compiled in compliance with the appropriate framework of financial reporting in all relevant aspects.

Bodies of corporate governance

The powers of Management Board members, particularly in connection with own shares

The Management Board represents the company Poslovni sistem Mercator d.d. pursuant to the Companies Act, company Articles of Association, and subject to restrictions pertaining to transactions with the majority shareholder (the company Agrokor d.d.) and the companies affiliated to it, which were entered into the court register pursuant to the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia (so-called Lex Mercator). The company Management Board does not have any special authorizations (Article 70, Paragraph 6, Point 9 of the Companies Act – ZGD-1).

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

As at December 31, 2020, the company Poslovni sistem Mercator d.d. was managed by a four-member Management Board consisting of three regular members (President and two members) and the Extraordinary Management Board member. The number of Management Board members and their respective fields of work are specified in the Management Board Act adopted by the company Supervisory Board, upon proposal by the Management Board president. The three Management Board members are employed on permanent employment contracts, with the Management Board member's employment contract tied to his or her term of office. Extraordinary Management Board has a fixed-term employment contract the duration of which is dependent on the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies of Systemic Importance to the Republic of Slovenia.

The fundamental function of the Supervisory Board is to supervise the management of company affairs. Pursuant to the corporate governance code, Supervisory Board member are independent in their work and decision-making. Supervisory Board members appointed by the Shareholders Assembly represent the interests of shareholders. Supervisory Board members representing the workers and elected pursuant to the Worker Participation in Management Act by the company Works Council represent the interests of all workers within the scope of powers and authority vested in the Supervisory Board.

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

Shareholders Assembly and shareholder rights

The Shareholders Assembly is a corporate body in which the will of the shareholders is formed and voiced to become the will of the company. Managing the company is a shareholder's fundamental corporate right that the shareholders exercise

[3] http://www.mercatorgroup.si/sl/druzbena-odgovornost/

together with other company shareholders by means of voting at the Shareholders Assembly about the issues for which the Shareholders Assembly is authorized, and by adopting resolutions to this effect.

Pursuant to the company Articles of Association, the Shareholders Assembly of the company Poslovni sistem Mercator d.d. shall adopt decisions as specified below.

1. In relation to the Management Board:
    - it can express a no confidence vote to the president and (or) member(s) of the Management Board;
    - decides on granting discharge from liability to the Management Board or to an individual Member of the Management Board;
    - exceptionally it can decide on business management issues, if requested by the Management Board.
2. In relation to the Supervisory Board:
    - it elects and relieves of duty the members of the Supervisory Board representing the interests of shareholders;
    - it decides on granting discharge from liability to the Supervisory Board or to an individual member of the Management Board;
    - it decides on the amount of attendance fees or other compensation and reward for the services of Supervisory Board members.
3. In relation to the annual report and performance:
    - it decides on the adoption of the annual report if the Supervisory Board has not approved the annual report or in case the Management Board and the Supervisory Board have ceded the decision on annual report adoption to the Shareholders Assembly;
    - it decides on profit distribution according to the proposal by the Management Board and the Supervisory Board.
4. In relation to the Articles of Association:
    - it decides on changes and amendments to the Articles of Association.
5. With regard to share capital and shares:
    - it decides on measures for capital increase and decrease.
6. In relation to the status changes:
    - it decides on company dissolution and status changes (merger, affiliation, splitting up or spin off, change of company form).
7. In relation to operations auditing:
    - it decides on auditor appointment.
8. On other matters according to the law and Articles of Association.

As a rule, the company Management Board shall convene the Shareholders Assembly of Poslovni sistem Mercator d.d. once per year in cases specified by law or company Articles of Association, and when this is beneficial to the company. The convocation of the Assembly shall be announced in the Delo daily paper, the electronic information dissemination system of the Ljubljana Stock Exchange called SEOnet, and the company website at www.mercatorgroup.si at least 30 days prior to the Assembly date. In addition to the location and time of the Assembly, the convocation, or announcement defines the conditions for taking part in the assembly and asserting the voting right, as well as the agenda and proposed resolutions to be voted on.

Shareholders' voting right shall be exercised in proportion to the share of the company's share capital that they hold. Each vote-bearing no par value share shall grant the shareholder one vote. Voting right may be exercised at the Shareholders Assembly only by a shareholder who is registered for attendance at the Assembly no later than at the end of the fourth day before the Assembly date, and who is registered in the central register of dematerialized securities as at the cut-off date. Each shareholder with the right to attend the Shareholders Assembly may also appoint in writing a proxy to attend the Shareholders Assembly on their behalf and exercise their voting right.

The company Poslovni sistem Mercator d.d. ensures compliance with the principles of equal treatment of all shareholders and ensures equal access to information, and encourages the shareholders to actively exercise their voting rights by organized collection of proxy voting authorizations.

On June 9, 2020, the 27th regular Shareholders Assembly took place with 95.45% of total shares bearing voting rights present. The Shareholders Assembly included a presentation of the 2019 Annual Report and the Supervisory Board Report on the audit results for the 2019 Annual Report. In addition, the Shareholders Assembly was informed about the receipts of the members of managerial and supervisory bodies and about the Supervisory Board assessment procedures, and adopted the resolution on the discharge from liability to the company Management Board and Supervisory Board.

Minutes of the company Shareholders Assembly sessions shall be kept in the form of a notarial record, which means that compliance of the resolutions specified in the minutes with the decisions of the Shareholders Assembly has to be confirmed by the selected Notary Public.

Information on activities and composition of the Audit Committee, Strategy and Finance Committee, and the Human Resource Committee

The **Audit Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. has been in operation with varying membership since 2008. It plays an important role in the total corporate governance structure of the company Poslovni sistem Mercator d.d. and the Mercator Group. It aids the Supervisory Board in performance of its tasks, especially by monitoring and supervising the financial reporting, internal controls, risk management, and the work of internal and external auditors. The tasks and powers of the Audit Committee were defined by the Supervisory Board and laid down in the Audit Committee Rules of Procedure. These Rules of Procedure comply with the requirements of Article 280 of the Companies Act (ZGD-1). The Audit Committee reports to the Supervisory Board.

As at December 31, 2020, the composition of the Audit Committee was as follows: Miodrag Borojević (Audit Committee chair), Matej Lahovnik (Audit Committee member), and Aleksander Igličar (Audit Committee member, independent expert on accounting and auditing). The activities of the Audit Committee are aimed at further improvement of performance of the supervisory function at the company.

The **Strategy and Finance Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. as founded in 2018 under the name Monetization Committee; at the Supervisory Board session held on June 6, 2019, it was renamed to Strategy and Finance Committee. As at December 31, 2020, it had the following composition: Paul Michael Foley (Committee chair), Sergei Volk, Ivica Mudrinić, Matej Lahovnik, Miodrag Borojević and Fabris Peruško (since March 13, 2020). The most important task of the Strategy and Finance Committee is to analyze specific development issues and to consult the Supervisory Board.

The **Human Resource Committee** of the Supervisory Board of the company Poslovni sistem Mercator d.d. was founded on June 15, 2017, and it currently has the following members: Matej Lahovnik (chair), Ivica Mudrinić, Vesna Stojanović and Paul Michael Foley (since March 13, 2020). The Human Resource Committee conducts its tasks and exercises its powers based on authorization granted from time to time by the Supervisory Board of the company Poslovni sistem Mercator d.d.

Information on the composition of managerial and supervisory bodies (Appendices C.1 and C.2 to the Corporate Governance Code)

Management Board

First and last name Gender Function	Field of work in Management Board	First appointment to position	Completion/end of term	Nationality	Year of birth	Education	Professional profile	Membership in other supervisory bodies of non-associated companies
Tomislav Čizmić male President	management of the company Poslovni sistem Mercator d.d. and Mercator Group	April 6, 2017	April 6, 2022	Croatian	1973	MA Economics/ MS Economics	competencies from all segments of management or business administration	-
Draga Cukjati female Member	finance, accounting, and informatics	April 18, 2017	April 6, 2022	Slovenian	1971	BA Economics	finance, accounting, investment banking, structured and project financing, mergers and acquisitions	SKB d.d.
Igor Mamuza male Member	Mercator retail Slovenia	April 1, 2016	April 6, 2022	Croatian	1973	BA Economics	retail management, sales, purchasing, store development, marketing and logistics	-
Gregor Planteu male Extraordinary Member	in accordance with the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies od Systemic Importance to the Republic of Slovenia	May 24, 2017	in accordance with the Act on Conditions for Appointment of Extraordinary Management Board Member in Companies od Systemic Importance to the Republic of Slovenia	Slovenian	1975	BA Economics	management, corporate finance, and financial restructuring	Slopak, d.o.o.

Supervisory Board

First and last name Gender Function	First appoint. to position	Comple-tion/ end of term	Repres-ent ative	Attend. at commit-tee sessions	Nationali.	Year of birth	Education	Professional profile	Ind. pursuant to Article 23 of the Code	Occu. of conflict of interests in the fiscal year	Membership in supervisory boards of other companies	Membership at Committees President/ Member	Attend. at committ. sessions
Miodrag Borojević male Member	2019	2023	C	13/13	Croatian	1968	BS electrical engineering, MA management	management	YES	NO	Fortenova Grupa d.d., Pik-Vinkovci plus d.o.o., Vupik plus d.o.o., Belje plus d.o.o., Pik Vrbovec plus d.o.o., Konzum plus d.o.o., Tisak plus d.o.o., Roto dinamic d.o.o., Agrolaguna d.d., Croatia; O'Key Group s.a., Russia*	AC (Presid.) SF (member)	10/10 6/6
Paul Michael Foley male Member	2019	2023	C	13/13	British	1958	secundary education	retail	YES	NO	Fortenova Grupa d.d., Croatia; Konzum plis d.o.o. Croatia; BIM Birlesik Magazalar, Turkey; Voli Trade d.o.o., Montenegro; Korzinska.uz, Uzbekistan	SF (member) HR (member)	6/6 3/3
Matej Lahovnik male Deputy chairman/ Member	2012	2022	C	13/13	Slovenian	1971	PhD in management and organization	management	YES	NO	Krka d.d. (from August 21, 2020 onwards)	AC (member) HR (Presid.) SF (member)	10/10 4/4 6/6
Ivica Mudrinić male Member	2014	2022	C	13/13	Croatian	1955	BS electrical engineering	competencies from all segments of management or business administration	YES	NO	Fortenova Grupa d.d., Croatia; Rochester Institute of Technology, Croatia	HR (member) SF (member)	4/4 6/6
Fabris Peruško male Member	2018	2022	C	13/13	Croatian	1973	MA, MBA, BS electrical engineering	economy	YES	NO	Fortenova Grupa, d.d.; Agrokor, d.d.; Konzum plus d.o.o., Ledo plus d.o.o., Roto dinamic d.o.o., Agrolaguna d.d., Jamnica plus d.o.o., Croatia; Dijamant AD, Serbia	SF (member)	5/5

*As of March 2021, Miodrag Borojević resigned from all supervisory bodies at companies within the Fortenova Group.

to be continued continued

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

First and last name Gender Function	First appoint. to position	Comple-tion/ end of term	Repres-ent ative	Attend. at commit-tee sessions	Nationali.	Year of birth	Education	Professional profile	Ind. pursuant to Article 23 of the Code	Occu. of conflict of interests in the fiscal year	Membership in supervisory boards of other companies	Membership at Committees President/ Member	Attend. at committ.s essions
Sergei Volk male Member	2018	2022	C	12/13	Russian	1969	Master of business administrati-on, specializing in finance	banking	YES	NO	Fortenova Grupa d.d., Croatia; PJSC MMC Norilsk Nickel, Russia	SF (member)	6/6
Jože Lavrenčič male Member	2017	2021	E	13/13	Slovenian	1979	economist, VI level of education	retail	YES	NO	-	-	-
Vesna Stojanović female Member	2013	2021	E	13/13	Slovenian	1957	administrat-ion clerk	human resources	YES	NO	-	HR (Member)	4/4
Veljko Tatić male Member	2019	2023	E	13/13	Slovenian	1964	sales manager	retail	YES	NO	-	-	-

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

External members of commissions

First and last name Gender Function	Attend. at committee sessions	Nationality	Education	Year of birth	Professional profile	Membership in other supervisory bodies of non-associated companies
Aleksander Igličar male Audit Committee	10/10	Slovenian	MS economics	1962	accounting and finance	Iskra Mehanizmi Holding d.d., Slovenia; Slovenska tiskovna agencija *

*In January 2021, Aleksander Igličar became a member of Supervisory Board of Telekom Slovenije.

Tables C.3 and C.4 are presented in the Financial part of the Annual report.

Observing the diversity policy

The company Poslovni sistem Mercator d.d. has not adopted a dedicated document on diversity policy. However, diversity policy is conducted in practice in the managerial and supervisory bodies in terms of the following aspects: gender, age, education, and professional experience. At present, gender diversity is not entirely observed, as the company Management Board and the Supervisory Board include one female employee/representative. Since the Mercator Group is currently in the stage of transitioning to the corporate group Fortenova Group, we will only be able to develop and execute more concrete policies and guidelines for further work of the relevant bodies and all human resource management procedures after the transfer is completed. In terms of other aspects of the diversity policy, the managerial and supervisory bodies have suitable composition.

Management of subsidiaries

Mercator Group consists of the parent/controlling company Poslovni sistem Mercator d.d. and its subsidiaries in which the parent company holds, directly or indirectly, the majority interest or the majority of voting rights. Parent company controls its subsidiaries within a single Management Board.

The company Poslovni sistem Mercator d.d. as the parent/controlling company of the Mercator Group operates by the principles of improving business performance in each subsidiary and the Mercator Group as a whole. The controlling company shall provide corporate governance at subsidiaries:

- through attendance at subsidiary general meetings or shareholders assemblies, and membership in supervisory boards;
- with standardization and unification of rules and procedures in respective fields or areas;
- a system of powers and authorizations is in place to delineate the responsibilities for concluding individual transactions;
- through a system of regular working meetings and video- or teleconferences of the Management Board of the company Poslovni sistem Mercator d.d., along with authorized employees, with the management teams of subsidiaries, in order to review the accomplishment of results and performance in the core activity and to optimize the purchasing channels within the entire Mercator Group.

In 2020, we continued to implement the Value Creation Plan in all markets of our operations. Thus, we are improving the level of corporate governance and exchanging of the best practices within the Mercator Group.

WE ARE STRENGTHENING OUR EDGE BY DEVELOPING INNOVATIVE SOLUTIONS.

Business report

Effect of the COVID-19 epidemic on the Mercator Group

Events related to the declaration of epidemic

At the end of 2019, a new coronavirus was reported in China. It was named SARS-Cov-2 and it is the cause of the COVID-19 disease. In the first months of 2020, the virus spread around the entire world. As a result of the growing number of infections, the World Health Organization declared a pandemic on March 11, 2020. A day later, the Government of the Republic of Slovenia declared the first wave of the epidemic. Numerous measures were adopted, which almost entirely stopped all public life. Offer and sale of goods and services in the accommodation, hospitality, sports and recreation, cultural, and other activities was temporarily prohibited. The temporary prohibition exempted offering and selling goods and services remotely, as well as pharmacies and grocery stores. Similar prohibitions and restrictions of social life were also introduced in other markets of Mercator operations. In June, governments of countries across the region lifted the official epidemic, which allowed gradual abandonment of the restrictions of economic activities and a return to the so-called new normal. However, measures for containment of the infections with the novel coronavirus remained in place (face masks, additional disinfection etc.), which resulted in higher protection costs compared to 2019.

In autumn, the number of cases per day started rise again throughout the region, and the Government of the Republic of Slovenia again declared an epidemic at the end of October, with a similar set of measures that had been effective during the first wave. In other countries of the region, epidemic was not formally declared. Stricter measures were enforced, including restriction of movement and other virus containment measures (face masks, disinfection etc.), but unlike in Slovenia, certain economic activities were not closed down.

Mercator's response to the epidemic

In early February, the Mercator Group Management Board responded to the crisis situation and appointed **a crisis task force** that analyzed and coordinated on a daily basis the following **six key points:** employee safety, customer safety, supply chain safety, revenue growth management, corporate social responsibility, and liquidity management. Several scenarios were analyzed and a range of measures related to the declared COVID-19 pandemic were carried out, including over 500 activities in all markets of Mercator Group operations, in order to plan and manage liquidity, supply flows, costs, and investments. Similar measures were also introduced in other countries of Mercator Group operations. We are closely monitoring the situation regarding the COVID-19, and we continuously adjust our measures to the needs, as we monitor the epidemiologic situation in every market respectively.

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

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

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

COVID-19 epidemic effect on Mercator business segments

FMCG RETAIL

- Decrease of opening hours due to government restrictions
- Zero tourist season from May to Sep in Montenegro
- Decrease of impulse, to-go and ultra-fresh FMCG categories due to lower purchasing frequency in stores
- Government restriction on selling technical and some non-food products in FMCG stores in Slovenia

MERCATOR-EMBA, D.O.O.

Closure of McDonald‘s restaurants (main client) throughout the EU

MERCATOR IP, D.O.O.

Decrease of To-Go assortment sales produced by Mercator IP, d.o.o.

WHOLESALE

Closures of HoReCa and certain public institutions (for example schools and kindergartens)

DIY

DIY segment was affected by 4 months store closures

REAL ESTATE

Closure or highly decreased business activities of our tenants

RESTAURANTS

Restaurant segment was affected by 5 months restaurant closures

M-ENERGIJA, D.O.O.

Less traffic due to migration restrictions

We did not neglect our corporate social responsibility either in the situation at hand. Mercator **donated 30 tonnes of food and hygiene products** to the Slovenian Red Cross and the Caritas Slovenia organizations. Hospital staff at COVID points were **donated Minute products**, and we delivered lunches to Civil Protection Service workers in towns that were the most endangered due to the number of infections. Working with our partners in the My Brands project, we delivered complimentary packages to 3,000 Slovenian Red Cross and Caritas Slovenia volunteers, and we **donated water and sandwiches** to truck drivers lined at the border crossings. Working with the Slovenian Ski Association, we were joined by ski jumpers and their coaches in supporting the delivery of products purchased via the online store, thus making sure more people stay at home. Upon introduction of extraordinary measures, we made an appeal for moderation and solidarity, and for avoidance of excessive reactions and stockpiling when shopping. In the campaign titled »A good neighbour is there for you«, we emphasized the comprehensive social awareness of all of us, and respect for each other, as well as the fact that now is the time to take care of each other and for all that are close to us.

At the end of the school year, we worked with the Slovenian Caritas on collecting **school supplies for 12,000 children in distress**. In the second half of the year, we installed baskets for collecting food products for families in social and financial distress at 244 major stores. The project »Donated Food« was even more relevant, as the number of those in need of aid increased due to the COVID-19 pandemic. Volunteers from the Slovenian Association of Lions Clubs, Anton Trstenjak Institute and Ljubljana Caritas picked up food every evening at 21 stores across Slovenia. Before the start of the ski jumping season, **we presented 101 pairs of skis, 28 pairs of ski boots, and 53 pairs of ski bindings** to representatives of 22 ski jumping clubs. This was our contribution to further development of junior ski jumping. At the end of the year, we donated coffee and beverages to staff at all COVID hospitals across Slovenia. Activities related to the epidemic situation also took place in all key markets of our operations – including Serbia, Montenegro, and Bosnia and Herzegovina.

Online store is becoming a key pillar of our business strategy

Mercator online store, which has been successfully operating for over 22 years, is becoming a key part of Mercator's digital transformation. Early in the year, Mercator launched its strategic project of comprehensive revision of its online store. In the changed business circumstances resulting from the COVID-19 epidemic, the strategic importance of quick and profound moves in process digitalization and omni-channel management only increased. At the peak of the epidemic, **sales in Mercator's online store even increased up to tenfold for a while**; on average, they were **doubled**. In a very short period, we not only considerably increased the capacity of Mercator's online store, but also improved the service and the shopping experience, which is a continuous process. We introduced a range of new features, including a special offer of products for protection against infection (face masks, gloves, disinfectants), products for work and schooling from home, offer of products for home celebrations, products for boosting the immune system and improved well-being, products for quick preparation of meals, especially offer of fruit and vegetables, and homemade treats. Offer of technical consumer goods in our **M Tehnika online store** is also of particular importance, since sale of technical consumer goods was temporarily restricted at brick-and-mortar stores, and home improvement and electronics stores were closed for a long period. In most cases, fast-moving consumer goods were delivered the day after the order was placed. We also introduced Sunday deliveries, while collection and the pick-up spots was possible in 4 hours after order. A special hotline was established for support to online customers (at 080 20 81), since Mercator is the only one to **deliver the products purchased at its online store across Slovenia, to over 98% of addresses in the country**. An increasing number of customers are reaping the many benefits of Mercator's online store for their usual weekly shopping. while greater shopping frequency is also a sign of customer confidence in Mercator, both off- and online.

Information technology

As the most innovative retailer, Mercator had already had excellent information technology infrastructure. Regardless of this fact, the period of the coronavirus epidemic, especially the first period during which public life was locked down, presented a considerable challenge to the IT department, especially in certain areas and some Mercator companies and countries.

Remote work was enabled, but not fully made use of, for over 800 employees. The first move was to increase remote work capacity for further 700 employees. We did this in compliance with all safety rules of the Mercator Group within two weeks. Our work included procurement and implementation of new licences for virtual private network (VPN), network and security configuration based on justified and authorized rights, additional purchases and installation of new user equipment for allowing secure remote work. During the first lockdown, some problems arose regarding the provision of standard IT equipment. Regardless, with central organization and a clear focus on our goals, we **succeeded in purchasing and preparing for use 1,600 new laptop computers** and relevant video conference equipment for the entire Mercator Group, while observing all standards effective at Mercator Group. As the use of video conferences increased, we enabled and configured Microsoft Teams alone on 1,200 personal computers. In some markets, depending on the circumstances, stores were equipped with video conference equipment. It is evident from the measured data that the use of remote work equipment increased by over 700%.

The coronavirus crisis required clear communication with all employees. Mercator Group had already had a modern and responsive multi-language internal portal called **mi.Mercator** that is used in all markets. This is a standard newsletter portal available across different devices via world-wide web (including on mobile phones outside the company network), which ensures both security and access to applications relevant to our employees. During the crisis, we increased the use and improved the usefulness of the mi.Mercator portal by adding new applications for monitoring employee performance, improving existing digitalized workflows (internal ordering, security requests, master data management, recommendations and proposals etc.), introducing new applications, such as the travel order app, enabling the "knowledge base" (central location for manuals, online seminars etc.)... Improvement of the overall digital experience for users is a continuous process, and we are currently introducing a pilot version of **digital salary slips** that will be enabled for employees in Slovenia by March 15, and for all Group employees by May 15.

The coronavirus crisis also had a strong impact on **customer behaviour and their purchases**. The management responded to these changes with considerable interventions into store planograms, logistics, procurement etc. All this had a profound impact on IT and application infrastructure. It meant rapid changes and configuration of the existing software, as well as other aspects of support and monitoring. In the first few months, work was highly intensive. **Online operations increased by over 600% for a period of time**; on average, it was up 200% in 2020, which also resulted in major increase of requirements regarding IT architecture and infrastructure operation. In order to adequately respond to these changes, the IT department teamed up with the management to devise a three-stage plan:

Stage one, or short run:
- Stabilization of the current platform in all countries to allow increased scope of use.
- Temporary solutions and integration with third-party partners.
- Allowing supply from new locations.

Stage two, or medium run:
- Allowing new functionality that will allow a better user experience and ensure adequate support by Mercator.

Stage three, or long run:
- Implementation of modern uniform platform for the online store, with the option to adjust the scope and develop internal competencies that will benefit all requirements regarding the online store at the Mercator Group.

Mercator Group has already started the implementation of the third stage.

Mercator Group has **the highest rate of use of self-checkouts** (SCO) that has increased further relative to other retailers. In some countries, we had already been using virtual accounts and mobile payment methods, while in others, we started the implementation. The use of mSken app increased in Slovenia (it is possible at all stores, currently enabled at 129 stores), while in other markets, the pilot stage has been launched in Serbia.

Since the coronavirus crisis affected the entire economy, Mercator Group extended or signed additional agreements with all critical partners, including necessary **service-level agreements** (SLA), and ensured the responsiveness that allows normal operation and performance. In order to mitigate the risk, we also forged strategic partnerships with new partners.

To ensure an adequate level of information security, in addition to compliance with all existing security standards, Mercator Group replaced over 1,000 obsolete computers, conducted over 1,900 operating system upgrades, "reinforced" over 1,000 servers, started sending regular security newsletters/notifications, and launched training and education on security on its online training and education platform, for which contents were prepared by a third-party partner, while internal teams localized to content and tailored it to Mercator. We introduced mobile device management for over 1,000 devices (RF terminals, mostly in use at stores). In this regard, we are planning further expansion to all mobile devices.

Social aspects and human resource management

After the declaration of the first wave of the epidemic, the company immediately amended its medical risk assessment and specified additional measures required to protect the health and safety of workers. Consistently with the document Preventive Measures during the Epidemic, general preventive measures were implemented along with special preventive measures for respective fields or areas in order to prevent infection with the COVID-19. For jobs or positions that allowed work from home, either work from home or a rotation system was introduced in order to reduce the number of people physically present at our commercial buildings (on average, 50% of our employees work from home). A crisis team was appointed to monitor on a daily basis the information on the occurrence of infection is respective units, and coordinate the determination of the risk level of contacts, in order to assign all employees who were in a high-risk contact to quarantine. A protocol for conduct in case of suspicion of infection or infection was defined, along with required activities with regard to employees, work premises, and goods.

Increase in labour costs in Slovenia, resulting from payments of aid during the COVID-19 pandemic to all employees (pursuant to the new government legislation) and salary bonuses for increased risk involved in work during the epidemic for all active workers at stores and warehouses during the first wave of the COVID-19 epidemic. **Higher absenteeism** among some groups of employees who had to be replaced quickly with additional agency or student workers: sick leaves, public transport lock-down, closing of schools and kindergartens.

Effect of the COVID-19 epidemic on increase of material and services costs

Higher costs of material for purchase of **protective equipment** (masks, gloves, sanitizers etc.).

Higher **costs of services**:
- cleaning services for special disinfection of stores in case of infection of one of the employees;
- security services to enforce compliance with the mandatory restrictions of the number of customers per square metre, as provided by law;
- special donations related to COVID-19 for public institutions.

Use of government subsidies and aid

Consistently with the government measures of providing aid to enterprises, Mercator Group claimed the waiver for payment of pension and disability insurance contribution for workers who were working pursuant to Article 33 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP), and reimbursement for salary compensation for workers who were temporarily furloughed or absent from work due to force majeure pursuant to Article 28 of the ZIUZEOP for the companies Mercator–IP d.o.o. and Mercator–Emba d.o.o. For those absent from work due to force majeure due to closing down of kindergartens, schools, and public transport, and those absent from work due to quarantine, over 1,500 applications were filed with the Slovenian National Employment Agency, pursuant to the provisions of the Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of COVID-19 Epidemic (PKP 6).

2,734,292
protective face masks purchased

92 DAYS
of **M Tehnika** closure in 2020

121 DAYS
of **Gostinstvo** closure in 2020

1,464,578
of disinfectant used

33,275
instruction sheets issued for customers and employees

1,349
employees working from home for a total of

81,712
worker days, or 61 days per employee.

2,355
partition walls installed on check-out counters

Mercator Group

2,323,210
protective face masks purchased

92 DAYS
of **M Tehnika** closure in 2020

121 DAYS
of **Gostinstvo** closure in 2020

364,530
of disinfectant used

25,600
instruction sheets issued for customers and employees

657
employees working from home for a total of

52,689
worker days, or 61 days per employee.

1,000
partition walls installed on check-out counters

Poslovni sistem Mercator, d. d.

A GOOD NEIGHBOUR WILL STAND BY YOUR SIDE.

Effect of economic conditions and competition on operations

The COVID-19 epidemic and strict measures for its containment had a severe impact on economic activity in 2020. Restriction of non-essential services and hindrances to other service activities in the second and last quarter, and to manufacturing in the second quarter, caused a considerable decline in economic activity, both globally and in Slovenia.

Recovery of economic activity in the eurozone was interrupted at the start of the last quarter of the year due to intensification of containment measures, as the number of COVID-19 infections rose again. The COVID-19 pandemic had a negative effect on all components of the GDP in the first half of the year. Private spending suffered the most, as household consumption, especially for services and durables, was strongly impeded in the spring. This led to accumulation of involuntary savings, while saving out of caution was up, too. Investment saw a strong decline in the first half of the year, as businesses and households postponed or suspended any investments after the economy ground to a halt and uncertainty increased considerably.

After a **sharp decline in the second quarter** (–11.7% quarter-on-quarter, deseasoned, or –14.8% year-on-year, according to original data), economic activity **picked up pace in the third quarter** with gradual lifting of the containment measures and significant support by monetary and fiscal policy (12.5% quarter-on-quarter), while **year-on-year decline decreased considerably, too** (–4.3%).

With partially offset demand and considerable fiscal support to purchasing power of households, private spending recovered in the third quarter. However, the recovery was cut short by the second wave of the pandemic and introduction of stricter containment measures towards the end of the year. In October, the rapid increase of the number of infections in many countries of the eurozone led to reintroduction of strict containment measures. Considering the current economic indicators, recovery of activity and mood in the eurozone cane to a halt in the last quarter in service activities; growth of activity in processing industries, however, has been sustained, albeit it is somewhat slowed down.

After the outbreak of the pandemic, a number of measures was adopted to mitigate its negative effects on the population and the economy, and for faster recovery, both nationally and within the framework of the ECB and the European Commission. Extensive packages of measures considerably alleviated the loss of revenue in business and loss of income in households, resulting from the pandemic, and offered liquidity and support to enterprises facing negative consequences. This, the shrinkage of economic activity from last year was considerably alleviated, and failure in some of the most hard-hit industries was prevented. According to our assessment, without the measures to support the economy, the decline in economic activity would have been at least 4 percentage points deeper last year. The effect of measures to fight the impact of the coronavirus crisis will be of key importance this year, too; at first, it will allow preservation, and later a restart of especially service activities, or recovery of the entire economic activity.

International institutions in their forecasts mostly assume that recovery of economic activity, with gradual release of the containment measures, will shift to 2021; this will be followed by gradual growth, but a return to pre-pandemic levels cannot be expected before 2022. Eurozone GDP will decline by around 7.5% for the year. In **the next two years, activity is expected to recover with growth rates of 3.5 or 3.3, respectively**. The depth of this year's decline and the speed of recovery in 2021 and 2022 will differ between respective member states, and will depend on the progress of the epidemic, strictness of containment measures, differences in the structure of respective economies, and responses of national governments.

Consumer confidence declined in the region in 2020[4]. Employment possibilities, financial security and willingness to spend had a negative impact in this respect. Consumers' main concerns include their financial position, personal health, security of employment, work-life balance, and rising living costs. The effect of the COVID-19 epidemic and the containment measures prepared by countries in the markets of Mercator's operations had an important effect on key economic

[4] Nielsen: Consumer Confidence Index, Q2 2020, Adriatic

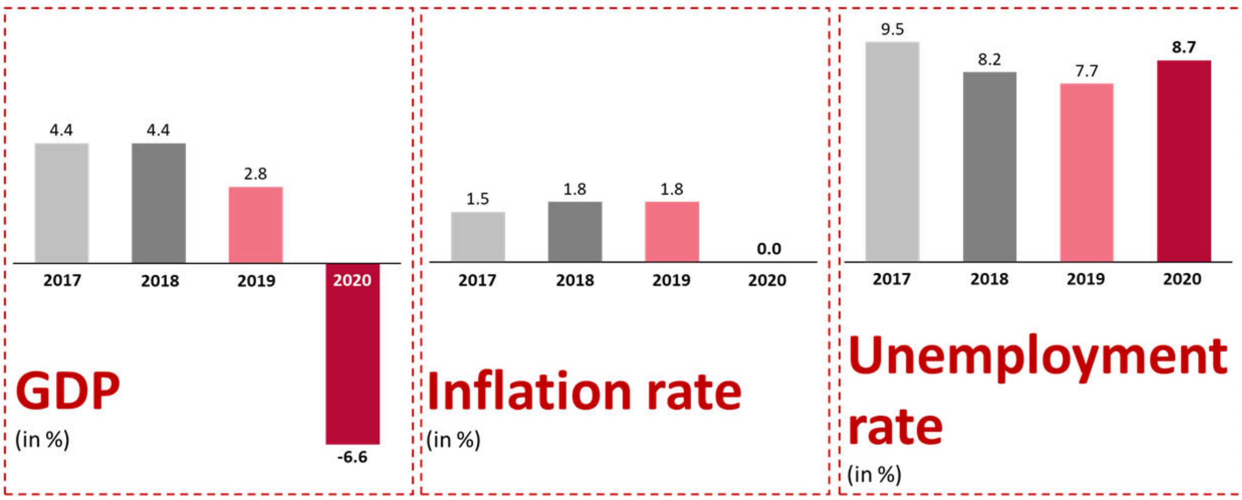
indicators (GDP, inflation, unemployment) and consumption in 2020 and will continue to have such impact in the future. Despite the harsh conditions, however, most retailers in all markets continued to expand their retail network.

Key macroeconomic indicators in the markets of Mercator's retail operations[5]

Slovenia

Declaration of epidemic in Slovenia was followed by a curfew (restriction of movement during night time), closing down of most non-essential services (stores, bars and restaurants, hotels, cosmetics and hair salons etc.), and restriction of movement between municipalities, which had a strong impact on the GDP. After a deep decline in the second quarter (-13% year-on-year), economic recovery actually exceeded our expectations in the third quarter (to -2.6% year-on-year).

In Slovenia, GDP growth plummeted by 9.4 percentage points in 2020 relative to 2019, when GDP growth rate was positive. The crop was also recorded with annual inflation rate that amounted to 0.0% in 2020 – an improvement of 1.8 percentage points. Negative effect of the epidemic is also reflected on the unemployment rate that increased by 1.0 percentage point relative to 2019, to 8.7%.



Effect of market situation on consumption: Consumer confidence[6] in Slovenia declined in 2020 on an annual basis, due to the epidemic. Consumers are pessimistic about the economic situation in Slovenia in the last 12 months. Expectations regarding the number of unemployed have worsened, and the same applies to economic conditions in the country, financial position of households, and savings.

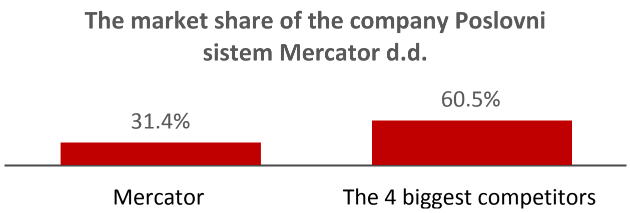
In 2020, GDP in Slovenia is forecast to drop by 6.6 percent due to the COVID-19 epidemic. Unemployment rate increased (to 8.7%). Consumer prices mostly stayed the same in 2020 as they had been in 2019, especially on account of lower prices of energy. In the next two years, inflation rate is expected to increase to 1.6 percent[7]. Economic confidence was much worse at the annual level than it was in 2019. The decline in annual economic confidence was primarily a result of confidence in service activities, confidence among consumers, and confidence in retail and construction industry.

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

[6] SURS: Consumer opinion, Slovenia, December 2020

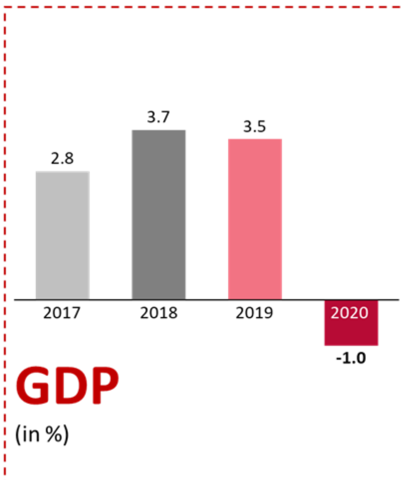
[7] UMAR: Econimoc mirror, no. 1/2021, year XXVII

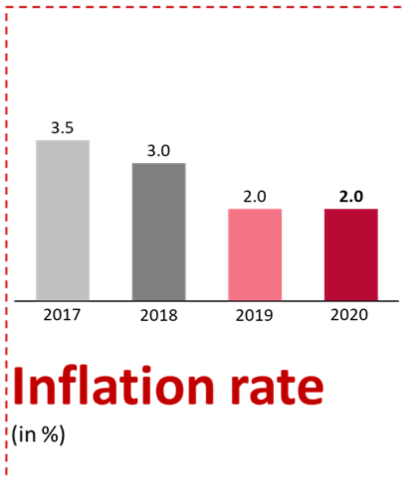
Competition: In addition to traditional retailers (Mercator, Spar, Tuš), other major retail chains (Hofer, Lidl, and Eurospin) account for a considerable market share. Retail industry is relatively stable and consolidated (top five players account for 92% of the market). Poslovni sistem Mercator d.d. held 31.4% of the market in 2020, which is 0.4 percentage points more than in 2019.

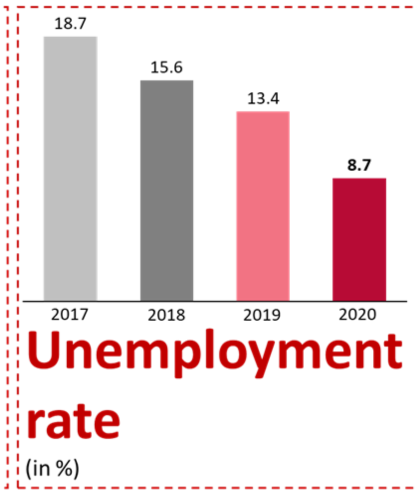


Serbia

In 2020, GDP in Serbia dropped by 1.0%, which means that the GDP growth rate declined by 4.5 percentage points relative to 2019. Unemployment rate was at 8.7%, which is 4.7 percentage point less than in the year before. Inflation rate in 2020 was at 2.0%, remaining stable relative to 2019. The country's rating for 2020 is BB+ with a stable outlook.

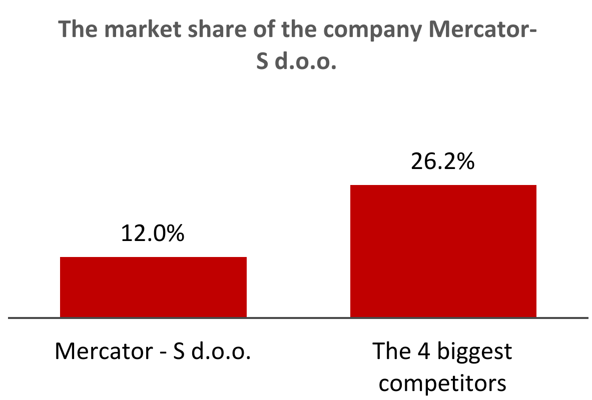






Effect of market situation on consumption: Consumer confidence in Serbia worsened in 2020[8]. Employment possibilities, financial security and willingness to spend had a negative impact on consumer confidence. In 2020, GDP is expected to decline by 3 percent. Unemployment rate decreased in the third quarter relative to 2019, reaching 9%. Inflation rate in 2020 was at 1.2%.

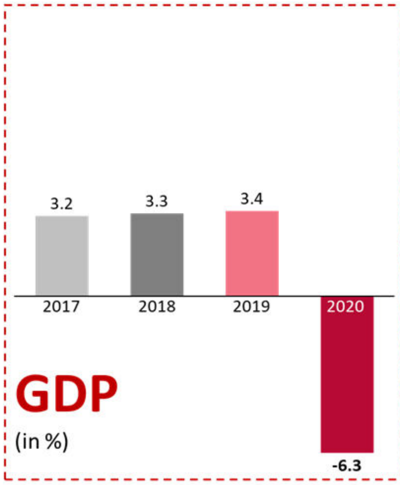
Competition: Retail industry is relatively less consolidated (top five retailers combined account for approximately 40 percent of the market)[9]. In Serbia, Mercator–S d.o.o. held 12.0% of the market, which is 1 percentage point more than in 2019.

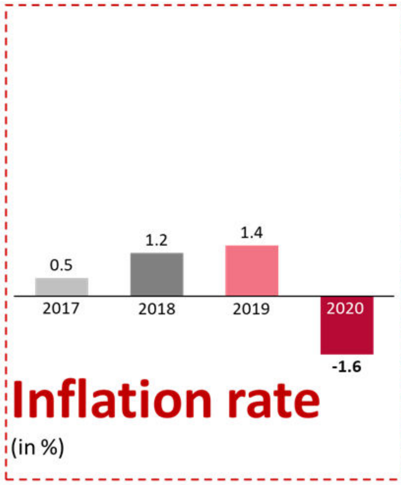


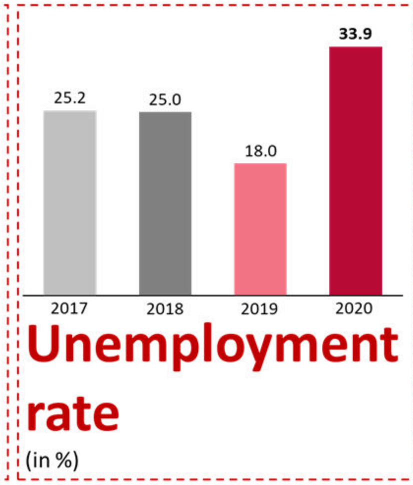
Bosnia and Herzegovina

GDP growth rate saw a sharp drop in Bosnia and Herzegovina in 2020, reaching –6.3%, which is 9.7 percentage points less than in the year before. In the year at hand, inflation rate slowed down by 3.0 percentage point, and reached –1.6%. The outbreak of the epidemic had the most negative effect on the unemployment rate that increased by 88.3% to reach 33.9%.

[8] The Global Economy, Serbia Economic Indicators
[9] Euromonitor, 2020

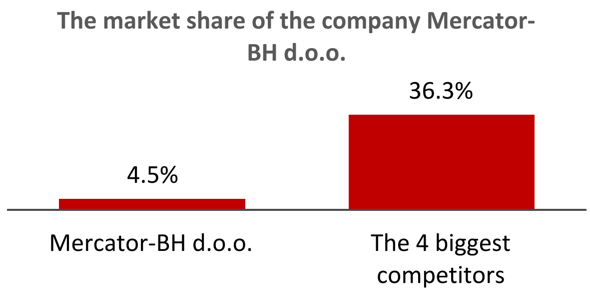






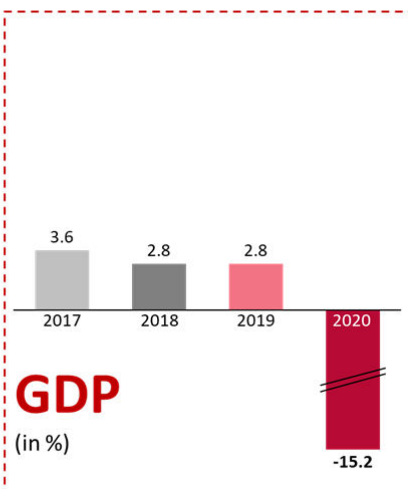
Effect of market situation on consumption: In 2020, GDP of Bosnia and Herzegovina dropped by 5.2%. Unemployment rate remains high at 17.5%. Inflation rate in 2020 was at -1.5%[10].

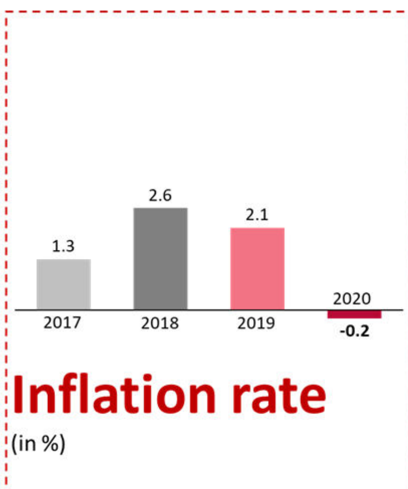
Competition: The market of Bosnia and Herzegovina is not consolidated. In 2020, top five retailers account for less than a half of the market (40%)[11]; the rest is covered by traditional retail. The market share of Mercator–BH d.o.o. in 2020 increased by 1.5 percentage points relative to 2019.

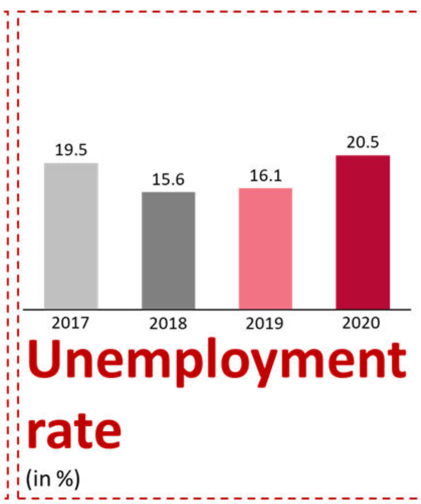


Montenegro

According to data, GDP growth in 2020 declined by 19.3 percentage points to reach -15.2%. In Montenegro, inflation rate decline as well and reached – 0.2%. Unemployment rate increased by 4.4 percentage point and reached 20.5% in 2020.





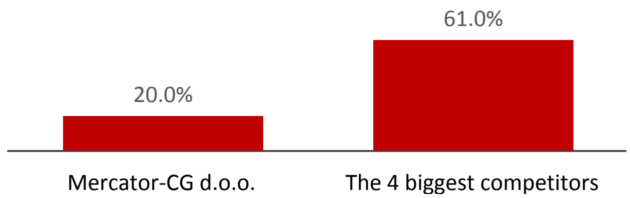


[10] The Global Economy, BiH Economic Indicators
[11] Euromonitor, 2020

Effect of market situation on consumption: In 2020, Montenegro's GDP plummeted by 15.2%. Unemployment rate increased (20.5%). Inflation rate in 2020 was at -0.2%[12].

Competition: In the Montenegrin market in 2020, the top five retailers accounted for an 80% market share. Most retailers continued to expand their retail network. Mercator–CG d.o.o. holds 20% of the market, which is the same as in last year.

The market share of the company Mercator-CG d.o.o.



[12] The Global Economy, Montenegro Economic Indicators

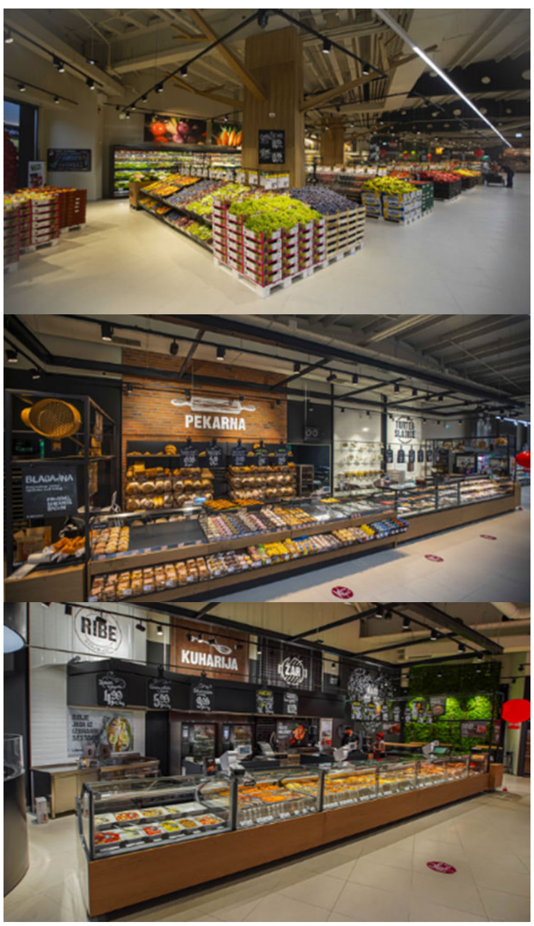
Store Formats

In store format development, Mercator is keeping up with the market trends. In 2020, particular stress was placed on cooperation of all markets where we are present with a variety of store formats. Shopping behaviour of our customers varies somewhat across our respective markets, and observance of these differences can contribute to improvement of our performance. Focus on the consumer is the key in all markets of our operation. We wish to offer our consumers the best products and services, and a modern shopping environment in as many locations as possible.

Most of 2020 was under a heavy impact of the coronavirus, which strongly affected the dynamics of execution of planned refurbishments, updates, and constructions of new facilities. A strong need for **effective operation of the online store** became evident, as a good part of shopping moved online.

In 2020, we invested especially into refurbishment of the existing retail network; in addition, we also constructed some new facilities, despite the restrictions. A total of **26 new units** were opened in Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina, while a total of **172 units were renovated and refurbished**; of these, **70 units** were located in Slovenia. The refurbished Mercator stores afford customers a more pleasant shopping environment, while category structures and new services are adapted to the most recent trends.

Slovenia



Renovated and enlarged hypermarket Kranj Primskovo

In 2020, the greatest emphasis was placed on the refurbishment of the existing units in Slovenia. We completely or partially **refurbished several markets and supermarkets, and two hypermarkets**. **We also opened two new markets**.

Standing out among refurbishments of major units in Slovenia is certainly the comprehensive update of **hypermarket Kranj Primskovo** that increased the store's sales area by approximately 300 m^2. The unit has the best location in Kranj and it is Mercator's second-best-performing store.

The updated hypermarket addresses customers who desire something new, and the store offers an excellent shopping experience with an appealing offer of products. The comprehensive refurbishment of the store included both its ambiance and its assortment, with key accents placed on **quality, new products, personal service**, and culinary novelty. Particularly exposed are the departments of **fresh program, wine department, organic and special food, We Love Local products, grab & go, and sweets**.

Hypermarket Velenje also saw a major update. In order to better use the sales area, the hypermarket was shrunk by approximately 800 m^2 of gross sales area. However, the store was not only shrunk, but also refreshed. Bread department will now also allow finishing pre-baked products, which in turn will make self-service sale of bread and pastry easier.

In the eastern part of the hypermarket, there is now a combined offer of **Minute coffee**, a juicer, and impulse and refrigerated **Grab&Go products**. Offered in the low gondola (display) and in refrigerators in front of the delicatessen department is a well-rounded offer of **We Love Local** products. A new visual identity of the store was introduced, too. M Tehnika was also included in the centre.

Hypermarket Kranj Primskovo – shrunk and updated

Supermarkets Slovenske Konjice, Šentjernej and **Žalec** were comprehensively renovated to gain a new, modern image, large fresh program departments, updated offer, and pleasant shopping environment enlivened by the new visual identity and exposed projects. The supermarket is an upgrade to the neighbourhood stores, offering a broader and especially deeper offer of fast-moving consumer goods. The supermarkets serve customers on both their daily and weekly shopping sessions as their offer allows all-around shopping with a focus on fresh program and supplementary offer of non-food items.

Comprehensively updated supermarket Slovenske Konjice

Two new market units were opened: **Miklavž na Dravskem polju** and **Market Koseze**. The latter is particularly interesting as it is **Mercator's first pre-fabricated store**. It is a temporary facility with an area of 308 m^2. Since it is a pre-fabricated store, it can be moved to another location.

The market offers a clear view and passages, and its design follows the concept of an urban neighbourhood store with highlighted offer of fresh program. This is a replacement store, since the supermarket Koseze was closed down at the end of the year because a new commercial and residential neighbourhood Koseško okno (Koseze Window) will be built at its current location. The new facility, however, will also include a modern Mercator hypermarket.

Market Koseze

Foreign markets

Refurbishments also took place in other markets where we are present with three store formats: Mercator, Roda, and Idea. In total, we **opened 21 new retail stores** in international markets, while **86 were refurbished or renovated**.

In **Serbia**, we opened 13 new units, 6 units were renovated, and 70 units were refurbished.

The most profound renovation was carried out on the supermarket **IDEA Super Blok 62** in Belgrade. The store was changed from a RODA format to IDEA Super format. The supermarket has a new layout of sales programs. All fresh departments have been updated, and self-checkouts were installed. The renovation of the supermarket also included installing our first cooling system using CO_2.

The following units also saw major renovation: **IDEA Čačak Centar,** market **IDEA Stari grad**, market **IDEA Smederevo Centar 3**, and market **IDEA Niš Centar**. All of these are located in the centre of their respective towns, which is why they feature particularly well-stocked fresh departments, especially the hot bar and TO GO offer, and an especially well-thought-out design. Fruit and vegetables departments, delicatessen, bakery, fresh meat, and dairy departments were comprehensively updated.

A similar renovation was implemented in the market **IDEA Maxima** where the focus was on major shopping sessions, since the store is located in a rural area.

In the market of **Montenegro**, we opened 6 new stores. One major addition in this market is a new, entirely different IDEA Gourmet market. The sales area of **IDEA Gourmet** is approximately 400 m^2, and its unique location in the Marina square makes it accessible for the local population, visitors, and yacht owners. Unique concept and interesting offer that also includes local specialities, and organic products, satisfy even the most fastidious of customers who decide to spend time in this part of the Montenegrin coast.

IDEA Gourmet in Potonova

IDEA Dom Revolucije, Nikšić

In July, **IDEA** opened another chapter of special shopping in Nikšić, this time by opening a modern store format in the recently reconstructed Dom revolucije that will be available to customers 24/7.

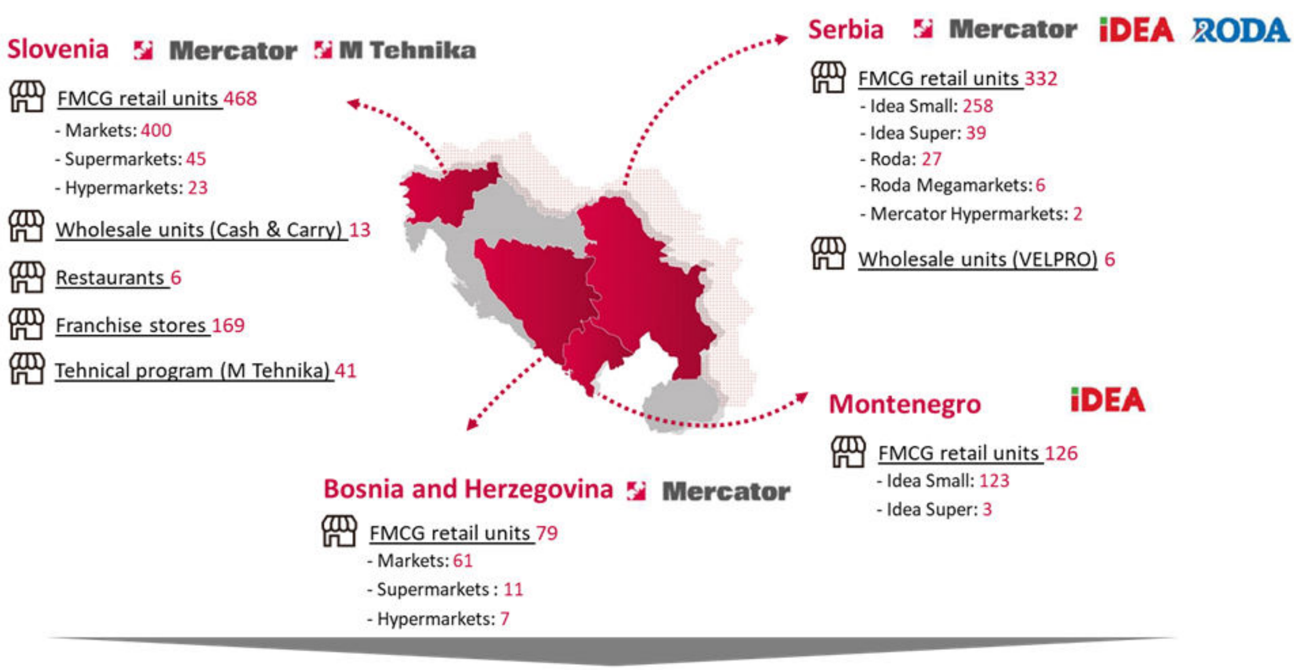
The unique concept of the new store, symbolically presented as (r)evolution of superior taste, combines everything necessary to meet the needs of the customers whose desires and expectations always come first.

In addition to the highlighted facilities, four more new units were opened in 2020: **IDEA Krivi most**, **IDEA Zabjelo**, **IDEA Stari Aerodrom**, and **IDEA Tivat Magistrala**. All of these units are modern facilities that offer the customers a broad assortment of products in a pleasant environment; in terms of offer, the emphasis is on fresh fruit and vegetables, delicatessen, and bakery with daily offer of fresh baking products.

In the market of **Bosnia and Herzegovina**, we opened a new unit **market Brčko** and the **new supermarket Travnik** in 2020. The supermarket has a very attractive location and welcomes customers on a gross sales area of 850 m^2, offering a unique shopping atmosphere, superior range of over 20,000 quality products, affordable prices, and a variety of benefits. The stress is on recognizable fresh departments, rich offer of healthy food, including 100% natural products of certified quality Bio Zone. In addition, the shelves are stocked with a varied offer of non-food products, small domestic appliances, and other household products.

New supermarket Travnik

Composition of units by store as at December 31, 2020



MERCATOR GROUP	Gross sales area (in m²)	Net sales area (in m²)
FMCG retail units 1,005	810,602	519,494
Wholesale units (Cash & Carry/VELPRO) 19	56,231	33,663
Restaurants 6	2,565	1,019
Tehnical program (M Tehnika) 41	61,615	36,760
Total units under management 1,071	**931,012**	**590,936**
Franchise stores 169	36,126	23,781
TOTAL 1,240	**967,138**	**614,717**

Category management

Slovenia

Considering the crisis in the first and second quarter, and again in the fourth quarter, we prepared in the period 1–12, 2020, the steps and measures for immediate introduction and execution of category management and procurement management in case of worsening conditions in the market as a result of the COVID-19 pandemic.

This included especially provision of adequate amounts of goods in key categories through coordination with the existing suppliers, and search for new supply sources. We optimized our promotional activities, with stress on mechanics for making large shopping sessions easier, taking into account the lower frequency of shopping sessions. We included into our assortment new niche products for ensuring safety of consumers and customers. We adjusted our processes and work to make goods handling easier for our retail and logistics employees during higher customer demand.

In such situation, we continued to actively support domestic suppliers and promote Slovenian and local offer at Mercator stores. Continuous education and training of our employees regarding the changes, key highlights and standard processes contributed to the quality of service at the stores, taking into account the healthcare measures to protect the health of the employees and all participants in material transactions.

Particular stress was placed on continuation and upgrade of our latest platform, the My Brands project, with the successful TV campaign Little Chef, Merry Waves, and the offer of Vivo glasses and stemware. We saw progress in our online operations, as we took another step further in keeping up with the global digitalization trends.

Key category management activities remained focused on the pursuit of the following key goals:
- upgrading the portfolio of quality private label lines and providing the best value for money; introducing new varied items from the non-food segment, and maintaining and expanding the offer of local products;
- managing the commodity market products and seasonal products in a quality and prudent way;
- monitoring competition's pricing for products of renowned brands and private labels, and ensure competitiveness; including appealing offer in our sales promotion activities, with particular stress on promotion of activities related to the Pika loyalty program;
- efficient management of the retail area down to the level of each product, and providing and upgrading services at the point of sale, with key stress on our fresh departments.

Serbia

In 2020, Mercator–S d.o.o. actively adjusted to the new operating conditions brought about by the global healthcare crisis. Taking into account the key goals for 2020 and new legislative frameworks and guidelines was among the primary tasks at the company Mercator–S d.o.o., in order to ensure current operation of our facilities and adequate inventory at the stores, required to meet the needs of the consumers, while observing the healthcare measures to protect the health of the employees and all other participants in material transactions. The main focus of development was on enriching the offer of homemade and local products. At the same time, respective products were promoted intensively at our stores. We continued to provide a good service, especially on fresh program and other projects, which is distinctive from our competition, through the initiatives of Mercator–S d.o.o. We continued the positive practice of exchange of experience, knowledge, and initiatives within the Mercator Group.

Following were the key activities in category management in 2020:
- Efficient assortment management. In 2020, we introduced new and varied non-food items, especially quality and affordable offer of seasonal items that were at the core of the demand hike fuelled by the COVID-19 epidemic.
- Constant focus on the customers is also evident in price and competitiveness management where we took into account the need to adapt to regional and local differences.

- Promotional activities were considerably optimized in the first half of 2020. The healthcare crisis in the second quarter of 2020 brought about optimization of promotional activities, including a notable decrease in frequency and strength of advertising. At the same time, it directed us towards focusing on the promotion of groups/categories of products that are not as frequently advertised in normal conditions. Emphasis was placed on attractive offers for users of the Super Card loyalty program, with an initiative for comprehensive development of personalized offer. We continued to intensively promote brands within the project »Splača se skupaj« (»Better Together«).
- Focus on the employees is very important, not only in training and education, but also in terms of helping retail employees optimize the processes at their stores. During the healthcare crisis, we attained a high level of teamwork, which gave our employees the strength to contribute even more to the development of the company.
- The processes are aimed at simplifying and optimizing the resources and to improve business performance and efficiency in the changed market circumstances.

Montenegro

Key activities were focused on tackling the global crisis situation and adjustment to new shopping habits in the market, as well as adjustment to changes in tourism. Following are the measures that we adopted and implemented in 2020 in order to improve our performance:

- Ensuring adequate amounts of basic food products during the pandemic.
- Adjusting the offer to the changed market requirements brought about by the pandemic.
- We carried out projects in the sectors of meat, fruit and vegetables, bakery, health food, and wine.
- We introduced new items and brands in order to generate new growth and differentiate ourselves from the competition:
  - Delicatessen: Premium brands of cheese and delicatessen, new poultry products, new lines of beef, freshly packed meat – expansion of assortment.
  - Pre-packed food: we are the only retailer to offer herb and spice sprays, spray olive oil, Belgian chocolate, Disney program etc. We are also developing craft beers with paper packaging.
- We continued the My Brands activities.

Bosnia and Herzegovina

Key activities of Mercator–BH d.o.o. for 2020 included the following:

- In the first quarter, we stepped up our marketing activities in fresh departments, with emphasis on the breadth of the assortment.
- During the pandemic, we adjusted the packaging and shelf restocking.
- In the second quarter, activities were adapted to the new circumstances, as we focused on basic food and hygiene products, and »non-food 2« assortment (online school, social games/board games, small domestic appliances). In the third quarter, we continued the activities and preparations for the last quarter and the holiday season.
- We negotiated with our suppliers further cooperation in the project »Discounts for You« (»Znižano za vas«), where we wanted to meet the needs of our customers for the offer of attractive sales promotion activities.
- We adapted continuously to new legal decisions that are constantly changing both at the national level and at the level of political entities and towns. Since the frequency of customers decreased in the last three quarters, we optimized and adjusted our marketing activities to the new market situation to increase the average size of the shopping basket.

Marketing and customer loyalty programs

Customer loyalty programs and private label by countries*

Customer loyalty programs are a valuable source of data for Mercator on consumer habits and for understanding of their conduct in all markets of operation. Data for over **1.7 million active loyalty card holders** in Slovenia, Serbia, Montenegro, Bosnia and Herzegovina, allow preparation of customer segmentation and adjustment to the trends of respective markets. Customers can choose between different types of cards that are the best fit for their way of shopping and saving. At the same time, we are developing innovative mobile and payment services.

Loyalty program | Brand

Slovenia
Active card holders:
726 thousand

Brand: Mercator, M Tehnika, MAXEN MAXIMALNA ENERGIJA

Serbia
Active card holders:
709 thousand

Brand: Mercator, IDEA, RODA

Montenegro
Active card holders:
69 thousand

Brand: IDEA

Bosnia and Herzegovina
Active card holders:
205 thousand

Brand: Mercator

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

Marketing

In the period 1–12, 2020, we started our activities to support our business strategy that allows long-term stability and profitable growth.

In marketing projects, we were focused especially on Mercator brand differentiation, which is also the basis for the Mercator marketing strategy.

Differentiation as a competitive advantage

Our differentiation strategy is based on:

a) the broadest offer of local and regional brands,

b) the best customer loyalty program,

c) introduction of new store formats,

d) innovation.

Regardless of the business and marketing strategy, the entire year was under a strong impact of the emergency circumstances related to the coronavirus epidemic, which required rapid adjustment, adoption of relevant business measures, and changes in market communication. We only started carrying out the projects laid down in the marketing strategy in middle of the year.

Slovenia

Communication during the epidemic

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

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

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

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

In these challenging weeks, we made shopping easier for our customers in several ways. Online shopping for food has increased, which is why we allocated our resources accordingly, increased our capacity, and introduced a **special crisis food online store**. We also offered convenient shopping for major domestic appliances, small domestic appliances and other technical consumer goods at the online store of our M Tehnika, and further increased the number of dispatch points to allow faster delivery. For all who are short on time for cooking, we have developed larger family packs of ready-to-eat Minute products. We also prepared other convenient solutions. Thus, pre-baked bread can be finished at home in a matter of minutes, so customers can always enjoy freshly baked bread.

Campaign »A good neighbour will stand by your side«

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

Marketing strategy projects

WE LOVE LOCAL

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

In the summer, we developed a new line of 56 products under the umbrella brand We Love Local (»Radi imamo domače«) that we introduced in October, and prepared a communication campaign for it.

In September, 256 We Love Local products were redesigned to match the visual identity of the new private label line We Love Local, and in October, we carried out a communication campaign that also included a new TV ad. The focus on the new offer was sustained until the end of the year. The primary medium (after the 360° campaign) was the flyer.

GOOD CHOICE

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

In September, the second wave of the campaign that included 71 products took place.

Project »Good choice«

SLOVENIA'S LITTLE CHEF 2020

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

TV show »Slovenia's little chef 2020«

VIVO GLASSES AGAIN IN MERCATOR

From September 3, the activity of collecting e-stickers or regular stickers for superior crystal glasses and stemware **Vivo** took place. Customers received one sticker per every 10 EUR of purchased value, or for each My Brands product. After collecting 5, 10, or 20 stickers, they were entitled to a discount of up to 85%. The collection included glasses and stemware for red and white, gin tonic and beer, sparkling wine, spirits and juice, and a decanter. The activity of collecting stickers took place until December 31, 2020, and stickers could be redeemed until January 9, 2021.

COLLECT MY BRANDS AND ACTIVATE THE REWARD BENEATH THE SURFACE

From November 5 to December 31, we prepared scratch card sweepstakes. The mechanics of the entire activity were as follows: for every purchase of one My brands product or another product labelled as being a part of the activity, customers received one scratch card at the check-out counter, with one of a total of 12,000 rewards under the scratch film: Mercator gift cards, addition of a certain number of Pika points to the Pika card, shopping at the Mercator FMCG online store, a text message for the main prize, and other minor prizes.

VIVO glasses

Collect My Brands and activate the reward beneath the surface

PICNICS CONNECT, MY BRANDS REWARD

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

COLLECT ALL STICKERS AND DISCOVER THE OCEANS IN THE COMPANY OF THE SMART CREATURES FROM THE DEPTHS

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

Picnic connect, My Brands reward

The smart creatures from the depths

NEW YEAR'S CAMPAIGN

At Mercator, this year's holiday story was wrapped up with the thought **»The best gift is the one that brings us together«**. This time in particular brings up feelings of gratitude for being close to the ones we love; awareness, that happiness lies in people, not things; and realization that the magic of holidays is to be connected with good thoughts and best wishes. The campaign summarized the key thought we all shared, that despite the distances that may separate us at the moment, we have to stay connected, and that the best gift is a shared experience. In December, we actually connected our users with the virtual event The Most Connected Dinner that was attended by 34,600 users. We hosted famous Slovenians and enjoyed the company of chef Uroš Štefelin, as well as other guests from other continents of the world.

Serbia

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

- Introduction of fast payments with mobile phone, which ensure safe, fast and simple shopping without cash or payment cards.
- In the nine months of the year, promotions under the project **»Ukusi moga kraja«** (»My Local Flavours«) continued, and they included over 200 products and 30 suppliers. 27 products from the project also received the seal of »Čuvarkuća« (Serbian name for the plant houseleek believed to protect the house), which is a project of the Serbian Chamber of Commerce and Industry, and the seal of local high-quality product.
- Project **»Better Together«** (**»Vredno je zajedno«**) involves more than 60 suppliers. Brands that are popular among Serbian consumers are a part of a new wave of the campaign in which sales of soft drinks have seen the highest growth. In December, we organized large sweepstakes called Perfect Ten in which customers could take part by purchasing the products from the »Better together« (»Vredno je zajedno«) to compete for one of ten automobiles Fiat 500 Hybrid
- In May, the Super card celebrated its seventh birthday. Under the slogan »Sharing Happiness with You for Seven Days«, customers were rewarded between May 25, 2020, and May 31, 2020, with numerous benefits and extra points for their shopping within the partner network. The customers received double points on their Super card for their shopping; if they used the Super payment card, Sberbank also awarded double bonus points.
- **Strategic partnership with Hemofarma** – **Zdravoteka** (»Healthcare«) – At over 100 Idea, Roda, and Mercator stores, we included over 200 Hemofarm products – vitamins, minerals, dietary supplements, syrups, and other pharmaceutical products sold over the counter.

At **IDEA**, we conducted a campaign for the IDEA bakery in the first nine months of 2020, and introduced a new service **»Order and Collect«** at Idea Online. We started cooperation with Glovo that allows ordering via a mobile app and delivery of products in less than 60 minutes. Moreover, 5 new stores were opened, including the new Idea Organic store in Belgrade, while 4 units were renovated.

Montenegro

In addition to regular activities or issuing a catalogue, weekend campaigns, and minor temporary campaigns, Mercator–CG d.o.o. (Montenegro) carried out the following activities/campaigns:

- **Campaign for fruit, vegetables and delicatessen**: the purpose of the **campaign for delicatessen** was to present the broad offer of products in this category and to present the offer of K Plus private label. In the fruit and vegetables campaign, Idea is presented as a destination for daily shopping for **fruit and vegetables**. Due to the circumstances related to the epidemic, the campaign was discontinued.
- **Pre-packed meat campaign**: at the end of July, we held a campaign for pre-packed meat, since we are the first retailer in the market to offer such products.
- **Bakery campaign**: In November, we held a major bakery campaign with the slogan »Different, Special, Yours«.
- **»Health Lovers«** (»Zdravoljubci«): in August, we launched a new project aimed at promoting a healthy diet and increasing the share of fruit and vegetables in children's diets. When purchasing select products or when the checkout total reaches a certain amount, customers win stickers for discount on seven types of plush toys in the shape of fruit and vegetables. The project also included a donation to the Autism Centre.
- **Project »Moji brendovi«** (»My brands«): four waves of the campaign were held, involving 74 brands and 314 items.
- **»The Treasures of Our Montenegro«** (»Blago naše Crne Gore«)**:** To support our local producers and the local economy, we launched the campaign The Treasures of Our Montenegro that steers the consumers towards choosing quality local products offered at their stores.
- **Ideal offer:** In the first half of the year, we carried out a special project for our customers, called Ideal Offer. Super card users were awarded extra points for purchasing products included in the project. Suppliers also take part in the project.
- **New Year's Campaign:** The New Year's campaign included a number of activities intended for both employees and customers. We also made a donation to healthcare workers at COVID departments.

Bakery campaign | Health Lovers campaign | Novoletna kampanja

Innovation: Consistently with the recent trends, we have developed a new service in the online store, called **»Order and Collect«**. The service is available at 6 locations: Podgorica, Bar, Herceg Novi, Tivat, Kotor, and Nikšić. This way, we offer our customers speed, efficiency, comfort, as well as safety.

Bosnia and Herzegovina

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

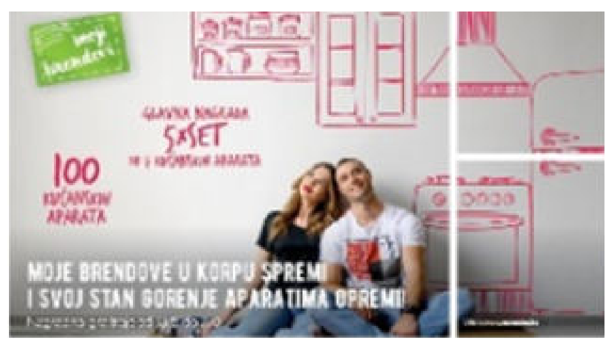
After four successful waves of the campaign **»My Brands, Our Values«**, Mercator–BH d.o.o. launched in early June a new, fifth wave, in order to further promote renowned local and regional brands. In addition to the brand promotion, we also prepared the sweepstakes »Chose My Brands, Enjoy the Vespa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

In August, we launched a new wave of the project, in which customers who purchase the »My Brands« products are entitled to take part in attractive sweepstakes with rewards provided by Gorenje, including seven domestic appliances to be presented to five customers for equipment of their home.

Mercator Première – In July and August, we introduced a new project to highlight new additions to our offer: coffee energy drinks, new Plazma products, and Fairy Extra cleaners.

Pika Bonus – In July, the sweepstakes Pika Bonus were launched, in which customers who purchase select products are entitled to take part, and which include substantial rewards. Moreover, customers are awarded triple bonus points when purchasing the Pika Bonus products.

Sweepstake »Chose My Brands, Enjoy the Vespa Ride!«



Sweepstake for Gorenje white goods

Real estate management and retail network development

In 2020, Mercator Group's priority in investment activities, consistently with the investment plan, was refurbishment of retail units and setting up new stores acquired through operating lease, as well as placement thereof in its operating shopping centres. Thus, we opened a total of **26 new fast-moving consumer goods stores**, **2 new technical consumer goods stores »Center Tehnike«**, and **1 new distribution centre**.

We also searched for and evaluated new potential locations to extend Mercator's retail network. Activities also took place with regard to divestment of non-core or non-operating assets, and regarding the search for investors willing to build or acquire retail area to suit Mercator's needs and then offer these facilities to Mercator on a lease.

Launch of the Alpin project (development projects and real estate monetization)

In November 2020, we launched the Alpin project, the purpose of which is to select a suitable investor for business cooperation in Mercator's new development projects in Slovenia. Business cooperation with the company Mercator d.d. will take part in the form of financing select development projects and agreements sale of relevant land, construction of retail units on such properties, consistently with Mercator standards, and long-term leaseback of the constructed retail units. In case of successful agreement, the selected investors will also be offered long-term sale and leaseback for a selected number of existing retail units, employing the system of real estate monetization.

By the end of 2020, several investors already expressed their interest in the project.

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

Investment and divestment

In 2019, Mercator Group **investment into property, plant, and equipment (CAPEX) amounted to EUR 41.8 million**. Of the total investment amount, 60.8% was used for investments in Slovenia and 39.2% was used for investments in international markets.

Capital expenditure in 2020 by markets

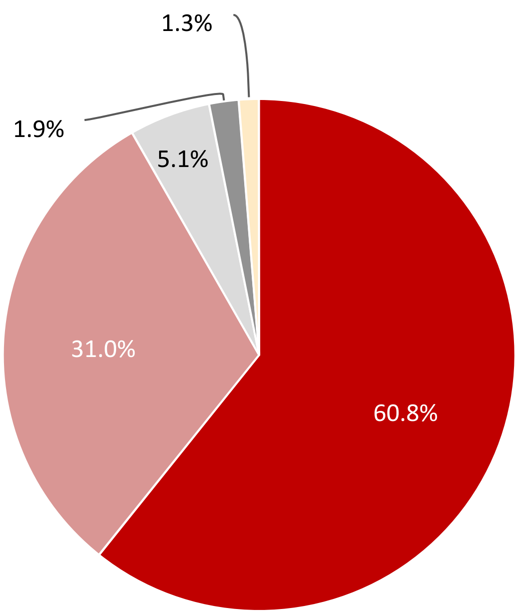
	Capital expenditure in 2020 (in EUR 000)	Structure (in %)
Slovenia	25,417	60.8 %
Serbia	12,965	31.0 %
Montenegro	2,149	5.1 %
Bosnia and Herzegovina	779	1.9 %
Croatia	526	1.3 %
Total	**41,836**	**100.0 %**

Investment into refurbishment and update existing units accounted for 52.7% of total investments; expansion of new retail units represented 20.8%; IT investments accounted for 15.4%; investments into distribution centres accounted for 6.8%; and the remaining 4.3% was invested in non-trade activities.

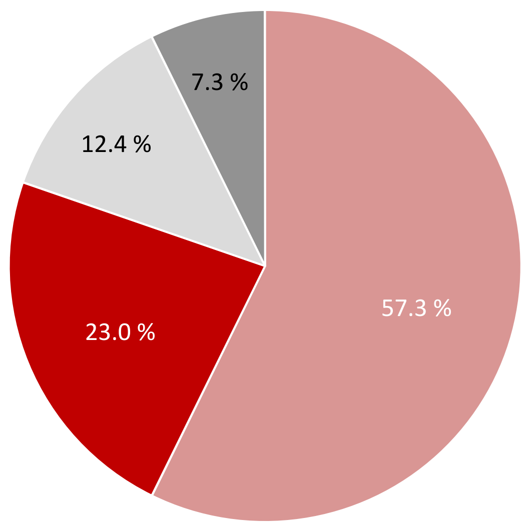
In 2020, Mercator Group acquired **14,998 m^2 of new gross area** for its core activity. Of this area, 12,888 m^2 of gross area was acquired through operating lease, while 2,110 m^2 was acquired by refurbishing our shopping centres.

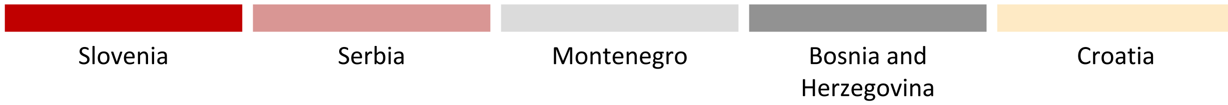
In 2020, Mercator Group **divested property, plant, and equipment worth EUR 13.0 million**, of which EUR 12.7 million pertains to the divestment of property (real estate) and EUR 0.3 million pertains to plant and equipment.

Capital expenditure in 2020 by market



Share of new usable areas in 2020 by market





Summary of total gross retail area as at December 31, 2020

	Gross retail area (in m^2)*		
	Used for own operations	Leased out	Total
Owned retail area	458,921	334,106	793,027
Leased retail area	472,092	145,062	617,154
Total retail area	**931,013**	**479,168**	**1,410,181**
Owned warehouse capacity	153,464	20,526	173,990
Leased warehouse capacity	60,562	10,508	71,070
Total warehouse capacity	**214,026**	**31,034**	**245,060**
Owned commercial facilities	17,922	3,598	21,520
Leased commercial facilities	7,412	674	8,086
Total commercial facilities	**25,334**	**4,272**	**29,606**
Gross area under management	**1,170,373**	**514,474**	**1,684,847**
- of which owned	630,307	358,230	988,537
- of which leased	540,066	156,244	696,310

*In gross usable area are not included holiday facilities and other unusable areas.

Overview of new area and updates/layout updates by markets in 2020

Slovenia

Area of new facilities: 3,444m^2

- Number of new units: 5
- Openings: Center Tehnike Logatec; Market Šentvid pri Stični; Market Miklavž na Dravskem polju; Market Koseze; Center Tehnike Velenje

Refurbishments/renovations:

- Number of units: 70 fast-moving consumer goods stores, 3 technical consumer goods stores (M Tehnika), 13 wholesale units (Cash&Carry)

Serbia

Area of new facilities:retail 4,447m^2, logistics and distribution center: 4,153m^2

- Number of new units: retail 13, logistics and distribution center 1
- Openings: Market Patriarha Pavla, Novi Sad; Market Zrenjanin; Market Zlatibor 2; Market Organic, Vase Pelagića, Beograd; Sutobanja; Market Organic, Sinđelićeva, Beograd; Market Kraljice Natalije, Beograd; Market Petrovaradin, Novi Sad; Market Glavna, Ruma; Market Kovin; LDC Novi Banovci

Refurbishments/renovations:

- Number of units: 84

Montenegro

Area of new facilities: 1,862m^2

- Number of new units: 6
- Openings: Market Krivi most, Podgorica; Market Zabjelo 4, Podgorica; Market Stari aerodrom 3, Podgorica; Market Porto Novi, Herceg Novi; Market Tivat, Magistrala; Market Dom revolucije, Nikšić

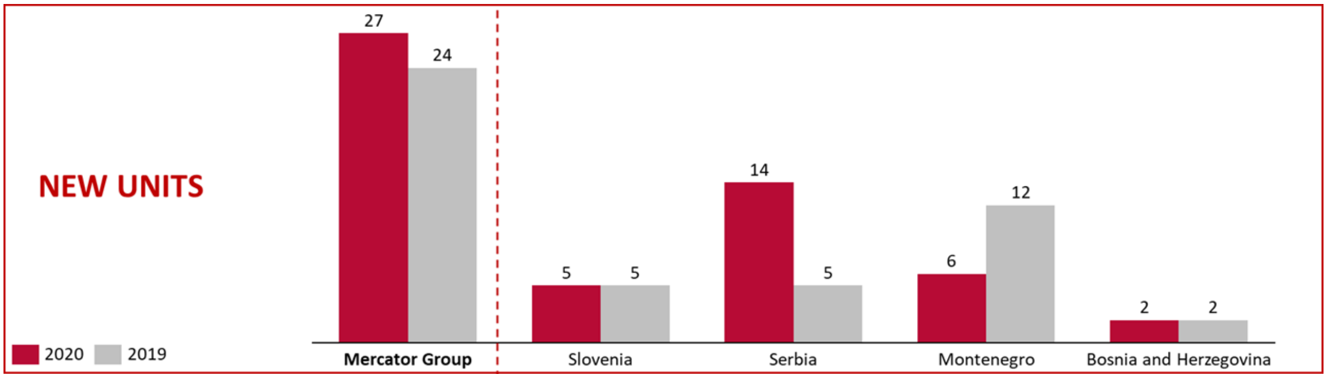
Refurbishments/renovations:

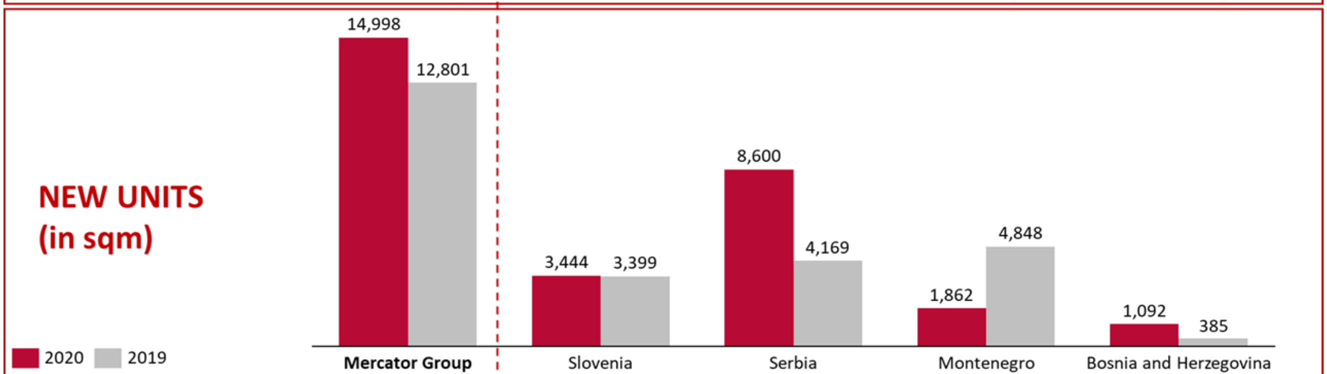
- Number of units: 2

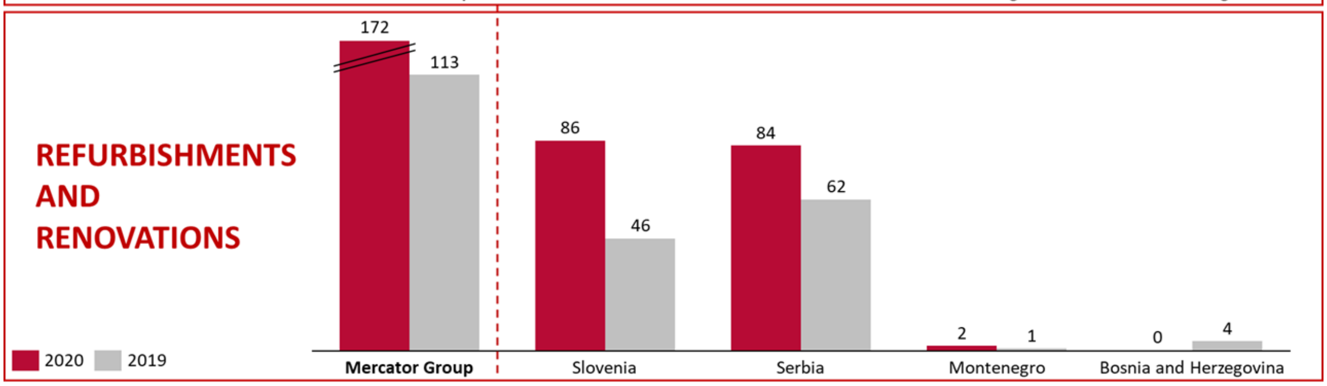
Bosnia and Herzegovina

Area of new facilities: 1,092m^2

- Number of new units: 2
- Openings: Market Brčko, Supermarket Travnik







At the Mercator Group level, a total of **27 units** were **newly opened** in 2020, and **172 units** were refurbished or had their layouts updated.

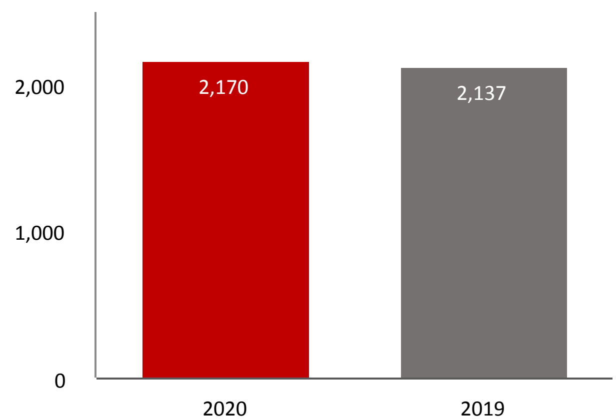
Analysis of key performance in year 2020

Analysis of key performance categories

Sales revenue and rental income

In 2020, Mercator Group comparable sales revenue and rental income amounted to EUR 2,170.0 million, which is 1.6% more than in 2019[13]. Despite the epidemic, Mercator Group sustained the growth of its revenue, which is a result of timely and responsible preparation for the epidemic. In order to mitigate the negative effects of coronavirus, we introduced the following initiatives: negotiations with suppliers, further implementation of My Brands platform in all markets, improvements of category management process which also effect relative margin, better utilization of loyalty functionalities and data usage for targeted promotional activities, optimization of promotional activities during epidemic period, and rapid adaptation of the Internet infrastructure.

Sales revenue (in EUR mn)



In 2020, sales revenue and rental income in the Slovenian market increased by 1.9% relative to the year before. Growth rates was recorded in FMCG retail (5.1%), which is a result of successful execution of the business strategy.

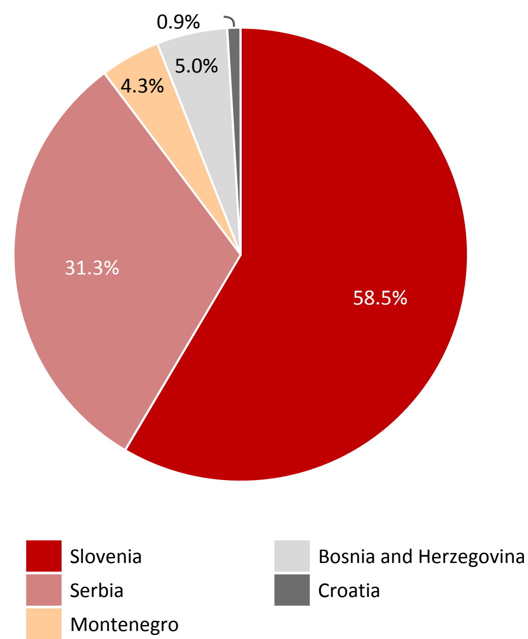
In the market of Serbia, our sales revenue and rent increased in 2020 by 2.4% relative to the preceding year. Growth was also recorded in retail (4.2%) while revenue from sales and rents in other segments decreased in comparison to the year before.

The drop of sales revenue and rent was seen in the market of Montenegro where revenue decreased by 10.5% relative to the year before. The drop in revenue is a result of significant loss of the tourist season due to the coronavirus epidemic.

In the market of Bosnia and Herzegovina, our revenue increased by 3.1%, which is a result of successful stabilization of retail operations, based on Value Creation Plan initiatives was maintained.

In the market of Croatia, revenue from services sold increased by 7.9%.

Consolidated sales revenue by markets for 2020 (in %)



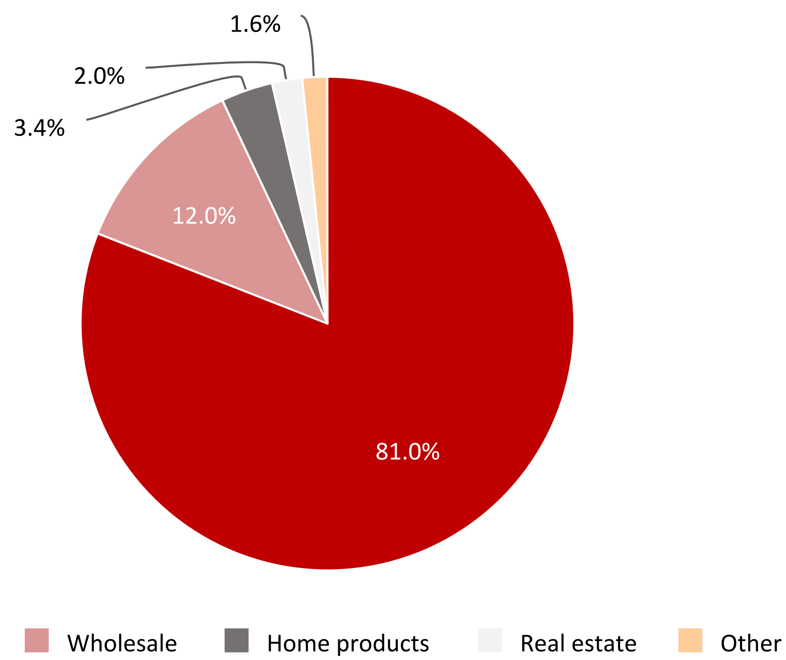
Structure of sales revenue and rental income by Mercator Group programs

The structure of sales revenue and rental income by respective programs did not change significantly in 2020. FMCG retail accounts for the highest share of revenue with 81.0%. Relative to the year before, this share in comparison to other

[13] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

programs increased by 1.7 percentage points. In 2020, revenue from wholesale decreased (4.5%) as a result of the government measures to contain the coronavirus epidemic. The share of sales revenue and rental income generated in specialized retail program of home products amounted to 3.4% in 2020, which is only 0.2 percentage point less than in the preceding year, despite the closure of technical (home improvement and electronics) stores due to the coronavirus. In 2020, revenue from real estate activity amounted to 2.0%, while other revenue amounted to 1.6% (this includes revenue generated by Mercator–Emba d.o.o., Mercator–IP d.o.o., and M–Energija d.o.o.).

Mercator Group sales revenue and rental income structure by programs in 2020 (in %)



Retail revenue

Year-on-year growth in the retail segment is a result of successful pursuit of business strategy, including all initiatives for attainment of business goals. Our business performance remained successful after the declaration of the COVID-19 epidemic in all markets (except Montenegro) of our operations, especially due to responsible preparation for the crisis, timely provision of inventory and assets, effective crisis management, and exceptional execution of all additional value creation plan initiatives. Positive trends were recorded in all retail markets except Montenegro that depends heavily on the tourist season between May and September.

in EUR mn	2020	2019	Change 2020/2019
Retal revenue$^{\Delta}$	1,757	1,693	3.7 %

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

In Slovenia, **retail revenue increased by 5.1%** in 2020; at the Mercator Group level, retail revenue **increased by 3.7%** relative to 2019.

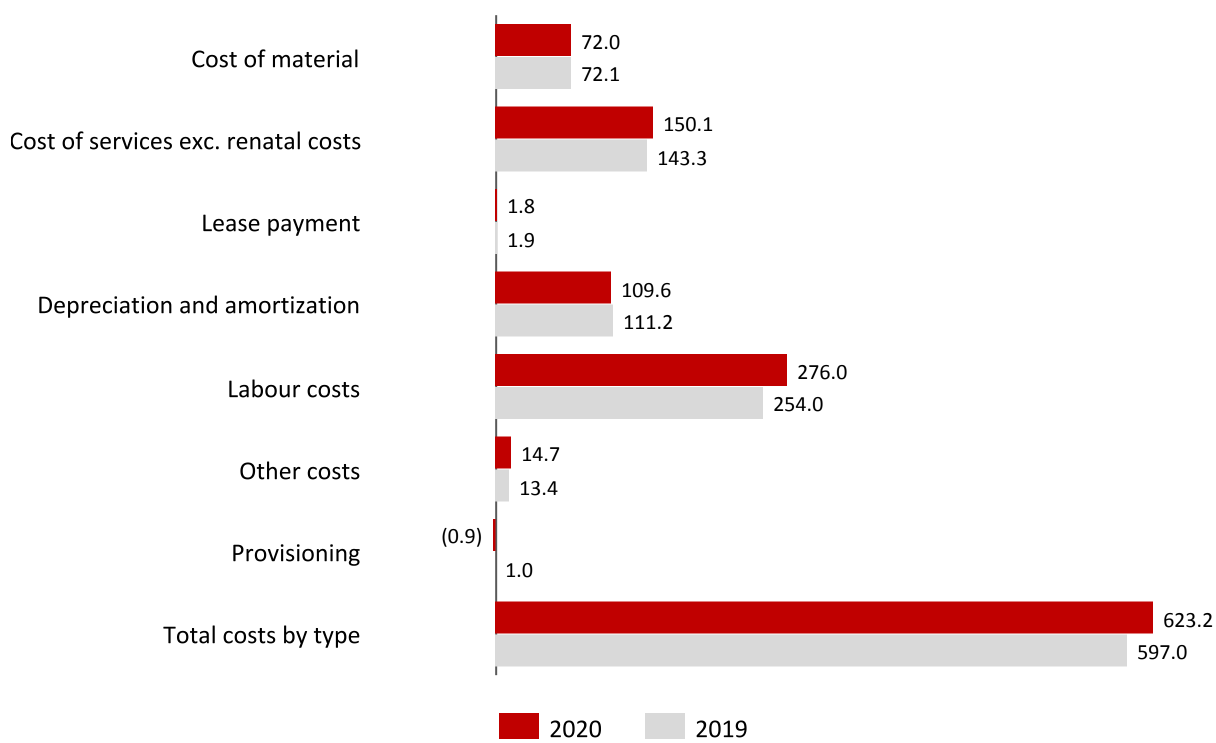
Expenses by nature

In 2020, total expenses by nature (costs by natural categories) amounted to EUR 623,236 thousand, which is EUR 26,249 thousand, or 4.4% more than in 2019.

Development by respective types of expenses was as follows:

- **Material costs** in 2020 amounted to EUR 71,957 thousand, which is a decrease of 0.3% relative to the preceding year, and mostly a consequence of higher energy costs in the markets of Slovenia. Costs of material decreased despite the additional costs related to the purchase of protective equipment (face masks, gloves, sanitizers etc.) to protect the employees from COVID-19.
- In 2020, **costs of services excluding rents** amounted to EUR 150,148 thousand, which is 4.8% more than in 2019. The reason for the increase is higher payments to student labour agencies and to hired and contract workers especially in the market of Slovenia, as a result of the change in labour legislation with regard to minimum wage, additional costs of workers and student workers hired for store security and enforcement of the COVID-19 measures, and higher absenteeism of some groups of employees as a result of lock-down of kindergartens and schools, medical leave etc.
- **Rental expenses,** related to short-term rents amounting to EUR 1,772 thousand, decreased by 8.6% in 2020 relative to 2019.
- **Labour costs**, amounting to EUR 275,993 thousand, increased in 2020 at the level of the entire Mercator Group by 8.7% relative to 2019. This is a result of increase in minimum wage legislation in all markets of our operations. In Slovenia, payments of aid during the COVID-19 epidemic to all employees (consistently with the new government law), and payment of bonuses for increased risk exposure during the epidemic for all active workers in operations contributed further to the increase of labour costs.
- **Depreciation and amortization expense** at the level of the entire Mercator Group decreased from EUR 111,235 thousand in 2019 to EUR 109,560 thousand, or by 1.5%.
- **Other costs by natural categories and revaluation adjustment to inventory**, which include e.g. environment protection expenses, donations, membership fees etc., amounted to EUR 14,711 thousand in 2020, which is 10.2% more than in 2019. This increase is a result of the donations related to the COVID-19 epidemic.
- **Provisions** in 2020 amounted to EUR -906 thousand, which is EUR 1,930 thousand less than in 2019. The cause of decrease is the reversal of provisions in 2020. In 2019, revenues from the reversal of provisions were kept below other operating revenues, and in 2020 they are kept below the costs of provisions due to the change in methodology in 2020.

Change of costs by type (in EUR mn)



Total costs by natural categories amounted to EUR 623.2 million in 2020, which is **EUR 26.2 million more** compared to 2019.

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

Mercator Group's operations and performance were under a considerable impact of the COVID-19 epidemic in 2020, as well as under the effect of negative events originating outside our regular course of business (especially the real estate revaluation in the amount of EUR 128 million). Adjusting for all non-recurring negative events and the effects of the COVID-19 epidemic, Mercator Group's **operating income (EBIT)** in 2020 would have amounted to EUR 53,195 thousand. Despite the changes in the economic environment due to the COVID-19 epidemic, Mercator Group's timely measures and adjustment of business model allowed it to even increase its operating income (EBIT) in the core activity of retail by 5.2%.

When reviewing the operations and performance in 2020, it is also important to understand that real estate represents a separate business area at the Mercator Group due to its considerable scope. In terms of ownership, Mercator Group is an atypical retailer, since retailers are normally not owners of real property. We are committed to observing the financial policies and rues, and International Accounting Standards. This also allows us to reach the highest standards of economy and transparency of our operations. In 2020, we had to revalue our own real property. Real estate was re-appraised by an independent consultancy, and the results were reviewed by two independent expert institutions. When reviewing the operations and performance, it should also be taken into account that the decreased value of real estate has direct effects on the business results, while any increased in value is, pursuant to the international standards, taken into account in the company's equity. From the aspect of the Group's development, stable equity is very important.

In 2020, **net finance expenses** for the Mercator Group amounted to EUR 50,628 thousand, which is EUR 3,810 thousand more than in the year before. Regular interest expenses, amounting to EUR 25,414 thousand, account for the largest share (47.2%) of finance expenses.

Effects of the COVID-19 epidemic and non-recurring negative events (especially the real property revaluation in the amount of EUR 128 million) had a negative impact on both our **operating profit** and on our **net income** for the accounting period at hand. Adjusting for all non-recurring events Mercator Group's **net income for the period** would have amounted to **EUR 4,712 thousand**.

Review of non-recurring business events

In 2020, net effects of non-recurring business events at the level of the entire Mercator Group amounted to EUR 161.4 million, while the net effects of non-recurring business events on Mercator Group business results in 2019 amounted to EUR 1.4 million.

The table below summarizes the non-recurring business events in the period 2019-2020 and their effect on EBITDA.

in EUR mn	2020	2019
EBITDA	**1.3**	**169.0**
Normalization effect	**161.4**	**1.4**
- of which net impairment of current assets	6.3	1.9
- of which net impairment of non-current assets*	144.4	(4.1)
- of which other one off events	10.7	3.6
EBITDA normalized	**162.8**	**170.4**
Effect of IFRS 16 Leases	(64.9)	(67.6)
EBITDA normalized w.o. IFRS 16 Leases	**97.8**	**102.8**

* Of the total net revaluation adjustments to non-current assets, revaluation of property accounted for EUR 128 million.

In 2020, Mercator Group generated **EUR 162.8 million of normalized EBITDA.**

Assets

Assets of Mercator Group

in EUR 000	December 31, 2020	December 31, 2019	Change December 31, 2020/2019	Share in total assets 2020
Property plant and equipment	831,426	916,896	(9.3)%	46.4 %
Intangible assets	20,750	20,548	1.0 %	1.2 %
Investment property	198,978	273,006	(27.1)%	11.1 %
Right of use assets	340,030	351,908	(3.4)%	19.0 %
Loans/deposits given	8,246	13,600	(39.4)%	0.5 %
Receivables and investment in financial assets	10,537	5,633	87.1 %	0.6 %
Total non-current assets	**1,409,966**	**1,581,592**	**(10.9)%**	**78.7 %**
Assets classified as held for sale	0	0	— %	— %
Inventories	202,951	211,090	(3.9)%	11.3 %
Receivables	126,317	156,062	(19.1)%	7.1 %
Loans/deposits given	2,365	2,148	10.1 %	0.1 %
Cash and cash equivalents	49,884	52,977	(5.8)%	2.8 %
Total current assets	**381,517**	**422,277**	**(9.7)%**	**21.3 %**
Total assets	**1,791,483**	**2,003,869**	**(10.6)%**	**100.0 %**

Mercator Group's assets as at December 31, 2020 amounted to EUR 1,791,483 thousand, which is 10.6% less than at the end of 2019.

Mercator Group non-current assets as at **December 31, 2020**, amounted to EUR 1,409,966 thousand, which is 10.9% less than at the end of 2019. The value of property, plant, and equipment accounts for the highest share of non-current assets, with 59.0%. In non-current assets, EUR 340,030 thousand pertains to the right-of-use assets at fair value, which is related to the IFRS 16 Leases and, in terms of substance, represents the lease of property, plant, and equipment.

Mercator Group current assets as at **December 31, 2020**, amounted to EUR 381,517 thousand, which is 9.7% less than at the end of 2019. The largest items within current assets as at **December 31, 2020**, are inventories (53.2%) and trade and other receivables (33.1%).

Equity and liabilities

Equity and liabilities of Mercator Group

in EUR 000	December 31, 2020	December 31, 2019	Change Dec. 31, 2020 / Dec. 31, 2019	Share in total equity and liabilities 2020
Equity	**292,046**	**438,974**	**(33.5)%**	**16.3 %**
Borrowings	67,743	471,902	(85.6)%	3.8 %
Lease Liabilities	272,636	300,260	(9.2)%	15.2 %
Deferred tax liabilities	15,063	11,677	29.0 %	0.8 %
Provisions	27,543	25,804	6.7 %	1.5 %
Total non-current liabilities	**382,985**	**809,643**	**(52.7)%**	**21.4 %**
Trade and other payables	558,680	576,305	(3.1)%	31.2 %
Borrowings	484,538	99,959	384.7 %	27.0 %
Lease Liabilities	73,036	76,100	(4.0)%	4.1 %
Current tax	199	2,887	(93.1)%	— %
Total current liabilities	**1,116,453**	**755,251**	**47.8 %**	**62.3 %**
Total liabilities	**1,499,438**	**1,564,894**	**(4.2)%**	**83.7 %**
Total equity and liabilities	**1,791,483**	**2,003,869**	**(10.6)%**	**100.0 %**

Mercator Group's borrowings and other lease liabilities as at **December 31, 2020**, amounted to EUR 897,953 thousand, which is EUR 50,268 thousand less than at the end of 2019. Mercator Group's net financial debt as at **December 31, 2020**, amounted to EUR 848,068 thousand, which is EUR 47,176 thousand lower than a year earlier.

Total trade and other payables as at **December 31, 2020**, amounted to EUR 558,680 thousand, which is EUR 17,625 thousand less than at the end of 2019. Provisions as at **December 31, 2020**, amounted to EUR 27,543 thousand, which is 6.7% less than at the end of 2019.

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

	December 31, 2020	December 31, 2019
Long-term coverage of non-current assets $^{\Delta}$	47.9 %	78.9 %
Net financial debt/ EBITDA normalized	5.2 x	5.3 x

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

As at **December 31, 2020,** long-term coverage of non-current assets with non-current liabilities at the Mercator Group amounted to 47.9%, which is 31.0 percentage points less than as at the end of 2019. The ratio between net financial debt and normalized EBITDA in 2020 amounted to 5.2 x, which is 0.8% lower than at the end of 2019.

Effect of the new IFRS 16 pertaining to leases

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

The IFRS 16 Leases also introduces certain exceptions, such as:
- for short-term leases, i.e. leases shorter than one year;
- for leases in which the asset has a very low value.

Two approaches for transition to the new standard are offered:

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

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

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

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

The table below presents the data for 2020 without and with the effect of the IFRS 16 Leases.

in EUR 000	without IFRS 16 Leases impact	with IFRS 16 Leases impact
EBITDA normalized	97,829	162,755
Net profit for the year	(139,383)	(156,710)
Total financial liabilitis	597,726	897,952
Net financial debt/EBITDA normalized	5.6x	5.2x

Operations and performance plans for 2021

Planned operations and performance in 2021

For 2021, Mercator Group is primarily planning to further pursue its development strategy. The key aspects of this pursuit are attainment of revenue growth and business performance within Mercator's efforts to be the best local retailer in all markets of its operations. For the year 2021, Mercator Group is planning revenue of EUR 2.2 billion and normalized EBITDA of EUR 101.1 million (excluding the effect of the IFRS 16 Leases).

One notable development in the year 2021 will be the increase of labour and other costs; therefore, Mercator Group has already planned a number of activities to control the cost growth.

Tomislav Čizmić, President of the Management Board at Mercator Group, stresses: »Mercator Group is already successfully pursuing the strategy of merging its sales channel into a uniform ecosystem that offers customers what they want, where they want, when they want. In 2021, we shall prove once more that this is an effective and successful strategy that brings us competitive advantages and leads to better business efficiency.«

Moreover, Mercator is planning to strengthen the position of the leading retailer in all markets of its operations. It will boost activities in the wholesale market, retain its role of a technological innovator, and continue to invest in the processes of understanding the desires and needs of its customers, based on the largest customer loyalty system in Slovenia and the broader region. Mercator Group activities shall remain focused on local and regional supplier brands and activities that pave the way for their stable and successful growth.

Investment activities in 2021

In 2021, Mercator Group will continue the construction project for the new logistics and distribution centre in Ljubljana. Capital expenditure will total at EUR 39.8 million, of which 65.8% is allocated to investments in Slovenia. In 2021, Mercator Group is planning to open 16 new stores and update 29 stores in all markets of its operations.

Further deleveraging

The Group's ultimate goal is further deleveraging. According to the 2021 budget, the net financial debt to EBITDA ratio (including MSRP 16) will be at 4.9.

Risk management

Risk monitoring and management system

Risk management is a proactive system approach for anticipation and timely identification of both negative trends and occurrences (risks), and positive trends and occurrences (opportunities), with the purpose of efficient response to and reaping thereof to the benefit of the company.

Risk analysis for the year 2020

Based on the risk analysis at Mercator Group for the year 2020, we discussed and completed in 2020 a total of 160 risk mitigation or hedging measures. We monitored their execution on a monthly basis and documented our findings in our reports.

Risk analysis for the year 2021

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

For 2021, we employed systematic analysis to identify and evaluate the risks that could occur in all processes of Mercator Group operations. We revised the risk management system to be consistent with the best practice, and we identified and prioritized Mercator's key challenges, which allows us to act in a timely manner and appropriately in our efforts to accomplish our planned goals. Thus, we specified the key risks for each company and the entire Mercator Group. All key risks were addressed from the aspect of activities already conducted and from the aspect of planned activities, and specific measures were proposed. 185 measures were forwarded to the responsible persons to ensure their execution. We shall monitor their progress on a regular basis.

Key risks of the Mercator Group

Following is a presentation of the key risks for the Mercator Group, and the planned activities for their mitigation in 2021.

KEY IDENTIFIED RISKS	RISK DEFINITION/CHARACTERIZATION	CURRENT MITIGATION/HEDGING MEASURES	NEW MITIGATION/HEDGING MEASURES
Risk of change in customer behaviour	• Digitalization, Development of e-commerce • Changes in price sensitivity • Epidemic (in case of COVID-19 – bigger shopping baskets/carts, fewer visits) • Changes in personal preferences • Brand boycott • Decrease in customer loyalty • More home cooking	Risk is being mitigated with Value Creation Plan (VCP) initiatives under the key goals focusing on revenue, margin generation and brand differentiation:: • Annual negotiations with suppliers, additional marketing projects with suppliers, My Brands – upgrade of existing concept, pricing, preparation of category management strategy and process improvements, optimization of promotions, PromoTool – design and implementation of Mercator promotions, Reporting for Suppliers – standardization and automation, recommender SYSTEM, targeted segmentations of customers, private label development and central purchasing, process part of margin optimization, loyalty customer strategy, operational readiness, brand unique selling propositions (USPs) communication, improvement of loyalty card program (digitalization, monetization, personalization, optimization), single banner strategy and factors of differentiation • Contactless payments • Customer behaviour analysis	For additional mitigation we planned new initiatives: • »Heroes« project: defining SKU's that will improve brand differentiation • Upgrade of My Brands platform • Providing value added services to suppliers (MLink monetization) • Development of fresh categories – deli, meat, fruit & vegetables and bakery • Projects for stimulating the frequency of shopping and increase of average baskets and connect online and offline experience, »Value for Money« project, best omni channel (Msoseska, new digital platforms, MojM (My M) app, digital signature), We Love Local and Lumpi Baby Club • Ready to eat food, Ready to bake food (bundles) • Social Commerce • Contactless payments with Pika card • Partnerships with restaurant chains
Risks pertaining to e Commerce	• Change of consumer behaviour, way of life • Development of competitor's online stores (IT solution, assortment, delivery time, security) • Threat of a process bottleneck • Threat of loss of profitability in the online store segment	Risk is being mitigated with VCP initiatives:: • Improving digital services for customers and monetization of digital channels for Mercator's suppliers and partners • Creation of marketing & commercial platform for Mercator's suppliers	For additional mitigation, we are planning new initiatives: • Complete renovation of Mercator online store with the aim to increase the share of wallet with omni-channel approach, winning the young customer segment and developing a complete new set up for online shop (platform, operations, marketing, customer care etc.) • Best omni-channel operation with development of new digital channels (Msoseska, various M Box formats, using new digital channels like Spotify, Pinterest, WhatsApp, podcasts), renovation of »My M« app and upgrade of mScan and MiMercator.. • Improvement of loyalty card program (digitalization, monetization, personalization, optimization)

KEY IDENTIFIED RISKS	RISK DEFINITION/CHARACTERIZATION	CURRENT MITIGATION/HEDGING MEASURES	NEW MITIGATION/HEDGING MEASURES
Risk of loss of market share	• Competitor's activities • Threat of suboptimal promo activities • Threat of suboptimal category management	• Initiatives under the key goals which focus on revenue, margin generation, brand differentiation and new store concept and refurbishment • New store openings and renovations with the implementation of latest store concepts	For additional mitigation, we are planning new initiatives:: • »Heroes« project: defining SKU's that improve brand differentiation • Upgrade of My brands platform • Providing value added services to suppliers (MLink monetization) • Development of fresh categories – deli, meat, fruit & vegetables and bakery • Projects for stimulating the frequency of shopping and increase of average baskets and connect online and offline experience, »Value for Money« project, best omni channel (Msoseska, new digital platforms, MojM app, digital signature), We Love Local and Lumpi Baby Club. Complete renovation of Mercator online store • Increase of online presence in areas with lower store density
Risks of changes in law and regulatory risk	• Threat of ban of sale of certain products • Threat of opening time restrictions • Regulatory measures take effect in a very short time; hence, there is a threat due to the lack of time for preparation and adjustment • Regulatory measures are often unpredictable • The duration of restrictions is unpredictable • Delays in development and execution of action plans	• Risk in being mitigated as a part of everyday business activities • Special project teams are being appointed to deal with major regulatory changes	• New VCP initiative is planned for 2021, called Changes in Law and Regulation, with constant monitoring and effective implementation • The Business Continuity Management System project has been launched
Risks pertaining to ownership changes – merging process and synergies from the merger	• Failure to reap the synergistic effects of the merger within the specified timeline and budget	• Risk to be mitigated with Ringo project initiatives (joint project between Mercator Group and Fortenova Group)).	• All Ringo initiatives are being constantly upgraded and enhanced
Risks pertaining to change management	• Risk of inappropriate internal communication, exchange of information, and inefficient process improvements	• Risks are being mitigated within Mi.Mercator project • VCP initiative »Employer brand« with introduction of 4-step model to set up, manage and build an employer brand	• All initiatives are being constantly upgraded and enhanced • Creation of Mi.Mercator portal that is a key channel for internal communication, with which we aim to connect all employees in all markets
Risks pertaining to business continuity management system	• Risk of unpreparedness for certain catastrophic events that could threaten the functioning of the company	• Based on the experience gathered during the crisis management in Mercator due to coronavirus epidemic, Mercator shall, after the end of the current epidemic, review the relevant existing policies and procedures and prepare an update in order to improve the response and minimise the negative impacts of any future similar events.	• New VCP initiative is planned for 2021, called »Business Continuity Management System« that will cover all critical aspects of risk.

KEY IDENTIFIED RISKS	RISK DEFINITION/CHARACTERIZATION	CURRENT MITIGATION/HEDGING MEASURES	NEW MITIGATION/HEDGING MEASURES
Risks pertaining to talent management and human resources	• Risk of a lack of qualified (adequately trained) motivated employees	• Risks are being mitigated with VCP initiatives under the key goals related to employees: employer brand, onboarding processes, motivation & reward, talent development • Frequent job announcements in all areas, especially in retail, distribution and IT, through various human resource agencies • Improved assessment of job candidates and the effectiveness of initial job training. • Recruitment and integration of expatriates with specialist skills • Introducing additional atypical work practices • Internal cross-functional training. • Cooperation with secondary schools (internships, scholarship, practical training) • Development and fostering of leadership competencies	• Upgrade of Human resources strategy • Introduction of E-learning concept • Introduction of regular annual surveys of organizational climate, employee satisfaction, and commitment, based on which the management will take appropriate measures to address identified shortcomings • Mi.Mercator as a key channel for internal communication, with which we have connected all employees in all markets
Risks pertaining to CAPEX projects criteria	• Threat of reduced competitiveness of Mercator in relation to the store portfolio • Threat of increased maintenance costs for buildings and equipment • Threat of reduced productivity and profitability	• Ongoing initiatives to maximize free cash flow, reduce leverage and consequently increase the level of cash flow available for CAPEX • Right KPI and criteria for CAPEX projects	• Revision of methodology for calculating the profitability of the planned investment projects to support the focus on the projects which are most important for Mercator in terms of cost benefit (a special stream under the CAPEX Project).
Risks pertaining to IT infrastructure (technology, processes, people)	• Lack of IT personnel is also related to suboptimal process improvements. • Lack of IT-related investments (CAPEX) • Information/cyber-security risk • IT infrastructure may be subject to occasional disruptions and would need to be upgraded in some areas	• This risk is being mitigated with VCP initiative IT optimization (removal of outdated systems, optimization and digitalization of processes) • This risk is being mitigated within the initiative IT, Digital & Online • Adoption of the latest best practices in IT security standards	• The initiative is being constantly upgraded and enhanced. In addition to current activities, we are planning new VCP activities for 2021 such as Mi.Mercator portal, HR advanced modules, macro & micro space management, regional usage of custom business intelligence algorithms, upgrade of inventory replenishment system etc.

Financial management

Stable Financial Operations

As at December 31, 2020, Mercator Group's net financial debt (not taking into account the new IFRS 16 Leases) amounted to EUR 547,842 thousand, which is 6.0% less than as at the end of 2019[14]. Decrease of financial liabilities as at December 31, 2020, was also a result of the completion of transaction and payment of the acquisition price related to the monetization project in Serbia at the end of 2019. Mercator Group's net financial debt (taking into account the new IFRS 16 Leases) as at December 31, 2020, amounts to EUR 848,068 thousand.

The net financial debt to normalized EBITDA ratio was 5.2x at the end of 2020, which is 0.8% better than at the end of 2019.

in EUR 000	December 31, 2020	December 31, 2019	Change Dec. 31, 2020 / Dec. 31, 2019
Non-current borrowings	67,743	471,902	(85.6)%
Current borrowings	484,538	99,959	384.7 %
Financial leases*	45,445	64,058	(29.1)%
Financial liabilities	**597,726**	**635,919**	**(6.0)%**
Cash and cash equivalents	49,884	52,977	(5.8)%
Net financial debt (without the effect of IFRS 16 Leases)	**547,842**	**582,942**	**(6.0)%**
New liabilities related to the new standard IFRS 16 Leases			
New non-current and current lease liabilities*	300,226	312,302	(3.9)%
Total lease liabilities related to the new standard IFRS 16 Leases	**300,226**	312,302	**(3.9)%**
Net financial debt (with the effect of IFRS 16 Leases)	**848,068**	**895,244**	**(5.3)%**
EBITDA normalized	162,755	170,422	(4.5)%
Net financial debt (with the effect of IFRS 16 Leases)/EBITDA normalized	**5.2 x**	**5.3 x**	**(0.8)%**

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

Debt to equity and financial liability ratio

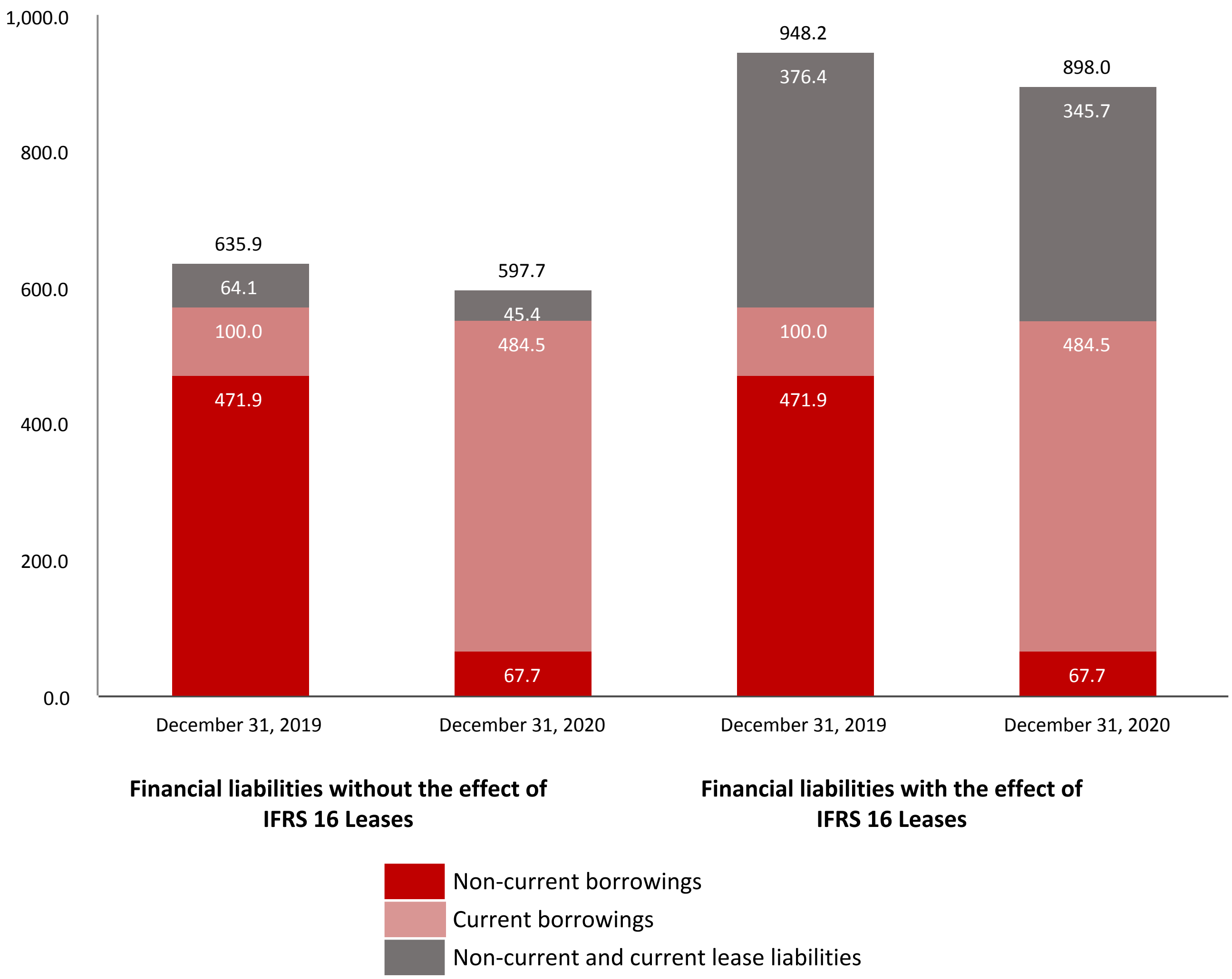
As at December 31, 2020, Mercator Group **attained** a **debt-to-equity ratio of 1:2.90**. The ratio is a quotient between equity and net financial debt.

The share of long-term financial liabilities in total financial liabilities as at December 31, 2020, was at 37.9% (81.4% as at December 31, 2019). The decrease in share is a result of maturity of debt as at December 31, 2020, which mostly matured in 2021. As at the day of Annual Report release, this debt as already been refinanced with a long-term loan by the Fortenova Group.

Following the restructuring of the company Poslovni sistem Mercator d.d., all financial liabilities of the company are variable and tied to the EURIBOR.

[14] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

Financial liabilities (in EUR mn)



Available liquidity lines as at December 31, 2020

As at December 31, 2020, Mercator Group had access to the following liquidity lines or sources[Δ]:

in EUR 000	December 31, 2020
Cash and cash equivalents	49,884
Standby revolving credit lines*	6,723
Total	**56,607**

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

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

Security of bank loans

Restructuring of Mercator Group's financial liabilities included securing such liabilities with mortgages on Mercator's own real property, with financial investments into subsidiaries, receivables, inventories, and funds/deposits in bank accounts.

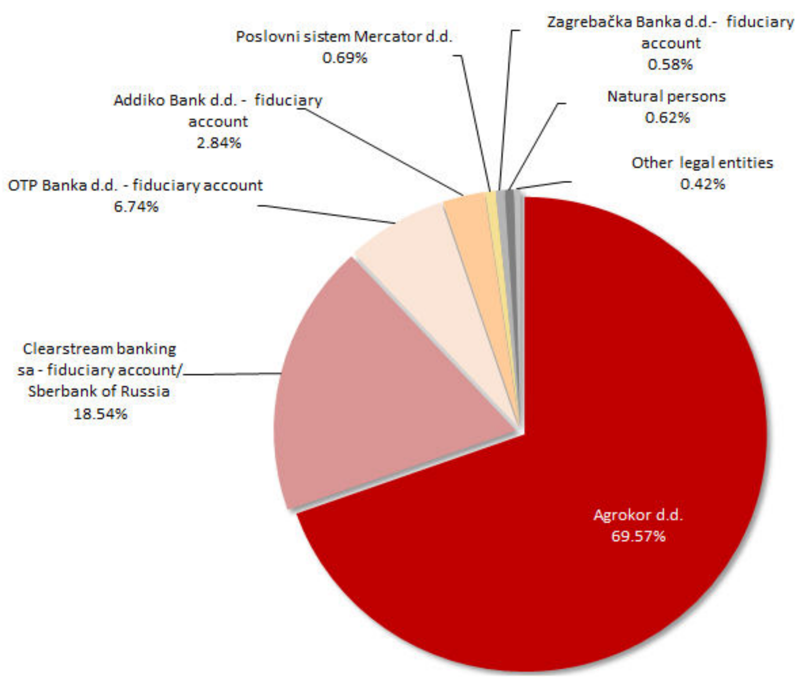
Mercator share and investor relations

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31, 2020:

Code/Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljanska borza, d. d.
Share capital	EUR 254,175,051.39
Number of shares	6,090,943
Number of own shares	42,192
Number shareholders	1,505

Ownership structure of the company Poslovni sistem Mercator, d.d., as at December 31, 2020



Major Shareholders

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

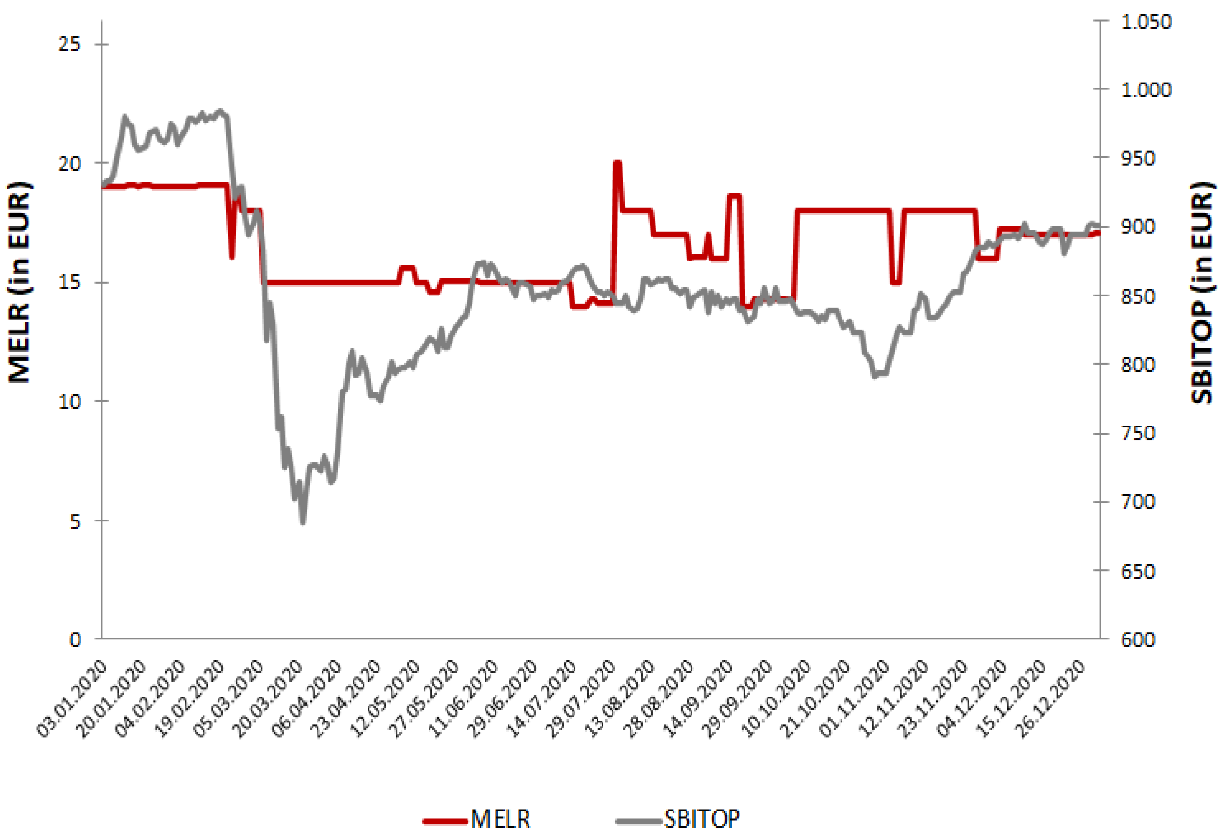
Shares held by Management and Supervisory Board members as at December 31, 2020

As at December 31, 2020, Management Board members and Supervisory Board members of the company Poslovni sistem Mercator d.d. did not hold any company shares.

Foreign shareholders

As at December 31, 2020, the share of foreign investors in the company Poslovni sistem Mercator d.d. amounted to **98.67%** and has not changed compared to 2019.

Movement of closing price per MELR share in the period 1-12, 2020, compared to the movement of the SBITOP index



Key information for the shareholders[15]

in EUR 000	December 31, 2020	December 31, 2019	Change Dec. 31, 2020 / Dec. 31, 2019
Number of shares registered in Court Register	6,090,943	6,090,943	— %
Number of own shares	42,192	42,192	— %
Market capitalization (in EUR)	104,155,125	115,727,917	(10.0)%
Market value of share (in EUR)	17.1	19.0	(10.0)%
Book value per share (in EUR)	60.5	66.5	(9.1)%
Minimum close rate in the period (in EUR)	14.0	19.0	(26.3)%
Maximum close rate in the period (in EUR)	20.0	28.0	(28.6)%
Average close rate in the period (in EUR)	16.6	23.1	(28.3)%
Earnings per share (in EUR) $^{\Delta}$	-9.2	-2.3	— %
Price/earnings ratio (P/E)$^{\Delta}$	-0.7	24.6	— %
Capital gains yield (in %)	-10.0	-17.4	— %

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

Dividend policy

In 2020, the company Poslovni sistem Mercator d.d. did not pay out any dividend.

Own shares

As at **December 31, 2020**, the company Poslovni sistem Mercator d.d. **held 42,192 own shares**. In the period 1-12, 2020, the company Poslovni sistem Mercator d.d. neither acquired nor disposed of own shares.

Investors

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

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

[15] Market capitalization is calculated by multiplying the number of shares entered into the court register as at December 31 with market price per share as at December 31. Book value per share is calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator d.d. as at December 31, and the weighted average number of ordinary shares in the period at hand, excluding own shares. Earnings per share is calculated as the ratio between net profit of the company Poslovni sistem Mercator d.d. and weighted average number of ordinary shares in the period at hand, excluding the own shares. Price/earnings per share is calculated as the ratio between market price per share as at December 31 and net Mercator Group profit per share. Capital gain yield is calculated as the ratio between market price per share as at December 31 of the current year, and market price per share as at December 31 of the previous year.

Taxes and other charges

Taxes are of key importance for economic and social development of the entire society or country. **At Mercator Group, we comply with the effective tax legislation in all countries of our operations, the international regulations, and with the sound taxation practices based on the principles of sustainability and corporate social responsibility**. Our taxation policy reflects and supports our operations. Our goal is to make sure that all taxes are calculated and charged correctly and that they are paid in due time, and that the tax returns are filed in a timely manner and consistently with the effective tax legislation.

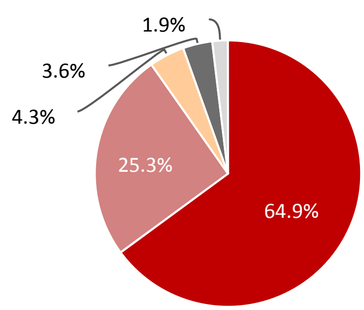
Mercator Group is managing its taxation risks in a similar manner as every other operational risk. Taxation risk management is a key process that can protect the company from negative consequences for the accomplishment of its business goals.

Mercator Group tax strategy and policy, adopted at the management level, is written down in an internal act.

Payment of taxes, contributions, and other charges, broken down by respective markets, in 2020

in EUR 000	Tax, contributions, and other charges in 2020
Slovenia	117,449
Serbia	45,823
Montenegro	7,759
Bosnia and Herzegovina	6,449
Croatia	3,415
Total	**180,895**

Tax, contributions, and other charges in 2020 (in %)



In 2020, Mercator Group companies paid a total of EUR 181 million of taxes, contributions, and other charges. Of this amount, EUR 117 million of taxes and other charges were paid in Slovenia (accounting for 64.9% of total Mercator Group tax liabilities), which makes Mercator one of the most important contributor of public finance income in the country.

Types of taxes, contributions, and other charges

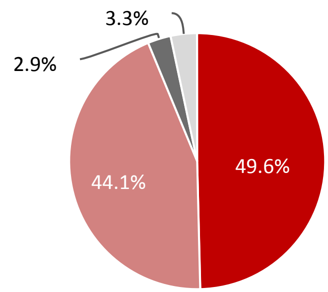
Taxes have different names in respective countries of Mercator Group operations. They can be classified into four groups:

- **Personal income taxes** - these are taxes related to employment/work, and they include the personal income tax and social security contributions.
- **Corporate income taxes** - these are taxes related to profits of the company, such as: corporate income tax, tax on profit, withholding tax, tax after withholding.
- **Taxes on goods, services, products** - these are taxes on sales of goods and services, such as the value added tax, tariffs, excise duties, tax on financial services.
- **Other taxes and charges**- these include property taxes, charges for the use of property, taxes on transactions with real property, taxes related to the environment, such as: real estate transfer tax, charge for the use of building land, environment charges, duties etc.

Types of taxes, contributions, and other charges in 2020

v EUR 000	Tax, contributions, and other charges in 2020
Personal income tax	89,770
Taxes on goods, services, products	79,839
Corporate income tax	5,258
Other taxes and charges	6,028
Total	**180,895**

Tax, contributions, and other charges in 2020 (in %)



Cooperation of the company Poslovni sistem Mercator d.d. with the Financial Administration of the Republic of Slovenia

The company Poslovni sistem Mercator d.d. was the first Slovenian company to whom the Financial Administration of the Republic of Slovenia awarded in March 2016, for a period of three years, a special status within the program for encouraging voluntary fulfillment of liabilities and decrease of administrative burden of financial control. In March 2019, the special status of the company was extended to March 2022.

Mercator and the Financial Administration of the Republic of Slovenia (FURS) are executing the program based on the principles of transparency, cooperation, understanding, and mutual trust. The FURS grants the company fast and responsive resolution of any problems in fulfillment of its tax liabilities with willingness to cooperate. Such form of cooperation with the allows greater certainty regarding taxes for the company.

OUR VALUES EXPRESS OUR VERY ESSENCE.

Non-financial report

Pursuant to the Directive 2014/95/EU of the European Parliament and of the Council dated December 2014, Guidelines on non-financial reporting (2017/C 215/01), and pursuant to Article 70.c of the Companies Act (ZGD-1 No. 15/17 dated March 31, 2017), the company Poslovni sistem Mercator d.d. includes into its business report a Non-Financial Statement.

Non-financial statement

Mercator is fostering economic and social development of the local environment in which it operates as it generates broader economic and social effects, provides a pleasant and neat environment for the consumers and employees, and constantly improves the quality of the goods and services it offers. We are aware that only socially responsible operations will lead to greater business success, competitiveness, and productivity.

Sustainability projects are carried out in the field of energy efficiency and preservation of natural resources. We work in a constructive manner with our suppliers to guarantee safety and quality of products for our customers. We also provide information to our customers and raise their awareness. We provide neat and safe working conditions for our employees and contribute to the development of our local environment. We are highly attentive to both the most important social issues and to individuals. Our operations are transparent and compliant with the highest business standards, and we treat all stakeholders equally.

Business model and governance

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

Mercator Group's core activity is fast-moving consumer goods retail, in a dense and extensive retail network in Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina.

Mercator Group's business model is presented in more detail in the Business Report within this Annual report, under the following chapters:

- Business Strategy,
- Presentation and Organization, which presents Mercator Group composition and governance of the parent company,
- Business Activities, which presents all Mercator Group activities.

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

Presentation of Mercator Group's key policies

At Mercator Group, we respect our **natural environment** and environmental regulations. Our goal is to protect and improve natural capital in the countries of our business. We strive to prevent or decrease pollution throughout the entire cycle of our products and services, and especially with respect to waste generation, emissions, and use of raw materials and energy.

Environmental policy, effects on the environment, and risks are defined in more detail below, in the chapter »Responsibility to natural environment«.

Our key goal is to have competent, satisfied, and motivated **employees.** Employees are at the core of our operations as they are the key to customer satisfaction and thereby to the attainment of Mercator's business goals. **We honour human rights,** we comply with the legislation and relevant norms, and we prohibit any discrimination in the workplace in all countries of our operations. We hereby declare that free assembly and association and collective bargaining is not restricted or impeded at Mercator Group companies and that there is no child or forced labour at our companies. More detailed information on employees and respect for human rights is provided below in the chapter »Responsibility for the employees and respect for human rights«.

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

In addition to the said policies, Mercator Group also recognized:

- **diversity policy** presented in more detail in the chapter »Corporate Governance Statement« in the Business Report section of the Annual Report;
- **customer relations policy** that is presented in more detail in the chapter »Responsibility to customers«;
- **social environment policy** that is presented in more detail in the chapter »Responsibility to social environment«;
- **supplier relations policy** that is presented in more detail in the chapter »Responsibility to suppliers«;
- **quality management policy** that is presented in more detail in the chapter »Responsibility for quality«.

As a part of the risk analysis for the year 2021, Mercator Group assessed all risks identified in the risk register. Mercator Group's key **risks** are described and presented in the chapter Risk Management in the Business Report part of the Annual Report.

The Management Board of the company Poslovni sistem Mercator d.d. is issuing a statement of compliance of the reporting non-financial information for the fiscal year 2020 pursuant to the provisions of Article 70.c of the Companies Act (ZGD-1). Mercator Group's non-financial operations are presented later in this chapter.

Ljubljana, April 23, 2021

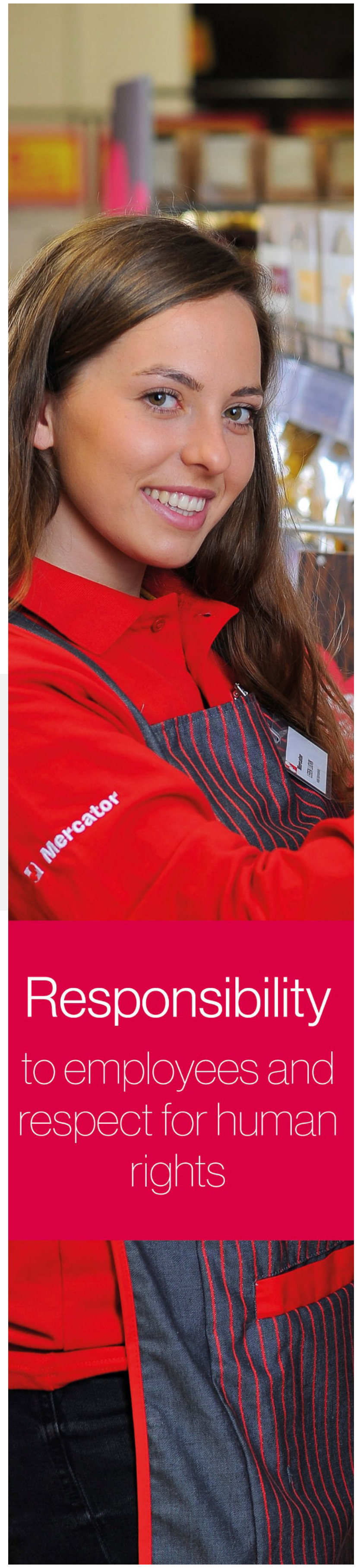
Tomislav Čizmić
President of the Management Board

Draga Cukjati
Member of the Management Board

Igor Mamuza
Member of the Management Board

Gregor Planteu
Extraordinary Management Board Member

Responsibility for the employees and respect for human rights



Employee policy and respect for human rights

Commitment of the Mercator Group

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

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

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

Employee-related activities and due diligence

In 2020, human resource management was under heavy impact of the COVID-19 pandemic. In February, we started to adjust the organization of our work and all our business segments in order to prevent further infections. A crisis task force was appointed in order to coordinate all legislative, external and internal regulations and instructions regarding work in the resulting state of emergency, and to adopt measures with particular attention to protection and welfare of our employees, especially those at operating units. Consistently with the instructions provided by the National Institute of Public Health (NIJZ), business hours of our retail units had to be adjusted during certain periods, and observation of safety measures had to be ensured (physical distance, use of protection gear, restriction of the number of customers in the sales area/store etc.). Work processes and IT support to human resource management systems had to be adjusted rapidly to the particularities related to COVID-19 (new forms of work or absence – working from home, furloughs, absence due to force majeure, quarantine) in order to arrange in a timely manner and correctly the compensations and allowances, as well as the crisis bonus. Considering the constantly changing circumstances, employees have to be kept up to date, and employees in distress are offered a phone line for counselling or conversation with trained professionals free of charge.

During the period of work from home, we worked with IT to develop and implement an application for registering the contents of the work performed, intended for white-collar workers at all Mercator Group companies.

Mercator Humanitarian Foundation paid out humanitarian aid in the total amount of EUR 85,721.00 in the first quarter of the year to assist 113 employees of the companies Poslovni sistem Mercator d.d. and Mercator IP d.o.o. In Serbia, we provided humanitarian aid in the amount of EUR 58,881.21 thousand to 208 employees. In Bosnia and Herzegovina, aid was provided from the Solidarity Fund to 39 employees, in the total amount of EUR 9,193.22. In Montenegro, 43 employees received total aid of EUR 9,700.00.

Our employees and their family members in respective markets are offered additional benefits: presents upon birth of a child, presents for elementary school freshmen on the first day of school, presents to children in the Christmas/end-of-year holiday season (over 1,040 children whose parents work at Mercator d.d. and Mercator IP d.o.o. and provided their consent were visited by Santa Claus at their home).

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

Health promotion program

Health promotion program – In December, the fourth generation of trainees completed the Health Promoter School. Thus, we got 54 new health promoters. Due to the circumstances, there was no joint certificate award ceremony; heads of retail units, heads of hypermarkets and shift managers made sure their health promoters still received in their certificates in an appropriately festive manner. At the moment, Mercator already has 157 health promoters from all fields. It is our goal for each unit with 10 or more employees to have a health promoter. Therefore, we shall continue training for further generations in 2021.

Retail training

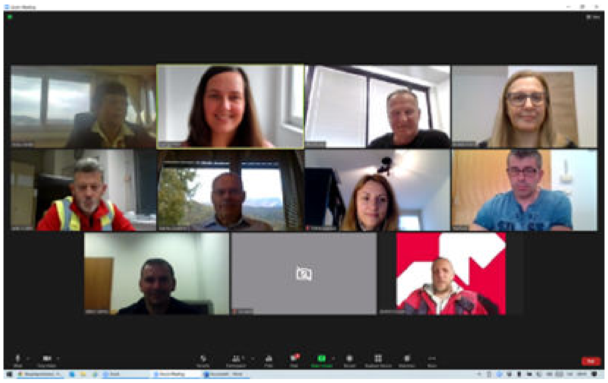
Retail training – In 2020, we paid particular attention in retail to training and education on expert knowledge and skills for employees in the delicatessen and meat departments, and to education and training on selling skills. Classes of school for meat department managers and butchers were attended by a total of 100 employees. Specialized »Corner« workshops for cutting prosciutto and mortadella were organized in autumn for 74 units in which 93 employees took part in on-the-job training. Selling skills workshops that we regularly hold in the form of both conventional workshops and visits at retail units were attended by 7819 employees in 2020.

In 2020, one group completed their training at the Stock Assistant School. Participants completed the four-day theoretical program. In addition to workshops, they spent four days on training at the departments of bread, delicatessen, cash registers, and fruit and vegetables. To complete the program, the participants also had to write a seminar paper, with support of their personal mentors. The participants addressed a range of topics pertaining to practical work. A total of 15 employees successfully completed their training.

Wholesale employee development – The year 2020 was also a successful year in terms of training and education of employees in Wholesale. Regional managers and support managers attended workshops and received individual coaching to strengthen their leadership competencies. Field sales agents honed their selling skills at workshops, and call centre employees worked on their sales communication over the telephone. Sales assistants took part in workshops »Mercator's selling skills standard«, and the drivers took part in the workshop »Driver's role in Wholesale's service«. From June to

September 2020, we held 5 group coaching sessions with all Cash & Carry managers. Group coaching was conducted by internal coaches who are trained for individual performance of this type of training.

Eighth generation of Retail Academy – Early in the year, the 7th generation graduated from the Retail Academy. In addition, the 8th generation with no less than 70 participants started their training. Due to the measures to contain the epidemic, the program was only started in September when participants formed small groups to attend workshops in Ljubljana and Ptuj. The program includes 11 training days or 78 hours of training, and it includes 18 different sets of contents. We will continue the program remotely in January 2021.



Joint coaching of distribution center managers

Head of distribution centres took part in group coaching sessions – Group coaching sessions for heads of distribution centres were aimed at providing further development of leadership competences for operational leaders from logistics. They were joined by the executive director and the director at all meetings. After brainstorming and proposals for different solutions, they also identified a solution at the level of overall logistics: preparing a code of conduct with clearly defined rules.

Shop manager training in M Tehnika

Shop manager school for M–Tehnika – The shop manager school for M–Tehnika was broken down into 5 stages. In the preparatory stage, the management and shop managers were presented the purpose and goals of training, we measured shop manager competencies, and defined the training program based on the results. In the second stage, leaders held individual interviews with shop managers based on the competence measurement results, and shop managers laid down their development goals. Shop managers also took part in workshops: managerial economics, sound relations as the key to success, communication, motivation, and crisis leadership. The third stage included computer training. Before preparing these training sessions, classification testing was organized for the shop managers who were then divided into groups in which they recapped the key commands and functions in Excel and worked on the basis of Outlook. The program will continue and will be completed in Q1, 2021

Leader development in the IT and telecommunication sector – We have developed a project to identify and develop key competencies for successful work of leaders in IT. The project is based on 3 key stages, and it includes many innovative approaches to employee development. Based on the results, we devised a development program, the purpose of which is to bring together co-workers so that they can work better as individuals and work together better as a team, improve their communication, and develop better solutions. At first, 19 leaders were included in the program. In November, all IT employees joined them. Through a combination of individual coaching, group workshops, and digital interactive tools, this personalised program ensures that new knowledge and skills are not only acquired, but actually transferred to and implemented in daily practice in order to generate real and palpable results.

HR scholarship holders – In this year, we newly signed scholarship agreements with 30 candidates to be hired as sales assistants. They joined the 66 scholarship holders from last year. In total, the »family« of **TOP HIGH-SCHOOL STUDENTS** with **TOP SCHOLARSHIPS** now includes 96 members. Four scholarship holders who completed the Sales Assistant program in the last academic year, have already been hired in 2020.

»It is good to be the best« – In 2020, we held our traditional contests: Mercator Award, Best Boss, Best Store, Best Sales Assistant, and Best Teacher. As a rule, the contests are announced in March, while assessment and approval of the final choice of award recipients lasts until October. Since an award ceremony could not be held due to the pandemic, we presented the 97 awards remotely: 20 winners of the Mercator Award, 12 Best Bosses, 37 Best Sales Assistants, 8 Best Teachers, and 20 Best Stores.

Training centres – In order to more easily integrate into work, acquire basic theoretical and practical knowledge and skills, and also to improve motivation of our new employees, we set up the first training centre in hypermarket Ljubljana Rudnik in Ljubljana, in which new employees hired as sales assistants at stores in the Ljubljana area are trained. In the period from September 1 to December 31, 2020, we trained 69 new employees at the training centre, whose induction took a combined total of 2,338 hours. In 2021, we are planning to open a training centre in Kranj and in one more location.

Selection – Since the outbreak of the epidemic, we conduct job interviews to select the candidates for new employees remotely, via video chat applications (MS Teams, Viber, WhatsApp etc.), while psychological tests were adapted to online communication. In 2020, we thus hired a total of 1,056 new employees. In October, we took part in the largest virtual career fair in Slovenia. We presented our company on two stands – the largest central stand and the IT personnel stand.

Training center

Revision of job/workplace systematization and salary system – with regard to the legislative changes introducing an increase in minimum wage and exemption of all bonuses from the minimum wage, we introduced on January 1, 2020, changes to the salary system. All employees received new contracts, effective as of January 1, 2020, to be signed. A new stimulative employee reward system was also introduced, based on work performance. It was implemented on September 1, 2020.

Selection

Salary compensation for workers absent due to force majeure, and workers absent due to mandatory quarantine – An entirely new work process was set up in the human resource management department to process claims for salary compensation in case of absence due to force majeure and quarantine (approximately 6,000 claims for reimbursement of salary compensation were filed with the National Employment Agency of the Republic of Slovenia).

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

Transition to the new salary system – As of January 1, 2020, a new salary system was negotiated through productive social dialogue with the trade unions for Mercator IP d.o.o. The system maintains the ratios between respective salaries based on responsibilities, while still ensuring equal salaries for comparable jobs or workplaces. As in Mercator d.d., it also applies to the company Mercator IP d.o.o. that a new stimulative employee reward system based on work performance was introduced as of September 1, 2020.

Presents for employees during the Christmas/New Year's holiday season – IN December 2020, we carried out the most challenging project at our pastry workshop Kranjski kolaček (»Kranj Cupcake«) in terms of organization. The purpose of the project was to deliver presents to employees at Mercator Group companies in Slovenia. We prepared, baked, packed and distributed more than 12 tonnes of traditional pastry »lavish potica«.

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

M Hub talent management program – In February, a program of internal talent selection from a variety of fields within the company was presented to the management. After testing and review of candidates, 47 key talents were selected at the company, who will be involved in the planned activities as of January.

»One Assessment« platform – A new platform is being developed, which will combine the processes of selection and hiring (starting with the vacancy ad, and continuing with application, candidate testing etc.), which shall also allow communication with the candidates and improvement of related analytics and reporting.

»We are listening to you« training – In order to improve the service and friendliness of employees at our stores, we worked with regional leaders to devise an internal training course dealing with this subject. In three months, 12 trainers in 10 towns held 105 training sessions with over 1,050 participants from retail units. The next round of training is planned in 2021 when all other retail employees will be involved in the training.

Brochure »10 good commandments« – In view of the consequences of the COVID-19 epidemic, and in order to preserve the mental health of our employees living in stressful situations, we issued a brochure »10 good commandments« that includes advice for a better disposition and more effective tackling of everyday challenges.

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

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

Retail conference

»Coronavirus info« – In the entire, highly challenging year 2020, we sought to care as much as possible for health, motivation, satisfaction and career development of our employees. Since the very start of the epidemic, we have been systematically complying with and executing all types of measures for protection from the COVID-19 infection. We are continuously educating our employees on how to protect themselves from an infection and on how to work in the altered circumstances. Since the start of the second wave of the epidemic, we regularly report to our employees on the measures and situation regarding the infections with an informative newsletter »Coronavirus Info«.

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

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

New training program for newly appointed shop managers – Early in the year, we prepared a new training program for newly appointed shop managers, which will allow systematic training for newly appointed shop managers and define the goals that a candidate should master in order to become a good shop manager. This is a product of regional coordinators and some of the best shop managers in the region. Fourteen best shop managers were appointed as mentors who shall train shop manager candidates. To this end, future mentors took part in internal training early in this year, while external training is planned later on. However, due to the situation with the coronavirus, implementation has been postponed.

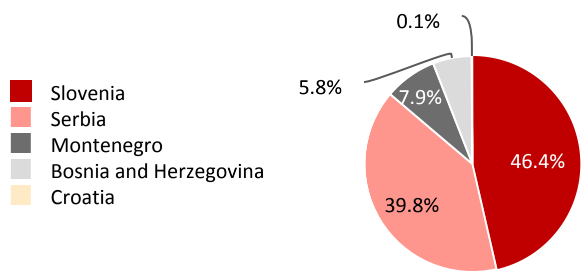
»Best employee« selection – In the previous years, we voted for our »Best Colleagues«; this year, we somewhat altered the concept and selected the »Best Employees« in administration, retail and logistics and distribution centres. We also held the »Best Facility« contest for the first time. This title went to four retail units, based on previously defined criteria.

Key performance indicators

- **Number of employees by Mercator Group markets**

Market	Number of employees as at December 31, 2020	Number of employees as at December 31, 2019	Index number of employees Dec 31, 2020/ Dec 31, 2019	Number of employees based on hours worked in the period 1–12 2020
Slovenia	9,726	9,355	104.0	8,409
Serbia	8,342	7,985	104.5	7,487
Montenegro*	1,650	1,393	118.4	1,455
Bosnia and Herzegovina	1,213	1,197	101.3	1,147
Croatia	29	33	87.9	30
Total	**20,960**	**19,963**	**105.0**	**18,528**

*The number of employees in the Montenegrin market has increased due to changes in labor legislation and the termination of employment through agencies.



As at December 31, 2020, there were 20,960 employees at Mercator Group, of which 11,234, or 56.27%, worked at companies outside Slovenia. The number of employees was the highest in Slovenia with 9,726, and the lowest in Croatia with 29. Compared to 2019, the number of employees increased in all markets except for Croatia – in total by nearly 5%. Total external fluctuation rate was lower in 2020 than it was in the preceding years.

- **Employees by gender**

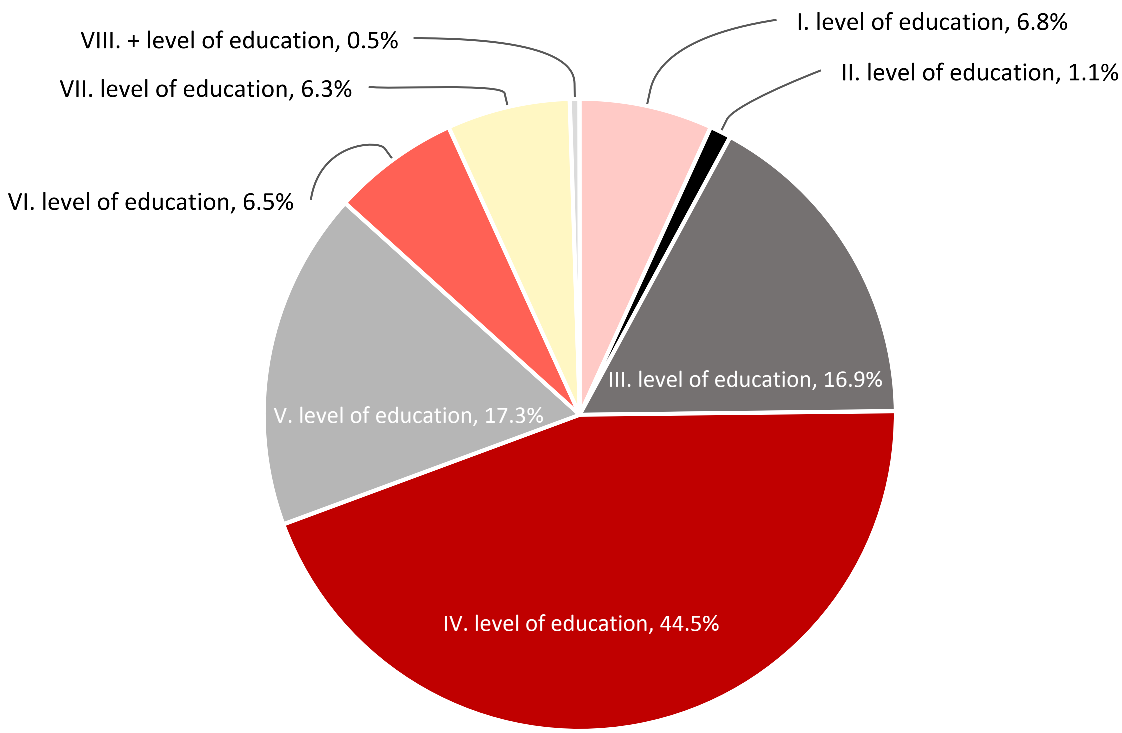
As at December 31, 2020, Mercator employed more female than male employees: 72.2% of employees were women and 27.8% were men.

Year	Number of employees	Men (in %)	Women (in %)
December 31, 2020	20,960	27.8	72.2
December 31, 2019	19,963	27.7	72.3

- **Composition of employees by level of education**

The most employees – as many as 44.5% of all employees – at Mercator Group have the 4th level of education, which reflects the Group's core activity of retail. This group is followed by employees with 5th and 3rd level of education with 17.3% and 16.9%, respectively. The lowest share – 0.5% or 105 employees (of which 94 are employed in Slovenia) – pertains to employees with 8th or higher level of education.

Actual level of education (% of employees), December 31, 2020



- **Share of employees by type of employment contract**

As at December 31, 2020, there were 18,175 Mercator Group employees (or 86.7% of all employees) with a permanent employment contract, of which 9,530 worked in Slovenia (98% of employees in this market). The company Mercator–CG d.o.o. had the largest share of employees on fixed-term (temporary) employment contracts (29.3% employees in this market).

Market	Individual contract (in %)	Standard contract (in %)	Permanent contract (in %)	Contract for a fixed period (in %)
Slovenia	0.8	99.2	98.0	2.0
Serbia	0.7	99.3	77.7	22.3
Montenegro	0.1	99.9	70.7	29.3
Bosnia and Herzegovina	0.3	99.7	80.1	19.9
Croatia	3.4	96.6	89.7	10.3
Total	**0.7**	**99.3**	**86.7**	**13.3**

- **Employment of disabled persons**

There are 1,042 persons with disabilities who are employed at Mercator Group, or 5.0% of all employees. Slovenian market has the highest number of employees with disabilities, with 845 or 8.7% of total employees in Slovenia. Of these, 203 are employed at the company Mercator IP d.o.o., which accounts for 51.8% of employees at this company.

Market	Number of employees	Disabled persons	Disabled persons (in %)
Slovenia	9,726	845	9
Serbia	8,342	161	2
Montenegro	1,650	1	0
Bosnia and Herzegovina	1,213	35	3
Croatia	29	0	0
Total	**20,960**	**1,042**	**5**

- **Functional training and education**

In the period at hand, Mercator Group devoted nearly 97,818 hours to functional training and education that involved 17,315 employees. On average, each participant received 6 hours of education or training.

Market	Number of hours in 2020	Number of participants in 2020	Costs (in EUR)
Slovenia	63,282	12,768	372,851
Serbia	17,950	3,137	77,738
Montenegro	5,929	388	5,886
Bosnia and Herzegovina	10,656	1,022	4,648
Croatia	0	0	0
Total	**97,818**	**17,315**	**461,123**

- **Health-related absenteeism and average age by markets**

The level of health-related absenteeism burdening the company is calculated as the ratio between total health-related absenteeism hours borne by the company and the total number of hours worked by all employees in the period. Total health-related absenteeism rate borne by the employer at Mercator Group in 2020 was 3.8%. It was the highest in Serbia, and the lowest in Croatia. On average, employees are the youngest at the company Mercator–CG d.o.o. where average employee age is 38.8 years, while the highest average age of employees was recorded at the company Mercator–H d.o.o., at 47.8 years.

Market	Health-related absenteeism to the burden of the company in 2020 (in %)	Average age of employees
Slovenia	4.0	43.8
Serbia	4.1	41.1
Montenegro	1.8	38.8
Bosnia and Herzegovina	3.1	41.0
Croatia	0.1	47.8
Total	**3.8**	**42.1**

Responsibility to customers

Customer Relations Policy

It is Mercator's goal to not only attract customers, but also to retain them and to increase their loyalty. Therefore, we are committed to quality as we look to provide the highest level of service to the customers at our stores. To this end, we also prepared commitments to customers by respective markets.

Customer-related activities and due diligence

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

Customers complaints

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

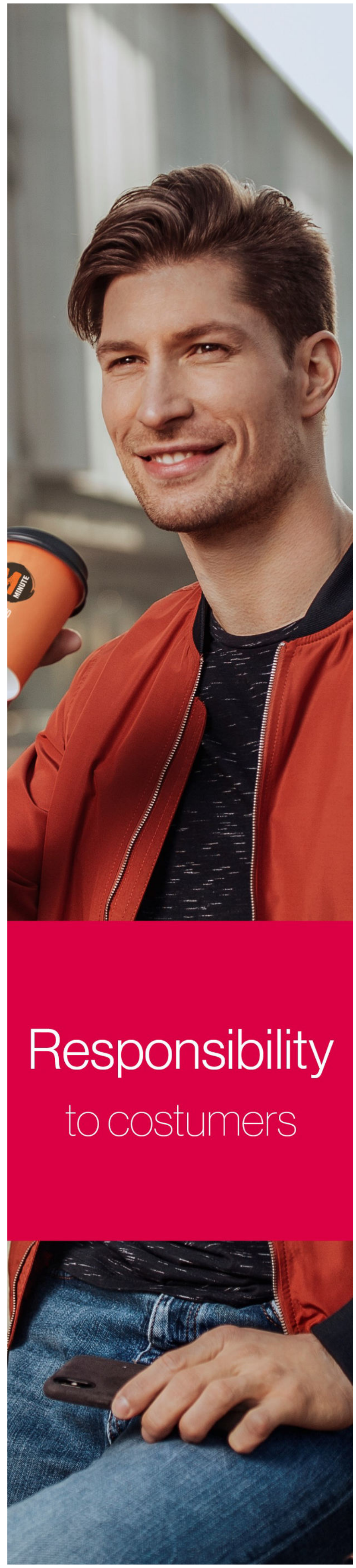
Customer complaints are received via a number of channels (telephone, e-mail, conventional postal delivery service, Facebook etc.) and collected at our Contact Centre. We coordinate their resolution and provide feedback on the solution as needed. Most frequently, the complaints are lodged via e-mail.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

In 2020, we entered a new Environment Protection classification unto the Cocos application, under which we record complaints pertaining to pollution with waste, exceeded noise emissions, light pollution, use of energy, chemicals and water that is environmentally unsound, consequences of extraordinary events etc.

Marketing activities related to the offer of local

In 2019, we continued our project **»We Love Local«**, within which we offer genuine produce and products from local farmers, growers and producers. The project involves 229 local suppliers, and the offer already involves over 2,300 local products.

Annually, we sell **1.1 billion worth of goods by local and regional suppliers**, which is **61.5% of total Mercator Group retail revenue.**



Care for food safety

Key goals regarding responsibility to customers include providing control over safety, compliance, and quality of our private label products; efficient annual internal control over each sales unit; employee training; and control of safety and quality of food in open departments. Contents and scope of internal controls were adjusted to the COVID-19 circumstances.

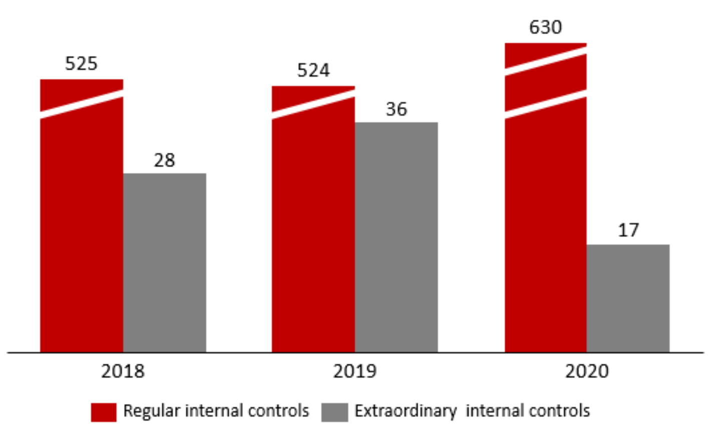
In order to offer safe, compliant, and quality products to consumers, the Mercator Group highlights the following activities in 2020:

- continuous quantity and quality control on acceptance of fresh food at warehouses or stores (e.g. fresh fruit and vegetables, fresh meat etc.);
- at least 2,429 private label product samples were analyzed in our in-house laboratory and by third-party certified institutions;
- we conducted monitoring of 4,444 samples of food, 3,007 swabs and 231 potable water analyses in open departments;
- we recorded 695 sample analyses as a part of national monitoring;
- we carried out 996 regular and at least 667 extraordinary internal controls at our sales and other units;
- for employees in retail and wholesale, we held 356 workshops on internal controls according to the principles of the HACCP system (2,208 employees took part in the workshops);
- in Serbia, we successfully completed the audit for marketing organic food products; sales of packed fresh fruit and vegetables and other food were approved; in Slovenia, we expanded our organic product operations with our own import and export of organic food products;
- in Slovenia, we successfully completed the certification audit for the Izbrana kakovost (Select Quality) scheme for the sale of poultry, beef, and veal, and for the Izbrana kakovost (Select Quality) scheme for sale of bulk (non-pre-packed) fruit;
- in Serbia, we successfully completed third-party certification audit[16] for the HACCP system.

Superior Quality Certificate by the Faculty of Biotechnology

Key performance indicator

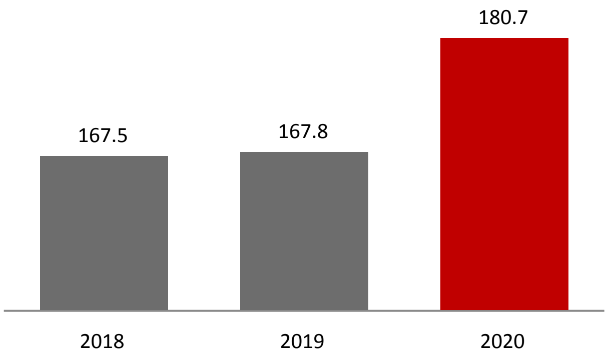
- **regular and extraordinary internal controls**



[16] Specialty in the Republic of Serbia.

In order to offer our consumers quality products, we are conducting both regular and extraordinary internal controls. Thus, we conducted 630 regular controls in 2020, which is 20.2% more than in 2019. There were also 17 extraordinary controls, which is 52.8% fewer than in the year before.

- **Revenues through modern technologies (in EUR mn)**



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

- online store (Slovenia, Serbia, and Montenegro);
- TikTak self-check-out (Slovenia, Serbia and Bosnia and Herzegovina);
- MScan (Slovenia, Serbia and Montenegro);
- payment with mobile application (Slovenia).

In 2020, **revenue generated via modern technologies in retail increased by 7.7%** relative to 2019. The steepest increase was recorded in our **online store**, with 118%, followed by checkouts with mobile app, which were up 28.5%, and **TIK TAK self-checkouts** with an increase of 0.8%. Shopping with the **M Sken** service is also increasingly popular. It allows customers to use a hand-held scanner or a smart phone to streamline the shopping experience. In 2020, **M Sken** accounted for **1.1% of total revenue generated with modern technologies**.

In addition to establishing and implementing our own work procedures at Mercator, we strictly comply with national and European legislation and we actively work with the Slovenian Chamber of Commerce and relevant Ministries in the development of new legislation or in making changes to the currently effective national and European legislation.

Responsibility to natural environment

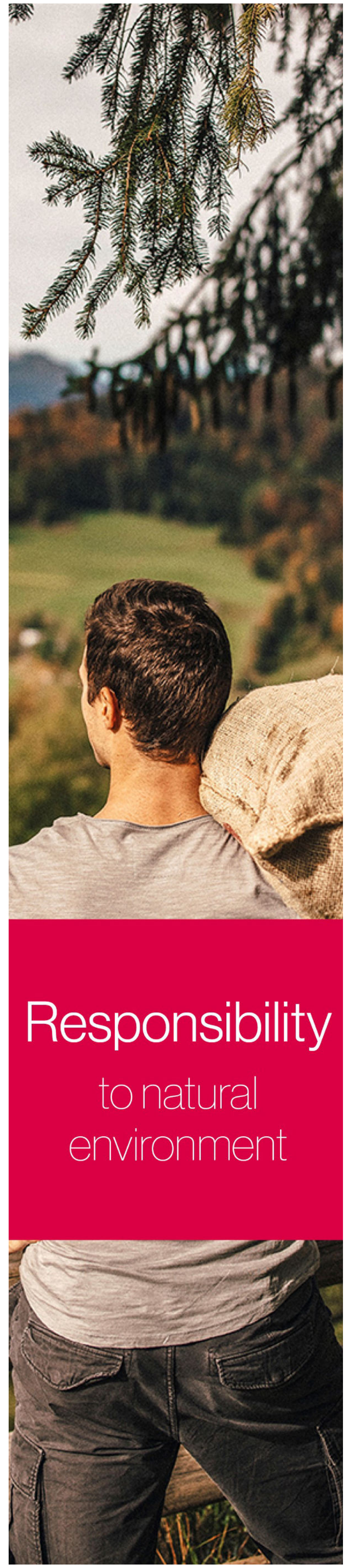
Environmental policy

Mercator's activity of fast-moving consumer goods retail and wholesale is not among activities detrimental to the environment. However, our activity the large number of stores still contribute to environmental pollution.
We are aware that we are operating in countries with highly diverse and rich natural environment. Therefore, efforts and actions to improve the processes in our society are also geared towards preservation of the natural environment in which we operate, and constant improvement of the environmental management system.

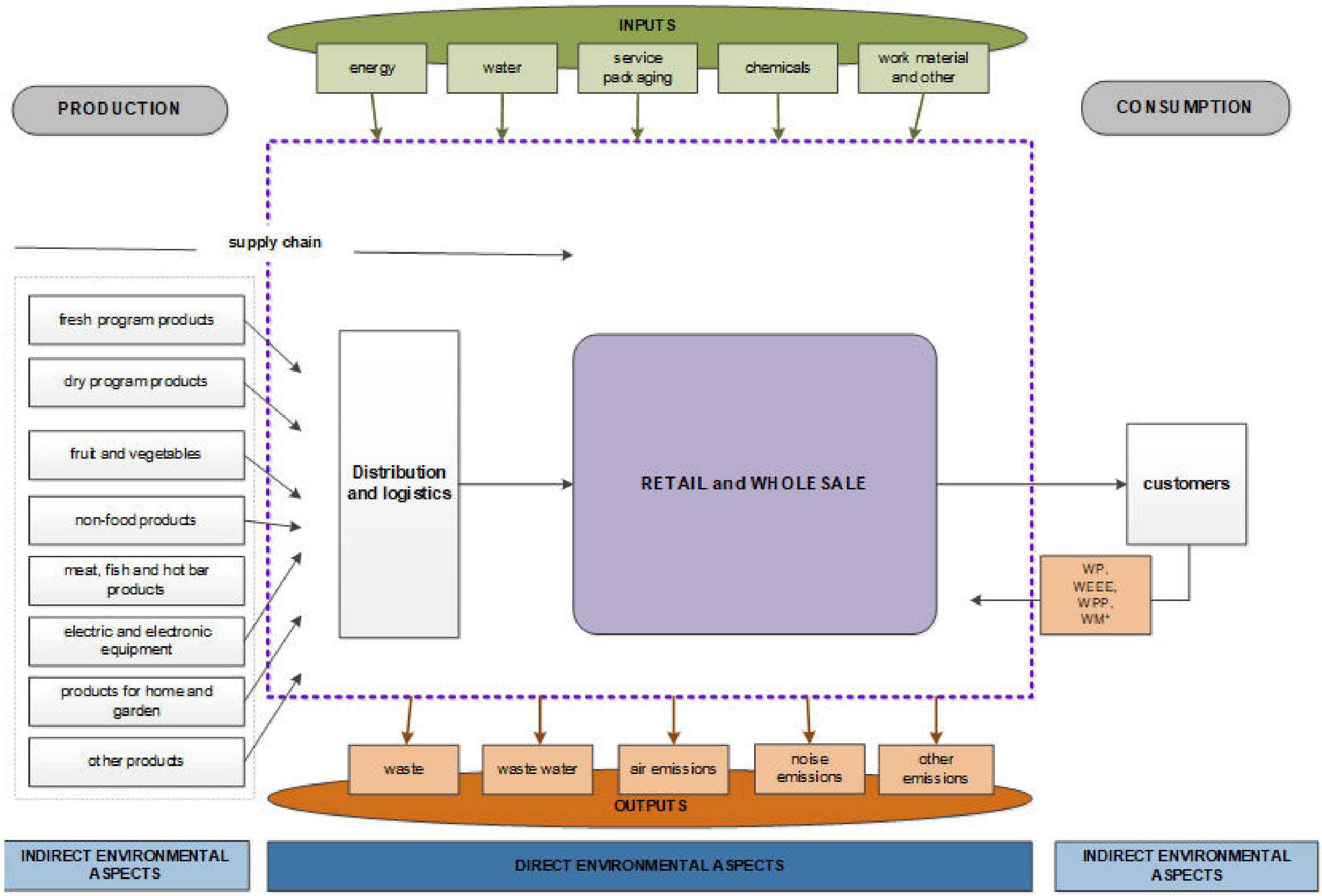
Environment-related activities and due diligence

Mercator's operations directly affect our natural environment. In order for us to conduct our business activity, we use natural resources, such as water, energy, service packaging etc., or the so-called inputs. Moreover, our retail and logistics business activity result in generation of various types of waste, wastewater, noise emissions, emissions into air, greenhouse gas emissions etc., or the so-called outputs.
Thus, we are aware at Mercator Group that by conducting our business activity, especially in terms of use of energy and the resulting greenhouse gas emissions, we also contribute to climate change. Consistently with our goal of cutting the use of energy, we are conducting a number of measures and activities.

Mercator Group also affects climate change indirectly via the goods we are offering to our customers. In our offer, we are constantly increasing the share of local products with a shorter supply route, which in turn reduces greenhouse emissions in comparison to products sourced from suppliers farther away. By selecting local products, customers contribute to a lower impact on climate change.



Environmental aspects and effects on the environment in retail and wholesale



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

Both external and internal factors are relevant for Mercator Group operations. These factors affect the way in which Mercator's responsibility towards the environment is managed, and the possibility of attaining our environmental goals. We can affect the internal factors directly with our actions by controlling them, changing them, or by taking action in some other way (cutting energy usage, generating less waste etc.); external factors, however, are beyond our direct control, but we can adjust to them (fire and flood protection etc.). External factors also include the challenges presented by climate change and other environmental issues. At the companies Mercator d.d. and Mercator–S d.o.o., we periodically analyze the strengths and weaknesses of internal factors, as well as the opportunities and threats posed by external factors, relevant to the environmental management system.

We also periodically analyze understanding of requirements, needs and expectations of interested parties (owners, employees, customers, suppliers, shareholders, government authorities, banks, the media, associations, non-government organizations, local and broad community and others) who can affect the operations and performance of both companies or who are affected by the operation of the two companies and who are relevant for the environmental management system. Cooperation with them involves an open and responsible dialogue.

We are aware that failure to meet the requirements, needs and expectations of the interested parties may present a risk due to e.g. consequences of a violation of the law, termination of permits, extraordinary conditions, sub-optimal expenses, hindrances to operations etc. Therefore, we take into account the requirements, needs, and expectations of the interested parties when assessing the environmental risks and opportunities, when assessing the importance of the environmental aspects, and when defining our environmental goals.

It is Mercator Group's goal to **protect, preserve, and improve the natural capital** in the countries of our operations, to actively take part in the transition into a low-carbon society that manages its resources rationally and economically, and to cut pollution and the risks related to the environment.

Environmental management system


SIQ

Mercator

ISO 14001:2015

At the companies Poslovni sistem Mercator d.d. and Mercator–S d.o.o., we have established and documented the environmental management system pursuant to the requirements of the international standard ISO 14001:2015. The system includes comprehensive management of environmental aspects in order to reduce the negative effects of our operations on the environment. Thus, we strive within the environmental management system to optimize our business processes and to reduce the negative effects of our operations on the environment, and to provide optimum expenditure for our environment protection services.

Environmental aspects have been managed in a systematic manner at the companies Poslovni sistem Mercator d.d. and Mercator–S d.o.o. since 2009 and 2012, respectively, which is also confirmed by the certificate for the environmental management system in compliance with the requirements of the currently effective version of the international standard ISO 14001:2015.

Audits

External audits of the environmental Management System

- At the company Poslovni sistem Mercator d.d., the SIQ certification institution conducted at the end of September 2020 an external audit of the environmental management system according to the ISO 14001:2015 standard.
- At Mercator–S d.o.o., the audit company Quality Austria conducted at the start of October 2020 an external audit of the environment management system according to the ISO 14001:2015 standard.

Out of respect for the natural environment, Mercator Group not only complies with the requirements of the environmental legislation, but also conducts a range of other activities to **prevent or mitigate negative impact on the environment**.

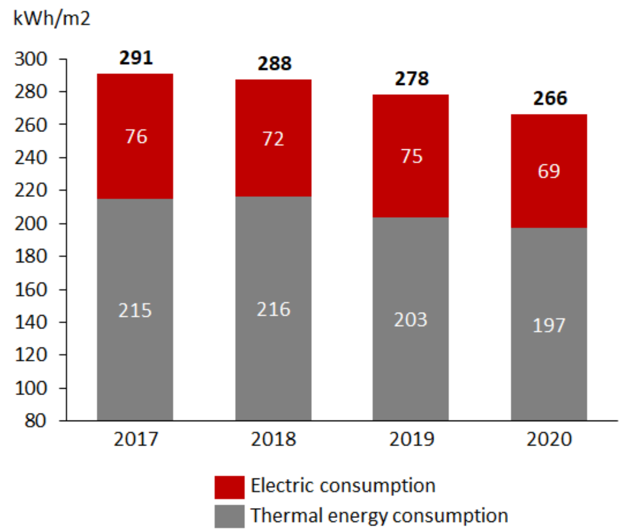
Energy efficiency

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

In the period 1–12, 2020, the following applies to the five companies of the Mercator Group:
- Cost of energy use amounted to EUR 37,610 thousand, which is 2.3% less than in 2019.
- CO_2 emissions from energy resources amounted to 271,380 tonnes of CO_2, which is 18,2% less than in 2019, while specific emission amounted to 143 kg CO_2 /m^2, which is 18.8% less than in 2019.
- Electricity use reached 431,871 kWh, which is 5.9% less than in 2019. Specific use of electric energy was 227 kWh/m^2, which is 6.6% less than in 2019.

Key performance indicator

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



Slovenia

At the company Poslovni sistem Mercator d.d., we are striving to cut energy consumption. Therefore, we conducted or continued the following activities.

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

Plans for 2021

In 2021, we shall continue to inform the employees on a quarterly basis about the efficient use of energy. We shall continue to implement measures for efficient use of energy with support of our contractual partner. Efficient use of energy will include continuation of our activities to date, including restoration of heating and cooling systems and installation of energy-efficient equipment at some facilities. In addition to restoration of heating systems, we shall also continue to replace lighting systems at our facilities.

Serbia

In 2020, the company Mercator–S d.o.o. conducted the following activities for improvement of energy efficiency:

- replacement of old fluorescent lighting with new LED lighting at 4 facilities;
- carrying out the »retail« project in 33 locations;
- installing an idle current compensation device at 14 facilities;
- installing the first CO_2 cooling system.

Plans for 2021

in 2021, we are planning to replace the old fluorescent lighting with new LED lighting at 10 facilities; implement the retail project in 15 locations; install an idle current compensation device at 20 facilities; install a CO_2 cooling system; and optimize HVAC at select facilities. Our main goal is to continue to reduce the overall energy consumption by at least 1% per year.

Montenegro

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

Bosnia and Herzegovina

In 2020, the company Mercator–BH d.o.o. operated consistently with the relevant guidelines:
- continuous efforts for rational use of energy for lighting and refrigeration;
- installation of LED lighting at the Šip supermarket and the Katedrala marketplace;
- adjustment of heating and cooling system to outside temperatures;
- monthly monitoring of energy costs.

Plans for 2021

In 2021, we are planning to continue the implementation of measures from 2020: further efforts for rational use of energy consumed for lighting and refrigeration, installation of LED lighting fixtures at our facilities, adjustment or heating and air conditioning system to outside temperatures, minimal increase of prices relative to the initially offered prices for electricity distribution, further monthly cost monitoring, and corrective measures.

Croatia

In 2020, planned activities regarding the implementation of guidelines consistently with the Manual on Efficient Use of Energy at Retail Units and replacement of energy-inefficient devices with energy-efficient ones.

Plans for 2021

In 2021, we are planning to continue the implementation of measures from 2019:
- replacement of existing energy-inefficient devices with more energy-efficient ones,
- replacement of existing energy-inefficient lighting with LED light fixtures,
- replacement of currently existing inefficient air-conditioning and heating systems with energy-efficient ones.

Sustainable logistics and merchandise supply

Slovenia

In 2020, we continued to develop improvements in logistics, particularly in terms of providing a **high level of availability of products from our sales assortment**, and starting in March, ensuring **stocking of stores** due to increased demand oscillations. Despite higher inventory levels, especially for basic food and hygiene products, during the first wave of the COVID-19 epidemic, our total inventories along the entire supply chain for the year were lower than in the year before.

We continued to increase the share of central supply to stores with existing logistics infrastructure, without significantly increasing the merchandise inventory at distribution centres. Moreover, we continued to upgrade automatic ordering and to expand cross-dock distribution, which resulted in fewer manual transactions at retail units. Automatic order amount proposal is created for the entire assortment distributed through our own distribution centres, and for majority of the assortment distributed directly.

In the last quarter, the fruit and vegetables warehouses Maribor and Sežana transitioned to Gold Stock IT support. All logistics warehouses now share uniform support, which results in standardized operations and contributes to simpler supervision and control of distribution processes, as well as higher labour force flexibility.

Serbia

In the extraordinary circumstances, and continuously throughout the year, we successfully conducted measures for containing the spread of COVID-19, and ensured normal operation of logistics processes in the system with detailed execution of the measures and activities specified in the crisis plan.

In the middle of the year, we opened a new distribution centre in Novi Banovci, to which we moved the fresh program products that had been previously distributed via warehouses in Belgrade and Niš, and via warehouse in Ugrinovci. By concentrating our goods in a single place, we cut the level of inventory and optimized the distribution process; by also increasing the weekly delivery frequency and by delivering fruit, vegetables and fresh meat only in the morning, we also improved the level of supply to retail stores. At the ambiental goods warehouses in Novi Sad, Niš and Čačak, we transitioned to a 5-day work week. In the same period, in the middle of the year, we transferred imports and distribution of private label frozen products (particularly baguettes and ice cream) to a third-party distributor.

By using three loading ramps and acquiring a pallet wrapping machine, we sped up the vehicle loading process for internal distribution at the Niš warehouse. In addition to the time savings, we also cut the use of stretch wrap. In November, we started measuring master data for items, which is a prerequisite for optimization of many internal and external work processes that require accurate dimensions and weight of items in practice.

Montenegro

At the company Mercator–CG d.o.o., we expanded in 2020 the assortment in the delicatessen warehouse with private label products, which has resulted in an increase in turnover by 23%. At the fruit and vegetables warehouse, we implemented new planograms and increased the number of deliveries compared to the year before. These activities have contributed to a 12% growth of turnover.

We tackled many challenges related to the COVID-19 pandemic, and successfully overcame them so that regular distribution of goods was not threatened.

Bosnia and Herzegovina

At the company Mercator–BH d.o.o., we expanded in 2020 the distribution centre assortment by approximately 200 new basic food and hygiene products, which in turn also increased the level of inventory. The scope of distribution was slightly lower than in the year before; as a result, transport costs were lower, too.

Considering the challenging situation related to the spread of the COVID-19 virus and a range of measures adopted at the national level in order to stabilize the economy, we are content with the said results

Waste and raw material

At Mercator Group, we have been persistently striving for a number of years to use resources and raw materials in a sustainable manner and to cut the amount of disposed waste. However, in 2020, the pandemic caused by the SARS-Cov-2, had a negative impact on use of raw materials and waste generation, too. Due to the epidemic containment measures, use of products such as hand and surface disinfectants, face masks, plastic gloves etc. increased. Despite operating in extraordinary conditions, however, we immediately ensured proper conduct and removal of the generated waste (used face masks and plastic gloves) and introduced measures to optimize the use of disinfectants (installing hand sanitizer dispensers, use of gel sanitizers instead of liquid ones etc.). Thus, we reduced this aspect of the epidemic's negative environmental effect.

Slovenia

Circular economy projects

In order to raise the awareness of our consumers that the waste packaging of their products can be recycled and reused for production of a similar or even the same new product, which in turn preserves the natural resources and raw materials, the company Poslovni sistem Mercator d.d. teamed up with product suppliers and carried out with them in 2020 some activities and products focusing on circular economy.

In 2020, Poslovni sistem Mercator d.d. took part for the fourth consecutive year in the educational campaign of the company Tetra Pak, which is intended to improve customer awareness about **recycling and circular economy**. Buyers of products in Tetra Pak packaging were encouraged to correctly dispose of it in the waste packaging bin, thus allowing its further recycling and production of new products such as hygiene paper products. The project addressed the customers at Mercator hypermarkets who received a pack of recycled Lucart EcoNatural handkerchiefs as a present upon purchase of five products by partners taking part in the Tetra Pak packaging campaign. This promoted understanding among the consumers of the link between the recycled product and correct waste packaging handling.

summer activity Merry Waves and socks made from yarn of abandoned fishing nets

With the summer activity **Merry Waves**, we encouraged customers to purchase a variety of different products (socks/ stockings, towels, bracelets) made of recycled plastic waste (e.g. abandoned fishing nets, maritime waste, waste plastic bottles etc.). The socks or stockings, for examples, are made of yarn sourced from abandoned fishing nets. Compared to production of regular nylon, production of such yarn saves a lot of raw oil and generates considerably less CO2 emissions. By using such socks and stockings, the customers can cut their environmental footprint and help preserve our planet.

Since the plastic waste that most of the Merry Waves products are made of is recovered from the sea, we also raised awareness among our customers about the problem of sea pollution.

At the start of the summer of 2020, we launched the Tefal project with 100% recycled and environmentally friendly Tefal Ingenio Resource cookware that customers could purchase with a 50-percent discount upon redeeming a certain number of Pika bonus points. If they also brought their old cookware to the store, they could purchase the new one with a 60-percent discount. Hence, we encouraged our customers to bring in their old cookware made of highly recyclable material. The cookware thus collected is a raw material that will be used for making new cookware and other products. Thus, everyone involved contributes to preservation of natural resources, raw materials and energy.

Waste and raw material management activities in the Slovenian market

In 2020, the company **Poslovni sistem Mercator d.d.** carried out the following activities in the field of waste and raw materials management:

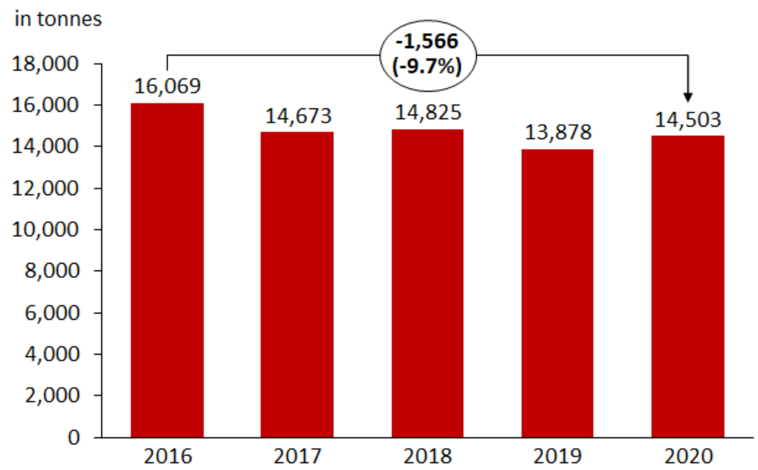
- At 19 locations we conducted a number of activities (e.g. adapting the volume and number of waste bins, changing the method and frequency of collection etc.) to ensure more optimal management of all types of waste packaging and municipal waste generated at our units in the course of regular operations, and thus ensured even more accurate waste sorting.
- We were actively dedicated to control of waste packaging sorting at the units of the company Poslovni sistem Mercator d.d. In order to improve the quality of sorted or separately collected waste packaging, we optimized our management of small waste packaging at our stores.
- At 11 refurbished retail units of the company Poslovni sistem Mercator d.d., we installed waste sorting bins for separate waste collection for the customers.
- We carried out projects to reduce paper operations, such as expanding the number of business partners who issue e-invoices, and developed new mobile applications that allowed our customers paperless payment or checkout at our stores.
- We emptied the paper documentation archives several times during the year. We submitted all separately collected, or sorted, paper documentation to the authorized waste collection centre, and donated the funds received for the collected paper documentation to Mercator Humanitarian Foundation.
- We worked with recycling and reuse centres (Center za ponovno uporabo) with regard to worn-out office equipment, damaged and written-off goods, and this ensured reuse of products that would otherwise go to waste.
- In all M Tehnika stores, we collected goods that are no longer suitable for sale (expired shelf life, damaged packaging, poorly visible labelling, non-compliant declaration label or description on the product etc.). All such goods were taken to a designated collection point and handed over to an authorized waste management service as hazardous waste. Thus, we ensured separate collection, as well as safe and correct handling and removal of this waste.

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

- more than 51 thousand tonnes of waste cardboard packaging;
- more than 7 thousand tonnes of waste plastic packaging, and
- more than 9 thousand tonnes of waste wooden packaging.

Key performance indicator

Waste material (raw materials and packaging material)



Foreign markets

In the markets of Montenegro and Serbia, the following activities of waste and raw materials management were carried out in 2020:

- In compliance with the changes to the legislation, we introduced new plastic bags that are thicker than 50 microns and intended for reuse. In 2020, sale of plastic bags decreased by approximately 20% relative to 2019. We believe one of the reasons for such decrease is the introduction of new thicker reusable plastic bags with bearing capacity of 7 and 10 kilograms, which also have a higher price. Free-of-charge bags with a thickness of less than 15 micrometres only remain available to customers in self-service departments.
- In order to promote reuse and to cut the amount of plastic waste, we expanded our sales program with bags and shopping bags made of recycled materials, textile, corn starch etc.
- At the end of the year 2019 and in early 2020, we took part in panel discussions »I Say No to Single-Use Plastics«. Further activities, such as use of packaging and materials brought by users etc., cannot be started until the food safety legislation is aligned with regard to this issue.
- In 2020, we installed wire fence at the unit MPO 349 RODA Šabac to provide a separate area for waste sorting. In this area, we installed equipment for handling waste packaging from the retail unit, and waste generated during activities of other tenants in the shopping centre. Thus, we prevented the mixing of waste packaging and municipal waste, which had occurred due to the direct proximity of the equipment for disposal of such waste, and inadequate education of employees of our tenants. Working with representatives of recycling service providers and waste packaging collection service Kappa Star Recycling, education courses were provided for all employees. Al this contributed to correct waste handling at the site, and a 10-percent increase in the amount of collected waste packaging.
- In 2020, the company Mercator–S d.o.o. wrote-off 9,200 kg of obsolete archives that were handed over to an authorized collector of this type of waste.
- In September 2020, we worked with EkoStar Pak to organize glass packaging collection campaigns in major retail units. The goal of the campaign was to raise the awareness about the importance of recycling and waste storing at the source. As a reward, each participant received a reusable shopping bag. Thus, we also supported the campaign to reduce single-use plastic pollution.
- In 2020, we separately collected and handed over for recycling or harmless destruction the following amounts of waste:
  - 2,709 tonnes of waste cardboard packaging,
  - 165 tonnes of waste plastic packaging,
  - 27 tonnes of waste electric and electronic equipment, and
  - 299 tonnes of organic waste.
- Following are the amounts of packaging we introduced to the market in 2020 from imported goods:
  - plastics: 1,066 tonnes

  - glass: 309,552 tonnes
  - paper: 977,033 tonnes
  - wood: 300,941 tonnes
  - metal: 94,896 tonnes
- The packaging management obligation was transferred to the operator EkoStar Pak. Annual report was submitted to the Environment Protection Agency with the application »National Register of Pollution Sources«dated March 31 for the preceding year.
- In Montenegro, legislation on waste management has not yet been fully prepared. Thus, the company Mercator–CG d.o.o. works in this respect with the companies authorized for collection of particular types and fractions of waste.

Water and wastewater

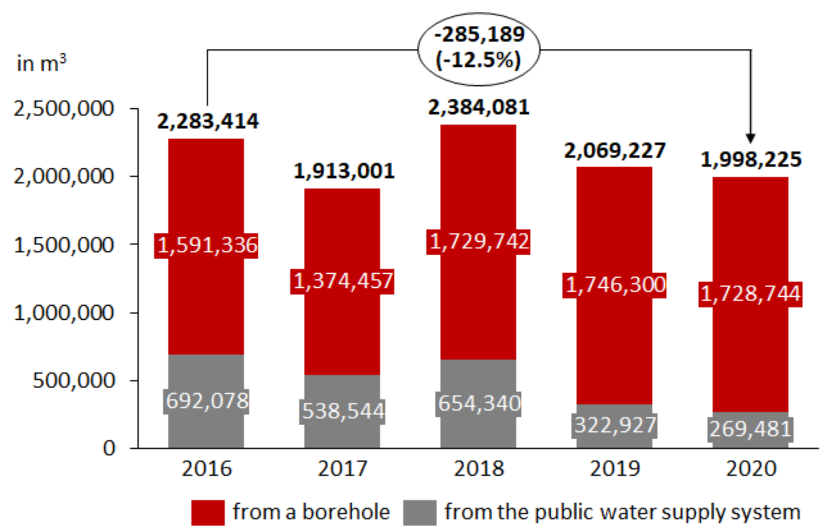
Slovenia

At the company **Poslovni sistem Mercator d.d.**, we care for rational use of water and appropriate treatment of waste water. This, we are striving to reduce pollution and amount of waste water resulting from our operations. The following activities were carried out in 2020:

- At 2 sites, we replaced or newly installed equipment for more rational use of water (e.g. sensor faucets, economical toilet cisterns etc.).
- At 5 sites, we built connections to public sewage system; in four cases, this allowed us to abandon the use of a septic tank.
- We updated our internal documents for waste water treatment plant management (e.g. oil traps and separators etc.), and thus improved the control of all installed treatment plants.
- At 3 sites, we replaced or newly installed waste water treatment plants.

Key performance indicator

Total amount of water pumped, by source



Serbia

- In 2020, the company **Mercator–S d.o.o.** used 387,257 m^3 of drinking (potable) water, which is 53,500 m^3 less than in the preceding year. The lower water consumption is a result of the SARS-Cov-2 pandemic containment measures, including shorter business hours and the fact that most facilities were closed during weekends.
- Wastewater quality is monitored at the company Mercator–S d.o.o. consistently with the legislation and the plans for internal wastewater sampling in installed oil and fat skimming devices, or separators. In 2020, sampling was conducted 3 times at 54 oil and grease traps. For oil and grease traps (skimming devices or separators) in which deviations were

detected, all deficiencies were eliminated, most commonly by cleaning the skimming devices (separators) and repeated sampling. No other measures or interventions were necessary.

Emissions into atmosphere and ozone depleting substances

Slovenia

At the company **Poslovni sistem Mercator d.d.**, we are striving to optimize by regular maintenance the operation of devices or equipment that causes air pollution (e.g. heating equipment), and thus mitigate its negative impact on the quality of air. Moreover, company efforts are aimed at replacing fossil fuels with renewable sources of energy, in order to contribute to the decrease in greenhouse gas emissions.

With regular maintenance of equipment for cooling goods and air conditioning of facilities, which uses fluorinated greenhouse gases and ozone-depleting substances, we successfully prevent any leaks of such gases that have a negative impact on global warming and the ozone layer.

In 2020, the following activities were carried out with regard to cutting the emissions into air and prevention of unintended release of fluorinated greenhouse gases and ozone-depleting substances:

- At 7 locations, we updated the boiler rooms, where such updates also included replacing the existing fuel – heating oil – with a more environmentally friendly fuel (e.g. natural gas or connection to a district heating system).
- At 6 locations, we installed heat pumps to replace an existing heating system that had used heating oil or liquefied petroleum gas.
- In newly constructed and refurbished facilities at 42 sites, we replaced or installed more modern and environmentally friendly cooling technology.
- At 3 sites, we replaced the existing refrigerants with refrigerants with a lesser effect on the ozone layer and global warming.
- At 3 sites, we replaced or newly installed a cooling system using CO2, which is environmentally the most acceptable cooling system with considerably lower negative effect on global warming than the cooling systems with conventional refrigerants.
- We made sure that 38 units were connected to remote monitoring of operation and temperature control. At these units, we also introduced remote alarms, which means that the service department is immediately informed about any problems, which in turn leads to optimum temperatures and reduces damage to the equipment and products.

Serbia

At **Mercator–S d.o.o.**, emissions into atmosphere from stationary sources were measured in 2020 at the start and at the end of the heating season at 24 measurement points with boiler rooms in which heat is generated from wood pellets or natural gas. Measurement results were consistent with the requirements laid down in the relevant legislation.

In 2020, energy consumption totalled at 166,084,958 kWh; in 2019, it reached 178,617,327 kWh. With our energy efficiency measures, we cut power consumption in 2020 by 3,703,065 kWh, which resulted in a decrease of CO_2 emissions by 2,618 tonnes. The remainder of the decrease in electricity consumption is a result of shorter business hours and lower number of jobs due to the pandemic caused by SARS-Cov-2.

At the facility MP 257 IDEA Blok 62, a cooling system using the gas CO_2 was installed to replace a Freon (chlorofluorocarbon refrigerant) with 3,260 times greater effect on global warming than CO_2.

Hazardous substances and preparations

Slovenia

At the company **Poslovni sistem Mercator d.d.**, instructions have been in place for a number of years regarding the management of hazardous chemicals, including their storage, use, transport, and sale.

In order to improve the safety in use of hazardous chemicals and to prevent any extraordinary events resulting from non-compliant use (spillage of hazardous chemicals), we conducted the following activities in 2020:

- We updated the internal database of safety data sheets and prepared tools to improve the control of safety data sheets, which in turn optimized access to safety data sheets to both users of hazardous chemicals and our customers.
- We launched the project of systemic management of displaying information about hazardous characteristics of chemicals for online sale at Mercator d.d., in order to ensure access to this information for our online customers.
- We informed our hazardous chemicals suppliers about the additional requirements regarding labelling and provision of information on hazardous chemicals, for emergency medical assistance and preventive measures.

Serbia

At the company **Mercator–S d.o.o.** we provided, in compliance with the law, proper labelling of the sales area in which chemicals are sold and stored. Before launching in the market, we register the biocides marketed under our private label. In case of sale of chemicals and biocides, we also register such chemicals and biocides with the Register of Chemicals and Biocides. We submit the data on sold amounts annually to the relevant Ministry.

Noise

Slovenia

At the company **Poslovni sistem Mercator d.d.**, especially when building new facilities or when reconstructing existing ones in urban environments, we ensure that equipment is installed that releases a minimum level of noise into the natural environment. When designing, building and refurbishing our facilities, we pay particular attention to placement of sources of noise, in such way that the noise that generate is minimized. Thus, we strive to make sure that the noise generated by our equipment and our facilities in the course of their operation causes as little disturbance as possible for the environment.

At six sites at which critical values of noise indicators were exceeded, we restored in 2020 the sources of such noise and thus eliminated the excess noise.

Serbia

In 2020, twelve noise measurements were conducted. At 4 sites of the company **Mercator–S d.o.o.** in which the critical values of noise indicators were exceeded, we restored the sources of such noise and thus eliminated the excess noise at these locations.

Responsibility to social environment

Policy of responsibility to social environment

As a socially responsible company, we are looking to contribute to the development of local and regional environment and to improve the quality of people's lives. Sponsorships and donations, and participation in socially beneficial campaigns are an important part Mercator Group's comprehensive socially responsible conduct. Therefore, we support and enable humanitarian, sports, cultural, scientific, educational, and other projects. Our mission is to offer aid to those who need it. We care for the families and individuals in distress.

Social-environment-related activities and due diligence

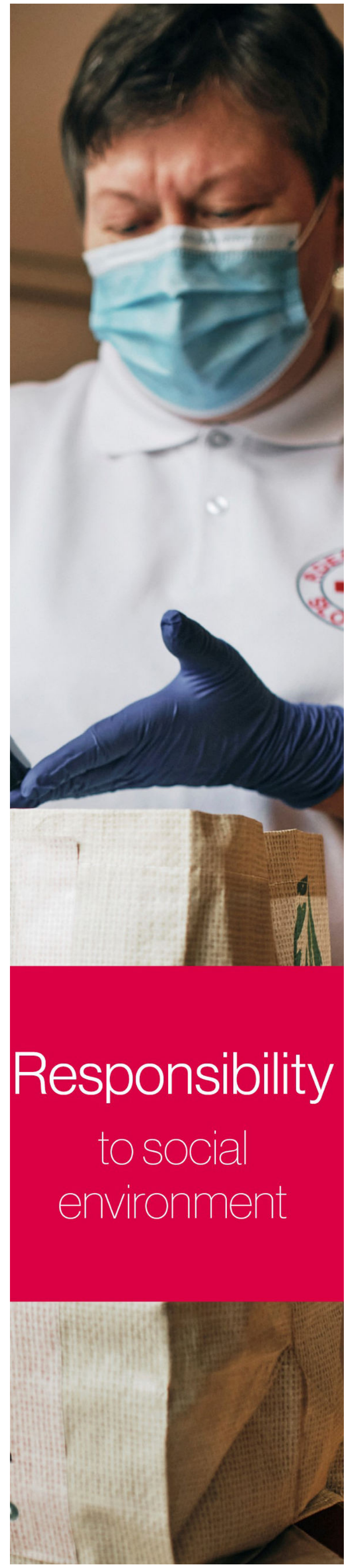
With our activities related to social environment, we are building and consolidating our company's reputation and promoting the recognition of our own private labels (or store brands). Through the years, Mercator has gradually increased its investment into the local environment through sponsorships and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

Slovenia

Humanitarian projects

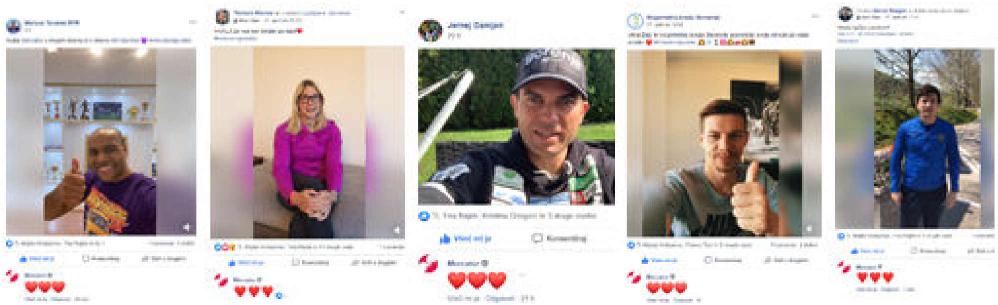
The Donated Food project included 21 major stores across Slovenia. This year, the project was even more relevant, as the number of those in need of aid increased due to the COVID-19 pandemic. Volunteers from the association of Lions Clubs, Anton Trstenjak Institute and Ljubljana Caritas picked up every evening the food for which the use-by date has not yet expired, and distributed it to families and individuals in social or financial distress.

At the end of the school year, Mercator joined the **humanitarian campaign of the Slovenian Caritas** to collect school supplies for 12,000 children in distress. Baskets for collection of donated products were placed at 255 Mercator stores across Slovenia. Thus, over 23,000 notebooks and over 800 school supply products were collected with our help for families with children in schools. In the second half of the year, we placed baskets for collecting food items for family in social or financial distress at 244 major stores.



Donations and sponsorships

In 2020 when the COVID-19 pandemic affected the lives of all Slovenians, Mercator faithfully stood by all of our sponsorship and donation recipients, and included them in various humanitarian projects. These projects included the campaign **Minutes for our Heroes** in which the athletes encouraged and cheered for healthcare workers, civil protection service workers and volunteers of the Slovenian Red Cross and the Slovenian Caritas via the **M Neighbourhood** platform. Due to the pandemic, the number of applications for donations and sponsorships was halved compared to the preceding years in 2020. Nevertheless, we supported **over 330 different humanitarian, cultural, educational, and sports projects**.



Before the start of the ski jumping seasons, we presented 101 pairs of skis, 28 pairs of ski boots, and 53 pairs of ski bindings to representatives of 22 ski jumping clubs. This was our contribution to further development of junior ski jumping. Mercator does not support only the senior national team, but also provides direct **support to ski jumping clubs** across Slovenia.

Activities during the COVID-19 pandemic

During the COVID-19 pandemic, we kept in mind our **corporate social responsibility**. Mercator donated 30 tonnes of food and hygiene products to the Slovenian Red Cross and the Caritas Slovenia organizations. In the campaign Minute for our Heroes, hospital staff at COVID points were donated Minute products, and we delivered lunches to Civil Protection Service workers in towns that were the most endangered due to the number of infections. Working with our partners in the My Brands project, we delivered complimentary packages to 3,000 Slovenian Red Cross and Caritas Slovenia volunteers, and we donated water and sandwiches to truck drivers lined at the border crossings. Working with the Slovenian Ski Association, we were joined by ski jumpers and their coaches in supporting the delivery of products purchased via the online store, thus making sure more people stay at home.

Serbia

Sponsoring mass sporting events, sports clubs and associations

As the proud **sponsor of the Serbian Basketball Association**, Roda supported many sporting events. In February 2020, it supported the organization of the Radivoj Korać Cup, organization of the Olympics qualifier tournament for women's basketball national teams, and organization of European Championship 2021 qualifier tournament for the men's basketball team.

After the break due to the coronavirus pandemic, **Serbian Basketball Association** organized, in compliance with the instructions by the relevant institutions, an official basketball tournament **Roda 3 × 3 Serbian championship**.

Humanitarian projects

Idea's Father Frost (Dedek Mraz) scaled the roofs to reach the youngsters at the Children's University Clinic Tiršova, so that children hospitalized there could meet him, experience the magic of holiday season in the best possible way, and to look forward to the coming holidays. Despite the coronavirus pandemic, the Idea caravan again – while observing all epidemiologic measures – visited 23 towns across Serbia and over 50 children's hospitals, orphanages, and other institutions, and presented more than 5,000 New Year's gift packages.

Although the Idea caravan visited at the end of 2019 all orphanages and children's hospitals across Serbia, the campaign reached its peak in early 2020 when it aired a video in which employees share with the audience their feelings upon seeing the children receive the presents. In the first ten days after the video was posted on YouTube, it garnered two million views, with an average viewing length of 67%, or 2 minutes and 27 seconds. On Facebook, the video reached 2,300,000 people, or 60% of all users of this channel in Serbia, and received 9,000 likes, comments, and shares.

After a five-month break from humanitarian action, Tamara Grujić and her production team continued recording new episodes of »**In Action with Tamara«**, which started airing in March 2020 on RTS1 (Serbian Radio and Television). In the new season, we continue to support the team of the show and work with them to help many families in Serbia to live a better and happier life.

Activities during the COVID-19 pandemic

The company Mercator–S d.o.o. **donated goods with a total value of four million dinars to hospitals for treating the coronavirus infections and to barracks of the Serbian Army** taking part in the fight against the new coronavirus pandemic. The first contingent of donated aid was delivered to the hospital KBC Dragiša Mišović for treatment of coronavirus infections. Goods worth 4 million dinars will be donated to five clinical centres in Serbia and two army barracks.

Healthcare workers at the hospitals Dragiša Mišović, Zemunski and at clinical centres in Novi Sad, Niš and Kragujevac received food on a weekly basis, which helped them do the hardest and the most important work for Serbia.

Gratitude to the artists and retired cultural workers of Novi Sad, whose work and effort contributed to the cultural scene of Novi Sad and left behind many successors, was the motive behind the campaign to distribute gifts as a token of appreciation, carried out by the foundation **Novi Sad 2021 – European Capital of Culture** and supported by Idea. The gifts include genuine local products that are a part of our tradition. All products are made by small businesses or farms, and many of them are still handmade.

Montenegro

Donations and sponsorships

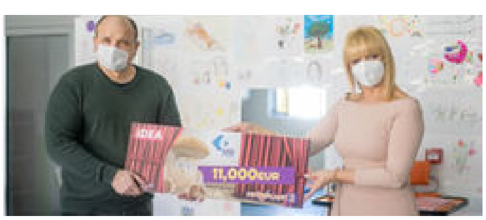
In the campaign **We are Here for You** that we launched in March 2020, we carried out several humanitarian activities due to the crisis brought about by the new coronavirus. The company Mercator–CG d.o.o. is demonstrating its corporate social responsibility in both normal and extraordinary circumstances. Therefore, we were looking to contribute to even stronger and more decisive fight against the spread of the virus.

We donated EUR 20,000 to the National Coordination Agency for Infectious Disease (NKO) for procurement of respirators and to aid the fight against the spread of the new coronavirus. As a socially responsible company, we contributed to a stronger and more determined fight against the spread of the virus.

In order to show solidarity and help those most affected by the current situation, we **donated 10 tonnes of food to the Montenegrin Red Cross**. The donation includes basic food products selected in compliance with the needs and recommendations of the Red Cross, and it was received by those in need across the entire Montenegro. Moreover, we donated food packages with a sandwich, water and fruit to 230 volunteers taking part in activities of municipal Red Cross organizations and helping alleviate the humanitarian consequences of the coronavirus. Thus, we tried to make everyday a little easier for the Red Cross volunteers and thank them for their effort.

Over **600 lunch packages** were presented to healthcare workers on COVID departments at general hospitals Bar, Bijelo Polje, Berane, Cetinje, Kotor, Nikšić, Pljevlja and Clinical Centre of Montenegro. With institutional support by the Montenegrin Ministry of Health, we provided and delivered these packages to employees at COVID departments of hospitals in Montenegro, as a token of support and appreciation for the effort they are investing to preserve the health of the entire population.

In the campaign **Zdravoljupci 2** (»Health Lovers 2«), we provided a donation to the Ognjen Rakočević autism centre. We donated EUR 11,000.



Donation to the Ognjen Rakočević autism centre: With the purchase of the Peki the mushroom, customers of the Idea store contributed to the donation of EUR 11,000 for the Ognjen Rakočević autism centre. A voucher in this value was presented to the director of this institution Dr Ivan Krgović who sincerely thanked the company Idea for the initiative, and the customers for the support they had shown with their purchase.

In 2020, we maintained the role of the general sponsor of **Dnevnica**, one of the most widely viewed humanitarian shows in Montenegro. The show is a role model for humanity, solidarity, and corporate social responsibility.

We are sponsoring sports associations, clubs, and athletes

Successful sponsorship of the **Montenegro Basketball Association** continued in 2020. As promoters of a healthy lifestyle and fair play, we continued to sponsor the Montenegrin Basketball Association and thus supported the development of basketball and popularity of the sport, especially among young basketball players.

As in 2019, we provided support in 2020 to the **Podgorica Marathon**, a traditional marathon and half marathon competition. The event, main contests and extra events, including a rich cultural and entertainment program, and the crowd of spectators involve several thousand people.

Anti-corruption and anti-bribery policy

Consistently with the Articles of Association of the company Poslovni sistem Mercator d.d., a document titled Binding Guidelines for Provision of Compliance of Operations was prepared, defining the fundamental principles and rules applying to the employees in their mutual relations and in relations to customers and third parties with whom they collaborate during their work. The fundamental purpose of the Guidelines is to underscore the exceptional importance of compliance of operations for the operation of Poslovni sistem Mercator d.d. in the business and broader social environment, and to promote the awareness of all employees about the importance of compliant and fair treatment, and prevention of non-compliance in everyday practice. Compliance of operations is our priority and a competitive advantage. We shall accomplish our goals in a lawful, ethical, transparent, and socially responsible manner. Lawful and ethical operations give rise to a sound corporate culture and consolidate the reputation of our company.

Activities related to prevention of corruption and bribery, and due diligence

At Mercator Group, we are therefore raising the awareness of all employees on the importance of compliant and fair conduct, and prevention of non-compliance in everyday practice. Unlawful and unethical conduct is not permissible.

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

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

We have also established a mechanism for disclosure of disputable practices (whistleblowing system) at the company, called »Say It Out Loud«. In the document titled Policy of Encouraging Responsible and Fair Conduct accurately specifies the procedures regarding reports, protection of confidentiality of the reporting parties, handling of disclosed or reported practices, and responsibilities and powers of everyone involved in the said process. The purpose of the »Say It Out Loud« mechanism is to make sure that any disputable practices and irregularities are identified, resolved, and eliminated in the earliest stage, within the company. Mercator Group internal audit is in charge of this activity.

We also informed our business partners about the possibility of reporting any disputable conduct or poor business practice by including an anti-corruption clause and the »Povejmo« (»Say it out loud«) clause in all contracts.

Responsibility to suppliers

Supplier relations policy

Long-term partnership relations with suppliers of branded products and products under Mercator private labels are a key element in the corporate sustainable responsibility. Transparent transactions and joint efforts allow us to establish an environmentally friendly supply chain as we work with our suppliers. It is Mercator Group's goal to establish such relationships and rules with suppliers who will provide stable and, given the scope, most favourable supply sources for trade and non-trade goods and services in the long run.

Supplier-related activities and due diligence

Mercator Group signs annual, biannual, or triennial contracts on supply of goods with the suppliers. General Terms and Conditions of the company Poslovni sistem Mercator d.d., which define the terms and conditions of cooperation in supply of fast-moving consumer goods, are a constituent part of every such contract. By signing the contract, the suppliers confirm that they are fully aware of the General Terms and Conditions and that they fully agree with them.

Special chapter of General Terms and Conditions is dedicated to **quality, safety, labelling, and traceability**. By signing a special statement, suppliers of fruit and vegetables commit to providing appropriate and safe products, while suppliers of other food products sign a written Statement of Product Safety, Quality, and Compliance for food and materials in contact with food.

Supplier control is carried out by the internal control and food safety department. Findings of our in-house control are supplemented with the data provided by national control of product safety and quality. In case of non-compliance, we work with the suppliers to implement corrective measures.

Assessment and selection of suppliers

Assessment of suppliers is aimed at providing constant quality, safety, and traceability of products in order to promote and foster the health of customers in compliance with the contractual provisions, relevant legislation, and Mercator's special requirements.

Assessment of current fast-moving consumer goods suppliers takes place once per year, before new procurement contracts are signed. Criteria according to which a supplier is evaluated depends on the clauses and provisions from the core contract; they are divided into two sets: commercial criteria and criteria of quality. Criteria of quality refer to any non-compliance in the process of supply of goods, and non-compliance of products.

Based on overall supplier assessment, we specify their suitability. Contracts for the current year may be signed with suitable suppliers, or cooperation with them may be continued. We negotiate corrective measures and implementation deadlines with other suppliers. No agreements are signed with inadequate suppliers, except for exceptional cases when they meet the quality criteria and no alternative sources are available.

Inclusion of suppliers into expansion of local offer

We work with local suppliers to offer our customers as much locally grown produce as possible. As a part of the We Love Local project, we continue our long-standing partnership with the local suppliers in all markets of our operations. The project involves 160 local suppliers, 20 agricultural cooperatives and 1,460 products.

By offering the best that the local environment has to offer, we **encourage innovation and success of local farmers and growers** and boost our competitive advantages in terms of differentiation.

The We Love Local (»Radi imamo domače«) project includes several sub-projects such as »Srčno predani« (»Devoted with all our hearts«) and »The Best Supplier of Local Products«, which are related to the new private label line We Love Local, which takes cooperation with the local suppliers yet another notch higher. Visual identity is based on recognition of both partners, Mercator and the producer. Sixty new products were included in this offer, and the line will be further upgraded. We are preparing a project in which products from Slovenia, included in the We Love Local project, will be launched in Serbia.

Activities of the We love Local project

Inclusion of suppliers into the My Brands project

In 2020, the campaign **My Brands** that builds close links with our suppliers to create a shared story and new offers for our consumers was rolled out successfully to all markets of Mercator's operations. Thus, we further strengthened a long-term strategic platform for shared development in the region, which allows joint marketing activities, the broadest offer of local brands, and development of special offer for the customers. In all markets of our operations, the campaign thus includes 282 partners and over 340 partner brands, of which 156 partners and 240 partner brands are included in Slovenia.

My Brands project

In the food industry, **Slovenia** has many renowned brands that have succeeded in keeping the leading market position and maintaining their quality and reputation. As a result, they take an important share of Mercator's shelves. Products of these brands have become important parts of the Slovenian brand landscape; therefore, we launched the initiative for their collaboration and offered them more than just a shelf in our aisles. The purpose of synergistic collaboration with the umbrella project My Brands is to connect the suppliers not only at the level of a shared special offer, but also to connect in creation of joint marketing stories and new offers for the consumers. During this time, the initiative was joined by over 50 partner food brands. The partners recognized the great potential of a shared appearance that systematically exposes the most reputable brands both at the stores and in advertising activities.

Supplier policy as a part of operational efficiency

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

Execution of business strategy in cooperation with the suppliers

In 2020, operations of the Category Management sector were again focused on pursuit of **Mercator's business strategy** that is based on three key pillars:
1. Mercator is striving to be **the best retailer in all its markets**, including Slovenia. Respect and care for the local environment and local suppliers remain at the core of its mission.
2. **We see our comparative advantage in differentiation**, and differentiation of offer is a key task. In the increasingly harsh competitive conditions in the market, we believe the key to success is especially differentiating our offer relative to the competition. Our primary role is:
   - To provide the broadest offer of local and regional brands.
   - Needless to say, we need to strike the right balance in relation to international brands and private labels, especially those that offer added value for the consumer.
3. **Our operational excellence** is the key for reaching the Group's short-term and long-term goals. In this aspect, **strategic and long-term partnership relations with suppliers** are of key importance. We see one of our advantages in the fact that we are a part of a broader regional group, which means we can search shared purchasing channels across markets in certain categories. At the same time, we can pave the way for Slovenian and regional products, including those that we develop ourselves, to the Group's other markets.

Responsibility to quality

Quality Policy

The quality policy specifies the method of operation that ensures long-term satisfaction for our customers by offering superior level of offer of products and services. Thus, we are providing successful operation and growth of the company that represents a solid base for development of employees, owners, and other relevant stakeholders. The management and all employees at Mercator are committed to meet the needs and requirements of our customers and to continuously improve the efficiency of our management system.

Quality-related activities and due diligence

Management of certified management systems

Efficient management of business processes is provided through compliance with the requirements of the international quality management systems. Respective management systems have been combined into an integrated management system whose basic requirements are implemented at all Mercator Group companies, regardless of whether certified management systems are in place there or not. The management system is being continuously expanded and developed, and systemic monitoring of key indicators allows us to efficiently manage the processes and to improve and transfer good practices between Mercator Group companies.

Quality management system in Mercator Group by companies

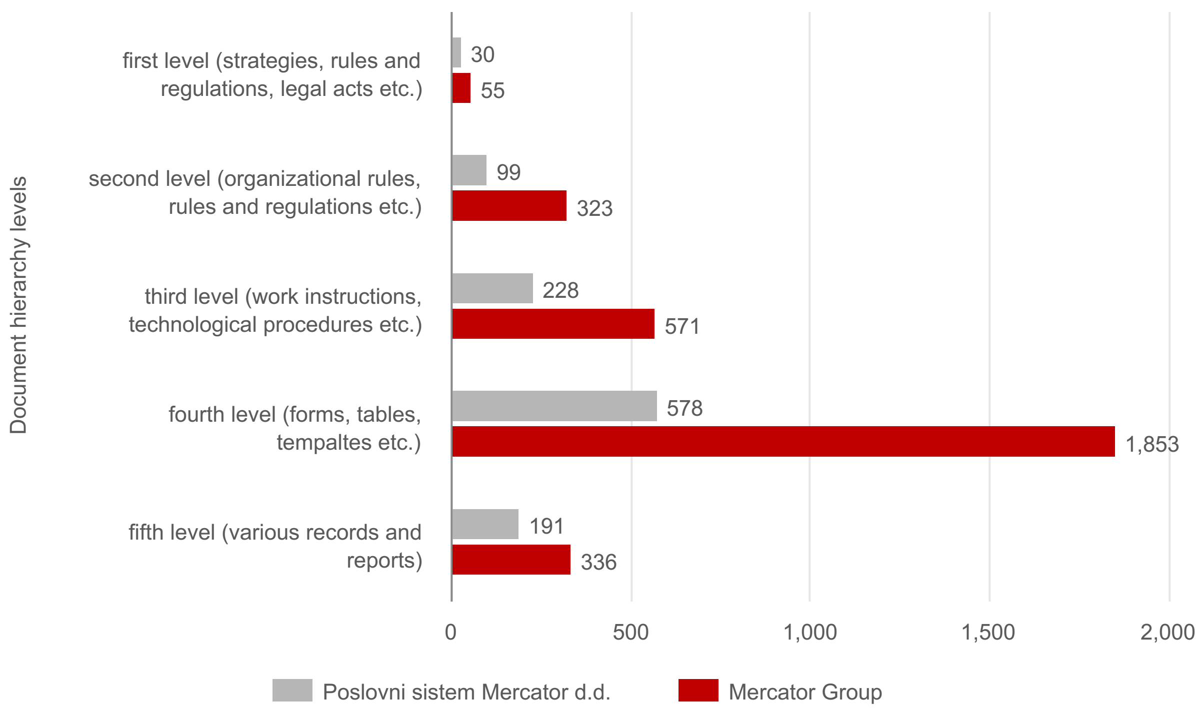
	Poslovni sistem Mercator d.d	Mercator IP d.o.o	Mercator-Emba d.d	Mercator– S d.o.o.	Mercator– CG d.o.o.
ISO 9001 – Quality management system	✓			✓	
ISO 10002 – Quality Management – Customer Satisfaction				✓	
Protected Consumer Seal				✓	
ISO 14001 – Environmental management system	✓			✓	
HACCP – Ensuring food safety				✓	✓
IFS – International Food Standard			✓		
SQMS – Supplier Quality Management			✓		
AEO –Authorised economic operator	✓				
Family-Friendly Company	✓	✓			
Organic farming	✓				
Select Quality – fresh meat	✓				
Select Quality – Fruit	✓				
FSC – Forest Stewardship Council – traceability chain	✓				
UTZ – Sustainable cocoa farming			✓		
SWA – Supplier workplace accountability			✓		
PCI DSS - The payment card industry data security standard				✓	

There are 20 certified management systems maintained at Mercator Group companies. In 2020, we kept all certificates acquired in previous years. We successfully completed 5 extension audits: International Food Standard (IFS), Supplier Quality Management System (SQMS), and Sustainable Cocoa Farming Certificate (UTZ) at Mercator–Emba, and the seal »Customer Protection« (»Zaštićen potrošač«) and PCI DSS at Mercator–S. We maintain a total of 20 certified management systems at Mercator Group companies. In 2020, we kept all certificates acquired in previous years. We successfully completed 5 extension audits: International Food Standard (IFS), Supplier Quality Management System (SQMS), and Sustainable Cocoa Farming Certificate (UTZ) at Mercator–Emba, and the seal »Customer Protection« (»Zaštićen potrošač«) and PCI DSS at Mercator–S.

Management of knowledge and information

The rules of operations in effect at the Mercator Group are defined in internal documents available to all employees. Thus, the company provides better communication and improved flow of knowledge and information. Users can independently search for documents related to their roles in the business process, and submit proposals for their improvements. Document contents are regularly revised and updated based on good practices and proposals for changes.

Key performance indicators: number of valid documents in the Mercator Standards Collection as at December 31, 2020



Source: Mercator Standards Collection as at December 31, 2020

As at December 31, 2020, there were **3,138** valid documents in the Mercator Standards Collection for the entire Mercator Group. In 2020, we posted **588** new or revised documents, while **185** documents were archived (their use was discontinued).

Control and improvement of operations

Processes and goods are controlled in various stages of the business process in order to provide their compliance with the legislation, effective standards, and specified requirements.

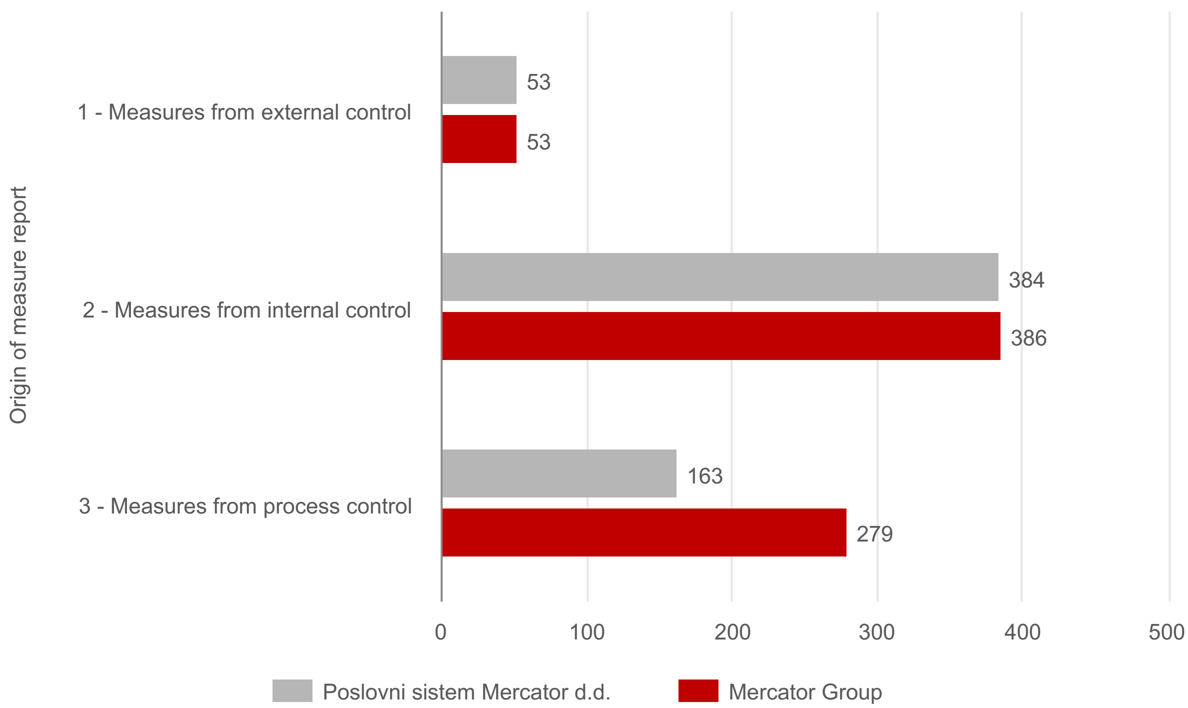
External control at the Mercator Group is conducted by inspection authorities and third-party auditors who ensure compliance with the legislation and other requirements pertaining to Mercator.

We also conduct various forms of **internal control**. Compliance of operations is reviewed with internal controls, monitoring, internal audit, accounting and tax supervision and control, internal audits of certified management systems, and controls of security, occupational health and safety and fire safety. Internal control includes checking the quality of goods, documentation, and conducting business processes in compliance with the requirements of respective forms of internal control, Mercator standards, and good practices.

Employees in charge of activities and process administrators **control respective processes** and systematically measure and monitor process performance based on the indicators and the goals laid down.

Findings from all forms of control provide the basis for action and continuous improvement of operations and performance. The continuous improvement system has IT support, which provides faster and more transparent resolution of any reports.

Key performance indicators: number of measures implemented in 2020, by origin of report



Source: Internal application and measures for 2020

In the non-compliance, recommendations, commendations, and measures management application, we addressed in 2020 at the Mercator Group level a total of **718** tasks. This figure, however, only accounts for a part of all measures implemented to improve our operations, as the use of the application has not yet been implemented in all areas of control, which will be the goal of our efforts in the future.

WE RELY
ON FACTS,
BUT SET NO
BOUNDARIES TO
ASPIRATIONS.

Financial report

Management Responsibility Statement

The company's Management Board is responsible for preparation of the Annual Report for the company Poslovni sistem Mercator d.d. and the Mercator Group for the year 2020, and of the financial statements which, to the best knowledge of the Management Board, give a true and fair view the development and operating results of the company and its financial position, including the description of significant risk types the company or any other company included in the consolidation are exposed to as a whole.

The Management Board confirms to have consistently applied the appropriate accounting policies in compiling the financial statements and to have made the accounting estimates according to the principle of fair value, prudence and good management, and that the financial statements give a true and fair view of the company's property and operating results for the year 2020.

The Management Board is also responsible for appropriate accounting, the adoption of adequate measures for protection of property and other assets, and confirms that the financial statements, together with notes, have been prepared on the basis of the going concern assumption and in line with the applicable legislation and the International Financial Reporting Standards as adopted by the European Union.

The Management Board approves and confirms the Annual Report of the company Poslovni sistem Mercator d.d., and the Mercator Group for financial year 2020.

Ljubljana, April 23, 2021

Tomislav Čizmić
President of the Management Board

Draga Cukjati
Member of the Management Board

Igor Mamuza
Member of the Management Board

Gregor Planteu
Extraordinary Management Board Member

Consolidated and separate financial statements of Poslovni sistem Mercator d.d.

Consolidated and separate statement of financial position

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
ASSETS					
Property, plant and equipment	15	831,426	915,896	545,488	558,429
Right of use assets	16	340,030	352,908	159,703	168,723
Investment property	18	198,978	273,006	3,043	4,081
Intangible assets	17	20,750	20,548	12,993	12,733
Deferred tax assets	21	5,420	—	—	—
Other receivables	23	4,190	4,757	2,669	3,042
Loans/deposits given	24	8,246	13,600	—	30
Investments in financial assets	20	927	876	803	736
Investments in subsidiaries	19	—	—	235,520	263,520
Total non-current assets		**1,409,966**	**1,581,592**	**960,219**	**1,011,293**
Inventories	22	202,951	211,090	110,245	111,544
Trade and other receivables	23	124,675	162,810	54,932	66,833
Current income tax assets	21	1,642	93	1,539	—
Loans/deposits given	24	2,365	2,506	33,012	25,149
Cash and cash equivalents	25	49,884	45,777	28,964	11,137
Total current assets		**381,517**	**422,276**	**228,692**	**214,663**
Total assets		**1,791,483**	**2,003,868**	**1,188,911**	**1,225,956**
EQUITY	26				
Share capital		254,175	254,175	254,175	254,175
Own shares		(3,235)	(3,235)	(3,235)	(3,235)
Reserves		133,709	135,243	153,867	142,693
Retained earnings / Accumulated deficit		(92,835)	53,131	(39,110)	8,508
Equity attributable to the owners of the company		**291,814**	**439,314**	—	—
Non-controlling interests		231	(339)	—	—
Total equity		**292,046**	**438,974**	**365,696**	**402,141**
LIABILITIES					
Borrowings	28	67,743	471,902	—	361,993
Lease liabilities	16	272,636	300,260	71,553	83,496
Deferred tax liabilities	21	15,063	11,677	6,708	4,715
Provisions	29	27,543	25,804	22,824	21,152
Non-current liabilities		**382,985**	**809,643**	**101,085**	**471,356**
Trade and other payables	30	558,680	579,502	305,344	300,662
Borrowings	28	484,538	96,762	395,433	30,175
Lease liabilities	16	73,036	76,100	21,354	19,541
Current income tax liabilities	21	199	2,887	—	2,082
Current liabilities		**1,116,453**	**755,251**	**722,130**	**352,459**
Total liabilities		**1,499,438**	**1,564,894**	**823,215**	**823,816**
Equity and liabilities		**1,791,483**	**2,003,868**	**1,188,911**	**1,225,956**

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Consolidated and separate income statement

		Mercator Group		Poslovni sistem Mercator d. d.	
in EUR 000	Note	2020	2019	2020	2019
Sales revenue*	10	2,127,256	2,091,031	1,244,981	1,215,292
Rental income*	10.1	42,761	47,708	11,152	14,926
Cost of sales	12	(2,148,257)	(2,039,355)	(1,228,321)	(1,172,652)
Revaluation gains / losses of investment property	10.2	(71,440)	5,835	(1,000)	—
Administrative expenses	12	(78,318)	(69,669)	(75,291)	(57,421)
Other operating income	11	19,769	23,866	14,901	13,235
Results from operating activities		**(108,227)**	**59,415**	**(33,579)**	**13,380**
Finance income	14	1,580	3,246	2,051	2,142
Finance costs	14	(52,209)	(51,681)	(23,792)	(23,347)
Net finance costs		(50,628)	(48,435)	(21,741)	(21,204)
Profit / (loss) before tax		**(158,856)**	**10,980**	**(55,320)**	**(7,824)**
Tax	21	2,146	(6,314)	(100)	(5,983)
Net profit / (loss) for the year**		**(156,710)**	**4,666**	**(55,420)**	**(13,807)**
Net profit / (loss) for the year attributable to:					
Owners of the Company		(156,560)	4,645		
Non-controlling interests		(150)	21		
Earnings (loss) per share					
Basic	27	(25.9)	0.8		
Diluted	27	(25.9)	0.8		

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

*In 2020, Mercator Group and the company Poslovni sistem Mercator d.d., changed presentation of rental income, which is now presented in separate line, while the sales revenue was reduced in the same amount. The Group believes that such presentation provides information that is reliable and more relevant to users of the financial statements. The change was taken into account also for 2019, with the aim of comparability. For changes in presentation refer to Note 4.

**In 2020, the net loss of the company Poslovni sistem Mercator d.d amounted to EUR 55,420 thousand and includes the net impairments of investments in subsidiaries in the amount of EUR 34,928 thousand (2019: EUR 23,639 thousand), which are eliminated at the Mercator Group level.

Consolidated and separate statement of other comprehensive income

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	Note	2020	2019	2020	2019
Net profit/loss for the year		**(156,710)**	**4,666**	**(55,420)**	**(13,807)**
Other comprehensive income / (loss):					
Items that subsequently can not be reclassified to profit or loss		**15,202**	**9,207**	**18,975**	**3,811**
Change in fair value of PPE and right of use assets	15	14,733	3,899	20,701	(1,468)
Change in fair value of financial assets	20	59	555	67	507
Remeasurements of post-employment benefit obligations		(341)	(279)	(60)	(144)
Deferred tax	21	(426)	5,033	(1,893)	4,915
Other changes		1,177	—	162	—
Items that may be reclassified subsequently to profit or loss		**(7,405)**	**(848)**	**—**	**—**
Foreign currency translation differences		(7,405)	(848)	—	—
Total other comprehensive income/(loss) for the year		**7,797**	**8,359**	**18,975**	**3,811**
Total comprehensive income/(loss) for the year		**(148,913)**	**13,025**	**(36,445)**	**(9,996)**
Total comprehensive income / (loss) for the year attributable to:					
Owners of the company		(148,744)	13,513		
Non-controlling interests		(170)	(488)		

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Consolidated statement of changes in equity

	Mercator Group													
				Reserves						Retained earnings				
in EUR 000	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profi or loss	Net profit or loss for the period	Equity attribute. to the control. company owners	Non-control. interests	Total equity
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**21,296**	**1,597**	**425,800**	**149**	**425,949**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	—	4,645	4,645	21	4,666
Other comprehensive income for the year		—	—	—	—	—	—	5,278	(339)	3,929	—	8,868	(509)	8,359
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**5,278**	**(339)**	**3,929**	**4,645**	**13,513**	**(488)**	**13,025**
Disposal of land and buildings carried at fair value		—	—	—	—	—	—	(20,110)	—	20,110	—	—	—	—
Transactions with owners directly recognized in equity														
Contributions by and distributions to owners														
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	—	1,597	(1,597)	—	—	—
Creation of reserves pursuant to the Management Board decision		—	—	—	—	1,305	(1,305)	—	—	—	—	—	—	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	(3,811)	—	2,257	—	—	1,554	—	—	—	—
Total transactions with owners		**—**	**—**	**—**	**(3,811)**	**1,305**	**953**	**—**	**—**	**3,151**	**(1,597)**	**—**	**—**	**—**
Balance as at December 31, 2019		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**

	Mercator Group													
				Reserves						Retained earnings				
in EUR 000	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Currency translation reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribute. to the control. company owners	Non-control. interests	Total equity
As at January 1, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**
Other changes		—	—	—	—	—	—	—	—	(740)	—	(740)	740	—
As at January 1, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**47,746**	**4,645**	**438,574**	**401**	**438,974**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	—	(156,710)	(156,710)	—	(156,710)
Other comprehensive loss for the year		—	—	—	—	—	(21)	5,649	(7,160)	9,349	150	7,966	(170)	7,797
Total comprehensive loss for the year		**—**	**—**	**—**	**—**	**—**	**(21)**	**5,649**	**(7,160)**	**9,349**	**(156,560)**	**(148,744)**	**(170)**	**(148,913)**
Transactions with owners directly recognized in equity														
Contributions by and distributions to owners														
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	—	4,645	(4,645)	—	—	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	—	—	—	—	—	1,984	—	1,984	—	1,984
Total transactions with owners		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**6,630**	**(4,645)**	**1,984**	**—**	**1,984**
Balance as at December 31, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,969**	**186,215**	**(90,971)**	**63,725**	**(156,560)**	**291,814**	**231**	**292,046**

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Separate statement of changes in equity

	Poslovni sistem Mercator d.d.										
				Reserves					Retained earnings		
in EUR 000	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	Total equity
As at January 1, 2019		**254,175**	**(3,235)**	**3,235**	**6,381**	**13,389**	**—**	**143,971**	**5,101**	**(10,882)**	**412,136**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	(13,807)	(13,807)
Other comprehensive income for the year		—	—	—	—	—	—	5,262	(1,451)	—	3,811
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**5,262**	**(1,451)**	**(13,807)**	**(9,996)**
Disposal of land and buildings carried at fair value		—	—	—	—	—	—	(25,736)	25,736	—	—
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	(10,882)	10,882	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	(3,811)	—	—	—	3,811	—	—
Total transactions with owners		**—**	**—**	**—**	**(3,811)**	**—**	**—**	**—**	**(7,071)**	**10,882**	**—**
Balance as at December 31, 2019		**254,175**	**(3,235)**	**3,235**	**2,571**	**13,389**	**—**	**123,498**	**22,315**	**(13,807)**	**402,141**

Identified accumulated loss of the company Poslovni sistem Mercator d.d. for 2019 is presented in Note 26 Equity.

	Poslovni sistem Mercator d.d.										
				Reserves					**Retained earnings**		
in EUR 000	Note	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserves	Retained net profit or loss	Net profit or loss for the period	Total equity
As at January 1, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**13,389**	**—**	**123,498**	**22,315**	**(13,807)**	**402,141**
Net profit/(loss) for the year		—	—	—	—	—	—	—	—	(55,420)	(55,420)
Other comprehensive income for the year		—	—	—	—	—	—	11,174	7,801	—	18,975
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**—**	**11,174**	**7,801**	**(55,420)**	**(36,445)**
Transactions with owners directly recognized in equity											
Contributions by and distributions to owners											
Transfer of net profit or loss for the previous year to retained earnings		—	—	—	—	—	—	—	(13,807)	13,807	—
Coverage of losses pursuant to the Management Board decision	26	—	—	—	—	—	—	—	—	—	—
Total transactions with owners		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(13,807)**	**13,807**	**—**
Balance as at December 31, 2020		**254,175**	**(3,235)**	**3,235**	**2,571**	**13,389**	**—**	**134,672**	**16,310**	**(55,420)**	**365,696**

Proposal for coverage of accumulated loss of the company Poslovni sistem Mercator d.d. for 2020 is presented in Note 26 Equity.

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Consolidated and separate cash flow statement

		Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Note	2020	2019	2020	2019
Cash flows from operating activities					
Net profit/loss for the year		**(156,710)**	**4,666**	**(55,420)**	**(13,807)**
Adjustments for non-cash items:					
Tax	21	(2,146)	6,314	100	5,983
Depreciation and amortization	15, 17	109,560	111,235	43,938	39,461
Revaluation of own use PP&E	15,16	(2,648)	(12,359)	(30)	(103)
Impairment of own use PP&E	14	71,927	4,674	16,357	—
Impairment of investment property	18	74,691	—	1,072	—
Revaluation of investment property	18	(3,251)	—	(71)	—
Gains on disposal of property, plant and equipment	11	(3,640)	(2,704)	(1,821)	(2,072)
Write-off and losses of property, plant and equipment	15	354	2,549	337	2,265
Dividends received, gains on disposal of other financial assets	14	—	(415)	—	(729)
Write-offs from revaluation of financial investments, impairment of investment in subsidiaries	14	5	50	34,965	23,671
Net other financial income (expenses)	14	1,435	3,605	1,292	1,400
Impairment with expected credit loss model and other financial assets recognised		3,932	685	901	1,016
Impairment of inventories		2,585	7,650	(2,055)	(1,350)
Change in provisions and other changes		(906)	(6,467)	866	(4,898)
Net foreign exchange differences	14	2,126	(1,178)	(46)	8
Interest income	14	(1,235)	(1,357)	(1,703)	(1,107)
Interest expenses	14	48,303	47,780	22,198	21,632
Cash from operating activities before the change of working capital		**144,382**	**164,728**	**60,880**	**71,370**
Change in inventories		2,197	(16,176)	3,354	(6,442)
Change in trade and other receivables		26,724	(2,556)	8,538	(3,103)
Change in trade and other payables, and provisions		(12,413)	11,478	18,619	(2,245)
Tax paid		(4,814)	—	(3,643)	—
Cash from operating activities		**156,075**	**157,473**	**87,748**	**59,581**
Cash flows from investing activities					
Acquisition of property, plant and equipment, investment property and intangible assets	15, 17	(41,836)	(35,438)	(24,177)	(20,601)
Proceeds from disposal of property, plant and equipment, investment property and intangible assets		12,992	152,422	9,188	127,385
Interest received		1,235	—	1,703	—
Loans granted	24	5,233	—	(21,288)	(18,574)
Repayment of loans granted	24	256	—	6,490	6,980
Cash from investing activities		**(22,120)**	**116,983**	**(28,084)**	**95,190**
Cash flow from financing activities					
Repayment of borrowings	16, 29	(125,970)	(473,548)	(50,336)	(308,973)
Proceeds from borrowings	28	107,214	320,884	44,986	186,865
Interest paid		(46,888)	(45,460)	(21,677)	(20,726)
Principal elements of lease payments		(64,134)	(45,759)	(14,811)	(7,096)
Cash from financing activities		(129,778)	(243,883)	(41,838)	(149,931)
Net increase/decrease in cash and cash equivalents		4,177	30,574	17,826	4,840
Cash and cash equivalents at beginning of the year	25	45,777	15,074	11,137	6,298
Effect of exchange rate fluctuations on cash and cash equivalents		(71)	130	—	—
Cash and cash equivalents at the end of the year		**49,884**	**45,777**	**28,964**	**11,137**

The accompanying notes are an integral part of consolidated and separate financial statements of the company Poslovni sistem Mercator d.d. and should be read in conjunction with them.

Notes to consolidated and separate financial statements

1. Reporting company

Poslovni sistem Mercator d.d. is a company headquartered in Slovenia. The address of its registered head office is Ljubljana, Dunajska cesta 107. The company Poslovni sistem Mercator d.d. is the controlling company of a group of companies in Slovenia, Serbia, Croatia, Bosnia and Herzegovina, Montenegro and North Macedonia. The role of the company is two-fold: its activities mainly comprise trading activities and various corporate governance tasks for the companies in the Mercator Group. The consolidated financial statements of the Mercator Group as at and for year ended December 31, 2020 comprise the company Poslovni sistem Mercator d.d. and its subsidiaries. The company Poslovni sistem Mercator d.d. is a subsidiary of the company Agrokor d.d., Marijana Čavića 1, Zagreb, Croatia, but Agrokor d.d. does not prepare consolidated accounts. Neither direct parent nor ultimate controlling party are preparing consolidated financial statements. As of April 10, 2017, the ultimate controlling party of Agrokor d.d. is defined in the Act on the Extraordinary Administration Procedure in Companies of Systemic Importance for the Republic of Croatia. Mercator Group's core and predominant activity is retail and wholesale of fast-moving consumer goods and home products.

2. Basis for preparation

a) Statement of compliance

Consolidated financial statements of the Mercator Group and separate financial statements of the company Poslovni sistem Mercator d.d. have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and in compliance with the provisions of the Slovenian Companies Act.

The management of the company approved the financial statements on April 23, 2021.

b) Basis of measurement

Consolidated financial statements of the Mercator Group and separate financial statements of the company Poslovni sistem Mercator d.d. have been prepared on the historical cost basis, except for the items below measured at fair value:
- buildings;
- land;
- investment property;
- financial assets (Note 20).

Methods used for fair value measurement are described in Note 6.

c) Functional and presentation currency

The consolidated financial statements of the Mercator Group and the financial statements of the company Poslovni sistem Mercator d.d. attached herewith are presented in EUR, i.e. in the functional currency of the company Poslovni sistem Mercator, d.d. All financial information figures presented in EUR are rounded to one thousand units.

d) Use of estimates and judgements

Preparation of financial statements in compliance with IFRS as adopted by the EU requires the company management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revision of accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by revision.

Information on significant estimates assessments regarding uncertainty and critical judgments, which were prepared by the management in the process of accounting policies execution and which affect the amounts in the financial statement the most, is given below.

i. Property, plant and equipment

The Mercator Group and the company Poslovni sistem Mercator d.d. measure land and buildings using the revaluation model and equipment using the cost model as described in Note 3(f)(i) and 6(a). The estimated useful life of property, plant and equipment is disclosed in Note 3(f)(iv).

Certain items of property, plant and equipment (real estate) are held partially for rentals and partially for own business and/or administrative purposes. As per IAS 40 paragraph 10, if the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

IFRS does not provide any guidance as to what constitutes an *insignificant* portion for this purpose, therefore the classification requires management judgement in each individual case, taking into consideration the economic nature of the real estate item and relevant legislation to assess whether property item can be disaggregated in smaller portions for sale or not. In practice, the real estate objects cannot be sold separately, because Mercator centers are held partially for rentals and partially for own business. Retail centers (interior of the center, common areas, exterior surfaces) are designed and built in the manner of one owner, and the sale of individual parts would change the purpose and would result in loss of control over the management of the center.

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for the use in the normal course of business or for administrative purposes, it is accounted for as investment property only if an insignificant portion is held for use in the the regular course of business or for administrative purposes. The two parts are accounted separately if they could be sold or leased out under finance lease separately.

Where items of properties are held for more then one purpose, items of real estate are used for both: rentals and own normal course of business, the properties are not separable and can not be sold or leased out in pieces in accordance with local legislative requirements and nature of the business and real estate items (commercial properties, shopping centers). In addition, given the nature of the business, the contribution of own business operations to the total operating results generated by the properties is not insignificant and therefore the whole item of real estate used for both own business and rentals is classified as property, plant and equipment. More details about policies and effects are provided in Note 3 h).

Out of total amount EUR 708,726 thousand related to land and buildings classified as property, plant and equipment as at December 31, 2020, EUR 589 million relates to properties that are used for both rentals and own business, within that amount fair value of portions leased out as of December 31, 2020 is EUR 205,992 thousand (2019: EUR 151,077 thousand).

ii. Investment property

The Mercator Group and the company Poslovni sistem Mercator d.d. measure investment property using the fair value model, as described in Note 6(a).

iii. Business model assessment

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest (SPPI) test and the business model test. The Mercator Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Mercator Group and the company Poslovni sistem Mercator d.d. perform continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

iv. Expected credit losses

The Mercator Group and the company Poslovni sistem Mercator d.d. apply simplified model to expected credit losses ('ECL') measurement and determines the lifetime ECL at initial recognition of trade and lease receivables and throughout their lifetime. ECL measured is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. The estimate is based on circumstances and situation that existed at the end of each reporting period.

Details about the group's policies are provided in Note 3 c) i) Financial assets.

v. Impairment of investments in subsidiaries

The company Poslovni sistem Mercator d.d. performs impairment test of its investments in subsidiaries in acordance with IAS 36 Impairment of assets requirements. Recoverable amount of investments in subsidiaries, is most sensitive to the achievement of the 2021-2025 budget. Budget comprises forecasts of EBITDA based on current and anticipated market conditions that have been considered and approved by the board. The estimate is based on circumstances and situation that existed at the end of each reporting period.

Major assumptions and sensitivity in respect of recoverable amount is provided in Note 19.

vi. Inventories

Carrying value of inventories is determined as lower of cost and net realizable value. Net realizable value is the net amount that an entity expects to realize from the sale of inventories in the ordinary course of business and is assessed taking into consideration current and expected market conditions, economic environment qualitative characteristics and other factors. No material write down of value of inventory to net realizable value have occurred during the periods presented in current financial statements.

Inventory realizable value allowance is determined on the basis as difference between the cost and expected net realizable value of aging stock. Value of the allowance recognized during the periods presented in the financial statements is disclosed in the Notes 12 and 22.

vii. Provisions

Carrying amount of provisions for legal claims settlement is measured as the present value of the future expenditures expected to be incurred upon settlement of these obligations. Due to the associated uncertainty, it is possible that estimates may need to be revised during the following periods as legal case might evolve, changing the expected settlement date and amount. The best estimate of timing and amount of settlement is provided by legal experts and approved by management of the company Poslovni sistem Mercator d.d. Whilst a range of outcomes is possible, the Mercator Group and the management of the company Poslovni sistem Mercator d.d. doesn't expect any significant changes in the amount of the provision recognized as disclosed in Note 29.

Provisions for employees benefits and long-service awards refer to estimated payments of termination and long term post employment benefits as a result of long service, as at the balance sheet date, discounted to present value. They are recognized on the basis of actuarial calculation which is approved by the company's Management Board. Actuarial calculation is based on the assumptions and estimates applicable at the time of the calculation, which may differ in the future from the actual assumptions at the time due to changes. This refers mostly to determining discount rate and estimating staff turnover, mortality and salary growth. Due to the actuarial calculation complexity and long-term nature of its inputs, the liabilities for post-employment benefits are susceptible to changes in the mentioned estimates.

viii. Deferred taxes

Deferred taxes are calculated based on temporary differences applying the balance sheet liability method, using the enacted or substantively enacted tax rate applicable in the next financial period. If the tax rate changes, deferred tax assets and liabilities will change accordingly.

The companies of Mercator Group recognize deferred tax assets for the carry forward of unused tax losses and unused tax credits only in cases when it is likely that future taxable income will be available against which the unused tax losses and unused tax credits can be charged. The basis for estimate is the medium-term business plan of the Mercator Group and the company Poslovni sistem Mercator d.d..

ix. Leases

Mercator Group addressed key judgements regarding to amount of right of use assets and lease liabilities, including the assessment of how reasonably certain it is considered to be that a lease option (extension, termination or purchase) will be exercised, and the determination of an appropriate discount rate used to present value the lease liability and to initially measure the right of use asset. With regards to these, the Mercator Group has determined that the lease term will correspond to the duration of the contracts except in cases where the Mercator Group is reasonably certain that it will exercise contractual extension or break options. The discount rate applied is the incremental borrowing rate.

x. Going concern

The terms of our principal financial debt agreements comprise several provisions directly linked to Agrokor Group. These comprise (i) cross-default, (ii) change of control and (iii) material adverse effect provisions.

(i) Cross default: To proactively address the potential triggering of the cross default resulting from the opening of Agrokor's restructuring proceedings in Spring 2017; we already obtained (in Spring 2017) a waiver from the necessary majority of lenders. The waiver was valid during the existence of financial documentation with the lenders with no expiration date. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, above mentioned financial documentation was refinanced with new Fortenova debt facilities in the amount of EUR 480 million, and the transfer from Agrokor to new owner Fortenova has been concluded the same day, so a waiver on cross default is not relevant anymore.

(ii) Change of control: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. As of April 23, 2021 the Change of control topic is not relevant anymore for WGD, as it was resolved through refinancing of existing debt on April 23, 2021. The change of control clause for the remaining debt related to SSF was amended in March 2021, when the amendments to the SSF agreement were signed, where moving the control to Fortenova was now allowed.

(iii) Material adverse effect: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. Indeed, if anything, the three years since the commencement of Agrokor's restructuring have consistently demonstrated the ability of Mercator Group to survive and thrive independently of circumstances affecting the Agrokor Group. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, Mercator is not anymore related to Agrokor group.

In assessment of the risk of default clause discussed above Mercator has considered the following factors:

- Mercator is and remains, both for cashflow and EBITDA, one of the most significant entities within the Agrokor/ Fortenova Group. Poslovni sistem Mercator d.d has the clear working assumption that stakeholders in both Agrokor/ Fortenova Group and Mercator Group are highly incentivized to avoid a situation that requires immediate and full prepayment of the main debt facilities of Mercator Group as this will be immediately value destructive for all stakeholders.
- The Change of Control issue related to Wider Group Deal has been successfully solved through refinancing as of April 23, 2021.

As explained in Note 28 (Borrowings and lease liabilities), as at December 31, 2020, the Group had amounts due under the Wider Group Deal ("WGD") and Super Senior Loan ("SSFA") falling due in June 2021 or earlier, amounting to EUR 427,079 thousand.

On April 16, 2021, the wider refinancing was signed, whereunder the Company entered into debt facilities with Fortenova grupa d.d. ("FNG") in the total amount of EUR 480 million (the "FNG Facility").

On April 23, 2021, EUR 385 million (out of EUR 480 million of the total facility available) was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes. Out of total debt that was falling due on June 2021 of EUR 427,079 thousand, as explained above, EUR 326,696 thousand was refinanced on April 23, 2021, while the remaining EUR 100,000 thousand (EUR 80,000 thousand of existing upsized for additional 20,000 thousand at closing of WGD refinancing) related to the SSFA remains open, and is due in September 2021 based on the rescheduling agreement dated March 25, 2021. The remaining limit of EUR 95 million under the FNG Facility is available, if needed, to refinance that SSFA at maturity later this year. It is anticipated that certain real estate disposals will also be applied towards prepayment of the SSFA, mitigating the need to draw on this facility.

The FNG Facility has a 5-year bullet maturity and does not contain any financial covenants on the Company, with defaults limited to non-payment and Mercator group insolvency events. The FNG Facility is guaranteed by the Company and the following of its subsidiaries: Mercator–H d.o.o., Mercator–BH d.o.o., Mercator–CG d.o.o., Mercator IP d.o.o., Mercator-Emba d.d. and M - Energija d.o.o. (the "guarantors"). The FNG Facility will be secured on asset collateral over all material assets of the Company and the guarantors (properties, intra-group loan receivables, bank accounts, bills of exchange, intellectual property). Where appropriate, such collateral will rank behind the collateral granted to the SSFA.

In order to pre-fund the FNG Facility, FNG increased its existing bond facility with HPS Partners and VTB Bank (the "Noteholders") by EUR 380 million (as a new "Tranche C"). The Tranche C notes are secured, amongst other means, by the same Company's and the guarantors' assets as provided for the FNG Facility, as explained above. Importantly to note, there is a cap on recourse against the Company and the guarantors (other than for their own default, gross negligence or fraud) such that aggregate recourse to the Company and the guarantors under the FNG notes shall not exceed the amounts recoverable under the FNG Facility.

The Tranche C notes fall due on January 15, 2022, and prescribe certain financial covenants for which quarterly and annually FNG would need to provide compliance certificates to the Noteholders. Failure to comply with such debt covenants represents an event of default. FNG's cash flow plans assume settling the debt under the Tranche C notes with proceeds from the recently announced sale of its frozen food business group ("FFBG") to Nomad Foods Limited. This is already expected to happen in September 2021, well ahead of the Tranche C maturity. As explained in the Note 31 below, FNG and Nomad Foods Limited have signed an SPA on March 29, 2021 for the FFBG, consisting of Ledo plus d.o.o., Ledo d.o.o. Čitluk, and Frikom d.o.o., alongside several smaller affiliated companies. The value of the transaction is EUR 615 million, with completion planned for Q3 2021. The closing of transaction is subject to merger control approval in six jurisdictions (Austria, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) and foreign direct investment ("FDI") approval in two jurisdictions (Hungary and Slovenia) (collectively, the "Regulatory Approvals"). On current timing, it is anticipated that the last of the Regulatory Approvals will have been obtained by early-to-mid July 2021 (on an optimistic basis) or early-to-mid September 2021 (on a more conservative basis) given the clear statutory deadlines and processes involved. Regulatory approvals are focused on the assessment of market concentration, and, as there is no material overlap of market share or trading in any of the Regulatory Approval jurisdictions, management believes the risk of not obtaining regulatory approvals, and thus completing the sale, is remote.

Based on the facts and circumstances known at this moment, including the planned completion of the sale of the FFBG and agreed use of received funds, management expects that FNG will be able to meet its obligations under the Tranche C notes, including compliance with financial covenants linked to this debt, and that there will be no need for the Noteholders to collect their receivables through Mercator Group's pledged assets. Management has thus determined that the use of the going concern assumption is fully appropriate in respect of the preparation of the consolidated and separate financial statements for the year ended December 31, 2020. However, considering that the sale of FFBG is not "business as usual" transaction, and that its completion requires a third party approval (Regulatory Approvals), the uncertainty behind the Regulatory Approvals and realization of this transaction represents a material uncertainty that may cast a significant doubt upon the Group's and the Company's ability to continue as a going concern.

3. Significant accounting policies

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company Poslovni sistem Mercator d.d. and entities controlled by the company Poslovni sistem Mercator d.d. (its subsidiaries) made up to 31 December each year. Control is achieved when the company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The company reassesses whether or not it controls an invested if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the company obtains control over the subsidiary and ceases when the company loses control of the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with the Mercator Group's accounting policies.

All intergroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Mercator Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Mercator Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Profit or loss and each component of other comprehensive income are attributed to the owners of the company and to the non-controlling interests.

i. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Mercator Group, liabilities incurred by the Mercator Group to the former owners of the acquiree and the equity interest issued by the Mercator Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Mercator Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The excess of the:
i. consideration transferred,
ii. amount of any non-controlling interest in the acquired entity, and
iii. acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Consideration transferred does not include amounts of settlements regarding pre-existing relations. These amounts are normally recognized in the income statement. Acquisition costs, except for costs related to issue of equity or debt instruments related to the business combination, are recognized in the income statement as incurred.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Mercator Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

ii. Acquisition of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions of shareholders who operate as owners; therefore, goodwill is not recognized. Changes in non-controlling interest arising from transactions that do not include loss of control are based on proportionate share of net assets of the subsidiary or on fair value of the non-controlling interest. If the purchase price for acquisition of non-controlling interest differs from their carrying amount, the difference is recognized in equity.

iii. Loss of control

After loss of control, Mercator Group derecognizes assets and liabilities of the subsidiary, non-controlling interest, and derecognizes other components of equity that pertain to the subsidiary. Any surplus or deficit resulting from loss of control is recognized in the income statement. If the Mercator Group retains a share in the previously controlled subsidiary, such share is valued at fair value as at the day of loss of control and the difference is recognized in the income statement. Subsequently, such share is recognized in statement of financial position as investment in an associate (at equity method) or as other financial asset, depending on the extent of retained influence.

b) Foreign currency

i. Foreign currency transactions

Transactions expressed in a foreign currency are translated into the relevant functional currency of the Mercator Group companies at the exchange rate applicable on the date of transaction. Monetary assets and liabilities denominated in a foreign currency as at the balance sheet date are converted into functional currency at the exchange rate applicable at the date. Positive or negative foreign exchange differences are differences between amortized cost in the functional currency at the beginning of the period, which is adjusted by the amount of effective interest and payments during the period, as well as amortized cost in foreign currency converted at the exchange rate at the end of the period. Non-monetary assets and liabilities expressed in a foreign currency and measured at fair value are converted into the functional currency at the exchange rate on the date when the amount of fair value is determined. Currency translation differences are recognized in the income statement, except for differences arising on recalculation of equity instruments classified as investments in financial assets (except for the case of impairment when all currency translation differences recognized in other comprehensive income are reclassified to the income statement), for non-financial liabilities designated as hedges (if such hedges are effective), or for cash flow hedges (if such hedges are effective), which are recognized directly in equity.

ii. Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates effective as at the balance sheet date. Revenue and expenses of foreign operations are translated to euro at average exchange rates in the period.

Foreign exchange differences arising from translation are recognized directly in other comprehensive income and are recognized in translation reserve within equity. From the day of transition to the IFRS, these changes are recognized in the translation reserve. Upon a partial or full disposal of a foreign operation, the relevant amount in the foreign currency translation reserve (FCTR) is transferred to the income statement.

In case of a subsidiary that is not fully owned, a pro rata share of currency translation reserve is allocated to non-controlling interest. When a company abroad (foreign operation) is disposed of in a way that it is no longer controlled and that significant influence or joint control no longer exists, corresponding accrued amount in the currency translation reserve is transferred to profit or loss, or re-classified as revenue or expense resulting from disposal. If the Mercator Group only disposes of a part of its stake in a subsidiary that includes a foreign company, and still maintains control, the appropriate pro rata share of accumulated amount is reclassified to non-controlling interest.

c) Financial instruments

Financial assets and financial liabilities are recognized in consolidated and separate statement of financial position when Poslovni sisem Mercator d.d. or any of its subsidiaries become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and liabilities are offset and the net amount is disclosed in the balance sheet if and only if the Mercator Group and the company Poslovni sistem Mercator d.d. have legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

i. Financial assets

Regular way purchases and sales of financial assets are recognized on trade date, being the date on which the Mercator Group and the company Poslovni sistem Mercator d.d. commit to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Debt instruments

Debt instruments comprise of trade and other accounts receivable, loans given, long term lease deposits and other relevant financial assets. All debt instrument type financial assets are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within one year term and therefore all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

Equity instruments

The Mercator Group subsequently measures all equity investments at fair value. Where the group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Mercator Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment of financial assets at cost

Mercator Group and the company Poslovni sistem Mercator d.d. apply simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables, loans and contract assets have been grouped based on shared credit risk characteristics and the days past due. Mercator Group and the company Poslovni sistem Mercator d.d. have defined categories of risk related to recoverability of receivables with regard to the type of collateral used to secure receivables, and classified the credit loss allowance of receivables also regarding the maturity. In this manner, 6 risk categories are defined: bank guarantee, mortgage, bill of exchange, enforcement draft, the Agrokor Group and other, as well as 3 categories of maturity: 0-30 days overdue, 31-90 days overdue, more than 90 days overdue.

The expected loss rates are based on the payment profiles of customers over a period of 36 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The impact of forward looking macroeconomic data on the estimated lifetime expected credit losses was considered immaterial given positive economic outlook in the upcoming periods.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery.

Subsequent recoveries of amounts previously written off are credited against the same line item.

ii. Financial liabilities

Initially, the Mercator Group and the company Poslovni sistem Mercator d.d. recognize issued debt securities and subordinated debt as at the date of their occurrence. All other financial liabilities are initially recognized on the trade date when the Mercator Group and the company Poslovni sistem Mercator d.d. become contractual parties in relation to the instrument.

The Mercator Group and the company Poslovni sistem Mercator d.d. derecognize financial liabilities in case the obligations stipulated in the contract have been fulfilled, annulled or time-barred.

The Mercator Group and the company Poslovni sistem Mercator d.d. classify non-derivative financial instruments as other financial liabilities carried at amortized cost. Such financial liabilities are initially recognized at fair value increased by the transaction costs that are directly attributable and incremental to the origination or issue of debt. Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and trade and other payables.

d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, cash in transit (daily proceeds of retail units) and demand deposit with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, potential credit loss is considered immaterial.

e) Share capital

Ordinary shares

Ordinary shares are an integral part of share capital. Transaction costs directly attributable and incremental to issuing of ordinary shares are recognized as a decrease in equity, net of tax effects.

Repurchase of own shares (treasury shares)

When nominal capital recognized as equity is repurchased, the amount of consideration paid, which includes directly attributable and incremental transaction costs, net of any tax effects, is recognized as a change in equity. Repurchased shares are classified as own shares and are deducted from equity. When own shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to share premium.

f) Property, plant and equipment

i. Reporting and measurement

All items of property, plant and equipment, except for land and buildings, are measured using the cost model. They are carried at cost less accumulated depreciation and any accumulated impairment losses.

The cost includes costs that are directly attributable to the acquisition of assets. Borrowing cost regarding acquisition or construction of relevant property, plant, or equipment are capitalized if they are related to the acquisition of a major asset and if construction or preparation for use lasts over 6 months. In 2020, the Mercator Group and the company Poslovni sistem Mercator d.d. did not carry out any investments that would meet the described criteria. Costs of property, plant and equipment manufactured within the Mercator Group include costs of material, direct labour costs, and other costs that can be directly attributable to the asset's preparation for its intended use, costs of decomposition and removal of property, plant and equipment and reconstruction of the site where the item of assets was located, as well as capitalized borrowing costs.

Land and buildings are measured in the statement of financial position at their revalued amounts (details of relevant fair value measurement are disclosed in Note 6), being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses. If the carrying amount of the asset is increased due to revaluation, the increase is recognized in other comprehensive income and accumulated in equity as revaluation surplus. The increase is recognized in profit or loss (income statement), if it eliminates a revaluation decrease of the same asset, which was previously recognized in profit or loss. If the carrying amount of assets is decreased below its historical cost net book value as a result of revaluation, then the decrease is recognized in profit or loss. Decrease is charged directly to other comprehensive income and equity under the revaluation surplus item, up to the amount of credit in the revaluation surplus for the same asset. When an asset is disposed of the fair value reserve for such asset is transferred directly to retained earnings.

Depreciation on revalued buildings is recognized in profit or loss. Upon subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

ii. Subsequent costs

The cost of replacing a part of a piece of property, plant and equipment is recognized in the carrying amount of the asset if it is likely that future economic benefits relating to a part of that asset will flow to the Mercator Group and the company Poslovni sistem Mercator d.d. and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other costs (e.g. regular maintenance) are recognized in profit or loss as expenses, as soon as they are incurred.

iii. Depreciation

In the Mercator Group and the company Poslovni sistem Mercator d.d. fixed assets are depreciated by the straight-line depreciation method, using the depreciation rates that reflect estimated useful lives of different assets in each company of the Mercator Group. Useful life and residual value of property, plant and equipment is assessed annually by an internal committee of experts or external independent certified appraisers based on events that indicate the need for revaluation of a particular asset

Land is not subject to depreciation.

The estimated useful lives for current and comparable periods are as follows:

	2020	2019
Buildings	40 years	40 years
Equipment and other assets	2-18 years	2-18 years

g) Intangible assets

i. Goodwill

Goodwill generated upon acquisition of subsidiaries or business activities is recognized under intangible assets.

ii. Other intangible assets

Other intangible assets acquired by the Mercator Group and the company Poslovni sistem Mercator d.d. and with limited useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

iii. Subsequent costs

Subsequent costs in relation to intangible assets are capitalized only in cases when they increase future economic benefits arising from the asset to which the costs relate and its cost can be measured reliably. All other costs, including internally generated brands, are recognized in profit or loss as expenses as soon as they are incurred.

iv. Amortization

Amortization is calculated on a straight-line basis, taking into account useful lives of intangible assets. Amortization begins when an asset is available for use. The estimated useful lives for current and comparable periods are as follows:

	2020	2019
Brands/labels	unlimited	unlimited
Material right and licenses	10 years	10 years

The useful life of brands and labels can not be determined reliably as the period over which it is available for the entity and volume of relevant economic benefits produced are unlimited, but are impacted among other factors by future economic outlook. The indefinite useful life of brands was determined based on stability of demand related to the products covered by the brand and market share stability. Carrying value of brands and labels is tested for impairment annually.

h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services, or for administrative purposes.

In circumstances when property is held partly for capital appreciation and/or rentals, and partly for the use in the normal course of business or for administrative purposes, it is accounted for as investment property only if an insignificant portion is held for use in the the regular course of business or for administrative purposes. The two parts are accounted separately if they could be sold or leased out under finance lease separately.

Where items of properties are held for more than one purpose, items of real estate are used for both: rentals and own normal course of business, the properties are not separable and can not be sold or leased out in pieces in accordance with local legislative requirements and nature of the business and real estate items (commercial properties, shopping centers). In addition, given the nature of the business, the contribution of own business operations to the total operating results generated by the properties is not insignificant and therefore the whole item of real estate used for both own business and rentals is classified as property, plant and equipment.

Certain items of property, plant and equipment (real estate) are held partially for rentals and partially for own business and/or administrative purposes. The precise valuation of the full portfolio was not performed for the comparative period, so the Mercator Group just estimated the value based on the % of sq meters. The value using the proportionate share of total fair value resulted into value of 122 million for the Mercator Group and EUR 73 million for the company Poslovni sistem Mercator d.d. (for 2019 the value using this estimate would be EUR 151 million and EUR 80 million). However due to the significant changes in the markets, for 2020 the full valuation of all properties was performed, and the valuation was done to also assess fair values of portions leased-out, showing that those portions' fair value as at December 31, 2020 was EUR 206 million at the level of Mercator Group and EUR 130 million at the level of the company Poslovni sistem Mercator d.d.

As discussed above, the properties are not separable following the legislative requirements and nature of the business, therefore are classified as property, plant and equipment.

Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Fair value of investment property items is determined by independent certified appraiser in accordance with International Valuation Standard and IFRS as described in Note 6. The assessment of fair value requires significant judgements to determine the appropriate assumptions, including the market rental fees and specific benefits to be granted to lessors adjustments, depending on the type and location of specific property.

When the use of property changes so that it has to be reclassified under property, plant and equipment, the reclassification is carried out based on its fair value.

i) Investment in subsidiaries

In the financial statements, the company Poslovni sistem Mercator d.d. carries investments in subsidiaries at cost less impairment. Investments are tested annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries that suffered impairment in previous periods are reviewed for possible reversal of the impairment at each reporting date.

Subsidiaries are those investees that the company controls because it (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the company has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The company may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Company assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the company from controlling an investee.

j) Leases

Mercator Group and the company Poslovni sistem Mercator d.d. asses whether a contract is or contains a lease, at inception of the contract. Right-of-use asset and a corresponding lease liability are recognized with respect to all lease arrangements in which Mercator Group or/and the company Poslovni sistem Mercator d.d. are the lessees, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Mercator Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by lessee’s incremental borrowing rate. Incremental borrowing rate is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Mercator Group uses comparable third-party yield to maturity rates as a starting point, adjusted specifically to the lease term, country, currency and security.

Lease payments included in the measurement of the lease liability comprise of:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Right-of-use assets is initially measured at cost comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs, if assumed by lease contract or legislative requirements.

Subsequently, right-of-use land and building are measured at fair value, while vehicles and equipment are measured at cost model.

Lease payments to be made under reasonably certain extension options are included in the measurement of the lease liability.

The Mercator Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Mercator Group did not make any such adjustments during the periods presented.

The Mercator Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use related to the real estate, comprising land and buildings classes of underlying assets is subsequently measured applying revaluation model, similar to the property, plant and equipment accounting policy. Applicable methodology of fair-value measurement and frequency of revaluations is disclosed in Note 6 (a) Fair value of property, plant and equipment.

Right of use asset meeting the definition of investment property in accordance with IAS 40 is measured at fair value. The revaluation is performed as of each year-end reporting date using methodology as discussed in Note 6 (a). Any changes in the fair value of the relevant right-of-use are recognized in the profit or loss when occur.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If management is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

The Mercator Group and the company Poslovni sistem Mercator d.d. apply IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Note 3 (m) *Impairment of non-financial assets policy.*

If the fair value of proceeds from the sale of an asset is lower than its fair value, the difference is accounted for as an overpayment of future lease payments (Sale & Lease Back transaction). The overpaid amount is amortised over the lease term.

Lessor accounting

Leases for which the Mercator Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Mercator Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Mercator Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Mercator Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Mercator Group applies IFRS 15 to allocate the consideration under the contract to each component.

k) Assets classified as held for sale or disposal group

Assets held for sale or disposal group, which includes assets and liabilities expected to be recovered through sale, are classified as held for sale. Immediately before the reclassification as assets held for sale, these assets or disposal group are remeasured. Accordingly, a long-term asset or disposal group is recognized at the lower of carrying amount or fair value less costs to sell. Impairment loss upon reclassification of assets as held for sale and subsequent loss or gain upon remeasurement are recognized in profit or loss. Gains are not recognized in excess of the cumulative impairment loss. When intangible assets and property, plant and equipment are reclassified under held for sale or distribution, they are no longer amortized/depreciated.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of purchased inventory are determined after deducting rebates and discounts and include handling and warehousing costs (only if the storage is necessary in the production process prior to a further production stage) directly attributable to the acquisition of the products, and the transport costs incurred in bringing the products to the location.

In 2019, methods of costs assignment to individual items of inventories are:

- FIFO method for merchandise,
- weighted average method for raw materials and packaging.

In 2020, Mercator Group and the company Poslovni sistem Mercator d.d. changed valuation of merchandise from FIFO to weighted average method.

Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The estimation of net realizable value of inventory is conducted at least once a year, upon the preparation of the annual financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d.

Write-offs and partial write-offs of damaged and obsolete inventories are regularly performed during the year on an item-by-item basis. As of year-end net realizable value allowance for aging inventories is estimated on the basis of previous years' experience.

m) Impairment of non-financial assets

As of each reporting date, the Mercator Group and the company Poslovni sistem Mercator d.d. review the residual carrying amount of their non-financial assets in order to establish the indication of impairment. If such indicators exist, the recoverable amount of the asset is estimated. Impairment of goodwill and intangible assets that have indefinite useful lives or are not yet available for use is estimated on each reporting date. Impairment of a cash-generating unit is recognized when its carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of (a) value in use or(b) fair value less costs of disposal. When determining the value in use of an asset, the expected future cash flows are discounted to their present value by using the discount rate before tax that reflects market assessments of the time value of money and risks typical to the asset. For the purpose of impairment test, the assets that cannot be individually tested are classified in the smallest possible group of assets that generate cash flows from further use and are mostly independent from cash inflows from other assets and groups of assets (cash-generating unit). For the purpose of goodwill impairment test, the cash-generating units (CGUs) that goodwill is allocated to, are subject to a separate testing at operating segment level (i.e. segment level test); CGUs to which goodwill has been allocated are aggregated, so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes and which are not larger than an operating segment. Goodwill acquired in a business combination is allocated to cash-generating units or groups of units that are expected to benefit from synergies of the combination.

The corporate assets of the Mercator Group and the company Poslovni sistem Mercator d.d. do not generate separate cash inflows and are used by more than one CGU. The corporate assets of the Mercator Group and the company Poslovni sistem Mercator d.d. are reasonably and consistently allocated to individual CGUs. Their impairment is tested within the scope of testing for impairment of those CGUs to which a relevant asset is allocated.

Impairment is recognized in the income statement. Impairment loss recognized in respect of cash-generating units is allocated first to reduce the carrying amount of the goodwill allocated to the unit (or group of units), and then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit.

Impairment loss in respect of goodwill is subsequently not reversed. In relation to other assets, the Mercator Group and the company Poslovni sistem Mercator d.d. evaluate impairment losses of the previous periods, at the end of reporting period, and establish whether the loss has decreased or no longer exists. Loss due to impairment is reversed in case there has been a change in estimates, on the basis of which the Mercator Group and the company Poslovni sistem Mercator d.d. calculate the recoverable amount of the asset. The impairment loss is reversed so that the carrying amount does not exceed the carrying amount that would have been determined net of accumulated depreciation had no impairment loss been recognized for the asset in prior periods.

n) Employee benefits

i. Long-term employee benefit and post-employment obligations

Long-term employee benefits comprise provisions for jubilee awards, post employment benefits and termination benefits upon termination of employment.

Mercator Group and the company Poslovni sistem Mercator d.d. recognizes provisions for long-term employee benefits arising from corporate and collective agreements and relevant legislation requirements.

Long term employee benefits provisions are determined by independent certified actuary expert and are calculated using the projected unit credit method, that is the method of accounting for benefits in proportion to the work performed since the employment at the company until the anticipated payment of jubilee award or post employment benefit. Provisions are formed in the amount of present value of employee service benefits attributable to current and past periods.

In accordance with IAS 19 Employee benefits the actuarial assumptions are taken into account in the calculation, since benefits are contingent upon the employee's future employment in the company, namely:

- Demographic assumptions: mortality, fluctuation and estimated retirement date
- Financial assumptions:
  - the growth of average salaries in each country, the growth of employees' salaries, the growth of fixed amounts and non-taxed amounts of awards,
  - discount rates.

Relevant current and past service costs and interest expense are recognized in the profit or loss when incurred.

In accordance with IAS 19, jubilee awards are classified as other long-term employee benefits, therefore the actuarial remeasurements are recognized in the income statement, while post employment benefits are recognized in other comprehensive income.

The company Poslovni sistem Mercator d.d. and Mercator Group recognize a liability and an expense benefits upon termination of employment, that are classified under IAS 19 as termination benefits, at the earlier of the following dates: when the company or a Group can no longer withdraw an offer of those benefits, according to IAS 19.166 and 167 and when the company or a Group recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

ii. Short-term employee benefits

Short-term employee benefits comprise provisions for unused days of paid leave, obligations for already earned salaries and social security contributions, that are expected to be settled wholly before twelve months after December 31.

Provisions for accumulated unused days of paid leave are calculated as the amount of gross gross salary for the period of unused leave outstanding as of reporting date. Due to short term nature, the provision is recognized without discounting effect. Changes in provisions for unused days of paid leave are recognized as operating expenses in the income statement.

o) Provisions

A provision is recognized when the Mercator Group and the company Poslovni sistem Mercator d.d. have legal or constructive obligations as a result of a past event that may be reliably measured and when it is probable that an outflow of economic benefits will be required to settle the liability. The Mercator Group and the company Poslovni sistem Mercator d.d. determine provisions by discounting the expected future cash flows at a pre-tax discount rate reflecting the existing estimates of the time value of cash and, if needed, the risks specific to a liability.

p) Revenue

i. Revenue from sales of goods, products and materials

Revenue is measured on the basis of payment, to which the Mercator Group expects to be entitled to pursuant to the contract with the buyer. The amounts received on behalf of third parties are excluded from revenue.

Revenue from sales of goods, products and material is recognized at fair value of the consideration received or receivable, decreased by refunds or rebates for further sales and volume discounts. Revenue is recognized when control over the assets has been transferred to the buyer, when consideration is probable to be collected, the associated costs and sales returns of goods, products and material can be reliably estimated, and when any variable consideration is highly probable not to be reversed.

Transfer of control over the goods as indicated by transfer of risks and rewards depends on assessment of provisions of the purchase contract. In case of wholesale, transfer is usually carried out when the goods have been delivered to the buyer's warehouse.

ii. Customer loyalty program

The Mercator Group and the company Poslovni sistem Mercator d.d. issue credit and debit cards Pika to its customers for collecting bonus points at purchases. Bonus periods last six months. The first annual bonus period lasts from February 1 to July 31, the second bonus period from August 1 to January 31 of the following year.

During the bonus period, customers collect bonus points. Depending on the amount of purchases and consequently the number of collected points, they can earn from 5 EUR (for 250 collected points) to 210 EUR (for 3,500 collected points). During the year, the company Poslovni sistem Mercator d.d. allocates potential discounts on the basis of collected points, whereas revenue from unrealized bonus points is allocated based on the experience from previous bonus periods. Despite the fact that the second bonus period ends on 31 January of the following year, the company Poslovni sistem Mercator d.d. in this way ensures that recorded revenues match expenditures that were necessary for their realization.

iii. Revenue from services rendered

Revenue from services are continuously recognized through the period, in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Discounts or rebates and commercial cooperation fees are recognized as deduction from cost of goods sold and production costs of products sold, are a result of contractual obligations taken over by the companies of the Mercator Group from their suppliers by signing a contract. These contracts, which differ among separate suppliers, include discounts or rebates calculated on the basis of scope of actual purchase of goods, and the discounts or rebates for commercial cooperation invoiced to suppliers. Discounts or rebates are approved when particular success conditions are met. These success conditions in general require the Mercator Group to achieve certain amounts (thresholds or targeted quantities). Discounts or rebates pursuant to the contracts on commercial cooperation are recognized in the implementation period. They are recorded in accordance with conditions defined in contracts concluded with the Mercator Group suppliers, until their fulfillment.

iv. Rental income

Rental income is recognized in profit or loss on a straight-line basis over the lease term. Any related discounts and lease incentives are recognized as an integral part of total rental income.

Mercator Group and the company Poslovni sistem Mercator d.d. earn rental from investment properties and items of PP&E that are partially leased-out, as described in Note 2 d) i) and Note 3 h) above.

Rent concessions provided to tenants during the COVID lockdowns were insignificant at the level of Mercator Group. More details are disclosed in Note 31 Operating risk.

q) Government grants

Initially, all government grants are recognized as deferred revenue in the financial statements where reasonable assurance exists that the Mercator Group or the company Poslovni sistem Mercator d.d. will receive the grants and fulfil the conditions relating to them. Government grants for covering costs are recognized consistently as other income in the periods when the relevant costs they should cover are incurred. Government grants related to assets are disclosed in the income statement consistently, under other operating income during the useful life of an individual asset.

r) Finance income and expenses

Finance income comprises interest on investments, gains on revaluation of fair value of interest in an acquired company that the Mercator Group and the company Poslovni sistem Mercator d.d. had held in the acquired company before the acquisition, and gains on hedging instruments that are recognized in the income statement. Interest income is recognized using the effective interest method. Dividend income is recognized in the income statement as at the day when the shareholder's declare the dividend; for companies listed on the stock market, this is, as a rule, the day when the right to current dividend ceases to be related to the share.

Finance costs comprise costs of borrowings, unwinding of the discount on provisions, and dividend on preference shares reported in liabilities. Borrowing costs that are not directly attributable to acquisition, construction, or production of an asset, that takes an extended period to get ready for use, are recognized in the income statement using the effective interest method.

Gains and losses from translation of foreign currency monetary balances and transactions are recognized net as finance income or expenses.

s) Corporate income tax

Corporate income tax on profit or loss for the financial year comprises current and deferred tax. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or in other comprehensive income.

i. Current tax

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous reporting periods.

ii. Deferred tax

Deferred tax is recognized using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for the purpose of financial reporting and their tax bases. The following temporary differences are not considered:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit,
- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future,
- taxable temporary differences upon initial recognition of goodwill.

Deferred tax liabilities are recognized in the amount expected to be paid upon reversal of temporary differences, based on the laws that have been enacted or substantively enacted as at the reporting date.

Deferred tax assets are recognized to the extent it is probable that future taxable profit will be available against which a deductible temporary difference or a tax loss carry forward can be used in the future. Deferred tax assets are decreased by the amount for which it is no longer probable that tax benefit associated with the asset can be utilized in the future.

t) Earnings per share

The Mercator Group calculate basic earnings per share by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Since the Mercator Group does not have any dilutive potential ordinary shares (e.g. preference shares or convertible bonds), diluted earnings per share equal the basic earnings per share.

4. Comparative information

Adjustments and effects of changes of the consolidated and separate income statement for the year 2019 pertain exclusively to transfers between respective presentation lines, and they affect neither the result from operating activitiesnor profit or loss before tax for the period. Impact of these changes on the consolidated and separate financial statement for the year 2019 is presented below.

	Mercator Group			
		Adjustments		
in EUR 000	2019 before adjustment	Rental income	Revaluation gains/ losses of investment property	2019 after adjustment
Sales revenue	2,138,739	(47,708)	—	2,091,031
Rental income	—	47,708	—	47,708
Cost of sales	(2,036,545)	—	(2,810)	(2,039,355)
Revaluation gains / losses of investment property	—	—	5,835	5,835
Administrative expenses	(69,669)	—	—	(69,669)
Impairment of property, plant and equipment and intangible assets	(4,674)	—	4,674	—
Other operating income	31,564	—	(7,698)	23,866
Results from operating activities	**59,415**	—	—	**59,415**
Finance income	3,246	—	—	3,246
Finance costs	(51,681)	—	—	(51,681)
Net finance costs	(48,435)	—	—	(48,435)
Profit / (loss) before tax	**10,980**	—	—	**10,980**
Tax	(6,314)	—	—	(6,314)
Net profit / (loss) for the year	**4,666**	—	—	**4,666**

in EUR 000	Poslovni sistem Mercator d.d. 2019 before adjustment	Adjustments: Rental income	Adjustments: Revaluation gains/ losses of investment property	2019 after adjustment
Sales revenue	1,230,218	(14,926)	—	1,215,292
Rental income	—	14,926	—	14,926
Cost of sales	(1,172,652)	—	—	(1,172,652)
Revaluation gains / losses of investment property	—	—	—	—
Administrative expenses	(57,421)	—	—	(57,421)
Impairment of property, plant and investment properties	—	—	—	—
equipment and intangible assets	13,235	—	—	13,235
Results from operating activities	**13,380**	—	—	**13,380**
Finance income	2,142	—	—	2,142
Finance costs	(23,347)	—	—	(23,347)
Net finance costs	(21,204)	—	—	(21,204)
Profit / (loss) before tax	**(7,824)**	—	—	**(7,824)**
Tax	(5,983)	—	—	(5,983)
Net profit / (loss) for the year	**(13,807)**	—	—	**(13,807)**

There was a change in presentation of rental income, which is now presented in separate line, while the sales revenue was reduced in the same amount. There was also a change in presentation of impairment of property, plant and investment properties, which is now presented in two separate lines and dived to revaluation gain/losses of investment properties and all other revaluation losses under costs of sales. The Mercator Group and the company Poslovni sistem Mercator believe that such presentation provides information that is reliable and more relevant to users of the financial statements.

5. Adoption of new and revised International Financial Reporting Standards (IFRS)

Initial application of new amendments to the existing Standards and Interpretation effective for current reporting period

The following new standards, amendments to the existing standards and new interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU became effective for the current reporting period:

- **Amendments to the Conceptual Framework for Financial Reporting** (issued on March 29, 2018 and effective for annual periods beginning on or after January 1, 2020);
- **Amendments to IFRS 3: Definition of a business –** (issued on October 22, 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after January 1, 2020);
- **Amendments to IAS 1 and IAS 8: Definition of materiality** (issued on October 31, 2018 and effective for annual periods beginning on or after January 1, 2020);
- **Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform** (issued on September 26, 2019 and effective for annual periods beginning on or after January 1, 2020).

Standards and amendments to the existing standards issued by the IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following amendments to the existing standards issued by the IASB and endorsed by the EU were in issue but not yet effective:

- **Amendment to IFRS 16: COVID-19-Related Rent Concession** (issued on May 28, 2020 and effective for annual periods beginning on or after June 1, 2020;
- **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (issued on September 11, 2014 and effective for annual periods beginning on or after a date to be determined by the IASB);
- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest rate benchmark (IBOR) reform – phase 2** (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

New standards and amendments to the existing standards issued by the IASB but not yet endorsed by the EU

At present, IFRS as adopted by the EU do not significantly differ from IFRS as issued by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at April 26, 2021 (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 17: Insurance Contrac**t (issued on May 18, 2017 and effective for annual periods beginning on or after January 1, 2021);
- **Amendments to IAS 1: Classification of liabilities as current or non-current** (issued on January 23, 2020 and effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IAS 1: Classification of liabilities as current or non-current, deferral of effective date** (issued on July 15, 2020 and effective for annual periods beginning on or after January 1, 2023);
- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41** (issued on May 14, 2020 and effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IFRS 17** (not yet endorsed by the EU) **and an amendment to IFRS 4** (endorsed by the EU) (issued on June 25, 2020 and effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2**: Disclosure of Accounting policies (issued on February 12, 2021);
- **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates (issued on February 12, 2021);
- **Amendments to IFRS 16 Leases:** COVID-19-Related Rent Concessions beyond June 30, 2021(issued on March 31, 2021).

The Mercator Group and the company Poslovni sistem Mercator d.d. anticipate that the adoption of these new standards and the amendments to the existing standards in the period of initial application will not have a significant impact on the financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d..

The EU carve-out in respect of hedge accounting for the portfolio of financial assets and liabilities, the principles of which have not been fully endorsed yet by the EU did not have any material impact on these financial statements.

6. Fair value determination

The Mercator Group and the company Poslovni sistem Mercator d.d. determined the fair value of individual groups of assets for the purposes of measuring or reporting in compliance with the methods described below. Where additional interpretations relating to assumptions for measurement of fair value are needed, they are stated in the breakdowns of individual items of assets or liabilities of the Mercator Group and the company Poslovni sistem Mercator d.d. The fair value of assets and liabilities are presented in Note 31.

a) Property, plant and equipment

In line with IFRS, Mercator Group and the company Poslovni sistem Mercator d.d. periodically, at least every three to five years, reassesses the fair value of its property, plant and equipment carried at revaluation model: buildings and land. The latest valuation was performed at the end of 2020 year by an external independent certified real estate appraiser in compliance with the International Valuation Standards (IVS 2017) and Slovenian business and financial standard No. 2: Valuation/appraisal of real estate (OG RS, no. 106/13, December 18, 2013).

To appraise the market value, the appropriateness and suitability of all three methods is always examined considering the use of property and availability of required information: income approach (discounted cash flow and/or income capitalization method), market approach (method of direct comparability of sales or transactions), and cost approach (reflects the cost to a market participant to construct assets of comparable utility). As a result of analysis of the real estate market and other considerations, and taking into account the purpose of the evaluation and the characteristics of the evaluated property the income approach and market approach were used. Where there is sufficient data of transactions or offers carried out with comparable real estate available, comparable transactions method (market approach) was applied, where there is insufficient data for the market approach, and/or in a case when cash flows are generated by renting the property (investment properties, refer to Note 5 (c) below), income capitalization method (income approach) was used.

IFRS 13 requires the use of valuation techniques for which sufficient data is available, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The degree of detail of the disclosure depends on the observability of the inputs used. For this purpose, IFRS 13 establishes a fair value hierarchy that classifies the inputs into three levels:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

i. Fair value of land, buildings and investment property

The following tables present land, buildings and investment property that are measured at fair value as at 31 December 2020 and as at 31 December 2019:

	Mercator Group			
in EUR 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	—	—	489,106	489,106
Buildings	—	—	219,620	219,620
Investment property	—	—	198,978	198,978
Total as at 31 December 2020	**—**	**—**	**907,704**	**907,704**

	Mercator Group			
in EUR 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	—	—	544,237	544,237
Buildings	—	—	242,864	242,864
Investment property	—	—	273,006	273,006
Total as at 31 December 2019	**—**	**—**	**1,060,107**	**1,060,107**

	Poslovni sistem Mercator d.d.			
in EUR 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	—	—	324,134	324,134
Buildings	—	—	165,513	165,513
Investment property	—	—	3,043	3,043
Total as at 31 December 2020	**—**	**—**	**492,690**	**492,690**

	Poslovni sistem Mercator d.d.			
in EUR 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Land	—	—	325,776	325,776
Buildings	—	—	175,854	175,854
Investment property	—	—	4,081	4,081
Total as at 31 December 2019	**—**	**—**	**505,711**	**505,711**

ii. Valuation techniques, inputs and assumptions about fair value

Quantitative information about fair value measurements using unobservable inputs:

Segment	Valuation technique	Net book value December 31, 2020	Net book value December 31, 2019	Input	Range
Slovenia					
Retail – FMCG	Income capitalization method	Land: EUR 72,604 thousand Buildings: EUR 198,319 thousand **∑ EUR 270,923 thousand**	EUR 519,659 thousand	Average monthly rent in EUR per sqm	1.0 – 12.5
				Capitalization rate	7.77% – 8.77%
Retail – Other tenants	Income capitalization method	Land: EUR 25,103 thousand Buildings: EUR 74,986 thousand **∑ EUR 100,089 thousand**		Average monthly rent in EUR per sqm	1.0 – 13.5
				Capitalization rate	7.77% – 9.52%
Logistics	Income capitalization method	Land: EUR 30,707 thousand Buildings: EUR 41,267 thousand **∑ EUR 71,974 thousand**		Average monthly rent in EUR per sqm	1.5 – 6.0
				Capitalization rate	8.77% – 9.02%
Office	Income capitalization method	Land: EUR 995 thousand Buildings: EUR 13,342 thousand **∑ EUR 14,337 thousand**		Average monthly rent in EUR per sqm	2.5 – 9.5
				Capitalization rate	8.02% – 9.27%
Other real estate (land plots, apartments, smaller retail units, gas stations, ...)	Comparable transactions method	Land: EUR 35,438 thousand Buildings: EUR 5,639 thousand **∑ EUR 41,078 thousand**		Market transactions	Land: 1 - 180 EUR/m2 Other real estate: 100 - 2,000 EUR/m2
Croatia					
Retail	Income capitalization method	Land: EUR - thousand Buildings: EUR - thousand **∑ EUR - thousand**	EUR 309,210 thousand	Average monthly rent in EUR per sqm	2.5 – 12.0
				Capitalization rate	7.79% – 9.29%
Logistics	Income capitalization method	Land: EUR 1,903 thousand Buildings: EUR 793 thousand **∑ EUR 2,696 thousand**		Average monthly rent in EUR per sqm	3.0
				Capitalization rate	8.79 %
Other real estate (Land plots)	Comparable transactions method	Land: EUR 22,165 thousand Buildings: EUR 197,162 thousand **∑ EUR 219,326 thousand**		Market transactions	2 - 130 EUR/m2
Serbia					
Retail – FMCG	Income capitalization method	Land: EUR 8,447 thousand Buildings: EUR 42,644 thousand **∑ EUR 51,091 thousand**	EUR 154,072 thousand	Average monthly rent in EUR per sqm	4.0 – 10.0
				Capitalization rate	8.81% – 9.06%
Retail – Other tenants	Income capitalization method	Land: EUR 6,942 thousand Buildings: EUR 35,046 thousand **∑ EUR 41,988 thousand**		Average monthly rent in EUR per sqm	6.0 – 10.0
				Capitalization rate	8.81% – 9.06%
Land plots	Comparable transactions method	Land: EUR 4,142 thousand Buildings: EUR - thousand **∑ EUR 4,142 thousand**		Market transactions	5 - 33 EUR/m2
Bosnia and Herzegovina					

Retail – FMCG	Income capitalization method	Land: EUR 3,099 thousand Buildings: EUR 22,075 thousand **∑ EUR 25,174 thousand**	EUR 69,656 thousand	Average monthly rent in EUR per sqm	5.0 – 10.0
				Capitalization rate	10.79% – 11.54%
Retail – Other tenants	Income capitalization method	Land: EUR 3,439 thousand Buildings: EUR 24,498 thousand **∑ EUR 27,936 thousand**		Average monthly rent in EUR per sqm	5.0 – 14.0
				Capitalization rate	10.79% – 11.54%
Montenegro					
Retail – FMCG	Income capitalization method	Land: EUR 1,222 thousand Buildings: EUR 1,257 thousand **∑ EUR 2,479 thousand**	EUR 7,509 thousand	Average monthly rent in EUR per sqm	5.5 – 6.5
				Capitalization rate	9.73 %
Retail – Other tenants	Income capitalization method	Land: EUR 452 thousand Buildings: EUR 466 thousand ∑ EUR 918 thousand		Average monthly rent in EUR per sqm	6.0
				Capitalization rate	9.73 %
Total net book value		**874,153**	**1,060,106**		

Total net book value of valued land, buildings and investment properties is lower than disclosed in the Note 15 and Note 18 due to investment in fixed assets owned by third party. The reconciliation is presented in the table below.

	Mercator Group	Poslovni sistem Mercator d.d.
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2020**
Land	216,658	161,583
Buildings	657,495	319,506
Net book value of valued land and buildings	**874,153**	**481,089**
Investment in fixed assets owned by third party	33,551	11,601
Total value	**907,704**	**492,690**

The average monthly rent provided includes the open market rent of each space (not necessarily equal to the current passing rent) of the property, including rental income from office and retail space but excluding ancillary income from storage, parking, signage, technology and other income divided by square meters of lettable office, retail and storage space.

Valuation of assets and fair value revaluation indicators for assets measured at fair value (PP&E and investment property)

COVID-19 led to significant changes in country risk premiums, which are a key input in calculation of capitalization rates used in the valuation of Mercator Group's properties. Mercator Management noted this to be a significant indicator that would possibly trigger fair value revaluations of the Group's assets as at December 31, 2020.

A previous independent valuation of all properties was performed as at December 31, 2017. Sample tests were performed annually (including the test as of December 31, 2019) by independent certified appraisers to confirm that the carrying value of property does not differ significantly from their fair values as of the reporting dates. As at December 31, 2020, the Mercator Group performed an evaluation of property and came to the conclusion that the carrying amounts of property, plant and equipment differ materially from amounts which would be determined using fair value at the end of the reporting period and therefore revaluation is required as per IAS 16 requirements.

In assessing whether there were any indications for fair value revaluation, the Management considered external sources of information, such as market considerations (including the rate of return and changes in the real estate market) as required by IFRS 13, as well as changes in the market due to COVID-19 epidemic (increase in country risk premiums).

The Group has seen individual rent reductions or delays in rent payments for smaller shops during government required quarantine and tightened social distancing restrictions, yet all the larger stores operated almost undisturbed. It should be emphasized that these exceptions have only occurred in the short-term. By easing COVID-19 related measures the rents are being paid regularly and reductions are no longer foreseen.

The valuation was performed by independent certified appraiser using valuation techniques as described below in compliance with the International Valuation Standards (IVS 2017) and Slovenian business and financial standard No. 2: Valuation/appraisal of real estate (OG RS, no. 106/13, December 18, 2013). Valuation as at December 31, 2020, for land and building shows reduction in fair values. The main driver of the updated fair values is the change in capitalization rates, impacted by the change in country risk premium, which in comparison to year-end 2019 increased in most countries where the Group operates.

Investment properties were also part of the fair value revaluation exercise as at December 31, 2020. The valuation technique and inputs are the same as for land and buildings.

The fair value determination of the Group's properties (land and buildings of EUR 708,726 thousand presented within property, plant and equipment line item and investment properties of EUR 198,978 thousand) and Company (land and buildings of EUR 489,647 thousand presented within property, plant and equipment line item and investment properties of EUR 3,043 thousand) is inherently uncertain due to the individual nature of each property and the characteristics of the commercial real estate markets in the region where the Group's properties are located. Additionally, as at the valuation date we continued to be faced with an unprecedented set of circumstances caused by COVID-19. A year into the global pandemic, the economic disruption and resulting uncertainty continues to impact each sector of the commercial real estate industry. As at the valuation date, there is a shortage of market evidence for comparison purposes, and our valuation of properties as at December 31, 2020, is therefore being subject to high degree of judgement and material valuation uncertainty. Our external valuators reported that their valuation of the Group's properties as at December 31, 2020, was prepared under the material valuation uncertainty due to COVID-19. Consequently, less certainty and a higher degree of caution, should be attached to the valuation than would normally be the case. For the avoidance of doubt, "material valuation uncertainty" does not mean that the valuation cannot be relied upon; rather, provides transparent disclosures and further insight as to the market context under which the valuations were prepared.

Locations used in a manner that differ from its highest and best use (like empty land plots) were valued based on the method of market transactions. Mercator Group believes that this method is the most suitable for land plots, as for other methods (for example the method of land development or the method of HABU) a more detailed conceptual plans or projects for construction on certain lands would be needed, which are not available for all of these real estate.

Sensitivity of measurement to variance of significant unobservable inputs

A decrease in the estimated monthly rent will decrease the fair value. An increase in the capitalization rates will decrease the fair value. There are interrelationships between these rates as they are partially determined by market rate conditions.

Should the rental levels increase or decrease by 0.5 EUR/m2 the carrying value of investment property as at December 31, 2020 would be higher or lower by EUR 9,927 thousand (December 31, 2019: EUR 13,957 thousand), while the carrying value of land and buildings would be higher or lower by EUR 50,082 thousand (December 31, 2019: EUR 60,177 thousand).

The income capitalization rate (yield) across the portfolio as at December 31, 2020 ranges from 7.77% to 11.54%, with 8.55% on weighted average (December 31, 2019: from 7.24% to 9.33%, or 8.33% on average). Should this capitalization rate increase/decrease by 50 basis points, the carrying value of the investment property would be EUR 9,657 thousand lower / EUR 10,885 thousand higher (December 31, 2019: EUR 15,582 thousand lower / EUR 17,872 thousand higher), while the carrying value of land and buildings would be EUR 33,192 thousand lower / EUR 37,372 thousand higher (December 31, 2019: EUR 32,071 thousand lower / EUR 34,658 thousand higher).

Valuation process

The latest valuation of the properties was performed in December 2020, on the basis of valuation reports prepared by independent and qualified valuers.

These reports are based on both:
- information provided by the company such as current rents, terms and conditions of lease agreements, service charges, capital expenditure, etc. This information is derived from the company's financial and property management systems and is subject to the company's overall control environment.
- assumptions and valuation models used by the valuers – the assumptions are typically market related, such as market rents, yields and capitalization rates. These are based on their professional judgment and market observation.

Generally, for income producing assets a discounted cash flow method is used, for non-core and land the method of direct comparability of sales or transactions is used.

The information provided to the valuers, and the assumptions and the valuation models used by the valuers, are reviewed by the controlling department and the Group Chief Financial Officer ('CFO'). This includes a review of fair value movements over the period.

All the major inputs used in valuations are determined based on available market data:

- Information about recent transactions and offers between market participants for similar items of properties (comparable utility, age, location, use, other factors);
- Market rents applied in income capitalization method;
- Capitalization rates.

A short overview of the valuation process is showed below:

- The valuation is split into two parts, covering areas that are rented out and areas Mercator uses for its own activities.
- In the case of rental areas, it was checked whether the rents currently exist and for how long these contracts are valid (WAULT period). For this purpose, the method of the income approach was used (and within that approach the discounted cash flows method«), where the concluded rents for the WAULT period were took into consideration, and market rents after the expiration of this period.
- These values were then discounted and the result is the value of the rental areas.
- In the case of areas Mercator uses for its own activities, the income capitalization method was used, where market rents were taken into account. The stabilized profit was then capitalized and the value of Mercator areas is the result.
- In cases of land, apartments, small individual units of garages or parking spaces and Investment properties in Slovenia, the comparable transactions method was used.
- Due to accounting standards value was divided to the value of the land and value of the building (value of location – value of the land).

b) Intangible assets

The fair value of patents and trademarks acquired through business combinations is based on estimated discounted royalty payments which will no longer be necessary thanks to the ownership of a patent or trademark. The fair value of other intangible assets is based on the current value of expected future cash flows projected to arise from use and potential sale of such assets.

c) Investment property

Investment property, including right of use asset meeting the definition of investment property, is measured at fair value subsequent to initial recognition.

Fair value of investment property is determined by independent certified appraiser on the yearly basis. The valuation technique and inputs are the same as for property, plant and equipment and are disclosed in Note 6 (a) above.

d) Right-of-use assets

In line with IFRS, Mercator Group and the company Poslovni sistem Mercator d.d. periodically, at least every three to five years, reassesses the fair value of its right-of-use assets carried at revaluation model: buildings and land. The latest valuation was performed at the end of 2020 year by an external independent certified real estate appraiser in compliance with the International Valuation Standards (IVS 2017) and Slovenian business and financial standard No. 2: Valuation/ appraisal of real estate (OG RS, no. 106/13, December 18, 2013).

Had the right-of-use assets been carried under the cost model, the carrying amount that would have been recognised would not have been significantly different to the current carrying amount under the revaluation model at the Mercator Group level, as well as for the Company.

e) Inventories

The fair value of inventories acquired in business combinations is determined based on their estimated selling price in ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin considering the work required to complete and sell the inventories.

f) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, in business combinations is estimated as the present value of future cash flows, discounted at the market rate of interest as at the reporting date. The fair value of trade and other receivables is categorized as Level 3 in fair value hierarchy.

7. Tax policy

Tax statements (financial statements for tax authorities) of the company Poslovni sistem Mercator d.d. and the companies of the Mercator Group in Slovenia, are prepared in accordance with the International Financial Reporting Standards and the Corporate Income Tax Act.

Corporate income tax rate applicable to the company Poslovni sistem Mercator d.d. is 19%.

Pursuant to the Corporate Income Tax Act, a company's tax base is the profit as the surplus of revenues over expenses, where the basic criteria for recognition in a tax statement are still the revenues and expenses as shown in the income statement, defined pursuant to the legislation or accounting standards.

When calculating corporate income tax, the following tax reliefs can be claimed:
- relief for investments in research and development,
- relief for employment of disabled people of 50% or 70% of the disabled’s salaries,
- relief for carrying out practical training within professional training,
- relief for voluntary supplementary pension insurance,
- relief for donations,
- relief for investments in equipment and intangible assets of 40%,
- relief for employment of unemployed under 26 or over 55.

In 2020, the companies recognized and reversed deferred income tax related to the following items:
- differences between accounting and tax depreciation and amortization,
- differences in allowances for receivables,
- differences in value of provisions,
- tax losses,
- revaluation of goodwill,
- fixed assets the value of which does not exceed EUR 500 and the useful life of which is longer than one year,
- revaluation of investments in financial assets,
- unused tax breaks,
- revaluation of fixed assets to a higher value (revaluation).

Each company has to provide documentation on transfer prices; general documentation may be common to a group of related entities as a whole.

a) Serbia

Tax statements of the company Mercator−S d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit pravnih lica').

Corporate income tax rate is at 15%.

In 2020, the company recognized and reversed deferred income taxes in relation to the following:
- differences between accounting and tax depreciation and amortization,
- differences in value of provisions.

The company is obliged to prepare transfer pricing documentation.

b) Croatia

Tax statements of the company Mercator−H d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit').

Taxable base is the profit calculated according to the accounting principles, from which tax recognized costs are subtracted, or to which non-recognized costs are added.

Corporate income tax rate is at 18%.

In 2020, the company recognized and reversed deferred taxes liabilities arising from revaluation to a higher value of fixed assets and revaluation of investments in financial assets.

The company is obliged to prepare transfer pricing documentation.

c) Bosnia and Herzegovina

Tax statements of the company Mercator−BH, d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit').

Corporate income tax rate is at 10%.

d) Montenegro

Tax statements of the company Mercator−CG d.o.o. are prepared in compliance with the International Financial Reporting Standards and the relevant Corporate Income Tax Act ('Zakon o porezu na dobit pravnih lica').

Corporate income tax rate is at 9%.

In 2020, the company recognized and reversed deferred tax liabilities arising from revaluation of fixed assets to a higher value (revaluation).

8. Business combinations and reorganization of the Mercator Group

In 2020, no such business events took place in the company Poslovni sistem Mercator d.d. neither in the Mercator Group.

9. Operating segments

Mercator Group

For the requirements of reporting by operating segments, the Mercator Group defined business segments by the countries where the Mercator Group carries out its activities. Operating results of a segment are regularly reviewed by the main operational decision-maker - the President of the Management Board, and are used for decision making, including resources allocation, purposes.

In 2020, the Mercator Group was operating in five countries:

- Slovenia, where the headquarters of the parent company is located, which is also the largest business unit of the Mercator Group. Fields of operation in Slovenia include the following: trade (retail and wholesale), food production, and other non-trade activities (companies: Poslovni sistem Mercator d.d., Mercator−Emba d.d., Mercator IP d.o.o., M−Energija d.o.o.),
- Serbia (company Mercator−S d.o.o.), Croatia (company Mercator−H d.o.o.), Bosnia and Herzegovina (company Mercator−BH d.o.o.) and Montenegro (company Mercator−CG d.o.o.).

The consolidated financial statements also include companies Mercator−Velpro d.o.o., Mercator Humanitarian Foundation, Mercator Makedonia, d.o.o.e.l., which do not carry out business activities.

For selling goods, products and services between the segments market prices are used. Revenues from any one individual customer did not reach 10% of total sales revenues of the Mercator Group.

Mercator Group's revenues from its major products and services are disclosed in Note 10.

Poslovni sistem Mercator d.d.

During 2020 year the company Poslovni sistem Mercator d.d. operated as a single economic unit within one individual geographical segment – Slovenia, and therefore it's assets, liabilities and results of operations belong to one segment only,in accordance with IFRS 8 *Operating segments* requirements.

	Slovenia		Serbia		Croatia		Bosnia and Herzegovina		Montenegro		Total		Eliminations		Mercator Group - consolidated	
in EUR 000	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets as at December 31	**1,234,974**	**1,268,649**	**472,436**	**562,420**	**238,311**	**323,681**	**103,199**	**121,989**	**72,265**	**84,383**	**2,121,185**	**2,361,122**	**329,702**	**357,254**	**1,791,483**	**2,003,868**
Intersegment assets	*(275,504)*	*(305,538)*	*(32,171)*	*(38,887)*	*(374)*	*(632)*	*(1,852)*	*(3,606)*	*(4,900)*	*(6,885)*	*(314,801)*	*(355,547)*	*(314,801)*	*(355,547)*	—	—
Liabilities as at December 31	**830,743**	**833,888**	**473,519**	**512,275**	**134,064**	**142,976**	**67,984**	**72,363**	**56,047**	**59,586**	**1,562,358**	**1,621,088**	**62,920**	**56,194**	**1,499,438**	**1,564,894**
Intersegment liabilities	*(19,594)*	*(30,254)*	*(81)*	*(5,081)*	*(28,750)*	*(18,264)*	*(5)*	*(31)*	*(587)*	*(861)*	*(49,018)*	*(54,492)*	*(49,018)*	*(54,492)*	—	—
Total sales revenue	**1,277,644**	**1,251,535**	**671,816**	**655,857**	**85**	**503**	**104,839**	**100,779**	**92,228**	**103,146**	**2,146,612**	**2,111,820**	**19,355**	**20,789**	**2,127,256**	**2,091,031**
Intersegment revenue	*(19,167)*	*(20,738)*	*(139)*	*(179)*	*(49)*	*(387)*	—	—	—	*(558)*	*(19,355)*	*(21,862)*	*(19,355)*	*(21,862)*	—	—
Revenue from external customers	**1,258,477**	**1,230,797**	**671,677**	**655,678**	**36**	**117**	**104,839**	**100,779**	**92,228**	**102,589**	*2,127,256*	*2,089,958*	**—**	**(1,072)**	*2,127,256*	*2,091,031*
Cost of sales	**(1,257,477)**	**(1,207,936)**	**(682,806)**	**(643,616)**	**(20,626)**	**(12,983)**	**(117,908)**	**(101,518)**	**(95,243)**	**(94,632)**	**(2,174,059)**	**(2,060,685)**	**(19,838)**	**(21,331)**	**(2,154,221)**	**(2,039,355)**
Intersegment transactions	*18,686*	*19,134*	*531*	*841*	*92*	*297*	*323*	*1,127*	*205*	*462*	*19,838*	*21,862*	*19,838*	*21,862*	—	—
Administrative expenses	**(76,507)**	**(57,851)**	**(29,047)**	**(24,114)**	**(3,269)**	**(3,356)**	**(4,941)**	**(4,880)**	**(5,741)**	**(6,122)**	**(119,505)**	**(96,323)**	**(41,187)**	**(26,654)**	**(78,318)**	**(69,669)**
Intersegment transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Rental income	**11,427**	**15,198**	**6,812**	**8,851**	**20,462**	**18,874**	**4,187**	**5,001**	**355**	**326**	**43,244**	**48,249**	**483**	**541**	**42,761**	**47,708**
Intersegment transactions	*(483)*	—	—	—	—	—	—	—	—	—	*(483)*	—	*(483)*	—	—	—
Revaluation gains/losses of investment property	**(1,000)**	**—**	**—**	**—**	**(64,475)**	**5,835**	**—**	**—**	**—**	**—**	**(65,475)**	**5,835**	**—**	**—**	**(65,475)**	**5,835**
Intersegment transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other net operating income	**15,310**	**15,790**	**2,323**	**2,120**	**1,840**	**5,545**	**276**	**370**	**20**	**41**	**19,769**	**23,866**	**—**	**—**	**19,769**	**23,866**
Intersegment transactions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Interest income	**2,166**	**1,458**	**177**	**271**	**488**	**604**	**87**	**128**	**169**	**230**	**3,087**	**2,690**	**1,852**	**1,333**	**1,235**	**1,357**
Intersegment transactions	*(1,607)*	*(976)*	—	—	—	—	*(76)*	*(127)*	*(169)*	*(230)*	*(1,852)*	*(1,333)*	*(1,852)*	*(1,333)*	—	—
Interest expense	**(22,313)**	**(21,779)**	**(18,259)**	**(17,519)**	**(5,306)**	**(5,324)**	**(2,524)**	**(2,766)**	**(1,776)**	**(1,732)**	**(50,178)**	**(49,121)**	**(1,875)**	**(1,341)**	**(48,303)**	**(47,780)**
Intersegment transactions	*740*	*760*	*195*	*73*	*940*	*507*	—	—	—	—	*1,875*	*1,341*	*1,875*	*1,341*	—	—

in EUR 000	Slovenia 2020	Slovenia 2019	Serbia 2020	Serbia 2019	Croatia 2020	Croatia 2019	Bosnia and Herzegovina 2020	Bosnia and Herzegovina 2019	Montenegro 2020	Montenegro 2019	Total 2020	Total 2019	Eliminations 2020	Eliminations 2019	Mercator Group - consolidated 2020	Mercator Group - consolidated 2019
Other net finance cost	**(1,253)**	**(675)**	**(25)**	**(626)**	**(2,157)**	**(257)**	**(32)**	**(61)**	**(93)**	**(10)**	**(3,561)**	**(1,629)**	**—**	**384**	**(3,561)**	**(2,013)**
Intersegment transactions	*36,852*	*23,255*	*6,221*	*3,015*	*—*	*—*	*—*	*—*	*—*	*—*	*43,073*	*26,270*	*43,073*	*26,654*	*—*	*(384)*
Income tax expense	**(473)**	**(6,668)**	**2,470**	**476**	**—**	**—**	**—**	**—**	**149**	**(122)**	**2,146**	**(6,314)**	**—**	**—**	**2,146**	**(6,314)**
Net profit / (loss)	**(52,475)**	**(10,929)**	**(46,539)**	**(18,300)**	**(72,958)**	**9,440**	**(16,017)**	**(2,948)**	**(9,932)**	**1,125**	**(197,920)**	**(21,612)**	**(41,210)**	**(26,278)**	**(156,710)**	**4,666**

As at December 31, 2020, the Mercator Group comprised the following companies (in EUR 000):

Poslovni sistem Mercator d.d. Slovenia	
Equity	365,696
Net operating profit or loss	(55,420)

Mercator–S d.o.o. Serbia	100.0%
Equity	(1,083)
Net operating profit or loss	(46,610)

Mercator –H d.o.o. Croatia	99.8%
Equity	104,247
Net operating profit or loss	(72,827)

Mercator–CG d.o.o. Montenegro	100.0%
Equity	16,218
Net operating profit or loss	(9,932)

Mercator –BH d.o.o. Bosnia and Herzegovina	100.0%
Equity	35,215
Net operating profit or loss	(16,017)

M–Energija d.o.o. Slovenia	100.0%
Equity	2,597
Net operating profit or loss	156

Mercator–Emba d.d. Slovenia	100.0%
Equity	23,043
Net operating profit or loss	868

Mercator IP d.o.o. Slovenia	100.0%
Equity	12,895
Net operating profit or loss	1,921

The Mercator Group also includes companies Mercator - Velpro d.o.o., Mercator Humanitarian Foundation, Mercator Makedonia d.o.o.e.l., which are idle and do not perform business activities.

10. Revenue from contracts with customers

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Sale of goods (where the entity is principal)	2,089,480	2,047,372	1,237,337	1,204,732
Sales of services	7,963	11,335	7,078	9,996
Transit sales arrangement fees	2,515	1,579	445	466
Sales of products	26,952	30,329	—	—
Sales of materials	346	416	120	96
Total	**2,127,256**	**2,091,031**	**1,244,981**	**1,215,292**

	2020					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzego-vina	Monte-negro	Mercator Group
Sale of goods (where the entity is principal)	1,237,281	669,481	23	104,428	91,699	2,102,911
Sales of services	6,941	606	13	228	176	7,963
Transit sales arrangement fees	445	1,546	—	172	352	2,515
Sales of products	13,521	—	—	—	—	13,521
Sales of materials	290	44	—	12	1	346
Total	**1,258,477**	**671,677**	**36**	**104,839**	**92,228**	**2,127,256**

	2019					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzego-vina	Monte-negro	Mercator Group
Sale of goods (where the entity is principal)	1,204,401	654,846	96	100,303	101,695	2,061,340
Sales of services	9,576	693	21	204	565	11,059
Transit sales arrangement fees	466	1	—	240	872	1,579
Sales of products	16,636	—	—	—	—	16,636
Sales of materials	246	138	—	31	1	416
Total	**1,231,326**	**655,678**	**117**	**100,779**	**103,132**	**2,091,031**

Mercator Group’s and company’s Poslovni sistem Mercator d.d. revenue is generated from sales of goods, products and materials and rendering of services. Revenue from sales of goods comprises in-store sales and revenue from other core business activities, while revenue from sales of products is generated by two production companies within the Mercator Group. It is recognized at a point in time when the control of the goods has been transferred to the customer, generally in-store or upon delivery. Revenues from rendering services comprises revenue from other services (unused bonuses from loyalty program – PIKA, commissions from household bills and other payments cards, customs services etc). Revenue from rendering services is recognized over the period when services are provided. Details about rental income are provided in Note 10.1

Revenue from sales of goods is presented net of discounts granted to customers.

Under the transit sales arrangements, products are shipped directly from Mercator’s vendor to the end customer and Mercator does not obtain control over the goods before or during the transit. Mercator obtains legal title to the goods only momentarily before they are transferred to the end customer. Management applied their judgement in assessing these arrangements and concluded that Mercator in substance merely arranged the sale as an agent.

In 2020, Mercator Group succeeded in sustaining and upgrading the positive business trends from 2019. In 2020 sales revenue increased by EUR 36,226 thousand comparing to 2019. The main driver of revenue growth was recorded in retail FMCG segment which more than compensated the negative effect of COVID-19 epidemic which influenced non-core segments and companies (wholesale, DIY, manufacturing companies etc.) due to closing of certain industries which resulted in closer of operating units or/and operations of their business partners.

However, COVID-19 epidemic also had an impact on Mercator Group core business activities (retail FMCG segment) through:

- decrease of opening hours due to government restrictions throughout the region (more than 220,000 hours due to Sunday closures, introduction of curfew, limitation of max customer per square meter);
- very poor tourist season from May to September in Montenegro;
- decrease of impulse, to-go and ultra-fresh FMCG categories due to lower purchasing frequency in stores;
- government restriction on selling technical and some non-food products in FMCG stores in Slovenia.

Year over year (YOY) growth in retail FMCG segment is a result of successful execution of the business strategy along with all business goal attainment initiatives. Our business performance remained successful also after the declaration of COVID-19 epidemic in all markets (excluding Montenegro) of our operations, mainly due to responsible preparation for the crisis, timely provision of inventory and resources for all key SKU's (Stock-Keeping Unit), effective crisis management and exceptional execution of all additional COVID-19 Value Creation Plan initiatives. In addition, refurbishments and implementation of best practices in all markets further contributed to positive YOY growth in 1-12, 2020. Positive trends were recorded in all retail markets, with exception of Montenegro, which is highly dependent on tourist season from May to September.

Insistence on regular and precise monitoring of all operating plans has proven successful for accomplishment of all strategic goals set by the Mercator Group. Only timely and responsible preparation for the crisis allowed Mercator Group to sustain its positive performance trends started in the period before the coronavirus crisis. One factor contributing to Mercator's success in maintaining the positive performance trends is the fact that during the crisis, coordination, analysis, planning and decision-making sessions were held in all markets of Mercator's operations daily, and in the most critical moments even twice daily.

Company's Poslovni sistem Mercator d.d. offers and owns a customers loyalty program – PIKA. The benefits accumulated by customers from loyalty programmes constitute a performance obligation that is separate from the initial sale. For this reason, a contract liability is recognized in respect of this performance obligation as disclosed in Note 30.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Contract liabilities arising from customer loyalty program	6,576	6,480	6,576	6,480
Total contract liabilities	**6,576**	**6,480**	**6,576**	**6,480**

There were no significant changes in the contract assets and contract liability balances during the reporting period.

10.1 Rental income

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Rental income	42,761	47,708	11,152	14,926
Total	**42,761**	**47,708**	**11,152**	**14,926**

Mercator Group

In March 2020 governments adopted restrictions regarding to COVID-19 situation in all markets where Mercator Group operates in real estate segment. From the second half of March 2020 until the end of April 2020 all businesses (except retail FMCG, pharmacies and bakeries) were closed. At the end of April, the businesses with their own entry to shopping malls were reopened, and from second half of May all other businesses were reopened. In second half of October all businesses (except FMCG retail, pharmacies and bakeries) closed again. However, in Serbia and Bosnia and Herzegovina restrictions from October onwards allow businesses to operate but under special conditions issued by their National Health Agency.

Slovenian government also adopted special regulations under which tenants received privileged position with respect to landlords (the right of unilateral termination of the contract in 8 business days, deferral of payment for obligations under the lease contract, and extension of a fixed-term lease periods for the period of closure).

In 2020, Mercator Group rental income amounted to EUR 42,761 thousand and decreased by EUR 4,947 thousand comparing to 2019. The main drivers for decrease were monetization effect (sale of shopping centers in Slovenia in 1-3, 2019 and Serbia at the end of 2019), and termination of one lease agreement in Serbia with loss of rental income from subleases in 2020. Due to COVID-19 situation related liquidity issues of our tenants the Management of the Mercator Group agreed to give rent discounts for tenants in closed store, with the impact to EUR 1.7 million for the period from April to December 2020.

Poslovni sistem Mercator d.d.

In March 2020 Slovenian governments adopted restrictions regarding to COVID-19 situation. From the second half of March 2020 until the end of April 2020 all businesses (except FMCG retail, pharmacies and bakeries) were closed. At the end of April, were re-opened businesses with their own entry to shopping mall, and from second half of May were re-opened all other businesses, but in second half of October were all businesses (except FMCG retail, pharmacies and bakeries) again closed.

Slovenian government also adopted special regulations under which tenants received privileged position with respect to landlords (unilateral termination of the contract in 8 business days, deferral of payment for obligations under the lease contract, and extension of a fixed-term lease periods for the period of closure).

Rental income s at the company Poslovni sistem Mercator d.d. in 2020 amounted to EUR 11,152 thousand and decreased by 3,774 thousand comparing to 2019. The main drivers for decrease were monetization effect (sale of shopping centers in 1-3, 2019) and given rent discounts for tenants in closed stores, because COVID-19 situation put liquidity pressure on our tenants and Management agreed to issue credit notes for the rental period between March- May and creation of provision for issuing credit notes for the second wave (last quarter in 2020).

10.2 Revaluation gains/losses of investment property

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Revaluation gain/loss of investment property	(71,440)	5,835	(1,000)	—
Total	**(71,440)**	**5,835**	**(1,000)**	**—**

Mercator Group

Revaluation gain/loss of investment property of the Mercator Group amounted to EUR (71,440) thousand (2019: in EUR 5,835 thousand). Details are explained in Note 6 and 18.

Poslovni sistem Mercator d.d.

Revaluation gain/loss of investment property of the company Poslovni sistem Mercator d.d. amounted to EUR (1,000) thousand (2019: in EUR — thousand). Details are explained in Note 6 and 18.

11. Other operating income

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Gain on sale of property, plant and equipment	2,158	2,704	1,661	2,072
Other operating income	17,611	13,670	13,240	6,149
Total	**19,769**	**23,866**	**14,901**	**13,235**

Mercator Group

Gain on the sale of property, plant and equipment was EUR 2,158 thousand (2019: EUR 2,704 thousand).

Among other operating income in the amount of EUR 17,611 thousand (2019: EUR 13,670 thousand), Mercator Group included COVID-19 Government aid in the amount of EUR 7,200 thousand (being the refund of paid allowance explained below), income from indemnities based on insurance premiums and other indemnities in the amount of EUR 2,036 thousand, income from compensation received in the amount of 2,329 thousand EUR, revenue from reimbursed costs of collections and lawsuits in the amount of EUR 956 thousand, revenue from employment disability benefits in the amount of EUR 941 thousand, and other operating income in the amount of EUR 4,150 thousand.

In 2019, other operating income of the Mercator Group amounted to EUR 13,670 thousand, and included income from assets revaluation in the amount of EUR 4,603 thousand, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 1,997 thousand, income from compensation received in the amount of 1,896 thousand EUR, revenue from costs of warnings and lawsuits in the amount of EUR 1,030 thousand, revenue from employment disability benefits in the amount of EUR 1,007 thousand and other operating income in the amount of EUR 3,137 thousand.

Government aid

As at April 2, 2020, the government of the Republic of Slovenia adopted the Act on the intervention measures to mitigate the consequences of the communicable disease SARS-CoV-2 (COVID-19) for citizens and the economy. Under the first package of measures the employees in the private sector whose gross basic wage is less than three times the Slovenian gross minimum wage and who, due to performing their work during the epidemic, are exposed to health risks more than the average or have higher workloads due to epidemic, were entitled to an allowance of EUR 200. All Slovenian legal entities within Mercator Group paid the allowance in accordance with the legislation for March (proportionally from March 13th-31th), April and May. The new allowance was funded from the funds relating to the exemption of pension insurance contribution payment. In accordance with legislation the allowance of EUR 200 per employee was also paid in December.

In addition, the employers were eligible for reimbursement of the compensations in case the employer could not provide work for their employees and they were temporarily not working. This applied for the period until the May 31, 2020, at most and it was based on the Management estimation that the condition of the revenue decrease by more than 10% in 2020 in comparison to 2019 would be met. Within the Mercator Group, two companies received the mentioned aid, Mercator-IP d.o.o., and Mercator-Emba d.d.

At the same time the new Act provided all the employers who have paid the salary compensation to employees that were not able to perform work due to force majeure to be eligible for reimbursement of costs, in case the employees were not performing their work due to childcare (following the closing of schools and kindergartens) and other objective reasons or inability to commute due to the ban of public transport or the closing of borders with neighboring states and were thus receiving salary compensation. Within the Mercator Group all Slovenian legal entities benefited from aid.

During 2020 the companies in Slovenia had to submit prescribed documentation to the Ministry based on which government compensation was retroactively confirmed or disputed. As at December 29, 2020, the company Poslovni sistem Mercator d.d. received the decision that part of the aid is disputed based on which our legal team prepared the appeal that was in January 2021 submitted to the Court. Disputed amount of EUR 2.4 million is fully provisioned in financial statements for 2020.

Poslovni sistem Mercator d.d.

Gain on the sale of property, plant and equipment amounted to EUR 1,661 thousand in 2019 (2019: EUR 2,072 thousand).

Among other operating income the company Poslovni sistem Mercator d.d. discloses COVID-19 Government aid in the amount of EUR 7,085 thousand (being the refund of paid allowance explained above), income from compensation received in the amount of 2,328 thousand EUR, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 808 thousand, revenue from employment disability benefits in the amount of EUR 941 thousand, revenue from costs of warnings and lawsuits in the amount of EUR 881 thousand and other operating income in the amount of EUR 1,197 thousand.

In 2019, other operating income of the company Poslovni sistem Mercator d.d. amounted to EUR 6,149 thousand, and included income from compensation received in the amount of 1,898 thousand EUR, income from indemnities based on insurance premiums and other indemnities in the amount of EUR 1,013 thousand, revenue from employment disability benefits in the amount of EUR 1,007 thousand, revenue from costs of warnings and lawsuits in the amount of EUR 949 thousand and other operating income in the amount of EUR 1,282 thousand.

Regarding to COVID-19 Government aid the company Poslovni sistem Mercator d.d. had to submit prescribed documentation to the Ministry based on which government compensation was retroactively confirmed or disputed. As at December 29, 2020, the company Poslovni sistem Mercator d.d. received decision that part of aid is disputed based on which our legal team prepared the appeal that was in January 2021 submitted to the Court. Disputed amount of EUR 2.4 million is fully provisioned in financial statements for 2020.

12. Costs of goods sold, selling costs and administrative expenses

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Depreciation of property, plant and equipment	57,616	61,083	28,116	28,704
Amortization of intangible assets	3,162	3,112	2,383	2,330
Depreciation of right of use assets	48,782	47,040	13,439	8,426
Labour costs	275,993	254,012	182,596	169,099
Costs of material	71,957	72,146	28,664	27,361
Costs of services excluding rents	150,148	143,280	107,386	98,959
Short-term and low value lease expense	1,772	1,940	975	985
Revaluation decrease of PP&E (Note 15)	71,555	4,226	16,357	—
Reversal of revaluation decrease of PP&E (Note 15)	(2,276)	1,416	(30)	—
Cost of goods sold	1,522,791	1,504,769	872,195	857,947
Other costs	14,245	13,532	9,270	8,583
Provisioning	(906)	1,024	866	117
- of which provisions for onerous contracts	(2,790)	—	(384)	—
- of which prov. for jubilee awards and post employment benefits	264	299	—	—
- of which provisions for litigation risks	94	724	(372)	117
- of which provisions for credit notes issued to lessees due to COVID epidemic	1,622	—	1,622	—
- of which provisions for company reorganization	(96)	—	—	—
Impairment of goodwill and intangible assets	—	—	—	—
Write-off of property, plant and equipment	5,076	376	3,938	121
Loss on sales of property, plant and equipment	354	2,172	337	2,144
Expenses due to impairment with expected credit loss model	3,932	685	901	1,016
Impairment of subsidiaries and other financial investments	5	50	34,965	23,671
Write-down of inventories to net realizable value	466	(182)	—	—
Other operating expenses	1,901	1,174	1,253	608
Total cost of goods sold, selling costs and administrative expenses	**2,226,575**	**2,111,856**	**1,303,612**	**1,230,073**
- of which cost of sales	2,148,257	2,039,355	1,228,321	1,172,652
- of which administrative expenses	78,318	69,669	75,291	57,421

Mercator Group

The cost of goods sold is reduced by rebates and received discounts. It is increased by revaluation of inventories and write-downs of damaged, expired and obsolete and missing inventory.

Impairment of property, plant, equipment and intangible assets relates to impairment of property in accordance with the accounting policy of the Mercator Group rules and IFRS.

Among the costs of services, the Mercator Group in 2020 shows audit costs for auditing the Annual Report 2020 in the amount of EUR 263 thousand. Additionally, EUR 6 thousand were used in the year 2020 for assurance services, EUR 0 thousand EUR for tax consultancy services and EUR 0 thousand for other non-audit services. For auditing the Annual Report in the year 2019 were used EUR 251 thousand, for assurance services EUR 17 thousand, for tax consultancy services EUR 0 thousand and for other non-audit services EUR 2 thousand.

Among the audit costs in 2020 the Mercator Group shows also audit costs for auditing interim report in the amount of EUR 544 thousand.

Poslovni sistem Mercator d.d.

The cost of goods sold is reduced by rebates and received discounts. It is increased by revaluation of inventories and write-downs of damaged, expired and obsolete inventory and deficits.

Impairment of property, plant, equipment and intangible assets relates to impairment of property in accordance with the accounting policy of the Mercator Group, rules and International Accounting Standards.

Among the costs of services, the company Poslovni sistem Mercator d.d. in 2020 shows audit costs for auditing the Annual Report in the amount of EUR 144 thousand. Additionally EUR 4 thousand were used in the year 2020 for assurance services, EUR 0 thousand for tax consultancy services and EUR 0 thousand for other non-audit services. For auditing the Annual Report in the year 2019 were used EUR 136 thousand EUR, for assurance services EUR 4 thousand, for tax consultancy services EUR 0 thousand and for other non-audit services EUR 2 thousand.

Among the audit costs in 2020 the company Poslovni sistem Mercator d.d. shows also audit costs for auditing interim report in the amount of EUR 544 thousand.

13. Labour costs

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Gross salaries	206,721	186,041	131,121	117,981
Other pension insurance costs	24,405	22,627	14,420	13,548
- of which defined benefit (DB) pension schemes	21,013	19,323	11,430	10,646
- of which defined contribution (DC) pension schemes	3,392	3,304	2,989	2,902
Health insurance costs	10,611	10,026	9,383	8,736
Other labour costs	34,256	35,317	27,672	28,834
Total	**275,993**	**254,012**	**182,596**	**169,099**
Number of employees as at December 31	20,960	19,963	9,216	8,833

Mercator Group

Labour costs at the Mercator Group level in 2020 amounted to EUR 275,993 thousand (2019: EUR 254,012 thousand). The main driver for the increase was driven by new minimum wage legislation throughout the region except in Montenegro, new crisis allowances for all employees pertaining to national intervention acts to mitigate the consequences of COVID-19 (in details explained below) in all Slovenian legal entities and additional bonuses for working in risk environment for employees in operating units and logistics in Slovenia and Serbia.

Among other labour costs, which amounted to EUR 34,256 thousand (2019: EUR 35,317 thousand) in 2020, the Mercator Group classifies reimbursement of meal allowances during work, reimbursement of commute allowances, annual leave allowances and other labour costs.

The total amount of all remuneration of employees of the Mercator Group employed under a contract, that is not subject to the tariff part of the collective agreement, excluding the members of the management of the company Poslovni sistem Mercator d.d., amounted to EUR 10,356 thousand in 2020 (2019: EUR 8,961 thousand).

Poslovni sistem Mercator d.d.

Labour costs at the company Poslovni sistem Mercator d.d. in 2020 amounted to EUR 182,596 thousand (2019: EUR 169,099 thousand). The main driver for the increase were the new minimum wage legislation, new crisis allowances for all employees pertaining to national intervention acts to mitigate the consequences of COVID-19 and additional bonuses for working in risk environment for employees in operating units and logistics.

The other labour costs amounting to EUR 27,672 thousand in 2020 (2019: EUR 28,834 thousand) and include reimbursement of meal allowances during work, reimbursement of commute allowances, annual leave allowances and other labour costs.

The total amount of all remuneration of employees of the company Poslovni sistem Mercator d.d. employed under a contract, that is not subject to the tariff part of the collective agreement, excluding the members of the management, amounted to EUR 6,354 thousand in 2020 (2019: EUR 5,292 thousand).

14. Finance income and costs

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Interest income from loans granted	1,235	1,357	1,703	1,107
Dividends received	—	415	—	729
Other financial income	269	240	261	299
Finance income	**1,504**	**2,013**	**1,965**	**2,136**
Borrowings costs	(26,828)	(26,849)	(17,349)	(17,678)
Lease liabilities interest costs	(21,464)	(20,946)	(4,819)	(3,960)
Other finance costs	(1,715)	(3,831)	(1,582)	(1,694)
Finance costs	**(50,006)**	**(51,625)**	**(23,751)**	**(23,332)**
Net foreign exchange differences	(2,126)	1,178	46	(8)
Net finance costs recognized in the income statement	**(50,628)**	**(48,435)**	**(21,741)**	**(21,204)**

Mercator Group

The largest share of the finance costs of the Mercator Group represent interest expenses, which amounted to EUR 26,828 thousand in 2020 (2019: EUR 26,849 thousand)

Poslovni sistem Mercator d.d.

The largest part represents interest expenses, which amounted to EUR 17,349 thousand in 2020 (2019: EUR 17,678 thousand).

15. Property, plant and equipment

	Mercator Group				
in EUR 000	Land	Buildings	Equipment and other assets	Assets not yet available for use	Total
Gross carrying amount					
As at January 1, 2019	**275,296**	**1,129,976**	**421,295**	**12,245**	**1,838,812**
Additions	—	266	922	32,222	33,410
Transfer from assets being acquired	875	8,620	14,552	(28,268)	(4,222)
Disposals, deficit, surplus	(32,973)	(31,016)	(14,533)	(11)	(78,534)
Revaluation increase	—	—	—	—	—
Revaluation decrease	(471)	(1,689)	—	—	(2,160)
Translation differences	127	1,975	1,084	43	3,230
Other	9	(242)	(55)	183	(104)
As at December 31, 2019	**242,864**	**1,107,890**	**423,265**	**16,414**	**1,790,432**
Accumulated depreciation					
As at January 1, 2019	**—**	**(547,293)**	**(293,686)**	**(2,335)**	**(843,314)**
Depreciation	—	(33,804)	(27,282)	—	(61,086)
Transfer from assets being acquired	—	4,222	—	—	4,222
Disposals, deficit, surplus	—	13,320	13,123	—	26,443
Revaluation increase	—	—	—	—	—
Revaluation decrease	—	618	—	—	618
Translation differences	—	(715)	(673)	(6)	(1,394)
Other	—	—	(23)	—	(23)
As at December 31, 2019	**—**	**(563,653)**	**(308,542)**	**(2,340)**	**(874,536)**
Carrying amount					
As at January 1, 2019	**275,296**	**582,683**	**127,609**	**9,910**	**995,498**
As at December 31, 2019	**242,864**	**544,237**	**114,723**	**14,073**	**915,896**
Gross carrying amount					
As at January 1, 2020	242,864	**1,107,890**	**423,265**	**16,414**	**1,790,432**
Tranfser to right-of-use assets	—	—	24	—	24
Additions	—	111	1,532	36,754	38,397
Transfer from assets being acquired	25	9,332	21,205	(34,290)	(3,727)
Disposals, deficit, surplus	(8,773)	(12,573)	(17,646)	(69)	(39,061)
Revaluation increase	2,368	145,813	—	—	148,182
Revaluation decrease	(16,325)	(64,665)	—	—	(80,990)
Translation differences	(539)	(505)	(1,955)	(7)	(3,006)
Other	—	(478)	(20)	—	(498)
As at December 31, 2020	**219,620**	**1,184,926**	**426,405**	**18,802**	**1,849,752**
Accumulated depreciation					
As at January 1, 2020	**—**	**(563,653)**	**(308,542)**	**(2,340)**	**(874,536)**
Depreciation	—	(31,847)	(25,770)	—	(57,617)
Transfer from assets being acquired	—	3,727	—	—	3,727
Disposals, deficit, surplus	—	10,551	16,175	(3,870)	22,856
Revaluation increase	—	(139,548)	—	—	(139,548)
Revaluation decrease	—	24,735	—	(444)	24,292
Translation differences	—	215	2,285	—	2,500
Other	—	—	—	—	—
As at December 31, 2020	**—**	**(695,820)**	**(315,853)**	**(6,653)**	**(1,018,326)**
Carrying amount					
As at January 1, 2020	**242,864**	**544,237**	**114,723**	**14,073**	**915,896**
As at December 31, 2020	**219,620**	**489,106**	**110,552**	**12,148**	**831,426**

in EUR 000	Poslovni sistem Mercator d.d. Land	Buildings	Equipment and other assets	Assets not yet available for use	Total
Gross carrying					
As at January 1, 2019	**180,951**	**754,871**	**230,770**	**7,027**	**1,173,620**
Additions	—	—	727	18,458	19,185
Transfer from assets being acquired	873	4,546	8,067	(17,705)	(4,220)
Disposals, deficit, surplus	(5,982)	(7,160)	(7,562)	—	(20,704)
Revaluation increase	—	—	—	—	—
Revaluation decrease	—	—	—	—	—
Translation differences	—	—	—	—	—
Other	12	(114)	(1)	214	110
As at December 31, 2019	**175,854**	**752,143**	**232,001**	**7,993**	**1,167,991**
Accumulated depreciation					
As at January 1, 2019	**—**	**(417,171)**	**(179,659)**	**—**	**(596,830)**
Depreciation	—	(18,027)	(10,678)	—	(28,704)
Transfer from assets being acquired	—	4,220	—	—	4,220
Disposals, deficit, surplus	—	4,610	7,142	—	11,752
Revaluation increase	—	—	—	—	—
Revaluation decrease	—	—	—	—	—
Translation differences	—	—	—	—	—
Other	—	—	—	—	—
As at December 31, 2019	**—**	**(426,367)**	**(183,195)**	**—**	**(609,562)**
Carrying amount					
As at January 1, 2019	**180,951**	**337,701**	**51,111**	**7,027**	**576,790**
As at December 31, 2019	**175,854**	**325,776**	**48,806**	**7,993**	**558,429**
Gross carrying amount					
As at January 1, 2020	**175,854**	**752,143**	**232,001**	**7,993**	**1,167,991**
Transfer to right-of-use assets	—	—	—	—	—
Additions	—	—	887	20,609	21,497
Transfer from assets being acquired	25	4,277	10,686	(18,695)	(3,707)
Disposals, deficit, surplus	(5,656)	(10,551)	(7,703)	—	(23,911)
Revaluation increase	2,336	143,782	—	—	146,118
Revaluation decrease	(7,045)	(17,698)	—	—	(24,743)
Translation differences	—	—	—	—	—
Other	—	(18)	—	—	(18)
As at December 31, 2020	**165,513**	**871,935**	**235,872**	**9,908**	**1,283,227**
Accumulated depreciation					
As at January 1, 2020	**—**	**(426,367)**	**(183,195)**	**—**	**(609,562)**
Depreciation	—	(17,757)	(10,360)	—	(28,117)
Transfer from assets being acquired	—	3,707	—	—	3,707
Disposals, deficit, surplus	—	8,593	7,486	(3,870)	12,210
Revaluation increase	—	(124,795)	—	—	(124,795)
Revaluation decrease	—	8,818	—	—	8,818
Translation differences	—	—	—	—	—
Other	—	—	—	—	—
As at December 31, 2020	**—**	**(547,801)**	**(186,069)**	**(3,870)**	**(737,739)**
Carrying amount					
As at January 1, 2020	**175,854**	**325,776**	**48,806**	**7,993**	**558,429**
As at December 31, 2020	**165,513**	**324,134**	**49,803**	**6,038**	**545,488**

Additions in property, plant and equipment shown in the context of investments relate to:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Purchase of land, buildings and equipment	10,806	9,263	3,317	4,804
Refurbishment of existing retail and wholesale units	24,412	21,444	15,735	12,547
Other	3,178	2,702	2,445	1,834
Total	**38,397**	**33,410**	**21,497**	**19,185**

Decreases in property, plant and equipment relate to:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
Real estate sales	10,790	50,417	7,613	8,449
Sale of equipment	755	1,093	149	382
Write-offs	4,661	581	3,938	121
Total	**16,205**	**52,091**	**11,701**	**8,952**

Breakdown of assets by geographical location

December 31, 2020	Mercator Group					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro	Total
Land	167,455	19,539	24,414	6,538	1,674	**219,620**
Buildings	336,463	98,246	2,716	46,978	4,703	**489,106**
Equipment and other assets	54,243	38,433	632	8,144	9,099	**110,551**
Assets not yet available for use	6,059	5,692	—	—	397	**12,148**
Total	**564,220**	**161,910**	**27,762**	**61,660**	**15,873**	**831,426**

December 31, 2019	Mercator Group					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro	Total
Land	177,796	21,393	35,463	6,538	1,674	**242,864**
Buildings	337,782	132,680	4,822	63,119	5,835	**544,238**
Equipment and other assets	53,018	41,473	921	9,349	9,961	**114,722**
Assets not yet available for use	7,999	5,684	—	57	333	**14,073**
Total	**576,595**	**201,230**	**41,206**	**79,063**	**17,803**	**915,896**

Breakdown of revaluation increase and decrease of land and buildings by geographical location

December 31, 2020	Mercator Group					
in EUR 000	Slovenia	Serbia	Croatia	Bosnia and Herzego-vina	Monte-negro	Mercator Group
Revaluation increase / (decrease) recognized in P&L	(16,247)	(23,138)	(7,890)	(14,546)	(1,025)	**(62,846)**
Revaluation increase / (decrease) recognized in OCI	22,504	(7,469)	(1,161)	884	22	**14,780**
Total	**6,257**	**(30,607)**	**(9,051)**	**(13,662)**	**(1,003)**	**(48,066)**

During 2020, in its separate financial statements, the Company recognized revaluation decrease in the amount of EUR 16,084 thousand in P&L, and revaluation increase in the amount of EUR 21,483 thousand in OCI.

Land and buildings at historical cost basis

Had land and buildings been measured at historical cost basis, the net book amounts would be as follows:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Land	308,033	340,777	188,975	209,111
Buildings	453,805	651,240	255,237	290,405
Total	**761,838**	**992,017**	**444,212**	**499,516**

Mercator Group

Land and buildings are carried at their revalued amounts (details of relevant fair value measurement are disclosed in Note 6), being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses.

Other items of property, plant and equipment, except for land and buildings, are measured using the cost model. They are carried at cost less accumulated depreciation and any accumulated impairment losses.

As at December 31, 2020, net book value of land, buildings and equipment of the Mercator Group amounted to EUR 831,426 thousand (as at December 31, 2019: EUR 915,896 thousand). PP&E decreased by EUR 84,471 thousand when compared to December 31, 2019. The movement is mainly explained by depreciation charge in 2020 in the amount EUR 57,617 thousand, net impairment loss in the amount of EUR 48,066 thousand and additions in the amount EUR 38,397 thousand. Additions mostly relate to opening of 26 new stores and refurbishment of 172 existing stores.

During 2020, in its conslidated financial statements, the Mercator Group recognized revaluation decrease in the amount of EUR 62,846 thousand in P&L, and revaluation increase in the amount of EUR 14,780 thousand in OCI.

Poslovni sistem Mercator d.d.

As at December 31, 2020, net book value of land, buildings and equipment amounted to EUR 545,488 thousand (as at December 31, 2019: EUR 558,429 thousand). PP&E decreased by EUR 12,940 thousand when compared to December 31, 2019. The movement is mainly explained by depreciation charge in 2020 in the amount EUR 28,117 thousand, net impairment in the amount of EUR 5,398 thousand, and additions in the amount EUR 21,497 thousand.

During 2020, in its separate financial statements, the Company recognized revaluation decrease in the amount of EUR 16,084 thousand in P&L, and revaluation increase in the amount of EUR 21,483 thousand in OCI.

16. Leases

Right-of-use assets	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Land and buildings	Vehicles and equipment	Total	Land and buildings	Vehicles and equipment	Total
As at January 1, 2019						
Transfer from PP&E/to investment property	—	—	—	—	—	—
Gross carrying amount	346,316	10,349	356,665	114,878	5,837	120,715
Accumulated depreciation	(41,251)	—	(41,251)	(1,970)	—	(1,970)
Net book amount	**305,065**	**10,349**	**315,414**	**112,908**	**5,837**	**118,745**
Balance as at December 31, 2019						
Net book amount	305,065	10,349	315,414	112,908	5,837	118,745
Effect of foreign exchange differences	—	—	—	—	—	—
Additions	89,876	5,056	94,932	59,525	3,005	62,531
Disposals	—	—	—	—	—	—
Depreciation charge	(54,408)	(3,030)	(57,438)	(10,805)	(1,749)	(12,553)
Revaluation increase	—	—	—	—	—	—
Revaluation decrease	—	—	—	—	—	—
Other changes	—	—	—	—	—	—
Closing net book amount	**340,533**	**12,375**	**352,908**	**161,629**	**7,094**	**168,723**
Balance as at December 31, 2019						
Gross carrying amount	436,192	15,405	451,597	174,403	8,842	183,245
Accumulated depreciation	(95,659)	(3,030)	(98,689)	(12,774)	(1,749)	(14,523)
Net book amount	**340,533**	**12,375**	**352,908**	**161,629**	**7,094**	**168,723**

On October 12, 2018, the company Poslovni sistem Mercator d.d. and companies Supernova signed an agreement on the sale of ten shopping centres in Slovenia. The transaction was completed on February 12, 2019. Supernova paid the acquisition price of EUR 116.6 million, and Mercator took a long-term lease of parts of the centres in which it is conducting its core activity. The amount received for the divested shopping centres was used for repayment of financial liabilities.

Right-of-use assets	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Land and buildings	Vehicles and equipment	Total	Land and buildings	Vehicles and equipment	Total
As at January 1, 2020						
Transfer from PP&E/to investment property	(348)	—	(348)	—	—	—
Gross carrying amount	432,484	14,833	447,317	170,695	8,660	179,356
Accumulated depreciation	(91,379)	(3,030)	(94,409)	(8,885)	(1,749)	(10,633)
Net book amount	**340,756**	**11,803**	**352,559**	**161,811**	**6,912**	**168,723**
Balance as at December 31, 2020						
Net book amount	340,756	11,803	352,559	161,811	6,912	168,723
Effect of foreign exchange differences	—	—	—	—	—	—
Additions*	14,059	6,048	20,107	1,450	3,530	4,980
Disposals**	(5,049)	(72)	(5,121)	(576)	(9)	(585)
Depreciation charge	(44,932)	(3,585)	(48,516)	(10,815)	(2,084)	(12,899)
Revaluation increase	5,934	—	5,934	4,042	—	4,042
Revaluation decrease	(12,878)	—	(12,878)	(5,273)	—	(5,273)
Other changes	27,945	—	27,945	716	—	716
Closing net book amount	**325,836**	**14,194**	**340,030**	**151,354**	**8,349**	**159,703**
Balance as at December 31, 2020						
Gross carrying amount	469,091	20,809	489,900	172,285	12,181	184,467
Accumulated depreciation	(143,255)	(6,615)	(149,870)	(20,931)	(3,833)	(24,764)
Net book amount	**325,836**	**14,194**	**340,030**	**151,354**	**8,349**	**159,703**

* The item includes: a) leases from new contracts signed from January 1, 2020 onward; b) renewal of existing contracts; c) increase regarding to changes in contract terms and conditions.

** The item includes: a) termination of existing contracts; b) reduction of lease duration; c) decrease regarding to changes in contract terms and conditions.

At the end of 2019, sale of the Roda Center New Belgrade in Serbia was successfully completed and Mercator–S d.o.o. entered into a long-term lease agreement for the part of the center in which it is conducting its core activity. Recognized new right-of-use assets relating to the Roda Center Novi Beograd in early 2020 in the amount of EUR 5.7 million is shown as part of Right-of-use assets additions in 2020.

Investment property right-of-use asset is disclosed in Note 18.

Right-of- use land and buildings are carried at their revalued amounts (details of relevant fair value measurement are disclosed in Note 6), being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Non-current	272,636	300,260	71,553	83,496
Current	73,036	76,100	21,354	19,541
Total lease liability	**345,672**	**376,361**	**92,906**	**103,037**

Maturity analysis	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Year 1	73,036	76,100	21,354	19,541
Year 2	51,445	56,380	13,396	15,404
Year 3	47,790	51,535	13,812	12,159
Year 4	39,045	48,418	11,625	12,050
Year 5	49,980	41,014	7,054	11,365
Year 6 and onward	84,375	102,913	25,666	32,519
Total	**345,672**	**376,361**	**92,906**	**103,037**

Amounts recognised in profit and loss	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Depreciation expense on right-of-use assets	(49,320)	(47,040)	(14,246)	(8,426)
Interest expense on lease liabilities	(21,449)	(20,946)	(6,663)	(3,960)
Expense relating to short-term leases & low value items	(1,772)	(1,940)	(975)	(985)
Expense relating to variable lease payments not included in the measurement of the lease liability	—	—	—	—
Income from subleasing right-of-use assets	572	550	—	—

The total cash outflow for leases of the Mercator Group amount to EUR 85,609 thousand (Poslovni sistem Mercator, d.d.: EUR 19,660 thousand), and is presented as cash flow from financing activities. Principal elements of lease payments provided in the statement of cash flow only comprises the repayment of lease principal, interest payments are included in interest paid line.

17. Intangible assets

	Mercator Group				Poslovni sistem Mercator d.d.		
in EUR 000	Trade-marks	Material rights and licenses	Asset not yet available for use	Total	Material rights and licenses	Assets not yet available for use	Total
Gross carrying amount							
As at January 1, 2019	**10,766**	**67,022**	**20**	**77,808**	**49,174**	**—**	**49,174**
Additions	—	183	2,554	2,737	43	2,068	2,110
Transfer from assets being acquired	—	2,574	(2,574)	0	2,068	(2,068)	—
Disposals, deficit, surplus	—	(408)	—	(408)	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	—	—	—	—	—	—
Translation differences	96	45	—	142	—	—	—
Other	—	(94)	—	(94)	—	—	—
As at December 31, 2019	**10,862**	**69,322**	**—**	**80,184**	**51,284**	**—**	**51,284**
Accumulated depreciation							
As at January 1, 2019	**(6,998)**	**(49,865)**	**—**	**(56,863)**	**(36,221)**	**—**	**(36,221)**
Amortization	—	(3,112)	—	(3,112)	(2,330)	—	(2,330)
Transfer from assets being acquired	—	—	—	—	—	—	—
Disposals, deficit, surplus	—	365	—	365	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	—	—	—	—	—	—
Translation differences	(63)	(20)	—	(83)	—	—	—
Other	—	56	—	56	—	—	—
As at December 31, 2019	**(7,060)**	**(52,575)**	**—**	**(59,636)**	**(38,551)**	**—**	**(38,551)**
Carrying amount							
As at January 1, 2019	**3,768**	**17,157**	**20**	**20,945**	**12,953**	**—**	**12,953**
As at December 31, 2019	**3,802**	**16,746**	**—**	**20,548**	**12,733**	**—**	**12,733**
Gross carrying amount							
As at January 1, 2020	**10,862**	**69,322**	**—**	**80,184**	**51,284**	**—**	**51,284**
Additions	—	188	3,169	3,357	161	2,482	2,643
Transfer from assets being acquired	—	3	(3,141)	—	2,482	(2,482)	—
Disposals, deficit, surplus	—	(17)	—	(17)	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	(20)	—	(20)	—	—	—
Translation differences	(14)	(118)	—	(132)	—	—	—
Other	—	—	—	—	—	—	—
As at December 31, 2020	**10,848**	**72,496**	**28**	**83,372**	**53,928**	**—**	**53,928**
Accumulated depreciation							
As at January 1, 2020	**(7,060)**	**(52,575)**	**—**	**(59,636)**	**(38,551)**	**—**	**(38,551)**
Amortization	—	(3,125)	—	(3,125)	(2,383)	—	(2,383)
Transfer from assets being acquired	—	—	—	—	—	—	—
Disposals, deficit, surplus	—	17	—	17	—	—	—
Revaluation increase	—	—	—	—	—	—	—
Revaluation decrease	—	20	—	20	—	—	—
Translation differences	9	93	—	102	—	—	—
Other	—	—	—	—	—	—	—
As at December 31, 2020	**(7,051)**	**(55,571)**	**—**	**(62,623)**	**(40,935)**	**—**	**(40,935)**
Carrying amount							
As at January 1, 2020	**3,802**	**16,746**	**—**	**20,548**	**12,733**	**—**	**12,733**
As at December 31, 2020	**3,797**	**16,925**	**28**	**20,750**	**12,993**	**—**	**12,993**

Mercator Group

As at December 31, 2020, intangible assets amount to EUR 20,750 thousand (2019: EUR 20,548 thousand) and include rights, patents, licenses, trademarks and investments into software.

The value of intangible assets increased in 2020 due to investments in the amount of EUR 3,357 thousand (2019: EUR 2,737 thousand).

The trademark value as at December 31, 2020 amounts to EUR 3,797 thousand and refers to the trademark Roda in Serbia. The estimated useful life of the trademark is indefinite. On December 31, 2020, it was tested for potential impairment, which was not identified.

Amortization of intangible assets amounts to EUR 3,125 thousand (2019: EUR 3,112 thousand).

Poslovni sistem Mercator d.d.

As at December 31, 2020, intangible assets amount to EUR 12,993 thousand (2019: EUR 12,733 thousand) and include rights, patents, licenses and investments into software.

The value of intangible assets increased in 2020 due to investments in the amount of EUR 2,643 thousand (2019: EUR 2,110 thousand).

Amortization of intangible assets amounts to EUR 2,383 thousand (2019: EUR 2,330 thousand).

18. Investment property

in EUR 000	Mercator Group	Poslovni sistem Mercator d.d.
As at January 1, 2019	**268,362**	**4,498**
Additions	—	—
Transfer from assets being acquired	1	1
Disposals	(438)	(417)
Revaluation increase	5,835	—
Revaluation decrease	—	—
Translation differences	(882)	—
Transfers, reclassification	129	—
As at December 31, 2019	**273,006**	**4,081**
As at January 1, 2020	**273,006**	**4,081**
Transfer from right-of-use assets	348	—
Additions	—	—
Transfer from assets being acquired	—	—
Disposals	(57)	(57)
Revaluation increase	3,251	71
Revaluation decrease	(74,691)	(1,072)
Translation differences	(3,358)	—
Transfers, reclassification	478	18
As at December 31, 2020	**198,978**	**3,043**

The following amounts were recognized in the income statement with regard to investment property:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Rental income	14,911	14,973	94	89
Direct expenses arising from investment property and generating rental income	(4,482)	(4,916)	(111)	(79)
Total	**10,429**	**10,056**	**(17)**	**10**

Minimum lease payments receivable on leases of investment properties are as follows:

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Within 1 year	7,150	17,880	7,150	8,785
Between 2 and 5 years	36,864	80,234	36,864	43,594
Later than 5 years	10,381	13,567	10,381	11,818

Mercator Group

The Mercator Group investment property at the Mercator Group level in 2020 amounted to EUR 198,978 thousand (2019: EUR 273,006 thousand). The result of the revaluation of investment property is a downward adjustment in the real estate value in the statement of profit and loss in this respect by an amount of EUR 71,440 thousand. More details about valuations of assets in 2020 are disclosed in Note 6.

Poslovni sistem Mercator d.d.

Investment property at the level of company Poslovni sistem Mercator d.d. in 2020 amounted to EUR 3,043 thousand (2019: EUR 4,081 thousand). The result of the revaluation of investment property is a downward adjustment in the real estate value in the statement of profit and loss in this respect by an amount of EUR 1,001 thousand. More details about valuations of assets in 2020 are disclosed in Note 6.

Financial liabilities of the company Poslovni sistem Mercator d.d. as at December 31, 2020 are not secured by mortgages on investment property.

19. Investments by the company Poslovni sistem Mercator d.d. in equity of Group companies

in EUR 000	As at December 31, 2019	Equity interest (%) as at December 31, 2019	Capital increase	Disposals	Impair-ment	Reversal of impair-ment loss from previous year	As at December 31, 2020	Equity interest (%) as at December 31, 2020
Investments in shares and interests								
Investments in shares and interests in Group companies:								
In Slovenia:								
Mercator–Emba d.d., Logatec	**4,011**	100.0	—	—	—	—	**4,011**	**100.0**
Mercator IP d.o.o., Ljubljana	**1,095**	100.0	—	—	—	—	**1,095**	**100.0**
M–Energija d.o.o., Ljubljana	**—**	100.0	1,955	—	—	516	**2,470**	**100.0**
Ustanova humanitarna fundacija Mercator, Ljubljana	**2**	100.0	—	—	—	—	**2**	**100.0**
Mercator–Velpro d.o.o.*	**8**	100.0	—	—	—	—	**8**	**100.0**
Platinum–A, d.o.o., Platinum–B, d.o.o., Platinum–C, d.o.o., Platinum–D, d.o.o., Mercator Maxi, d.o.o.	**45**	100.0	—	(38)	—	—	**8**	**100.0**
	5,160		**1,955**	**(38)**	**—**	**516**	**7,593**	**—**
Abroad:								
Mercator–S, d.o.o., Serbia	**82,145**	100.0	5,000	—	—	1,371	**88,516**	**100.0**
Mercator–H, d.o.o., Croatia	**126,599**	99.8	11	—	-28,487	—	**98,123**	**99.8**
Mercator–BH, d.o.o., Bosnia and Herzegovina**	**29,341**	56.6	—	—	-7,415	—	**21,926**	**56.6**
Mercator Makedonija, d.o.o.e.l., North Macedonia*	**—**	100.0	—	—	—	—	**0**	**100.0**
Mercator–CG, d.o.o., Montenegro**	**20,282**	56.3	—	—	-912	—	**19,370**	**56.3**
	258,368		**5,011**	**—**	**(36,815)**	**1,371**	**227,935**	
Total equity investments in Group companies	**263,528**		**6,966**	**(38)**	**(36,815)**	**1,886**	**235,528**	

*Companies Mercator Makedonija d.o.o.e.l., Skopje, and Mercator–Velpro d.o.o., Ljubljana, do not yet carry out business activities.

**The owner of the remaining equity interest is the company Mercator–S, d.o.o.

As at December 31, 2020 investments in subsidiaries were tested for impairment. In accordance with IAS 36 the recoverable amount of investment in each subsidiary was determined. Recoverable amount is higher of Value in use (VIU) and Fair value less costs of disposal (FVLCD).

Value in use was calculated using Discounted Cash Flow (DCF) method. Future cash flows were estimated based on the approved budgets and forecast for a period of five years. Growth rate in terminal value calculation was determinated in amount of nominal risk-free rate in combination with country risk premium. Cash flows were then discounted using an appropriate discount rate (WACC), which reflects the characteristics of the industry and country a company operates. Discount rates used range from 6.53% to 9.22%.

Fair value less costs of disposal was calculated using primarily Net Asset Value (NAV) method and DCF method. NAV focuses on company's market value of its total assets minus its total liabilities. Real estate and investment properties are measured at fair value (Level 3 measurement category). The valuation techniques, inputs and assumption used are disclosed in Note 6 in section a) ii). Other assets are either monetary assets (cash, account receivables, loans given, investments) and liabilities (loans received, trade account payables) or non-monetary assets (inventory) realisable in short term operating cycle, therefore their carrying values are assumed as reasonable and appropriate approximation of their fair values.

Based on the presented approaches and methods an impairment loss in total amount of EUR 36,815 thousand was recognized. Major drivers of negative financial results of the companies Mercator–H, d.o.o., Mercator–BH, d.o.o., and Mercator CG, d.o.o., were impairments of their real estate values, which were also booked as at December 31, 2020. Details of relevant fair value measurement are disclosed in Note 6.

Basis for measuring recoverable amount and discount rates used are summarized in the following table.

Company	Recoverable amount	Basis / Discout rate
Mercator– H d.o.o.	FVLCD	Net asset value
Mercator–S d.o.o.	FVLCD	DCF
Mercator–BH d.o.o.	FVLCD	Net asset value
Mercator–CG d.o.o.	VIU	8,63%
Mercator IP d.o.o.	VIU	7,92%
Mercator–Emba d.d.	VIU	7,83%
M–Energija d.o.o.	FVLCD	Net asset value

In October 2020, the District Court in Ljubljana removed five companies of the Mercator Group from the court register. On October 6, 2020, the companies Mercator Maxi, catering and services, d.o.o., Platinum A, real estate management, d.o.o., and Platinum B, real estate management, d.o.o. were deleted. The companies Platinum C, real estate management, d.o.o. and Platinum D, real estate management, d.o.o. were deleted on October 14, 2020. The companies did not conduct any business activities.

20. Investment in financial assets

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
As at January 1	**876**	**393**	**736**	**261**
Investments in insurance companies, shares and interests of other companies	(15)	101	(5)	57
Revaluation	71	453	71	450
Impairments	(5)	(71)	1	(32)
As at December 31	**927**	**876**	**803**	**736**

Revaluation to fair value of financial assets is recognized in other comprehensive income. Impairment of financial assets is recognized in the income statement. The financial assets of the Mercator Group and the company Poslovni sistem Mercator d.d. include also assets that could not be valued at fair value; thus, these assets are valued at cost less the loss due to impairment. Shares of these companies are not listed on the stock exchange.

Mercator Group

On December 31, 2020, the financial assets at the Mercator Group level amounted to EUR 927 thousand (2019: EUR 876 thousand).

Poslovni sistem Mercator d.d.

In the company Poslovni sistem Mercator d.d. these assets on December 31, 2020, amounted to EUR 803 thousand (2019: EUR 736 thousand).

21. Taxes

Taxes recognized in profit or loss

Taxes recognized in profit or loss	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Current tax	359	888	—	—
Deferred tax	(2,504)	5,426	100	5,983
Tax	**(2,146)**	**6,314**	**100**	**5,983**

Poslovni sistem Mercator d.d.

For 2020, the company Poslovni sistem Mercator d.d. does not disclose current tax liability. The amount of unused tax losses as at December 31, 2020 amounts to EUR 101,424 thousand (2019: EUR 101,424 thousand).

Taxes recognized in other comprehensive income

In accordance with IAS 12, the current and deferred tax is recognized as income or expense and is included in net profit or loss. If the tax relates to the items that are recognized directly in the other comprehensive income, deferred tax is credited directly to or against the other comprehensive income.

	Mercator Group			Poslovni sistem Mercator, d.d		
Tax recognized in other comprehensive income:	2019			2019		
in EUR 000	Value before tax	Tax	Value after tax	Value before tax	Tax	Value after tax
Net gains/losses recognized in revaluation surplus in relation to property, plant and equipment	(20,351)	5,052	(15,299)	(26,042)	4,948	(21,094)
Gains/losses recognized in revaluation surplus related to investments in financial assets	525	(98)	427	491	(93)	397
Foreign currency translation differences - foreign operations	(53)	14	(40)	—	—	—
Provisions for termination benefits	(290)	65	(226)	(144)	60	(83)
Other changes	306	—	306	306	—	306
Other comprehensive income	**(19,864)**	**5,033**	**(14,831)**	**(25,388)**	**4,915**	**(20,474)**

	Mercator Group			Poslovni sistem Mercator, d.d		
Tax recognized in other comprehensive income:	2020			2020		
in EUR 000	Value before tax	Tax	Value after tax	Value before tax	Tax	Value after tax
Net gains/losses recognized in revaluation surplus in relation to property, plant and equipment	7,007	(668)	6,338	13,138	(2,131)	11,007
Gains/losses recognized in revaluation surplus related to investments in financial assets	59	(13)	46	67	(13)	54
Foreign currency translation differences - foreign operations	(711)	121	(590)	—	—	—
Provisions for termination benefits	(193)	46	(146)	68	45	113
Other changes	—	—	—	—	—	—
Other comprehensive income	**6,161**	**(513)**	**5,648**	**13,272**	**(2,098)**	**11,174**

Reconciliation to effective tax rate

Reconciliation to effective tax rate:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**2020**	**2019**	**2020**	**2019**
Profit or loss for the year	(156,710)	4,666	(55,420)	(13,807)
Tax	(2,146)	6,314	100	5,983
Profit or loss before tax	**(158,856)**	**10,980**	**(55,320)**	**(7,824)**
Tax calculated at tax rate 19%	(11,146)	1,002	(10,869)	(1,487)
Decrease in income for tax purposes	519	—	433	—
Increase in income for tax purposes	(777)	(1,566)	(421)	(427)
Increase in expenses for tax purposes	(717)	3,279	(691)	9,068
Decrease in expenses for tax purposes	2,114	—	1,605	—
Tax effect of non-deductible expenses	10,772	7,259	10,103	7,001
Tax reliefs	(421)	(6,150)	(37)	(6,090)
Other reconciliations	(2,489)	2,489	(22)	(2,082)
Total tax	**(2,146)**	**6,314**	**100**	**5,983**
Effective tax rate	**1%**	**58%**	**0%**	**-76%**

In 2020, non-deductible expenses of the Mercator Group amounted to EUR 10,772 thousand (Poslovni sistem Mercator d.d.: EUR 10,103 thousand) and refers to impairment of investment into equity of subsidiaries, provisions for employee benefit, differences between accounting depreciation and tax depreciation, and write-off of goods above the allowable amount.

In 2020, tax reliefs of the Mercator Group in the amount of EUR 421 thousand EUR (Poslovni sistem Mercator d.d.: EUR 37 thousand) refers mainly to utilization of unused tax losses, investments in equipment and employment of people with disabilities.

In 2020, other reconciliations of the Mercator Group amounted to EUR (2,489) thousand (Poslovni sistem Mercator d.d.: EUR (22) thousand) and refers to current tax recognized directly in the other comprehensive income and tax loss.

Deferred taxes

Deferred taxes are calculated based on temporary differences under the balance sheet liability method using the tax rate effective in individual countries where the Mercator Group companies operate.

Movements in deferred taxes:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	2020	2019	2020	2019
At the beginning of the year – net deferred tax (liabilities)	**(11,677)**	**(11,670)**	**(4,715)**	**(3,999)**
Foreign exchange differences	123	41	—	—
Recognized in profit or loss	2,561	(5,426)	(113)	(5,983)
Recognized in other comprehensive income	(3,146)	382	(3,322)	319
Recognized in liabilities	2,697	4,996	1,441	4,948
At the end of the year – net deferred tax assets (liabilities)	**(9,442)**	**(11,677)**	**(6,708)**	**(4,715)**

Deferred tax liabilities:	Mercator Group				
in EUR 000	Revaluation of property, plant and equipment	Revaluation of investments in financial assets	Depreciation of property, plant and equipment under EUR 500	Differences between tax recognized and business depreciation	Total
Balance as at January 1, 2019	**45,954**	**12**	**1,099**	**3,132**	**50,198**
Foreign exchange differences	(29)	—	—	15	(14)
Recognized in profit or loss	(14)	—	49	3	38
Recognized in other comprehensive income	(417)	100	—	—	(317)
Recognized under liabilities	(4,948)	—	—	(48)	(4,996)
Balance as at December 31, 2019	**40,547**	**112**	**1,148**	**3,102**	**44,910**
Foreign exchange differences	(119)	—	—	(4)	(123)
Recognized in profit or loss	(232)	13	22	83	(114)
Recognized in other comprehensive income	3,195	(2)	—	—	3,193
Recognized under liabilities	(1,441)	—	—	(1,256)	(2,697)
Balance as at December 31, 2020	**41,949**	**123**	**1,170**	**1,926**	**45,168**

Deferred tax liabilities:	Poslovni sistem Mercator d.d.				
in EUR 000	Revaluation of property, plant and equipment	Revaluation of investments in financial assets	Depreciation of property, plant and equipment under EUR 500	Differences between tax recognized and business depreciation	Total
Balance as at January 1, 2019	**36,877**	**4**	**1,074**	**1,383**	**39,338**
Foreign exchange differences	—	—	—	—	—
Recognized in profit or loss	(14)	—	51	83	121
Recognized in other comprehensive income	(352)	93	—	—	(259)
Recognized under liabilities	(4,948)	—	—	—	(4,948)
Balance as at December 31, 2019	**31,564**	**97**	**1,126**	**1,466**	**34,253**
Foreign exchange differences	—	—	—	—	—
Recognized in profit or loss	(14)	13	24	83	106
Recognized in other comprehensive income	3,367	—	—	—	3,367
Recognized under liabilities	(1,441)	—	—	—	(1,441)
Balance as at December 31, 2020	**33,476**	**110**	**1,150**	**1,549**	**36,285**

In 2020, the Mercator Group discloses EUR 2,697 thousand of deferred tax liabilities recognized under liabilities (Poslovni sistem Mercator d.d.: EUR 1,441 thousand) which refers to elimination of fair value reserves and deferred tax liabilities from the sale of revaluated fixed assets.

Deferred tax assets	Mercator Group							
in EUR 000	Provisions not recognized for tax purposes	Allowances for operating receivables	Tax loss	Value adjustments of merchandise inventories	Difference between tax recognized and business depreciation	Revaluation of investments in financial assets	Other	Total
Balance as at January 1, 2019	**2,346**	**3,919**	**24,685**	**—**	**4,165**	**3,105**	**308**	**38,528**
Foreign exchange differences	2	—	5	—	20	—	1	27
Recognized in profit or loss	(191)	(1,197)	(5,213)	—	1,794	(363)	(218)	(5,388)
Recognized in other comprehensive income	65	—	—	—	—	—	—	65
Balance as at December 31, 2019	**2,222**	**2,721**	**19,477**	**—**	**5,979**	**2,742**	**91**	**33,233**
Foreign exchange differences	—	—	—	—	—	—	—	—
Recognized in profit or loss	(78)	(415)	—	—	2,397	(98)	641	2,447
Recognized in other comprehensive income	47	—	—	—	—	—	—	47
Balance as at December 31, 2020	**2,191**	**2,306**	**19,477**	**—**	**8,375**	**2,644**	**733**	**35,726**

Deferred tax assets	Poslovni sistem Mercator d.d.							
in EUR thousand	Provisions not recognized for tax purposes	Allowances for operating receivables	Tax loss	Value adjustments of merchandise inventories	Difference between tax recognized and business depreciation	Revaluation of investments in financial assets	Other	Total
Balance as at January 1, 2019	**2,030**	**3,904**	**23,357**	**—**	**2,807**	**3,105**	**137**	**35,339**
Foreign exchange differences	—	—	—	—	—	—	—	—
Recognized in profit or loss	(222)	(1,197)	(4,086)	—	52	(363)	(46)	(5,861)
Recognized in other comprehensive income	60	—	—	—	—	—	—	60
Balance as at December 31, 2019	**1,868**	**2,707**	**19,271**	**—**	**2,859**	**2,742**	**91**	**29,538**
Foreign exchange differences	—	—	—	—	—	—	—	—
Recognized in profit or loss	(193)	(409)	—	—	52	(98)	641	(7)
Recognized in other comprehensive income	45	—	—	—	—	—	—	45
Balance as at December 31, 2020	**1,720**	**2,298**	**19,271**	**—**	**2,911**	**2,644**	**733**	**29,577**

Mercator Group

As at December 31, 2020 the Mercator Group discloses EUR 29,577 thousand of deferred tax assets, which indicate an increase by EUR 2,493 thousand in 2020. The biggest share of deferred tax assets arising from unused tax reliefs relates to the company Poslovni sistem Mercator d.d. and can be used without time limitation in future tax periods. Deferred tax assets arising from unused tax reliefs were incurred in the years 2014 and 2017, mainly due to negative one-off business events. In the following years is planned a positive tax base, which may be reduced by the use of tax losses from previous years and consequently the recognized deferred tax assets arising from unused tax reliefs will be eliminated.

In 2020, companies of Mercator Group recognized both deferred tax liabilities and deferred tax assets. Deferred tax liabilities (through profit or loss) decreases the tax bases of the companies in 2020 while deferred tax asset increases it.

Deferred tax assets not recognized through profit or loss pertaining to tax loss and impairment of equity investment into subsidiaries in total amount of EUR 77,830 thousand. Deferred tax assets from impairment of equity investment into subsidiaries were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

Deferred tax assets and liabilities in the balance sheet are offset on the company level.

Poslovni sistem Mercator d.d.

In 2020, the company Poslovni sistem Mercator d.d. recognized both deferred tax liabilities and deferred tax assets. Deferred tax liabilities (through profit or loss) decreases the tax bases of the company in 2020, while deferred tax asset increases it.

Deferred tax assets not recognized through profit or loss, pertaining to the impairment of equity investment into subsidiaries Mercator−H d.o.o., Mercator – CG d.o.o. and Mercator−BH d.o.o. amounted to EUR 6,995 thousand. These deferred tax assets were not recognized because the parent company does not intend to dispose of the said subsidiaries in the foreseeable future.

Deferred tax assets and liabilities in the balance sheet are offset.

22. Inventories

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR thousand	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Merchandise	245,086	250,650	120,243	123,775
Materials	4,943	4,438	592	413
Work in progress	5	11	—	—
Finished goods	616	1,105	—	—
Less: allowance for merchandise impairment	(47,687)	(45,108)	(10,589)	(12,644)
Less: allowance for other inventory impairment	(12)	(7)	—	—
Total	**202,951**	**211,090**	**110,245**	**111,544**

Mercator Group

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress, and finished goods as at December 31, 2020 amounted to EUR 202,951 thousand and decreased by EUR 8,139 thousand mainly due to lower DIO (Days Inventory Outstanding) in retail FMCG business segment.

Inventory provisions have been reviewed in light of the expected net realisable value, driven by changes in customer buying behaviour as a result of COVID-19. All inventory provisioning requires judgement and is based on an assessment of current and expected market conditions, economic environment qualitative characteristics and other factors. Following Management's review, it was assessed no additional provisioning is required against the inventory held at December 31, 2020 due to the COVID-19 epidemic or other factors.

As at December 31, 2020, Mercator Group changed the methods of cost assignment to weighted average method for all groups (merchandise was previously measured by FIFO method). The total effect of changed method amounted to EUR 1,052 thousand.

The reversal of an allowance of inventories is not possible unless these inventories have been sold. An increase in inventory adjustment is recognized in profit or loss account.

The carrying amounts of inventories do not exceed their net realizable value. The inventories are not pledged for loans received.

Poslovni sistem Mercator d.d.

Inventories of trade goods/merchandise, raw and processed materials, work-in-progress and finished goods as at December 31, 2020 amounted to EUR 110,245 thousand, and remained comparable to inventories at the end of the previous year.

The reversal of an allowance for impairment of inventories is not possible unless these inventories have been sold. An increase in inventory adjustment is recognized in profit or loss account.

The carrying amounts of inventories do not exceed their net realizable value. The inventories are not pledged for loans received.

As at December 31, 2020, Poslovni sistem Mercator d.d. changed the methods of cost assignment to weighted average method for all groups (merchandise was previously measured by FIFO method). The total effect of changed method amounted to EUR 447 thousand.

23. Trade and other receivables

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Financial receivables				
Trade receivables	103,198	122,334	46,880	53,881
Other financial receivables	8,198	16,342	1,719	4,991
Non-current receivables	4,190	4,757	2,669	3,042
Total financial Trade and other receivables	**115,586**	**143,433**	**51,267**	**61,913**
Non-financial Trade and other receivables				
Prepaid expenses	4,254	13,217	2,399	3,140
Other non-financial receivables	9,025	10,918	3,934	4,821
Total non -financial trade and other receivables	**13,279**	**24,134**	**6,333**	**7,961**
Total trade and other receivables	**128,865**	**167,567**	**57,601**	**69,874**

Mercator Group

The carrying amounts of all trade and other receivables in all significant amounts are consistent with their fair value. Receivables are carried at amortized cost. The amount of secured receivables is disclosed in Note 31.

In 2020 the impairment expense of receivables amounted to EUR 3,980 thousand (2019: EUR 2,115 thousand) Changes in allowances for trade receivables are disclosed in Note 31.

Because of the nature of financial instruments, Mercator Group can divide trade and other receivables to:

(a) total financial trade and other receivables, which in 2020 amounted to EUR 115,586 thousand, and consisted mainly of trade receivables (EUR 103,198 thousand) and

(b) total non – financial trade and other receivables, which in 2020 amounted to EUR 13,279 thousand, and consisted mainly of prepaid expenses (EUR 4,254 thousand) and advances paid for goods and services (EUR 4,189 thousand).

As at December 31, 2020, trade receivables decreases by EUR 19,136 thousand in comparison to December 31, 2019, mainly due optimization of the business model of wholesale customers with higher profitability in Serbia, which resulted in the optimization of receivables, lower revenue but maintaining EBITDA, and lower revenue in Montenegro due to zero tourist season from May to September.

Poslovni sistem Mercator d.d.

The carrying amounts of all trade receivables and other receivables in all significant amounts are consistent with their fair value. Receivables are valued at amortized cost and are not pledged. The amount of secured receivables is disclosed in Note 31.

In 2020 the impairment expense of receivables amounted to EUR 790 thousand (2019: EUR 2,140 thousand) Changes in allowances for trade receivables are disclosed in Note 31.

Because of the nature of financial instruments, the company Poslovni sistem Mercator d.d. can divide trade and other receivables to:

(a) total financial trade and other receivables, which in 2020 amounted to EUR 51,267 thousand and consisted mainly of trade receivables (EUR 46,880 thousand) and

(b) total non – financial trade and other receivables, which in 2020 amounted to EUR 6,333 thousand and consisted mainly of prepaid expenses (EUR 2,399 thousand) and advances paid for goods and services (EUR 1,495 thousand).

24. Loans and deposits

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Deposits for rent payments	961	2,825	—	—
Loans to companies	2,374	12,527	33,012	25,179
Finance lease receivables	6,336	—	—	—
Deposits in banks	940	754	—	—
Total	**10,611**	**16,106**	**33,012**	**25,179**
Loans and deposits include:				
Non-current/long-term loans and deposits	8,246	13,600	—	30
Current/short-term loans and deposits	2,365	2,506	33,012	25,149

Mercator Group

Loans and deposits at the Mercator Group level as at December 31, 2020, amounted to EUR 10,611 thousand (2019: EUR 16,106 thousand) and relate to short-term loans in the amount of EUR 2,365 thousand (2019: EUR 2,506 thousand) and in the amount of EUR 8,246 thousand (2019: EUR 13,600 thousand) to long-term loans.

Deposits for rent payments relate to long-term paid in advance rents for trade facilities abroad and are charged with interest. The average interest rate on loans given and deposits is 3.51%.

Finance lease receivables at the Mercator Group level as at December 31, 2020, amounted to EUR 6,336 thousand and refers to financial receivables to parties within Fortenova Group from financial sublease.

The Mercator Group did not book provisions for deposits in banks, loans to companies, deposits forrent payments as expected credit losses are immaterial.

Poslovni sistem Mercator d.d.

As at December 31, 2020, loans in the amount of EUR 33,012 thousand (2019: EUR 25,179 thousand) relate to short-term loans in the amount of EUR 33,012 thousand (2019: EUR 25,149 thousand) and in the amount of EUR 0 thousand (2019: EUR 30 thousand) to long-term loans.

The average interest rate on loans given is 3.51%. The company Poslovni sistem Mercator d.d. has no secured loans given to subsidiaries and no other loans given.

The company Poslovni sistem Mercator d.d. did not book provisions for deposits in banks, loans to companies, deposits in rent payments as expected credit looses are immaterial.

25. Cash and cash equivalents

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Cash in hand	12,331	11,293	5,769	5,379
Cash in banks	37,553	34,484	23,195	5,759
Total cash and cash equivalents	**49,884**	**45,777**	**28,964**	**11,137**

Cash and cash equivalents includes cash in transit (daily proceeds of retail units), cash in hand, and deposits with maturity of less than 90 days.

26. Equity

Share capital

Share capital of the company Poslovni sistem Mercator d.d. amounts to EUR 254,175,051.39. It is divided into 6,090,943 ordinary registered, non par value shares (2019: 6,090,943), that are all entered into the Companies Register as at December 31, 2020.

Conditional capital increase

Shareholders' Assembly of the company Poslovni sistem Mercator d.d. can adopt a resolution on conditional capital increase on the basis of provisions stated in Article 46 of the company's Articles of Association; such possibility has not been realized so far.

Own shares

As at December 31, 2020, the company Poslovni sistem Mercator d.d. held 42,192 own shares in the amount of EUR 3,235 thousand (2019: 42,192 own shares, EUR 3,235 thousand).

Reserves

Reserves of the Mercator Group and the company Poslovni sistem Mercator d.d. comprise reserves for own shares, share premium, legal reserves, other profit reserves, fair value reserves and currency translation reserves. None of share premium, legal reserves, fair value reserve and currency translation reserve can be used for payment of dividends or other participation in profit.

Reserves, as at December 31, 2020, amounting to EUR 133,709 thousand on the Mercator Group level (2019: EUR 135,243 thousand) and EUR 153,867 thousand (2019: EUR 142,693 thousand), at the company Poslovni sistem Mercator d.d.:

- As at December 31, 2020, the company Poslovni sistem Mercator d.d. owned 42,192 *own shares* in the amount of EUR 3,235 thousand (2019: EUR 3,235 thousand).
- As at December 31, 2020 the company Poslovni sistem Mercator d.d. has *share premium* in the amount of EUR 2,571 thousand (2019: EUR 2,571 thousand). It includes the excess over nominal value of paid-up shares and surplus that was created as the difference between purchase and sales values of disposed own shares.

- As at December 31, 2020, the Mercator Group has *legal reserves* in the amount of EUR 20,691 thousand (2019: 20,691 thousand), while the company Poslovni sistem Mercator d.d. has legal reserves in the amount of EUR 13,389 thousand (2019: EUR 13,389 thousand).
- *Other profit reserves* as at December 31, 2020 amount to EUR 11,969 thousand at the Mercator Group (2019: EUR 11,990 thousand), while the company Poslovni sistem Mercator d.d. has no other revenue reserves. Other profit reserves consist of redistributed residual retained earnings from previous years. They can be used for any purpose, except for own shares reserve.
- *Fair value reserve,* which as at December 31, 2020 amounts to EUR 186,215 thousand (2019: EUR 180,566 thousand) for the Mercator Group and EUR 134,672 thousand (2019: EUR 123,498 thousand) for the company Poslovni sistem Mercator d.d. includes fair value reserve for buildings and land, which is measured using the revaluation model, fair value reserve regarding investments in financial assets and fair value reserve from actuarial gains or losses arising from creation of provisions for post employment benefits.

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Property fair value reserve	190,758	184,975	139,039	128,000
Fair value reserve for investments in financial assets	641	583	579	512
Actuarial gain/loss of post employment benefits	(5,184)	(4,991)	(4,946)	(5,015)
Total fair value reserve	**186,215**	**180,566**	**134,672**	**123,498**

- *Currency translation reserve* at the Mercator Group level as at December 31, 2020 amounts to EUR (90,971) thousand which decreased in 2020 by EUR 7,160 thousand due to the changes in foreign currency because of consolidation of subsidiaries into consolidated financial statements.

Capital and legal reserves (tied reserves) can be used in surplus amount to increase the share capital from the company's assets and for covering the net loss of the financial year and to cover the carried forward net loss if the profit reserves for the distribution of profit to the shareholders are not used simultaneously.

Non-controlling interest

Non-controliing interest are not material to Group Mercator. Non-controling interest relates to subsidiary Mercator-H d.o.o. in ownership of share capital 0.02%.

Changes in equity in 2019 for the Mercator Group relate to:

in EUR 000	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserve	Currency trans. reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribu. to the contr. company owners	Non-control. interest	Total equity
As at January 1, 2019	**254,175**	**(3,235)**	**3,235**	**6,381**	**19,386**	**11,037**	**195,398**	**(83,471)**	**21,296**	**1,597**	**425,800**	**149**	**425,949**
Net profit/loss for the 2019 year	—	—	—	—	—	—	—	—	—	4,645	4,645	21	4,666
Change in fair value of financial assets	—	—	—	—	—	—	525	—	30	—	555	—	555
Deferred taxes	—	—	—	—	—	—	5,033	—	3,899	—	8,932	—	8,932
Foreign currency translation differences	—	—	—	—	—	—	—	(339)	—	—	(339)	(509)	(848)
Actuarial gain/loss of post employment benefits	—	—	—	—	—	—	(279)	—	—	—	(279)	—	(279)
Other changes	—	—	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**5,278**	**(339)**	**3,929**	**—**	**8,868**	**(509)**	**8,359**
Total comprehensive income for the year 2019	**—**	**—**	**—**	**—**	**—**	**—**	**5,278**	**(339)**	**3,929**	**4,645**	**13,513**	**(488)**	**13,025**
Disposal of land and buildings carried at fair value	—	—	—	—	—	—	(20,110)	—	20,110	—	—	—	—
Total transactions with owners	**—**	**—**	**—**	**(3,811)**	**1,305**	**953**	**—**	**—**	**3,151**	**(1,597)**	**—**	**—**	**—**
Balance as at December 31, 2019	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**

Changes in equity in 2020 for the Mercator Group relate to:

in EUR 000	Share capital	Own shares	Reserves for own shares	Share premium	Legal reserves	Other profit reserves	Fair value reserve	Currency trans. reserve	Retained net profit or loss	Net profit or loss for the period	Equity attribu. to the contr. company owners	Non-control. interest	Total equity
As at January 1, 2020	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**48,486**	**4,645**	**439,314**	**(339)**	**438,974**
Other changes	—	—	—	—	—	—	—	—	(740)	—	(740)	740	—
As at January 1, 2020	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,990**	**180,566**	**(83,810)**	**47,746**	**4,645**	**438,574**	**401**	**438,974**
Net profit/loss for the 2020 year	—	—	—	—	—	—	—	—	—	(156,710)	(156,710)	—	(156,710)
Change in fair value of land and buildings	—	—	—	—	—	—	7,006	—	7,726	—	14,733	—	14,733
Change in fair value of financial assets	—	—	—	—	—	—	59	—	—	—	59	—	59
Deferred taxes	—	—	—	—	—	—	(634)	—	209	—	(426)	—	(426)
Foreign currency translation differences	—	—	—	—	—	(21)	—	(7,160)	(204)	150	(7,236)	(170)	(7,405)
Actuarial gain/loss of post employment benefits	—	—	—	—	—	—	(193)	—	(148)	—	(341)	—	(341)
Other changes	—	—	—	—	—	—	(590)	—	1,767	—	1,177	—	1,177
Other comprehensive income	—	—	—	—	—	**(21)**	**5,649**	**(7,160)**	**9,349**	**150**	**7,966**	**(170)**	**7,797**
Total comprehensive income for the year 2020	—	—	—	—	—	**(21)**	**5,649**	**(7,160)**	**9,349**	**(156,560)**	**(148,744)**	**(170)**	**(148,913)**
Total transactions with owners	—	—	—	—	—	—	—	—	**6,630**	**(4,645)**	**1,984**	—	**1,984**
Balance as at December 31, 2020	**254,175**	**(3,235)**	**3,235**	**2,571**	**20,691**	**11,969**	**186,215**	**(90,971)**	**63,725**	**(156,560)**	**291,814**	**231**	**292,046**

Dividends

The company Poslovni sistem Mercator d.d. did not pay dividends in 2020.

As at December 31, 2020, 1,505 shareholders were registered in the company's share register, which means that the number of shareholders of the company decreased by 67 compared to December 31, 2019.

Detailed ownership structure is presented in the Business part of the Annual Report.

Proposal for coverage of accumulated loss of the company Poslovni sistem Mercator d.d.

Identified accumulated loss for 2020 and 2019 comprises the following:

	Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**
Net profit/loss for the year	(55,420)	(13,807)
Net profit/loss for the previous year	(13,807)	—
Accumulated loss for the year	**(69,227)**	**(13,807)**

As of December 31, 2020 accumulated loss for the company Poslovni sistem Mercator d.d. amounted to EUR 55,420 thousand and as of December 31, 2019 amounted to EUR 13,807 thousand and remains uncovered for both years.

27. Earnings/Loss per share

Basic earnings (loss) per share are calculated by dividing the net profit (loss) attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of own shares.

Basic net earnings (loss) per share:	Mercator Group		Poslovni sistem Mercator d.d.	
	2020	**2019**	**2020**	**2019**
Profit / (loss) attributable to the shareholders (in EUR 000)	(156,710)	4,666	(55,420)	(13,807)
Weighted average number of outstanding ordinary shares	6,048,751	6,048,751	6,048,751	6,048,751
Earnings / (loss) per share (in EUR)$^{\Delta}$	**(25.9)**	**0.8**	**(9.2)**	**(2.3)**

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

Weighted number of ordinary shares:	Mercator Group		Poslovni sistem Mercator d.d.	
	2020	**2019**	**2020**	**2019**
Issued ordinary shares as at January 1	6,090,943	6,090,943	6,090,943	6,090,943
Effect of own shares	(42,192)	(42,192)	(42,192)	(42,192)
Effect of new issue	—	—	—	—
Weighted average number of ordinary shares as at December 31	**6,048,751**	**6,048,751**	**6,048,751**	**6,048,751**

Since the Mercator Group and the company Poslovni sistem Mercator d.d. do not have any preference shares or convertible bonds, diluted earnings/losses per share are the same as basic earnings/losses per share.

28. Borrowings and lease liabilities

in EUR 000	Mercator Group Dec. 31, 2020	Mercator Group Dec. 31, 2019	Poslovni sistem Mercator d.d. Dec. 31, 2020	Poslovni sistem Mercator d.d. Dec. 31, 2019
Long-term financial liabilities				
Loans from banks	67,743	451,902	—	326,219
Loans from related parties and other companies	—	20,000	—	35,774
Lease liabilities	272,636	300,260	71,553	83,496
Total	**340,379**	**772,162**	**71,553**	**445,490**
Short-term financial liabilities				
Bank loans and short-term part of long-term bank loans	461,863	96,745	352,841	25,975
Loans from related parties and other companies and short-term part of long-term loans from related parites and other companies	22,675	17	42,592	4,200
Lease liabilities	73,036	76,100	21,354	19,541
Total	**557,574**	**172,862**	**416,786**	**49,716**
Total financial liabilities	**897,953**	**945,024**	**488,339**	**495,205**

December 31, 2020	Mercator Group	Poslovni sistem Mercator d.d.
Loans secured by pledged property	530,712	353,082

More information about pledged assets of the Mercator Group and the company Poslovni sistem Mercator d.d. is disclosed in Note 32 Contingent liabilities.

Effective interest rates as at the balance sheet date:	Mercator Group		Poslovni sistem Mercator d.d.	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Bank loans	3,55%	3.53 %	3.21 %	3.18 %
Other loans	1,83%	2.04 %	1.74 %	1.91 %

Floating interest rates are mostly interest rates related to EURIBOR. Fixed interest rates are mostly related to borrowings from domestic banks or related parties with fixed nominal interest rate.

Mercator Group

As at December 31, 2020, Mercator Group's financial liabilities amounted to EUR 897,953 thousand (December 31, 2019: EUR 945,024 thousand).

In 2020 major part of the proceeds from sale of the Roda Centre New Belgrade (as described in Note 16) was used to repay financial liabilities, resulting in the long-term loan payable balance to reduce down for EUR 11,250 thousand.

Mercator Group's bank loans decreased since December 31, 2019, mainly due to decrease of lease liabilities. Contractual maturity for the Super Senior[17] revolving credit line is March 2021, and for Wider Group Deal tranche[18] June 2021. Detailed information are disclosed in the table below.

[17] Super Senior Loan is a revolving loan in which lenders have the super senior status in terms of collateral ranking and in terms of having priority repayment before other creditors.

[18] Wider Group Deal (WGD) is an agreement between all the financial institutions that had financed all companies (except Mercator-S, d.o.o.) in the Mercator Group in the year of 2014. Agreement is valid till June 27, 2021 and it was restated to tranche A, tranche B and tranche C.

Mercator Group bank loans by finance documents	Dec. 31, 2020	
in EUR 000	Mercator Group	Poslovni sistem Mercator d.d.
Senior Wider-Group-Deal	315,519	248,365
Super Senior Facility Agreement	80,000	80,000
AIK Loan	103,633	—
PIK interest	31,560	24,717
Financial restructuring costs, effective interest rate, exchange differences	(1,105)	(241)
Total loans from banks	**529,607**	**352,841**

Mercator Group bank loans by finance documents	Dec. 31, 2019	
in EUR 000	Mercator Group	Poslovni sistem Mercator d.d.
Senior Wider-Group-Deal	335,630	258,452
Super Senior Facility Agreement	70,000	70,000
AIK Loan	112,474	—
PIK interest	31,560	24,717
Financial restructuring costs, effective interest rate, exchange differences	(1,017)	(976)
Total loans from banks	**548,647**	**352,193**

In December 2019, the company Mercator–S d.o.o. and AIK Bank signed contractual documentation for refinancing of the Serbian Deal on the restructuring of the financial debt of the company Mercator–S d.o.o. from the year 2014 and other short-term loan agreements, in the total amount of EUR 90 million. The new loan was taken out for a period of five years, and it is an important building block in the pursuit of our long-term strategy. Refinancing was completed on December 27, 2019, while refinancing of other short-term borrowings was completed in January 2020.

After active involvement in exploring potential refinancing scenarios the management adopted the decision to refinance the debt with the loan from Fortenova and VTB based on the extension of the existing financing agreement at the Fortenova level. The loan with a maturity of 5 years and a bullet repayment was signed on April 15, 2021 and disbursed on April 23, 2021.

Carrying amounts of all financial liabilities approximate their fair values. The share of long-term financial liabilities in total financial liabilities as at December 31, 2020 amounted to 37.9%.

Poslovni sistem Mercator d.d.

As at December 31, 2020, the Poslovni sitem Mercaor d.d.'s financial liabilities amounted to EUR 488,339 thousand. Contractual maturity for the Super Senior[1] revolving credit line is March 2021, and for Wider Group Deal tranche June 2021.

Carrying amounts of all financial liabilities approximate their fair values. The share of long-term financial liabilities in total financial liabilities as at December 31, 2020 amounted to 14.7%.

29. Provisions

Mercator Group

	Mercator Group					
	Provisions for employee benefit		Other provisions			
in EUR 000	Provisions for post employment benefits	Provisions for jubilee awards	Provisions for company reorganization costs	Lawsuits received	Provisions for other purposes	Total
Balance as at January 1, 2019	**16,958**	**3,946**	**697**	**4,411**	**4,131**	**30,143**
Creation	2,177	674	—	708	2,715	6,274
Utilization	(1,237)	(611)	(2)	(1,599)	(2,490)	(5,938)
Reversal	(577)	(255)	—	(1,727)	(2,127)	(4,685)
Foreign exchange differences	10	—	—	—	—	10
Balance as at December 31, 2019	**17,331**	**3,755**	**696**	**1,793**	**2,230**	**25,804**
Creation	2,146	679	—	589	4,081	7,495
Utilization	(1,419)	(532)	(162)	(577)	2,378	(313)
Reversal	(558)	(155)	(96)	(511)	(4,111)	(5,431)
Foreign exchange differences	119	—	—	(130)	—	(11)
Balance as at December 31, 2020	**17,618**	**3,746**	**438**	**1,164**	**4,577**	**27,543**

Provisions at the Mercator Group level as at December 31, 2020 amounted to EUR 27,543 thousand (2019: EUR 25,804 thousand). Additionally, provisions for EUR 7,495 thousand were created, provisions for EUR 313 thousand were utilized, provisions for EUR 5,431 thousand were reversed, and EUR (11) thousand refers to foreign exchange differences. More details are presented below.

Poslovni sistem Mercator d.d.

	Poslovni sistem Mercator d.d.					
	Provisions for employee benefit		Other provisions			
in EUR 000	Provisions for post employment benefits	Provisions for jubilee awards	Provisions for company reorganization costs	Lawsuits received	Provisions for other purposes	Total
Balance as at January 1, 2019	**14,516**	**3,704**	**600**	**3,121**	**3,767**	**25,708**
Creation	1,685	623	—	117	325	2,750
Utilization	(1,072)	(584)	—	(1,104)	—	(2,759)
Reversal	(538)	(230)	—	(1,651)	(2,127)	(4,546)
Foreign exchange differences	—	—	—	—	—	—
Balance as at December 31, 2019	**14,591**	**3,514**	**600**	**482**	**1,965**	**21,152**
Creation	1,402	636	—	—	4,021	6,059
Utilization	(1,135)	(504)	(162)	—	—	(1,801)
Reversal	(439)	(134)	—	(372)	(1,640)	(2,585)
Foreign exchange differences	—	—	—	—	—	—
Balance as at December 31, 2020	**14,419**	**3,512**	**438**	**110**	**4,346**	**22,824**

As at December 31, 2020, provisions at the level of the company Poslovni sistem Mercator d.d. amounted to EUR 22,824 thousand (2019: EUR 21,152 thousand). Additionally, provisions for EUR 6,059 thousand were created, provisions for EUR 1,801 thousand were utilized and provisions for EUR 2,585 thousand were reversed.

Provisions for employee benefits

Development of provisions for post employment benefits and jubilee payments in Mercator Group	Mercator Group		
in EUR 000	Provisions for jubilee awards	Provisions for post employment benefits	Total
Provisions as at January 1, 2019	**16,835**	**3,946**	**20,781**
Interest cost	191	32	222
Current service cost	1,122	302	1,424
Past service cost	137	4	141
Actuarial gains (-) and losses (+)	125	85	210
- due to changes in financial assumptions	1,262	175	1,437
- due to changes in demographic assumptions	(2,022)	(543)	(2,565)
- due to experience adjustments	884	453	1,337
Payments during the year	(1,091)	(613)	(1,704)
Exchange rate difference	11	—	11
Provisions as at December 31, 2019	**17,331**	**3,755**	**21,086**
Interest cost	59	3	63
Current service cost	1,192	324	1,516
Past service cost	52	13	65
Actuarial gains (-) and losses (+)	204	176	380
- due to changes in financial assumptions	(637)	(36)	(673)
- due to changes in demographic assumptions	521	73	594
- due to experience adjustments	321	139	459
Payments during the year	(1,219)	(525)	(1,743)
Exchange rate difference	(1)	—	(1)
Provisions as at December 31, 2020	**17,618**	**3,746**	**21,364**

Development of provisions for post employment benefits and and jubilee payments in Poslovni sistem Mercator d.d.	Poslovni sistem Mercator d.d.		
in EUR 000	Provisions for jubilee awards	Provisions for post employment benefits	Total
Provisions as at January 1, 2019	**14,516**	**3,704**	**18,220**
Interest cost	129	30	159
Current service cost	834	282	1,116
Past service cost	9	4	13
Actuarial gains (-) and losses (+)	95	82	177
- due to changes in financial assumptions	970	162	1,131
- due to changes in demographic assumptions	(1,717)	(518)	(2,235)
- due to experience adjustments	842	438	1,280
Payments during the year	(992)	(588)	(1,580)
Exchange rate difference	—	—	—
Provisions as at December 31, 2019	**14,591**	**3,514**	**18,105**
Interest cost	13	3	16
Current service cost	892	304	1,197
Past service cost	(19)	9	(11)
Actuarial gains (-) and losses (+)	60	179	239
- due to changes in financial assumptions	(583)	(36)	(618)
- due to changes in demographic assumptions	404	75	479
- due to experience adjustments	239	140	378
Payments during the year	(1,118)	(497)	(1,615)
Exchange rate difference	—	—	—
Provisions as at December 31, 2020	**14,419**	**3,512**	**17,931**

The company Poslovni sistem Mercator d.d. and Mercator Group are exposed to long-term employee benefits risks, in particular:

- changes in legislation governing in relation to employment, retirement, contributions and taxes;
- changes in collective and corporate agreements, as well as other internal acts, affecting the type and level of benefits;
- significant changes in amounts to which benefits are related: average salaries in states, salaries of employees, fixed amounts of awards and non-taxable amounts of awards;
- changes in the economic environments – e.g. severance on termination of employment.

Present values of the long-term employee benefits are subject to the following risks:

- all risks to which long-term employee benefits are exposed;
- the difference between the actual experience and actuarial assumptions (mortality, fluctuation – termination of employment, earlier or later retirement, growth rates of wages and non-taxable amounts of awards);
- changes in discount rates used in measurements between different balance sheet dates.

The following actuarial assumptions were taken into account in the calculation of provisions for jubilee awards and post employment benefits:

- demographic assumptions:
    - expected mortality is determined on the basis of population mortality tables of each country (for RS published from 2007, for Croatia, Serbia and Montenegro from 2010-2012, for Bosnia from 2012-2014), reduced for 10% due to lower mortality of working population,
    - the fluctuation, which means the employee decision to leave a company, is determined linearly descending depending on employee’s age, on average 8.5% for Poslovni sistem Mercator d.d. for 2020 and the Mercator Group averages 8,2% for 2021, weighted by the number of employees in each company, the estimated date of

retirement is set on the date on which the first condition for retirement is fulfilled, taking into account laws of each country.

- financial assumptions:
  - the expected growth of average wages in each country take into account inflation and real growth forecasts (source: IMF and UMAR); for RS is set according to UMAR forecasts for 2021 and 2022, from 2023 is set to 3% yearly, for Serbia is long-term set to 3.5% ,for Bosnia is long-term set 2.0% yearly (minimal salary) and for Montenegro is long-term set to 1,7% (minimal salary),
  - expected increase in employee salaries in Group Mercator takes into account the growth due to inflation, promotions and loading for services (for RS all together is set to 2.7%, for Bosnia and Herzegovina to 2.8 % yearly),
  - the expected growths of fixed amounts and non-taxed amounts of awards take into account the growth in relation to the inflation forecast (UMAR and IMF), for RS 2.0%, for Croatia 2,0% yearly from 2023 onwards and for Montenegro 1.7% yearly),
- the discount rates, which are set taking into account the average weighted liabilities of each company and the yield on high-quality (AA rating) corporate bonds denominated in EUR for companies in Slovenia and on corporate bonds for companies in other countries at the reporting date, amount to 0.0% for the Poslovni sistem Mercator d.d. (average weighted liabilities are 7,6 years) and on average to 0.4 % for the Mercator Group (range between 0.0% and 3.4%, average weighted liabilities are 8,5 years), weighted by undiscounted amount of liabilities.

Sensitivity analysis of actuarial assumption changes for Mercator Group

		Mercator Group			
Actuarial assumptions	Change in the assumptions (of p.p.)	Change in present value of obligations			
		jubilee awards as at		post employment benefits as at	
		Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.5	(105,841)	(104,461)	(718,402)	(693,538)
	(0.5)	112,039	110,213	772,091	744,265
Growth in amounts of benefits basis	0.5	109,410	107,911	781,715	751,458
	(0.5)	(104,701)	(71,384)	(742,220)	(717,050)
Fluctuation of employees	0.5	(112,089)	(110,941)	(743,042)	(719,127)
	(0.5)	112,602	111,779	584,029	585,922

Sensitivity analysis of actuarial assumption changes for Poslovni sistem Mercator d.d.

		Poslovni sistem Mercator d.d.			
Actuarial assumptions	Change in the assumptions (of p.p.)	Change in present value of obligations			
		jubilee awards as at		post employment benefits as at	
		Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.5	(98,360)	(96,676)	(561,661)	(561,647)
	(0.5)	104,121	101,903	604,092	600,980
Growth in amounts of benefits basis	0.5	101,675	99,768	610,938	605,608
	(0.5)	(97,298)	(65,738)	(581,279)	(580,947)
Fluctuation of employees	0.5	(104,326)	(102,830)	(579,256)	(580,931)
	(0.5)	105,085	103,730	482,574	489,872

Costs estimation for next year for Mercator Group and Poslovni sistem Mercator d.d.

	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Provisions for jubilee awards	Provisions for retirement severance	Total	Provisions for jubilee awards	Provisions for retirement severance	Total
Interest cost	1,010	4	1,014	859	4	863
Current service cost	1,243	—	1,243	1,120	—	1,120

Future benefit payments for Mercator Group and Poslovni sistem Mercator d.d.

	Mercator Group			Poslovni sistem Mercator d.d.		
in EUR 000	Provisions for jubilee awards	Provisions for retirement severance	Total	Provisions for jubilee awards	Provisions for retirement severance	Total
Estimated Future Payments (Past and Future Service)*						
2021	553	1,038	1,591	527	878	1,405
2022	531	1,340	1,871	505	1,199	1,703
2023	576	1,674	2,250	542	1,446	1,988
2024	535	2,024	2,559	501	1,749	2,250
2025	532	2,226	2,757	501	1,921	2,423
Total undiscounted payments (past and future service)	**2,727**	**8,302**	**11,028**	**2,576**	**7,193**	**9,769**

*Fluctuation is not included in the calculation.

Other provisions

Mercator Group

Provisions for company reorganization costs

As at December 31, 2020, provisions for company reorganization costs amounted to EUR 438 thousand and are related to payments of termination benefits on early retirement. At this time, Mercator Group can not asses when those provisions will be released as these provisions related to future restructuring of Fortenova Group and were formed based on reorganization that will start in Fortenova Group as soon as Fortenova became Mercator Group owner.

Lawsuits received

Provisions for lawsuits received as at December 31, 2020 amounted to EUR 1,164 thousand (December 31, 2019: EUR 1,793 thousand). On the basis of the lawsuits received and the opinion of the legal profession, in 2020 the Mercator Group created additional provisions in total amount of EUR 589 thousand. In 2020 were utilized provisions in the amount of EUR 577 thousand and reversed EUR 511 thousand provisions.

The total value of lawsuits against Mercator Group as defendant totals to EUR 57,050 thousand (2019: EUR 54,880 thousand) at 31 December 2020. The management estimates that there is a possibility that some of these lawsuits will be lost, and as a result, set aside provisions. The amounts of provisions for lawsuits related are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for lawsuits are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. The recognized provision reflects the management best estimate of the most likely outcome.

Other provisions

Other provisions as at December 31, 2020 amounted to EUR 4,577 thousand (December 31, 2019: EUR 2,230 thousand). Increase referred mainly to issued credit notes for the closure period to our tenants in the second wave of COVID-19 epidemic and provisions regarding to COVID-19 Government aid, which is in detailed described in Note 11.

Poslovni sistem Mercator d.d.

Provisions for company reorganization costs

As at December 31, 2020, provisions for company reorganization costs amounted to EUR 438 thousand and are related to payments of termination benefits on early retirement. At this time, Mercator Group can not asses when those provisions will be released as these provisions related to future restructuring of Fortenova Group and were formed based on reorganization that will start in Fortenova Group as soon as Fortenova became Mercator Group owner.

Lawsuits received

Provisions for lawsuits received as at December 31, 2020 amounted to EUR 110 thousand (December 31, 2019: EUR 482 thousand). In 2020, provisions for lawsuits in the amount of EUR — thousand were created, EUR — thousand were utilized and EUR 372 were reversed.

The total value of lawsuits against the company Poslovni sistem Mercator d.d. as defendant totals to EUR 853 thousand (2019: EUR 2,728 thousand) at 31 December 2020. The management estimates that there is a possibility that some of these lawsuits will be lost, and as a result, set aside provisions. The amounts of provisions for lawsuits related are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated amount, if the indemnification claim is not yet disclosed. External advisers for lawsuits are engaged for defining the anticipated amounts. Furthermore, the management each year verifies the calculated amount of provisions for each individual claim that is not yet closed. The recognized provision reflects the management best estimate of the most likely outcome.

Other provisions

As at December 31, 2020, the company Poslovni sistem Mercator d.d. had EUR 4,346 thousand of other provisions (December 31, 2019: EUR 1,965 thousand). Increase referred to issued credit notes for the closure period to our tenants in the second wave of COVID-19 epidemic and provisions regarding to COVID-19 Government aid, which is in detailed described in Note 11.

30. Trade and other payables

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade payables	466,493	495,526	242,226	248,602
- of which modified trade payables	26,651	22,347	14,264	11,881
Payables to employees	17,583	15,045	10,663	8,729
Liabilities for taxes and contributions	28,881	22,823	23,297	18,698
Other payables	15,945	19,347	8,142	5,792
Accrued costs	20,154	17,937	12,157	10,493
Deferred revenues	9,624	8,824	8,858	8,349
Total	**558,680**	**579,502**	**305,344**	**300,662**
Trade and other payables include:				
Non-current/long-term liabilities	—	—	—	—
Current/short-term liabilities	558,680	579502	305,344	300662

Mercator Group

Trade and other payables as at December 31, 2020 amounted to EUR 558,680 thousand (2019: EUR 579,502 thousand).

Trade payables comprise payables for merchandise, goods and services.

As at December 31, 2020 the amount of modified trade payables of Mercator Group as a result of supplier finance arrangements amounted to EUR 26,651 thousand (2019: EUR 22,347 thousand).

One type of these arrangements arises from the ordinary course of business where certain trade payables are contractually deferred. In those cases the original supplier has been paid (on or before the original contractual maturity date) by the new creditor and the new creditor has prolonged the original payment term for the obligor as well. Many of such trade payables are with recourse to the original supplier. The amount of such arrangements with deferred payment is EUR 3,984 thousand. The deferral period of such arrangements concluded in the course of 2020 is less than one year. The other type of these arrangements are concluded between the supplier and the new creditor and Mercator is only notified or has agreed to pay to the new creditor instead of the original supplier. Other than the change of the payee there is no change in payment terms or any other contractual terms. The amount of such arrangements is EUR 22,667 thousand.

Accrued costs pertain to accrued interest paid on borrowings, rebates granted but not accounted for, and compensations, the costs of unused annual leave and other accrued costs.

Deferred revenue includes particularly deferred revenue for claiming the discounts related to Pika bonus points.

As at December 31, 2020, the Mercator Group does not have any operating liabilities due to the Supervisory Board members, members of the Management Board and other key management employees, although it has recognized undisbursed compensation for December 2020.

Because of the nature of financial instruments, Mercator Group can divide trade and other payables to (a) total financial trade and other payables, which as at December 31, 2020, amounted to EUR 466,493 thousand and represent trade payables in the whole amount and (b) total non – financial trade and other payables, which as at December 31, 2020, amounted to EUR 92,187 thousand for the Mercator Group.

Poslovni sistem Mercator d.d.

As at December 31, 2020, trade and other payables amounted to EUR 305,344 thousand (2019: EUR 300,662thousand).

Trade payables comprise payables for merchandise, goods and services.

As at December 31, 2020 the amount of modified trade payables of Poslovni sistem Mercator, d.d. as a result of supplier financing arrangements amounted to EUR 14,264 thousand (2019: EUR 11,881 thousand).

One type of these arrangements arises from the ordinary course of business where certain trade payables are contractually deferred. In those cases the original supplier has been paid (on or before the original contractual maturity date) by the new creditor and the new creditor has prolonged the original payment term for the obligor as well. The majority of such trade payables are with recourse to the original supplier. The amount of such arrangements with deferred payment is EUR 3,984 thousand. The deferral period of such arrangements concluded in the course of 2020 is less than one year.The other type of these arrangements are concluded between the supplier and the new creditor and Mercator is only notified or has agreed to pay to the new creditor instead of the original supplier. Other than the change of the payee there is no change in payment terms or any other contractual terms. The amount of such arrangements is EUR 10,281 thousand.

Accrued costs refer to the costs of unused annual leave, superrabates granted for and to other accrued costs.

Deferred revenue includes particularly deferred revenue for realization of discounts from collected points.

As at December 31, 2020, the company Poslovni sistem Mercator d.d. does not have any operating liabilities due to the Supervisory Board members, members of the Management Board and other key management employees, although it has recognized undisbursed compensation for December 2020.

Because of the nature of financial instruments, the company Poslovni sistem Mercator d.d. can divide trade and other payables to (a) total financial trade and other payables, which as at December 31, 2020, amounted to EUR 242,226 thousand and represent trade payables in the whole amount and (b) total non – financial trade and other payables, which as at December 31, 2020, amounted to EUR 63,117 thousand for the company Poslovni sistem Mercator d.d.

31. Financial instruments

Financial risk management

Risk overview

The Mercator Group and the company Poslovni sistem Mercator d.d. are monitoring and managing different types of financial risks to which their operations are exposed:

- credit risk;
- risk of payment capability (liquidity risk);
- market risk;
- business risk arising due to the Agrokor Group.

Among market risks the Mercator group and the company Poslovni sistem Mercator d.d. manage the interest rate and currency risk. Overall risk management program in the Mercator Group and the company Poslovni sistem Mercator d.d. focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Mercator Group and the company Poslovni sistem Mercator d.d.

This note presents the information on the Mercator Group's and the company's (Poslovni sistem Mercator d.d.) exposure to the risks listed above, as well as the objectives, policies, and processes for measurement and management thereof and the Mercator Group's and the company's (Poslovni sistem Mercator d.d.) equity.

Risk management policy

Active risk management at the Mercator Group pursues the objective of timely recognition and response to potential threats by developing appropriate measures to hedge against identified risks or to reduce risk exposure. The parent company manages interest rate, currency and liquidity risks centrally for the entire Mercator Group, whereas credit risks are managed as a rule by subsidiaries. Risk management measures are incorporated into daily operations at all companies of the Mercator Group.

Risk management activities in the Mercator Group are the responsibility of the dedicated Risk Management Council. The council is managing a systematic risk management process which is laid down in the Rules of Procedure for Risk Management. Risk management is a central corporate function managed and coordinated by the company Poslovni sistem Mercator d.d..

Risks are divided into different risk groups. Within each risk group, based on the analysis of the business environment, past business results and plans and estimates for the future, identified risks are defined. Through detailed analysis, the level of risk value is assessed, and on the basis of a single criterion, it is estimated whether the risk is crucial.

For all key risks:

- activities that were carried out in the current year for the purpose of managing this risk are described,
- planned risk management activities for the following year are defined, and
- it is determined whether a higher of a lower exposure to that risk is assessed in the following year compared to the previous year.

The Mercator Group and the company Poslovni sistem Mercator d.d. analyse risk for each individual company and the Mercator Group as a whole. In the case of non-compliance with certain data, an approximation for the entire Mercator Group is made with the data available.

Risks occurring in the process of preparation of financial statements of the Mercator Group and the company Poslovni sistem Mercator d.d. are mitigated by the means of implementation of clear and concise accounting and reporting practices, efficient organization of the accounting function, regular internal and external audits and reviews of internal controls, business processes, and operations effectiveness.

Internal audit has been in operation at the Mercator Group and the company Poslovni sistem Mercator d.d. as an independent support function since year 2000. The basic function of internal audit is perpetual development and monitoring of the internal control systems from the aspect of management, or mitigation, of all sorts of operating and other risks to which the Mercator Group and the company Poslovni sistem Mercator d.d. are exposed.

Quality performance of the supervisory function by the Supervisory Board of the company Poslovni sistem Mercator d.d. is also supported by the Audit Committee which, among other duties, is in charge of supervising the operation of the risk management system, internal audit and the internal control system, and takes part in specifying the major auditing areas and proposes the selection of the independent external auditor for the companies of the Mercator Group.

The performance of the Mercator Group and the company Poslovni sistem Mercator d.d. is affected by the entire economic environment both globally and in the markets of Mercator operations. With constantly changing trends, it is crucial for the Mercator Group and the company Poslovni sistem Mercator d.d. to carefully manage the risks that they face in their business operations.

Credit risk

Credit risk is the risk that the Mercator Group and the company Poslovni sistem Mercator d.d. will suffer financial loss if a party to an agreement defers a payment and later does not settle its obligations in full or not at all. Credit risk arises mainly from receivables to wholesale customers and receivables from Pika card.

The exposure of Mercator Group and the company Poslovni sistem Mercator d.d. to credit risk is particularly dependent on the characteristics of individual customers. However, the Mercator Group's and the company's (Poslovni sistem Mercator d.d.) exposure to customers default risk is highly dispersed. In accordance with the adopted policy for each new customer, an analysis of its creditworthiness is performed before the Mercator Group and the company Poslovni sistem Mercator d.d. offer its standard payment terms. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Limits on purchases, which represent the maximum amount of open positions, are determined for each customer individually. The compliance with credit limits by wholesale customers is regularly monitored by line management. The Mercator Group's and the company's (Poslovni sistem Mercator d.d.) business with customers who do not meet the benchmark credit rating takes place only on the basis of advance payments or subject to appropriate payment insurance.

The carrying amounts of financial assets (receivables and loans) represent the maximum credit exposure.

The maximum exposure to credit risk at the reporting date:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade and other receivables	128,865	167,567	57,601	69,874
Deposits for rental payments	961	2,825	—	—
Loans to companies	2,374	12,527	33,012	25,179
Finance lease receivables	6,336	—	—	—
Deposits in banks	940	754	—	—
Total	**139,476**	**183,674**	**90,613**	**95,053**

Trade receivables predominantly derive from wholesale of goods, material, and services. Wholesale customers are dispersed; hence, there is no major exposure to an individual customer. The Mercator Group and the company Poslovni sistem Mercator d.d. are also constantly monitoring customer payment defaults and checks the rating of external customers. The Mercator Group and the company Poslovni sistem Mercator d.d. use a simplification from the general approach for trade receivables which is presented in Note 2 (d) iv. and 3 (c) i.

The loans granted by the Mercator Group and the company Poslovni sistem Mercator d.d. to companies are collateralized and it is assessed that the credit risk arising therefrom is low. Additional explanations regarding loans granted are given in

Note 24. The Mercator Group and the company Poslovni sistem Mercator d.d. estimates low risk of default, so estimated ECL is not recorded, as it is assumed to be immaterial. Credit risk exposure is low (and not significant).

Maximum exposure to credit risk for trade receivables and loans at the reporting date by type of customer:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Retail customers	260	7,216	749	5,260
Wholesale customers and related companies	83,336	96,562	41,772	47,039
Receivables from employees and the government, and other receivables	15,698	24,573	5,261	9,177
Prepaid expenses	4,254	13,217	2,399	3,140
Other receivables	25,318	26,000	7,419	5,258
Loans and deposits	10,611	16,106	33,012	25,179
Total	**139,476**	**183,674**	**90,613**	**95,053**

In the category of retail customers, the Mercator Group and the company Poslovni sistem Mercator d.d. included receivables from individuals related to purchases in company retail units with Pika and other cards; the category of wholesale customers and related companies includes all receivables from sale of goods, material, and services, to legal/ corporate entities.

Trade receivables are secured with bank guarantees, paid collaterals, cash deposits, prime mortgages, and liabilities to these customers. Among other receivables, the Mercator Group and the company Poslovni sistem Mercator d.d. report receivables from the government, employees, as well as prepaid expenses and other receivables , and loans and deposits granted.

Security of receivables and loans (in gross amounts, excluding impairment):	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade receivables	136,318	150,457	55,510	61,583
secured receivables	19,222	20,624	11,572	15,323
unsecured receivables	117,096	129,833	43,938	46,260
Unsecured other receivables and loans	46,767	74,864	52,533	51,553
Total	**183,085**	**225,321**	**108,043**	**113,136**

The Mercator Group and the company Poslovni sistem Mercator d.d. applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The credit risk characteristics are mostly determined by the available collateral. Typical collateral types are bank guarantees, mortgages, enforcement notes and promissory notes. The Mercator Group and the company Poslovni sistem Mercator d.d. determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The Mercator Group and the company Poslovni sistem Mercator d.d. monthly form allowances for trade receivables and receivables from sales with the loyalty card on the basis of expected default rates.

Ageing of trade receivables and loans on the reporting date:	Mercator Group									Poslovni sistem Mercator d.d.								
	Gross carrying amount December 31, 2019			Credit loss allowance December 31, 2019						Credit carrying amount December 31, 2019			Credit loss allowance December 31, 2019					
in EUR 000	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL
Bank guarantee	6,852	51	349	3	0.05 %	4	7.21 %	95	27.26 %	6,302	40	344	3	0.05 %	4	9.23 %	95	27.63 %
Mortgage	3,283	123	442	118	3.59 %	1	0.49 %	280	63.22 %	3,182	123	228	117	3.69 %	1	0.49 %	70	30.77 %
Bill of exchange	5,670	934	498	90	1.27 %	12	1.38 %	64	17.16 %	4,104	114	65	86	1.58 %	6	5.10 %	14	16.18 %
Enforcement draft	910	62	319	4	0.43 %	1	1.95 %	54	16.66 %	729	34	59	1	0.15 %	1	2.82 %	3	5.76 %
Mercator/Agrokor Group	40,095	353	5,861	120	9.30 %	17	12.30 %	655	49.04 %	25,722	279	5,412	84	13.89 %	16	14.46 %	540	51.56 %
Other*	112,301	4,375	42,844	2,347	1.88 %	115	4.55 %	37,668	36.97 %	50,405	1,336	14,659	1,840	0.78 %	27	5.68 %	15,174	33.56 %
Total	**169,111**	**5,897**	**50,313**	**2,682**	**3.57 %**	**149**	**4.42 %**	**38,816**	**38.22 %**	**90,442**	**1,926**	**20,767**	**2,131**	**4.59 %**	**55**	**6.61 %**	**15,896**	**37.99 %**

Ageing of trade receivables and loans on the reporting date:	Mercator Group									Poslovni sistem Mercator d.d.								
	Gross carrying amount December 31, 2020			Credit loss allowance December 31, 2020						Gross carrying amount December 31, 2020			Credit loss allowance December 31, 2020					
in EUR 000	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL	0-30 days	30-90 days	more than 90 days	0-30 days	% of ECL	30-90 days	% of ECL	more than 90 days	% of ECL
Bank guarantee	4,429	176	124	2	0.04 %	18	9.80 %	9	6.66 %	3,661	124	63	2	0.05 %	18	13.88 %	7	11.00 %
Mortgage	3,113	15	202	112	3.58 %	1	3.38 %	196	96.77 %	3,016	15	10	111	3.69 %	1	3.38 %	4	35.62 %
Bill of exchange	5,077	1,263	1,216	53	1.02 %	14	0.97 %	67	4.11 %	3,067	180	119	49	1.61 %	11	6.12 %	18	14.31 %
Enforcement draft	1,316	266	438	—	0.03 %	33	12.61 %	108	24.53 %	1,108	117	90	—	— %	5	3.84 %	10	10.72 %
Mercator/Agrokor Group	49,772	252	1,574	105	10.11 %	17	7.59 %	336	21.28 %	33,574	134	744	82	14.44 %	17	14.23 %	222	37.38 %
Other*	67,349	3,637	42,867	3,279	2.29 %	106	3.12 %	39,152	39.26 %	47,506	901	13,612	2,583	1.05 %	41	4.64 %	14,250	30.01 %
Total	**131,056**	**5,608**	**46,421**	**3,552**	**5.14 %**	**189**	**3.50 %**	**39,867**	**37.76 %**	**91,933**	**1,472**	**14,638**	**2,828**	**5.99 %**	**92**	**6.40 %**	**14,511**	**30.06 %**

* The item »Other« includes all unsecured trade receivables from external wholesale customers.

Details about the group's policies are provided in Note 3 c) i) *Financial assets.*

Changes in credit loss allowance to receivables and loans:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	**2020**	**2019**	**2020**	**2019**
As at January 1	**41,647**	**97,575**	**18,082**	**25,956**
Effect of foreign exchange differences	(96)	88	—	—
Allowances for receivables during the year	3,980	2,115	790	2,140
Decrease of allowance for impairment during the year	(1,836)	(17,769)	(1,442)	(1,123)
Final receivable write-off	(87)	(40,361)	—	(8,890)
Allowances for receivables recognized through equity upon IFRS 9 initial application	—	—	—	—
Balance as at December 31	**43,609**	**41,647**	**17,431**	**18,082**

in EUR 000	Mercator Group							
	Gross carrying amount				Credit loss allowance			
	0-30 days	30-9 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2020	6,852	51	349	7,251	3	4	95	102
Effect of foreign exchange differences	(2)	—	—	(2)	—	—	—	—
Allowances for receivables during the year	355	125	56	536	—	14	1	15
Decrease of allowance for impair. during the year	(2,775)	—	(280)	(3,055)	(1)	—	(88)	(89)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	4,429	176	124	4,729	2	18	9	28
Mortgage								
As at January 1, 2020	3,283	123	442	3,848	118	1	280	398
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	—	—	—	—	—	—	—
Decrease of allowance for impair. during the year	(170)	(108)	(239)	(518)	(6)	—	(83)	(90)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,113	15	202	3,330	112	1	196	308
Bill of exchange								
As at January 1, 2020	5,670	934	498	7,102	90	12	64	167
Effect of foreign exchange differences	(1)	—	—	(1)	—	—	—	—
Allowances for receivables during the year	—	66	54	120	—	5	14	18
Decrease of allowance for impair. during the year	(1,092)	(30)	(4)	(1,125)	(37)	(3)	—	(40)
Final receivable write-off	499	293	668	1,459	(1)	—	(11)	(12)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	5,077	1,263	1,216	7,555	53	14	67	134
Enforcement draft								
As at January 1, 2020	910	62	319	1,291	4	1	54	59
Effect of foreign exchange differences	(3)	(1)	(4)	(7)	—	—	(1)	(1)
Allowances for receivables during the year	408	205	122	735	—	32	54	87
Decrease of allowance for impair. during the year	—	—	—	—	(3)	—	—	(3)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	1,316	266	438	2,019	—	33	108	142
Mercator/Agrokor Group								
As at January 1, 2020	40,095	353	5,861	46,309	120	17	655	791
Effect of foreign exchange differences	(3)	—	—	(3)	—	—	—	—
Allowances for receivables during the year	9,971	(144)	2	9,829	—	1	—	1
Decrease of allowance for impair. during the year	(291)	44	(4,289)	(4,537)	(14)	—	(318)	(333)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	49,772	252	1,574	51,598	105	17	336	459
Other								
As at January 1, 2020	82,905	4,375	42,844	130,124	2,347	115	37,668	40,130
Effect of foreign exchange differences	(300)	(3)	(100)	(403)	(2)	—	(92)	(94)
Allowances for receivables during the year	5,534	54	1,122	6,710	962	13	2,883	3,859
Decrease of allowance for impair. during the year	(20,790)	(789)	(924)	(22,502)	(28)	(22)	(1,232)	(1,281)
Final receivable write-off	—	—	(75)	(75)	—	—	(75)	(75)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	67,349	3,637	42,867	113,854	3,279	106	39,152	42,538
Total								
As at January 1, 2020	**139,716**	**5,897**	**50,313**	**195,925**	**2,682**	**149**	**38,816**	**41,647**
Effect of foreign exchange differences	**(309)**	**(4)**	**(105)**	**(417)**	**(2)**	**—**	**(94)**	**(96)**
Allowances for receivables during the year	**16,267**	**305**	**1,356**	**17,929**	**962**	**66**	**2,952**	**3,980**
Decrease of allowance for impair. during the year	**(25,118)**	**(883)**	**(5,737)**	**(31,738)**	**(90)**	**(26)**	**(1,721)**	**(1,836)**
Final receivable write-off	**499**	**293**	**593**	**1,385**	**(1)**	**—**	**(86)**	**(87)**
Allowances for receivables recog. through equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
As at December 31, 2020	**131,056**	**5,608**	**46,421**	**183,085**	**3,552**	**189**	**39,867**	**43,609**

in EUR 000	Mercator Group							
	Gross carrying amount				Credit loss allowance			
	0-30 days	30-9 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2019	4,231	182	998	5,411	2	5	325	332
Effect of foreign exchange differences	5	—	—	5	—	—	—	—
Allowances for receivables during the year	2,799	(1)	—	2,798	2	—	—	2
Decrease of allowance for impair. during the year	(182)	(131)	(649)	(962)	—	(1)	(230)	(231)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	6,852	51	349	7,251	3	4	95	102
Mortgage								
As at January 1, 2019	3,668	30	168	3,866	183	—	110	294
Effect of foreign exchange differences	1	—	1	3	—	—	1	1
Allowances for receivables during the year	—	93	273	366	—	—	168	168
Decrease of allowance for impair. during the year	(385)	—	—	(386)	(65)	—	—	(65)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	3,283	123	442	3,848	118	1	280	398
Bill of exchange								
As at January 1, 2019	5,646	1,017	751	7,414	14	16	95	124
Effect of foreign exchange differences	7	—	—	7	—	—	—	—
Allowances for receivables during the year	22	24	40	86	76	3	4	83
Decrease of allowance for impair. during the year	(5)	(107)	(293)	(405)	—	(7)	(34)	(41)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	5,670	934	498	7,102	90	12	64	167
Enforcement draft								
As at January 1, 2019	427	125	177	729	—	1	17	18
Effect of foreign exchange differences	(1)	—	(1)	(2)	—	—	—	—
Allowances for receivables during the year	620	2	143	765	4	1	37	42
Decrease of allowance for impair. during the year	(136)	(66)	—	(201)	—	(1)	—	(1)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	910	62	319	1,291	4	1	54	59
Mercator/Agrokor Group								
As at January 1, 2019	18,621	322	43,438	62,381	230	46	39,075	39,350
Effect of foreign exchange differences	8	—	(24)	(16)	—	—	(23)	(23)
Allowances for receivables during the year	22,917	177	3,138	26,232	—	—	—	—
Decrease of allowance for impair. during the year	(1,451)	(147)	(3,579)	(5,177)	(110)	(30)	(1,286)	(1,425)
Final receivable write-off	—	—	(37,111)	(37,111)	—	—	(37,111)	(37,111)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	40,095	353	5,861	46,309	120	17	655	791
Other								
As at January 1, 2019	120,194	3,751	47,826	171,771	15,695	137	41,624	57,457
Effect of foreign exchange differences	625	18	148	791	(6)	1	115	110
Allowances for receivables during the year	27,058	1,020	176	28,254	1,618	17	184	1,819
Decrease of allowance for impair. during the year	(35,576)	(414)	(2,061)	(38,052)	(14,960)	(40)	(1,005)	(16,006)
Final receivable write-off	—	—	(3,245)	(3,245)	—	—	(3,250)	(3,250)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	112,301	4,375	42,844	159,519	2,347	115	37,668	40,130
Total								
As at January 1, 2019	**207,279**	**5,427**	**93,357**	**306,063**	**16,124**	**205**	**81,246**	**97,575**
Effect of foreign exchange differences	**645**	**19**	**125**	**789**	**(6)**	**1**	**94**	**88**
Allowances for receivables during the year	**53,415**	**1,315**	**3,770**	**58,500**	**1,700**	**22**	**393**	**2,115**
Decrease of allowance for impair. during the year	**(37,735)**	**(864)**	**(6,583)**	**(45,182)**	**(15,135)**	**(78)**	**(2,556)**	**(17,769)**
Final receivable write-off	—	—	**(40,356)**	**(40,356)**	—	—	**(40,361)**	**(40,361)**
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	**169,111**	**5,897**	**50,313**	**225,321**	**2,682**	**149**	**38,816**	**41,647**

	Poslovni sistem Mercator d.d.							
	Gross carrying amount				Credit loss allowance			
in EUR 000	0-30 days	30-9 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2020	6,302	40	344	6,685	3	4	95	102
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	84	—	84	—	14	—	14
Decrease of allowance for impair. during the year	(2,640)	—	(280)	(2,920)	(1)	—	(88)	(89)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,661	124	63	3,849	2	18	7	27
Mortgage								
As at January 1, 2020	3,182	123	228	3,533	117	1	70	188
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	—	—	—	—	—	—	—
Decrease of allowance for impair. during the year	(165)	(108)	(218)	(491)	(6)	—	(67)	(73)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,016	15	10	3,042	111	1	4	115
Bill of exchange								
As at January 1, 2020	4,104	114	65	4,283	86	6	14	105
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	66	54	120	—	5	4	9
Decrease of allowance for impair. during the year	(1,036)	—	—	(1,036)	(36)	—	—	(36)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	3,067	180	119	3,366	49	11	18	78
Enforcement draft								
As at January 1, 2020	729	34	59	823	1	1	3	6
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	379	83	31	493	—	3	6	10
Decrease of allowance for impair. during the year	—	—	—	—	(1)	—	—	(1)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	1,108	117	90	1,315	—	5	10	14
Mercator/Agrokor Group								
As at January 1, 2020	25,722	279	5,412	31,412	84	16	540	640
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	7,852	(144)	—	7,707	—	1	—	1
Decrease of allowance for impair. during the year	—	—	(4,668)	(4,668)	(2)	—	(317)	(319)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	33,574	134	744	34,452	82	17	222	322
Other								
As at January 1, 2020	44,762	1,336	14,659	60,757	1,840	27	15,174	17,042
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	2,744	—	—	2,744	743	13	—	757
Decrease of allowance for impair. during the year	—	(435)	(1,047)	(1,482)	—	—	(924)	(924)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	47,506	901	13,612	62,019	2,583	41	14,250	16,875
Total								
As at January 1, 2020	**84,799**	**1,926**	**20,767**	**107,493**	**2,131**	**55**	**15,896**	**18,082**
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	**10,975**	**89**	**85**	**11,148**	**743**	**37**	**10**	**790**
Decrease of allowance for impair. during the year	**(3,842)**	**(543)**	**(6,213)**	**(10,598)**	**(47)**	—	**(1,395)**	**(1,442)**
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2020	**91,933**	**1,472**	**14,638**	**108,043**	**2,828**	**92**	**14,511**	**17,431**

in EUR 000	Poslovni sistem Mercator d.d.							
	Gross carrying amount				Credit loss allowance			
	0-30 days	30-9 days	more than 90 days	Total	0-30 days	30-90 days	more than 90 days	Total
Bank guarantee								
As at January 1, 2019	3,524	119	978	4,621	1	5	325	331
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	2,777	—	—	2,777	2	—	—	2
Decrease of allowance for impair. during the year	—	(79)	(634)	(713)	—	(1)	(230)	(231)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	6,302	40	344	6,685	3	4	95	102
Mortgage								
As at January 1, 2019	3,521	30	57	3,608	182	—	3	185
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	93	172	264	—	—	67	68
Decrease of allowance for impair. during the year	(339)	—	—	(339)	(65)	—	—	(65)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	3,182	123	228	3,533	117	1	70	188
Bill of exchange								
As at January 1, 2019	4,109	221	358	4,687	9	13	48	70
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	—	—	—	—	76	—	—	76
Decrease of allowance for impair. during the year	(5)	(107)	(293)	(405)	—	(7)	(34)	(41)
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	4,104	114	65	4,283	86	6	14	105
Enforcement draft								
As at January 1, 2019	109	32	42	183	—	—	—	—
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	620	2	17	639	1	1	3	5
Decrease of allowance for impair. during the year	—	—	—	—	—	—	—	—
Final receivable write-off	—	—	—	—	—	—	—	—
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	729	34	59	823	1	1	3	6
Mercator/Agrokor Group								
As at January 1, 2019	5,756	179	8,316	14,251	188	31	7,231	7,450
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	20,380	166	3,137	23,684	—	—	—	—
Decrease of allowance for impair. during the year	(414)	(66)	—	(481)	(105)	(15)	(649)	(769)
Final receivable write-off	—	—	(6,042)	(6,042)	—	—	(6,042)	(6,042)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	25,722	279	5,412	31,412	84	16	540	640
Other								
As at January 1, 2019	45,232	420	17,855	63,507	282	12	17,625	17,920
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	5,173	916	8	6,097	1,558	15	414	1,988
Decrease of allowance for impair. during the year	—	—	(359)	(359)	—	—	(18)	(18)
Final receivable write-off	—	—	(2,845)	(2,845)	—	—	(2,848)	(2,848)
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	50,405	1,336	14,659	66,400	1,840	27	15,174	17,042
Total								
As at January 1, 2019	**62,250**	**1,001**	**27,606**	**90,856**	**663**	**61**	**25,232**	**25,956**
Effect of foreign exchange differences	—	—	—	—	—	—	—	—
Allowances for receivables during the year	**28,951**	**1,178**	**3,334**	**33,462**	**1,638**	**17**	**485**	**2,140**
Decrease of allowance for impair. during the year	**(758)**	**(252)**	**(1,286)**	**(2,297)**	**(170)**	**(23)**	**(931)**	**(1,123)**
Final receivable write-off	—	—	**(8,887)**	**(8,887)**	—	—	**(8,890)**	**(8,890)**
Allowances for receivables recog. through equity	—	—	—	—	—	—	—	—
As at December 31, 2019	**90,442**	**1,926**	**20,767**	**113,136**	**2,131**	**55**	**15,896**	**18,082**

The quality of trade receivables and loans given is rated based on the policies specified by the Risk Management Council. Credit risk is monitored by classifying the trade receivables based on their characteristics.

The company Poslovni sistem Mercator d.d. is providing guarantees to its subsidiaries for borrowing from banks as disclosed in the Note 32.

Liquidity risk

Liquidity risk is the risk that the Mercator Group and the company Poslovni sistem Mercator d.d. will in the course of their business activities encounter difficulties in settlement of current liabilities which are settled in cash or with other financial assets.

The Mercator Group and the company Poslovni sistem Mercator d.d. manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Mercator Group has at its disposal to further reduce liquidity risk are set out below.

Management monitors rolling forecasts of the group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents on the basis of expected cash flows. The Mercator Group and the company Poslovni sistem Mercator d.d. actively manage liquidity risk within the framework of the established centralized management of cash. The centralized cash management represents a system based on specifically defined methodology of cash flow planning based on which every company from the Mercator Group makes weekly plans of the daily cash flow for 3 months in advance, which is reflected in the weekly updated short-term consolidation liquidity plan of the Mercator Group:

- standardized daily reporting systems about the cash flow generated on the previous day and the drafting of analyses of deviations from the cash flow plan;
- centralized alignment at various decision-making levels, meaning that an appropriate amount of cash is always available at the company to repay its liabilities.

As at December 31, the Mercator Group and the company Poslovni sistem Mercator d.d. had access to the following liquidity lines:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Cash and cash equivalents*	49,884	45,777	28,964	11,137
Standby revolving credit lines[Δ],**	6,723	42,326	254	37,228
Total	**56,607**	**88,103**	**29,218**	**48,366**

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

** The item includes undrawn WGD Tranche A, undrawn Super Senior and undrawn factoring of cheques.

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

Total unused liquidity lines used as of December 31, 2020 were EUR 56,607 thousand (December 31, 2019: EUR 88,103 thousand) by the Mercator Group and was EUR 29,218 thousand (December 31, 2019: EUR 48,366thousand) by the company Poslovni sistem Mercator d.d. respectively.

One of the most important elements of the final agreement in the context of financial restructuring, based on the consistency of the cash flow available for servicing the debt with financial liabilities, is the elimination of refinancing risk, which increases financial stability.

Following is an overview of the contractual maturity of liabilities and estimated interest expenses. The future contractual due date of the principal and interest is given based on the loan agreements as at December 31, 2020.

Contractual maturity of liabilities and estimated future interest payments - 2020	Mercator Group											
	Total as at December 31, 2020		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	532,270	520,725	415,418	12,476	13,623	2,738	20,214	6,375	47,512	2,369	—	—
Borrowings from related and other companies	20,011	56,783	39,962	774	15,535	512	—	—	—	—	—	—
Lease liabilities	345,672	416,902	42,236	8,436	30,800	7,733	135,025	26,533	67,214	14,258	70,369	14,298
Trade and other payables	558,680	558,725	554,287	—	343	—	2,834	—	1,023	—	239	—
Total	**1,456,633**	**1,553,136**	**1,051,903**	**21,685**	**60,300**	**10,984**	**158,073**	**32,907**	**115,749**	**16,628**	**70,607**	**14,298**

Contractual maturity of liabilities and estimated future interest payments - 2019	Mercator Group											
	Total as at December 31, 2019		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	556,030	631,825	88,482	11,360	51,476	10,358	408,821	14,148	43,644	3,536	1	—
Borrowings from related and other companies	25,026	26,652	9,209	720	6,785	636	9,032	271	—	—	—	—
Lease liabilities	371,100	376,706	43,291	3,419	21,818	3,217	137,129	13,514	118,356	6,195	25,333	4,433
Trade and other payables	572,370	561,149	429,466	—	128,727	—	2,285	—	373	—	297	—
Total	**1,524,526**	**1,596,332**	**570,448**	**15,499**	**208,807**	**14,211**	**557,267**	**27,932**	**162,374**	**9,731**	**25,630**	**4,433**

In April 2021, Mercator Group made refinancing of Mercator's bank debt. Details of refinancing are disclosed in Note 35.

Contractual maturity of liabilities and estimated future interest payments - 2020	Poslovni sistem Mercator d.d.											
	Total as at December 31, 2020		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	355,192	363,728	355,192	8,502	—	34	—	—	—	—	—	—
Borrowings from related and other companies	40,240	40,523	39,815	275	425	7	—	—	—	—	—	—
Lease liabilities	92,906	113,230	14,199	2,142	7,155	1,964	34,640	8,538	20,087	4,424	16,825	3,257
Trade and other payables	305,344	305,344	301,456	—	246	—	2,518	—	1,035	—	90	—
Total	**793,682**	**822,825**	**710,661**	**10,919**	**7,826**	**2,005**	**37,158**	**8,538**	**21,122**	**4,424**	**16,915**	**3,257**

Contractual maturity of liabilities and estimated future interest payments - 2019	Poslovni sistem Mercator d.d.											
	Total as at December 31, 2019		Up to 6 months		6 to 12 months		1-3 years		3-5 years		Over 5 years	
in EUR 000	Carrying amount	Contractual Cash flow	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Non-derivative financial liabilities												
Loans from banks	350,340	373,227	11,453	7,312	14,522	7,082	324,365	8,493	—	—	—	—
Borrowings from related and other companies	39,974	40,808	4,200	282	—	281	35,774	271	—	—	—	—
Lease liabilities	103,037	127,024	12,504	2,268	7,070	2,156	35,458	9,663	27,294	5,554	20,711	4,345
Trade and other payables	302,516	302,516	299,963	—	260	—	1,774	—	323	—	196	—
Total	**795,867**	**843,575**	**328,120**	**9,862**	**21,852**	**9,520**	**397,371**	**18,427**	**27,617**	**5,554**	**20,907**	**4,345**

As at December 31, 2020, the Company provided financial guarantees to its subsidiaries in total amount of EUR 136,934 thousand (2019: EUR 204,795 thousand), as disclosed in Note 32. Majority of these guarantees are up to 6 months due.

Market risks

Market risk is a risk that is common to the entire class of assets and liabilities. Market risk is deemed to exist when there is probability that the value of investments or financial assets in a certain period of time will decrease due to changes in economic environment or other events affecting the market.

Interest rate risk

The interest rate risk of the Mercator Group and the company Poslovni sistem Mercator d.d. stems from financial liabilities. Financial liabilities expose the Mercator Group and the company Poslovni sistem Mercator d.d. to the interest rate risk of cash flow.

The Mercator Group and the company Poslovni sistem Mercator d.d. are exposed to interest rate risk as their liabilities and assets include such liabilities and assets that are sensitive to changes in interest rates, which means that some of the financial liabilities are linked to the variable interest rate EURIBOR. EURIBOR is changing on a daily basis as it is subject to market fluctuations; this can lead to increased finance costs for the Mercator Group and the company Poslovni sistem Mercator d.d. Consequently, the Mercator Group and the company Poslovni sistem Mercator d.d. are managing and controlling the increase of finance costs in an appropriate centralized manner. The risk is managed by the Mercator Group and the company Poslovni sistem Mercator d.d. by maintaining an appropriate mix between fixed and floating rate borrowings. The Mercator Group and the company Poslovni sistem Mercator d.d. do not use derivative financial instruments for the interest rate risk hedging purposes.

Exposure to interest rate risk:	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Fixed rate financial instruments				
Non-current and current financial assets	10,611	16,106	33,012	25,179
Non-current and current financial liabilities	173,470	105,890	40,180	63,969
Total	**184,081**	**121,996**	**73,192**	**89,148**
Floating rate financial instruments				
Non-current and current financial assets	—	—	—	—
Non-current and current financial liabilities	378,811	462,774	355,252	328,199
Total	**378,811**	**462,774**	**355,252**	**328,199**

Sensitivity analysis of the fair value of financial instruments at a fixed interest rate

The Mercator Group and the company Poslovni sistem Mercator d.d. do not have financial instruments at fixed interest rates, measured at fair value through profit or loss, nor derivative financial instruments designated to hedge fair value. The change in the interest rate on the reporting date would thus not affect the net profit.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2020 and 2019.

Cash flow sensitivity analysis for variable rate instruments (impact on net profit or loss)	Mercator Group		Poslovni sistem Mercator d.d.	
	2020	2019	2020	2019
in EUR 000	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp	Increase/ decrease for 100 bp
Floating rate of financial instruments (increase)	3,788	4,628	3,553	3,282
Floating rate of financial instruments (decrease)	—	—	—	—

In outstanding debt facility documents we have floor on Euribor (set at 0.0%) therefore Mercator would not benefit from any future potential decrease of Euribor.

The Mercator Group and the company Poslovni sistem Mercator d.d. do not hold any significant financial instruments measured at fair value through other comprehensive income or other instances that might give rise to profit or loss to be recognized in other comprehensive income due to changes in floating interest rates.

Currency risk

Mercator Group

The Mercator Group's operations in the international environment necessarily involve exposure to currency risk. The Mercator Group is facing currency risk in the markets of Serbia and Croatia; exposure to risk has somewhat decreased on these two markets according to estimate.

In case of an increase in exposure to this type of risk, the Mercator Group has prepared a general policy of risk management that involves the following two steps:

- constant monitoring of macroeconomic background against which the movement of a particular exchange rate is taking place, and the related macroeconomic aspects and trends;
- adapting the operations based on the general trends and expectations, towards lesser exposure to currency risk.

In case of increased risk, the Mercator Group will decide with regard to implementation of any further measures based on the estimated level of exposure; needless to say, such measure will only be implemented following a thorough analysis and with consideration of the »cost-benefit« principle. The type of measure will depend on its appropriateness or viability, the nature of exposure, planned Group operations, and anticipated economic effects. There are no effective instruments to hedge currency risk in the markets where Mercator is operating; therefore, the Mercator Group is currently primarily using the so-called natural hedging or matching.

The following tables shows the Mercator Group’s exposure to the relevant foreign currencies (currencies with fixed exchange rate to the EUR are not taken into account).

The Mercator Group's exposure to foreign currency risk was as follows: Dec. 31, 2019:	Mercator Group						
in EUR 000	**EUR**	**RSD**	**HRK**	**USD**	**GBP**	**PLN**	**CHF**
Trade and other receivables	—	72,099	2,098	289	9	—	—
Investments in financial assets	—	—	42	—	—	—	—
Cash and cash equivalents	—	25,382	564	19	—	2	—
Financial liabilities	—	(63,616)	(3,698)	—	—	—	—
Trade and other liabilities	—	(219,084)	(4,379)	(413)	(30)	—	—
Financial position statement exposure	**—**	**(185,219)**	**(5,373)**	**(105)**	**(21)**	**2**	**—**
Sales	—	702,526	21,237	—	—	—	—
Purchase	—	(545,683)	—	—	(200)	—	(2)
Estimated transaction exposure	**—**	**156,843**	**21,236**	**—**	**(200)**	**—**	**(2)**
Forward exchange contracts	—	—	—	—	—	—	—
Net exposure	**—**	**(28,377)**	**15,863**	**(106)**	**(221)**	**2**	**(2)**

The Mercator Group's exposure to foreign currency risk was as follows: Dec. 31, 2020:	Mercator Group					
in EUR 000	EUR	RSD	HRK	USD	GBP	PLN
Trade and other receivables	—	55,134	2,932	197	8	—
Investments in financial assets	—	—	35	—	—	—
Cash and cash equivalents	—	4,388	2,517	61	—	2
Financial liabilities	—	(30,612)	(3,845)	800	—	—
Trade and other liabilities	—	(199,254)	(5,139)	(336)	(89)	—
Financial position statement exposure	**—**	**(170,344)**	**(3,500)**	**722**	**(81)**	**2**
Sales	—	679,035	20,498	—	7	—
Purchase	—	(543,723)	—	—	(282)	—
Estimated transaction exposure	**—**	**135,312**	**20,498**	**—**	**(275)**	**—**
Forward exchange contracts	—	—	—	—	—	—
Net exposure	**—**	**(35,032)**	**16,998**	**721**	**(355)**	**2**

As at December 31, 2020 the Mercator Group does not hold any derivative financial instruments for currency risk hedging (forward exchange contracts).

The following significant exchange rates applied during the year:	Average exchange rate		Reporting date spot date	
Units per 1 EUR	2020	2019	2020	2019
RSD	117.71	117.53	117.91	117.38
HRK	7.54	7.55	7.42	7.44
BAM	1.96	1.96	1.96	1.96

The following table details the Mercator Group's sensitivity to a +/10% increase and decrease in currency units against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. Impact on equity change is the similar as to the profit and loss after tax.

Mercator Group				
	2020		2019	
change in currency rate	10% Profit or loss after tax	-10% Profit or loss after ax	10% Profit or loss after tax	-10% Profit or loss after tax
EUR	—	—	—	—
RSD	(3,503)	3,503	5	(5)
HRK	1,700	(1,700)	5	(5)
USD	72	(72)	(11)	11
GBP	(36)	36	(22)	22

Poslovni sistem Mercator d.d.

The company Poslovni sistem Mercator d.d. is not exposed to currency risk, as it does not have significant receivables or liabilities denominated in foreign currencies.

Operating risk

Considerations in respect of COVID-19 epidemic and the current economic environment

The Mercator Group considered the impact of COVID-19 epidemic and the current economic environment when preparing these financial statements.

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

In the autumn, the number of daily illnesses began to rise again in the entire region. At the end of October the Government of the Republic of Slovenia again declared an epidemic with a similar set of measures as during the first wave. In other countries in the region, the epidemic was not formally declared, but strictly measures came into force, while the closure of certain economic activities was not happened.

The business of the Mercator Group performance remained successful also after the declaration of COVID-19 epidemic in all markets of Group’s operations, mainly due to timely and responsible preparation for the crisis, effective crisis management and exceptional employees.

In 2020, Mercator Group's business performance despite of COVID-19 epidemic remained stable. Positive performance trends in core business activities are a result of successful execution of the business strategy and all operating plans and thought initiatives, such as revenue and margin initiatives, refurbishment, cost optimization, optimization of working capital management, divestments, brand differentiation and other initiatives.

Insistence on regular and precise monitoring of all operating plans have proven successful for accomplishment of all strategic goals set by the Mercator Group. Only timely and responsible preparation for the crisis allowed Mercator Group to sustain its positive performance trends started in the period before the coronavirus crisis. One of the factors contributing to Mercator's success in maintaining the positive performance trends is the fact that during the crisis, coordination, analysis, planning and decision-making sessions were held in all markets of Mercator's operations daily, and in the most critical moments even twice daily.

Impact on key KPI's

Analysis prepared by the Group has shown the following impacts resulting from COVID-19 epidemic in 2020:

- increase of retail revenue due to shopping basket increase, commodity goods sale increase and shopping online;
- uptick in margins due to higher revenue, which is attributed to change in sales structure and optimization and promotional activities;
- synergies of employees’ optimization between various business segments, new set-up of supporting function processes (work from home, etc.) and government subsidies;
- optimization of costs due to changed business environment; lower education costs and costs of business trips, redefinition of marketing budget, other costs of services:
- decrease in revenue from rents due to monetization effect (sale of shopping centers in Slovenia in 1-3, 2019 and Serbia at the end of 2019), termination of one lease agreement in Serbia with loss of rental income from subleases in 2020, and given rent discounts for tenants in closed stores because COVID-19 situation
- decrease of non-core segments and companies’ revenue (wholesale, DIY, manufacturing companies etc.) due to closing of certain industries which affected their business partners;
- based on the significant change of country risk premiums which have significant impact on capitalization rates used by the Group, Mercator Group performed an revaluation of property, plant and equipment’s fair values (for detailed disclosure of revaluation please refer to Note 6).

In 2020, Mercator Group saw its retail revenue increasing by 3.7% relative to the same period last year. In 2020, Mercator Group had an operating loss of EUR 108,227 thousand mostly due to impairment and revaluation of PP&E, investment properties and right of use assets.

In 2020, Mercator Group's net loss amounted to EUR 156,710 thousand.

Liquidity

In the first half of the year the impact of higher sales has been positive from a working capital perspective. After the first wave of COVID-19 we have seen the reopening of the closed businesses which was then followed by a new lockdown after the start of the second wave in the fourth quarter. In contrast with the first wave the impact of the second wave on sales numbers was less pronounced as the customers were not stocking up with the essential items as much. However, on the other side Mercator was well prepared for the second wave, the initially increased operating costs (i.e. cost of disinfectants, masks etc.) came down considerably and the business successfully adapted to the changed circumstances.

The major part of receivables refers to wholesale segment. In spite of some payment delays in the second and third quarter from wholesale customers, especially the ones which were closed due to COVID-19 epidemic related government measures, Mercator Group recognized no major deviations compared to the amount of receivables or payments received in the previous year.

During the epidemic, the Government of the Republic of Slovenia adopted measures that allowed tenants to apply for change in payment terms. Consequently, after March 31, 2020, Mercator made individual arrangements on a regional level in order to help its partners overcoming liquidity issues, by approving rent concessions. The impact was therefore seen in lower rental income, which in the period from April to December 2020 amounts to EUR 1.7 million. On the other hand, for the same period Mercator Group received credit notes for closure period in the amount of EUR 0.6 million from its lessors.

After successful refinancing of financial debt (more details on **Refinancing risk** below), we are confident that we have sufficient cash and committed funding in place to meet our obligations for the foreseeable future. Further, a cash flow forecast prepared by Mercator Group for the following 12 months indicates that the Mercator Group will have sufficient funds to meet its obligations when they fall due. Given that the refinancing has been successfully concluded, Mercator is much less exposed to risks related to the current financial markets. Moreover, in spite of the third wave of COVID-19 in late Q1 of 2021 the financial markets have returned the pre-COVID-19 levels mostly due to envisaged vaccination plans within 2021. The above circumstances also contribute positively to the preparedness our suppliers to deliver goods on credit.

Under our current working capital management model, our current liabilities significantly exceed our current assets.

Supply chain

As the largest retailer in Slovenia and the region, we have a special responsibility for uninterrupted supply of goods to the population. We are maintaining and ensuring safe supply chains and we care for uninterrupted logistics even in circumstances of considerably higher daily and hourly sales. Before the start of the crisis we ensured an adequate amount of inventory, especially of essential food products, which helped us to keep adequate stock of high-demand items and suppliers' stock the lowest during the crisis. Delivery periods from other countries of the European Union were extended. Due to the measures adopted in a timely manner, supply remained uninterrupted.

Mitigation of business uncertainty arising from the Agrokor restructuring

Further to a detailed assessment in the recent reports, we set out below the update on our assessment of the impact of the Agrokor restructuring.

Status of the Agrokor restructuring

In June 2020, the District court Ljubljana reduced the EUR 53.9 million fine imposed on Croatian concern Agrokor in 2019 by the Slovenian competition authority (AVK) to EUR 1 million.

In late July 2020 the Slovenian Supreme Court has ordered the Competition Protection Agency (AVK) to release 70% of shares of retailer Mercator which were seized from Croatian Agrokor in December 2019.

On September 22, 2020 the European Commission cleared the intention of Fortenova Group to acquire control over Poslovni sistem Mercator, Ljubljana.

On March 5, 2021, the Commission for Protection of Competition of the Republic of Serbia approved the intention of Fortenova Group to acquire control over the company Poslovni sistem Mercator d.d., Ljubljana also on the Serbian market. With such decision of the Serbian Commission, Fortenova Group has fully met the regulatory prerequisites of obtaining approval for the concentration with Mercator from the competent national regulatory authorities for the protection of market competition in all required territories - Serbia, Bosnia and Herzegovina, Montenegro and Northern Macedonia. At the same time, with the concentration approval issued by the European Commission, this prerequisite has been met for the entire EU territory.

On March 12, 2021 at the Meeting of Holders of Depositary Receipts issued by Fortenova Group STAK Stichting, the shareholders have voted in favour of the decision regarding the consolidation of Fortenova Group's operations related to the transfer of shares of Poslovni sistem Mercator from Agrokor to Fortenova Group. Thus Fortenova Group has received approval to extend the existing financial arrangement with HPS Partners and VTB Bank by the amount of not more than EUR 390 million, to be used as a loan from Fortenova Group to Mercator intended to refinance Mercator's bank debt. The shareholders have also adopted the decision to swap the shares held by Sberbank in Mercator for Fortenova Group shares, whereby the 18.53% of Mercator shares owned by Sberbank shall be transferred to Fortenova Group. At the same time, with this swap Sberbank's share in Fortenova Group's ownership rises to 44%.

On March 19, 2021 Mercator reported that it had received a notification from the company Sberbank of Russia and the company Fortenova Group TopCo B.V., by which they informed that on March, 12 2021 they entered into a put option contract relating to shares of the company Poslovni system Mercator, d.d.. Pursuant to the Put Option Agreemant, the company Fortenova Group TopCo granted to Sberbank a put option, which grants Sberbank a right to require Fortenova Group TopCo to purchase for agreed consideration at maximum 1,128,803 ordinary registered no-par value shares with the security code MELR, which represents 18.53% share in the share capital of Poslovni sistem Mercator, d.d.

On April 23, 2021, the Mercator share transfer to Fortenova Group was completed.

For the purpose of assessing Mercator Group's exposure to specific risks arising from Agrokor/Fortenova Group, we set out below the update of our recent assessment of Mercator Group's exposure from the point of view of 1) its operations and 2) its financing arrangements:

1) Exposure to the risk from Business operations with Agrokor d.d./Fortenova Group and its subsidiaries

Agrokor

There is no exposure on the Mercator Group to the business risk related to Agrokor Group financial performance as of December 31, 2020 as there was no revenue generated with Agrokor Group during 2020.

Fortenova

The exposure of Mercator Group to the business risk related to Fortenova Group financial performance remained minimal. As of December 31, 2020, revenue generated with Fortenova Group amounted to EUR 529 thousand or 0.0% of total consolidated revenue, while purchase of goods amounted to 69,747 thousand EUR or 4.6% of the Group's costs of goods sold. As of December 31, 2020 total trade and other receivables from Fortenova Group amounted to EUR 8,765 thousand (7.0% of consolidated trade of other receivables and 0.5% of total assets), while trade liabilities to Fortenova Group amounted to 28,161 thousand EUR (5.0% of consolidated trade and other liabilities and 1.6% of total equity and liabilities).

Fortenova grupa d.d. and Nomad Foods Limited have signed SPA on March 29, 2021 for the Frozen Food business Group consisting of Ledo plus d.o.o., Ledo d.o.o. Čitluk, and Frikom d.o.o., alongside several smaller affiliated companies. The value of transaction is EUR 615 million, on debt free, and cash free basis, with completion planned for Q3 2021. This transaction is part of the process of the capital structure optimization that will enable the further development of the Fortenova Group and its substantial deleveraging.

All companies within Fortenova Group which are Mercator Group's suppliers will benefit from the capital structure optimization and will improve their stability strong market position, exposing Mercator Group to no significant and unusual business risks.

2) Refinancing risk

Mercator Group net financial debt as of December 31, 2020 amounts to EUR 848,068 thousand including lease liabilities that arose as a result of IFRS 16 implementation (IFRS 16 effect), and EUR 547,842 thousand without IFRS 16 effect.

The terms of our principal financial debt agreements comprise several provisions directly linked to Agrokor Group. These comprise (i) cross-default, (ii) change of control and (iii) material adverse effect provisions.

(i) Cross default: To proactively address the potential triggering of the cross default resulting from the opening of Agrokor's restructuring proceedings in Spring 2017; we already obtained (in Spring 2017) a waiver from the necessary majority of lenders. The waiver was valid during the existence of financial documentation with the lenders with no expiration date. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, above mentioned financial documentation was refinanced with new Fortenova debt facilities in the amount of EUR 480 million, and the transfer from Agrokor to new owner Fortenova has been concluded the same day, so a waiver on cross default is not relevant anymore.

(ii) Change of control: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. As of April 23, 2021 the Changer of control topic is not relevant anymore for WGD, as it was resolved through refinancing of existing debt on April 23, 2021. The change of control clause for the remaining debt related to SSF was amended in March 2021, when the amendments to the SSF agreement were signed, where moving the control to Fortenova was now allowed.

(iii) Material adverse effect: We remain of the clear view that this clause has not been triggered as of the reporting date and date of the approval of financial statements. Neither have we received any notice from our lenders arguing that such clause has been triggered. Indeed, if anything, the three years since the commencement of Agrokor's restructuring have consistently demonstrated the ability of Mercator Group to survive and thrive independently of circumstances affecting the Agrokor Group. Please note that as explained in Major events after the balance sheet date in Note 35, as of April 23, 2021, Mercator is not anymore related to Agrokor group.

In assessment of the risk of default clause discussed above Mercator has considered the following factors:
- Mercator is and remains, both for cashflow and EBITDA, one of the most significant entities within the Agrokor/ Fortenova Group. Poslovni sistem Mercator d.d has the clear working assumption that stakeholders in both Agrokor/ Fortenova Group and Mercator Group are highly incentivized to avoid a situation that requires immediate and full prepayment of the main debt facilities of Mercator Group as this will be immediately value destructive for all stakeholders.
- The Change of Control issue related to Wider Group Deal has been successfully solved through refinancing as of April 23, 2021.

Conclusion

As explained in Note 28 (Borrowings and lease liabilities), as at December 31, 2020, the Group had amounts due under the Wider Group Deal ("WGD") and Super Senior Loan ("SSFA") falling due in June 2021 or earlier, amounting to EUR 427,079 thousand.

On April 16, 2021, the wider refinancing was signed, whereunder the Company entered into debt facilities with Fortenova grupa d.d. ("FNG") in the total amount of EUR 480 million (the "FNG Facility").

On April 23, 2021, EUR 385 million (out of EUR 480 million of the total facility available) was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes. Out of total debt that was falling due on June 2021 of EUR 427,079 thousand, as explained above, EUR 326,696 thousand was refinanced on April 23, 2021, while the remaining EUR 100,000 thousand (EUR 80,000 thousand of existing upsized for additional 20,000 thousand at closing of WGD refinancing) related to the SSFA remains open, and is due in September 2021 based on the rescheduling agreement dated March 25, 2021. The remaining limit of EUR 95 million under the FNG Facility is available, if needed, to refinance that SSFA at maturity later this year. It is anticipated that certain real estate disposals will also be applied towards prepayment of the SSFA, mitigating the need to draw on this facility.

The FNG Facility has a 5-year bullet maturity and does not contain any financial covenants on the Company, with defaults limited to non-payment and Mercator group insolvency events. The FNG Facility is guaranteed by the Company and the following of its subsidiaries: Mercator–H d.o.o., Mercator–BH d.o.o., Mercator–CG d.o.o., Mercator IP d.o.o., Mercator–Emba d.d. and M–Energija d.o.o. (the “guarantors”). The FNG Facility will be secured on asset collateral over all material assets of the Company and the guarantors (properties, intra-group loan receivables, bank accounts, bills of exchange, intellectual property). Where appropriate, such collateral will rank behind the collateral granted to the SSFA.

In order to pre-fund the FNG Facility, FNG increased its existing bond facility with HPS Partners and VTB Bank (the "Noteholders") by EUR 380 million (as a new “Tranche C”). The Tranche C notes are secured, amongst other means, by the same Company’s and the guarantors’ assets as provided for the FNG Facility, as explained above. Importantly to note, there is a cap on recourse against the Company and the guarantors (other than for their own default, gross negligence or fraud) such that aggregate recourse to the Company and the guarantors under the FNG notes shall not exceed the amounts recoverable under the FNG Facility.

The Tranche C notes fall due on January 15, 2022, and prescribe certain financial covenants for which quarterly and annually FNG would need to provide compliance certificates to the Noteholders. Failure to comply with debt covenants represents an event of default. FNG’s cash flow plans assume settling the debt under the Tranche C notes with proceeds from the recently announced sale of its frozen food business group (“FFBG”) to Nomad Foods Limited. This is already expected to happen in September 2021, well ahead of the Tranche C maturity. As explained in the Note 31 below, FNG and Nomad Foods Limited have signed an SPA on March 29, 2021 for the FFBG, consisting of Ledo plus d.o.o., Ledo d.o.o. Čitluk, and Frikom d.o.o., alongside several smaller affiliated companies. The value of the transaction is EUR 615 million, with completion planned for Q3 2021. The closing of transaction is subject to merger control approval in six jurisdictions (Austria, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) and foreign direct investment (“FDI”) approval in two jurisdictions (Hungary and Slovenia) (collectively, the “Regulatory Approvals”). On current timing, it is anticipated that the last of the Regulatory Approvals will have been obtained by early-to-mid July 2021 (on an optimistic basis) or early-to-mid September 2021 (on a more conservative basis) given the clear statutory deadlines and processes involved. Regulatory approvals are focused on the assessment of market concentration, and, as there is no material overlap of market share or trading in any of the Regulatory Approval jurisdictions, management believes the risk of not obtaining regulatory approvals, and thus completing the sale, is remote.

Based on the facts and circumstances known at this moment, including the planned completion of the sale of the FFBG and agreed use of received funds, management expects that FNG will be able to meet its obligations under the Tranche C notes, including compliance with financial covenants linked to this debt, and that there will be no need for the Noteholders to collect their receivables through Mercator Group's pledged assets. Management has thus determined that the use of the going concern assumption is fully appropriate in respect of the preparation of the consolidated and separate financial statements for the year ended December 31, 2020. However, considering that the sale of FFBG is not “business as usual” transaction, and that its completion requires a third party approval (Regulatory Approvals), the uncertainty behind the Regulatory Approvals and realization of this transaction represents a material uncertainty that may cast a significant doubt upon the Group’s and the Company’s ability to continue as a going concern.

Capital management

Mercator Group and the company Poslovni sistem Mercator d.d., have complied with all imposed capital requirements during 2019 and 2020.

The policy of the Mercator Group and the company Poslovni sistem Mercator d.d. is oriented to achieving adequate amount of capital so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Management Board therefore monitors on an ongoing basis the return on capital and capital structure.

The capital structure of the Mercator Group and the company Poslovni sistem Mercator d.d. is the ratio between equity and net financial debt of the Mercator Group and the company Poslovni sistem Mercator d.d.

Ratio between equity and net financial debt:	**Mercator Group**		**Poslovni sistem Mercator d.d.**	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
Financial liabilities	897,953	945,024	488,339	495,205
Less:				
Cash and cash equivalents	49,884	45,777	28,964	11,137
Net financial debt $^{\Delta}$	**848,068**	**899,247**	**459,375**	**484,068**
Equity	**292,046**	**438,974**	**365,696**	**402,141**
Ratio between equity and net financial debt $^{\Delta}$	1:2,9	1:2,05	1:1,26	1:1,2

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

As at December 31, 2020, the company Poslovni sistem Mercator d.d. held 42,192 own shares (2019: 42,192 own shares).

Net debt reconciliation for 2020 in EUR 000	Mercator Group					Poslovni sistem Mercator d.d.				
	Liabilities from financing activities			Other assets		Liabilities from financing activities			Other assets	
	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL
Net debt January 1, 2020	**568,664**	**376,361**	**945,024**	**45,777**	**899,247**	**392,168**	**103,037**	**495,205**	**11,137**	**484,068**
Cash inflows	107,214	36	107,250	4,107	**103,143**	44,986	36	45,022	17,826	**27,196**
Cash outflows	(151,383)	(85,645)	(237,028)	—	**(237,028)**	(67,164)	(19,696)	(86,860)	—	**(86,860)**
Non-cash increase	30,460	61,110	91,571	—	**91,571**	28,529	9,754	38,283	—	**38,283**
Non-cash decrease	(27,979)	(5,121)	(33,100)	—	**(33,100)**	(19,915)	(585)	(20,500)	—	**(20,500)**
Other non-cash changes	(108)	(1,069)	(1,177)	—	**(1,177)**	—	360	360	—	**360**
Net debt December 31, 2020	**552,281**	**345,672**	**897,953**	**49,884**	**848,068**	**395,433**	**92,906**	**488,339**	**28,964**	**459,375**

Mercator Group

Borrowings cash outflows of the Mercator Group in the amount of EUR 151,383 thousand refer to repayment of principal and interest payment, and *borrowings non-cash increase* in the amount of EUR 30,460 thousand refer to interest accrued.

Leases cash outflows of the Mercator Group in the amount of are EUR 85,645 thousand composed of principal elements of lease payments and related interests from leases.

Non-cash lease increase in the amount of EUR 61,110 thousand refers to new leases (Note 16) and interest accrued.

Non-cash lease decrease refers to terminations of lease agreement (Note 16).

Other non-cash changes refer mainly to translation differences and received unpaid invoices.

Poslovni sistem Mercator d.d.

Borrowings cash outflows of the company Poslovni sistem Mercator d.d. in the amount of EUR 67,164 thousand refer to repayment of principal and interest payment, and *borrowings non-cash increase* in the amount of EUR 28,529thousand refer to interest accrued.

Leases cash outflows of the Mercator Group in the amount of are EUR 19,696 thousand.

Non-cash lease increase in the amount of EUR 9,754thousand refers to new leases (Note 16) and interest accrued.

Non-cash lease decrease refers to terminations of lease agreement (Note 16) .

Other non-cash changes refer mainly to received unpaid invoices.

For comparability purposes, below table presents net financial debt reconciliation for the year 2019:

Net debt reconciliation for 2019	Mercator Group					Poslovni sistem Mercator d.d.				
	Liabilities from financing activities			Other assets		Liabilities from financing activities			Other assets	
in EUR 000	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL	Borrowings	Leases	Sub-total	Cash and cash equivalents	TOTAL
Net debt January 1, 2019	679,544	**105,218**	**784,761**	**15,074**	**769,687**	**477,348**	**74,857**	**552,206**	**6,298**	**545,908**
Cash inflows	318,493	—	318,493	31,360	287,133	186,865	—	186,865	4,840	**182,025**
Cash outflows	(443,819)	(45,759)	(489,578)	(657)	(488,921)	(308,973)	(7,096)	(316,069)	—	**(316,069)**
Non-cash increase	1,480	316,902	318,381	—	318,381	580	35,275	35,855	—	**35,855**
Non-cash decrease	12,967	—	12,967	—	12,967	36,348	—	36,348	—	**36,348**
Other non-cash changes	—	—	—	—	—	—	—	—	—	—
Net debt December 31, 2019	**568,664**	**376,361**	**945,024**	**45,777**	**899,247**	**392,168**	**103,037**	**495,205**	**11,137**	**484,068**

Fair Values

Fair Values	Mercator Group			
	Dec. 31, 2020		Dec. 31, 2019	
in EUR 000	**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
Financial assets carried at amortised cost				
Trade and other receivables	115,586	115,586	143,433	143,433
Loans given and deposits	10,611	10,611	16,106	16,106
Investments in financial assets	927	927	876	876
Cash and cash equivalents	49,884	49,884	45,777	45,777
Total financial assets	**177,008**	**177,008**	**206,193**	**206,193**
Non-financial assets				
Buildings	489,106	489,106	544,237	544,237
Land	219,620	219,620	242,864	242,864
Investment property	198,978	198,978	273,006	273,006
Total non-financial assets	**907,703**	**907,703**	**1,060,106**	**1,060,106**
Total assets	**1,084,711**	**1,084,711**	**1,266,299**	**1,266,299**
Financial liabilities carried at amortised cost				
Fixed rate bank borrowings	173,470	173,470	105,890	105,890
Floating rate bank borrowings	356,136	356,136	434,345	434,345
Loans from subsidiaries and other companies	22,675	22,675	28,429	28,429
Trade and other payables	466,493	466,493	495,526	495,526
Total financial liabilities	**1,018,774**	**1,018,774**	**1,064,190**	**1,064,190**

Fair Values	Poslovni sistem Mercator d.d.			
	Dec. 31, 2020		Dec. 31, 2019	
in EUR 000	**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
Financial assets carried at amortised cost				
Trade and other receivables	51,267	51,267	61,913	61,913
Loans given and deposits	33,012	33,012	25,179	25,179
Investments in financial assets	803	803	736	736
Cash and cash equivalents	28,964	28,964	11,137	11,137
Total financial assets	**114,046**	**114,046**	**98,966**	**98,966**
Non-financial assets				
Buildings	324,134	324,134	325,776	325,776
Land	165,513	165,513	175,854	175,854
Investment property	3,043	3,043	4,081	4,081
Total non-financial assets	**492,690**	**492,690**	**505,711**	**505,711**
Total assets	**606,736**	**606,736**	**604,676**	**604,676**
Financial liabilities carried at amortised cost				
Fixed rate bank borrowings	40,180	40,180	63,969	63,969
Floating rate bank borrowings	312,661	312,661	288,224	288,224
Loans from subsidiaries and other companies	42,592	42,592	39,974	39,974
Trade and other payables	242,226	242,226	248,602	248,602
Total financial liabilities	**637,659**	**637,659**	**640,769**	**640,769**

Based on the calculation of fair value, financial instruments are divided into three levels:

Level 1: quoted (stock exchange) prices for assets or liabilities at the end of reporting period;

Level 2: the fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. Level 2 includes prices quoted for similar assets or liabilities in active markets and prices quoted for identical or similar assets, and liabilities in markets that are not active. Level 2 net assets are either monetary assets (loans given, account receivables) or liabilities (loans received, trade account payables) realisable in short term operating cycle, therefore their carrying values are assumed as reasonable and appropriate their fair values.

Level 3: if one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

in EUR 000	Mercator Group				Poslovni sistem Mercator d.d.			
	December 31, 2020				December 31, 2020			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Cash and cash equivalents	12,331	37,553	—	**49,884**	5,769	23,195	—	**28,964**
- of which cash in hands	12,331	—	—	**12,331**	5,769	—	—	**5,769**
- of which cash on current account	—	37,553	—	**37,553**	—	23,195	—	**23,195**
Financial assets	138	—	789	**927**	120	—	683	**803**
Loans and deposits	—	10,611	—	**10,611**	—	33,012	—	**33,012**
Trade and other receivables	—	115,586	—	**115,586**	—	51,267	—	**51,267**
Land	—	—	489,106	**489,106**	—	—	324,134	**324,134**
Buildings	—	—	219,620	**219,620**	—	—	165,513	**165,513**
Investment property	—	—	198,978	**198,978**	—	—	3,043	**3,043**
Borrowings	—	(552,281)	—	**(552,281)**	—	(395,433)	—	**(395,433)**
Trade and other payables	—	(466,493)	—	**(466,493)**	—	(242,226)	—	**(242,226)**

in EUR 000	Mercator Group				Poslovni sistem Mercator d.d.			
	December 31, 2019				December 31, 2019			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Cash and cash equivalents	11,293	34,484	—	**45,777**	5,379	5,759	—	**11,137**
- of which cash in hands	11,293	—	—	**11,293**	5,379	—	—	**5,379**
- of which cash on current account	—	34,484	—	**34,484**	—	5,759	—	**5,759**
Financial assets	179	—	697	**876**	119	—	616	**736**
Loans and deposits	—	16,106	—	**16,106**	—	25,179	—	**25,179**
Trade and other receivables	—	143,433	—	**143,433**	—	61,913	—	**61,913**
Land	—	—	544,237	**544,237**	—	—	325,776	**325,776**
Buildings	—	—	242,864	**242,864**	—	—	175,854	**175,854**
Investment property	—	—	273,006	**273,006**	—	—	4,081	**4,081**
Borrowings	—	(568,664)	—	**(568,664)**	—	(392,168)	—	**(392,168)**
Trade and other payables	—	(495,526)	—	**(495,526)**	—	(248,602)	—	**(248,602)**

The carrying value of financial assets carried at amortised cost approximates their fair value due to short term nature. The carrying value of financial liabilities recognized approximates their fair value.

32. Contingent liabilities

Pledged properties

In line with Mercator Group financial restructuring agreement signed in June 2014 (hereinafter "Finance Documents") companies Poslovni sistem Mercator d.d., Mercator-IP d.o.o., Mercator−Emba d.d., M−Energija d.o.o., Mercator−H d.o.o., Mercator−BH d.o.o., Mercator−CG d.o.o. have signed common transaction security agreements by which all liabilities arising from Finance Documents are being subject of cross-collateralisation meaning that each company is guaranteeing for liabilities of other companies and vise-versa. In addition to this, lenders under Finance Document also have pledges of all material assets of those companies.

Financial liabilities in the framework of Finance Documents	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Senior Wider-Group-Deal	**315,519**	335,630	**248,365**	258,452
Super Senior Facility Agreement	**80,000**	70,000	**80,000**	70,000
PIK interest	**31,560**	31,560	**24,717**	24,717
Total	**427,078**	**437,190**	**353,082**	**353,169**

Financial liabilities of the company Mercator –S, d.o.o.	Dec. 31, 2020	Dec. 31, 2019
Loans secured by pledged property	103,633	112,474

Book value of pledged properties by Poslovni sistem Mercator d.d., Mercator–H d.o.o., Mercator–BH, d.o.o., Mercator–CG, d.o.o., Mercator–Emba d.d., Mercator IP d.o.o.

Companies owning the properties and types of assets pledged	Mercator Group (exc. Mercator – S d.o.o.)		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Real estate	337,295	417,840	182,094	199,621
Share pledges owned by Poslovni sistem Mercator, d.d.	236,423	263,473	236,423	263,473
Bank Accounts and deposits	9,242	4,999	—	<
Trade, insurance, lease, intra-group loan and credit card receivables (except for PIKA receivables)	6,878	6,849	—	—
Non-possessory pledge over tangible assets	4,820	5,892	—	—
IP rights pledge	—	—	—	—
Promissory notes				
Poslovni sistem Mercator, d.d.	Maximum amount = EUR 635,514 thousand	Maximum amount = EUR 635,514 thousand	Maximum amount = EUR 635,514 thousand	Maximum amount = EUR 635,514 thousand
Mercator–H d.o.o.	Maximum amount = EUR 98,600 thousand	Maximum amount = EUR 98,600 thousand		
Mercator–BH d.o.o.	Maximum amount = EUR 44,546 thousand	Maximum amount = EUR 44,546 thousand		
Mercator–CG d.o.o.	Maximum amount = EUR EUR 6,628 thousand	Maximum amount = EUR EUR 6,628 thousand		
Mercator–Emba, d.d.	Maximum amount = 3,022 thousand	Maximum amount = 3,022 thousand		

Security instruments and properties pledged by Mercator – S d.o.o. for its liabilities

	Mercator – S d.o.o.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**
Real estate mortgage	105,181	130,198
IP Rights pledges	3,795	3,795
Equipment pledge	9,127	11,152
Share pledges	37,472	37,468
Receivables pledges	2,815	2,787
Total	**158,390**	**185,400**

Properties pledged by Mercator Group for its financial payables

	Dec. 31, 2020	
in EUR 000	**Mercator Group**	**Poslovni sistem Mercator d.d.**
Outstanding amount of financial leases collateralized through pledged real estate	44,897	30,822
Book value of collateral real estate	105,700	75,471

Properties pledged by Poslovni sistem Mercator d.d. for its trade payables

	Poslovni sistem Mercator d.d.	
in EUR 000	**Dec. 31, 2020**	**Dec. 31, 2019**
Outstanding amount of trade payables collateralized through pledged real estate	20,299	19,166
Book value of collateral real estate	94,589	78,232

Properties pledged by Mercator – S, d.o.o for its trade payables

Financial liabilities of the company Mercator –S, d.o.o.	**Dec. 31, 2020**	**Dec. 31, 2019**
Trade payables secured by pledged property	—	—

Properties pledged by Mercator Group for its financial payables

Guarantees issued

The company Poslovni sistem Mercator d.d. is providing guarantees to its subsidiaries for borrowing from banks.

Corporate guarantees issued to Mercator Group entities as of Dec. 31, 2020:	Poslovni sistem Mercator d.d.				
in EUR 000	**Bank loans**	**Financial leases**	**Rent contracts**	**Suppliers**	**Total**
Mercator-S, d.o.o.	—	—	12,029	—	**12,029**
Mercator-H, d.o.o.	47,268	14,076	34,552	—	**95,896**
Mercator-BH, d.o.o.	24,077	—	2,120	—	**26,197**
Mercator-CG, d.o.o.	2,651	—	161	—	**2,812**
Mercator–Emba, d.d.	—	—	—	—	—
M-Energija, d.o.o.	—	—	—	—	—
Total	**73,996**	**14,076**	**48,862**	—	**136,934**

Corporate guarantees issued to Mercator Group entities as of Dec. 31, 2019:	Poslovni sistem Mercator d.d.				
in EUR 000	Bank loans	Financial leases	Rent contracts	Suppliers	Total
Mercator-S, d.o.o.	—	—	16,672	—	**16,672**
Mercator-H, d.o.o.	52,844	24,081	67,900	—	**144,826**
Mercator-BH, d.o.o.	26,662	—	8,979	—	**35,642**
Mercator-CG, d.o.o.	4,514	—	133	—	**4,647**
Mercator–Emba, d.d.	3,008	—	—	—	**3,008**
M-Energija, d.o.o.	—	—	—	—	—
Total	**87,029**	**24,081**	**93,685**	—	**204,795**

Capital commitments

Capital expenditures (investment into property, plant and equipment) agreed upon and specified in contracts and agreements, which were not yet recognized in financial statements as at the statement of financial position date:

	Mercator Group		Poslovni sistem Mercator d.d.	
in EUR 000	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Property, plant and equipment	3,080	2,949	2,844	2,281

Security instruments issued for liabilities of Poslovni sistem Mercator d.d.

Security instruments held by Poslovni sistem Mercator d.d. as of Dec. 31, 2020:	Poslovni sistem Mercator d.d.				
in EUR 000	Public tender	Supliers	Rent contracts	Duties	Total
Bank Guarantees	84	2,882	—	705	3,671
Promissory notes	1,648	22,503	132	—	24,283
Enforcement notes	—	21,112	—	—	21,112
Total	**1,732**	**46,497**	**132**	**705**	**49,066**

Security instruments held by Poslovni sistem Mercator d.d. as of Dec. 31, 2019:	Poslovni sistem Mercator d.d.				
in EUR 000	Public tender	Supliers	Rent contracts	Duties	Total
Bank Guarantees	58	3,032	—	705	3,795
Promissory notes	1,648	12,919	113	—	14,680
Enforcement notes	—	18,957	—	—	18,957
Total	**1,706**	**34,908**	**113**	**705**	**37,432**

33. Related-party transactions

The company Poslovni sistem Mercator d.d. has transactions with its subsidiaries and other subsidiaries of Agrokor d.d. (controlling shareholder holding 69.57% of shares)

The management personnel

The related parties of the Mercator Group are management personnel and related companies. The management personnel include members of management and members of the supervisory boards in the companies of the Mercator Group. At the end of 2020, the management personnel did not own any shares of the company Poslovni sistem Mercator d.d. Members of the supervisory boards of subsidiaries of the Mercator Group do not receive any payments for performing supervision in subsidiaries, so the amounts presented refer only to the parent company. In 2020, no member of the management personnel and Supervisory Board of Poslovni sistem Mercator d.d. did receive any remuneration for the performance of duties in its subsidiaries (disclosure in accordance with Article 294 of the Companies Act).

Gross compensations to Management Board members and Supervisory Board members paid in 2020 in the parent company Poslovni sistem Mercator d.d. are shown in the following tables (disclosure in accordance with Article 294 of the Companies Act and Annex C of the Corporate Governance Code for Public Limited Companies).

Compensation of the Management Board of the company Poslovni sistem Mercator d.d. in 2020 (in EUR)

Name and surname	Function	Fixed remuner. - gross (1)	Variable remuneration – gross			Deferred income (3)	Severance pays (4)	Benefits				Profit sharing (6)	Options and other rewards (7)	Refund payment – (claw-back) (8)	Total gross (1+2+3+4+5+6+7+8)	Total net
			based on quanti. criteria	based on quality. criteria	Total (2)			Refund of work related costs	Insurance premiums	Other	Total (5)					
Tomislav Čizmić	President	300,368	—	—	—	—	—	89,142	1,156	891	91,188	—	2,819	—	394,375	134,126
Draga Cukjati	Member	220,971	—	—	—	—	—	13,276	339	790	14,405	—	2,819	—	238,195	104,200
Igor Mamuza	Member	243,831	—	—	—	—	—	28,312	344	544	29,200	—	2,819	—	275,850	110,181
Gregor Planteu	Extraordinary Member	223,978	—	—	—	—	—	6,448	340	925	7,713	—	2,819	—	234,509	104,237

Compensation of the Supervisory Board of the company Poslovni sistem Mercator d.d. in 2020 (in EUR)

Name and surname	Function	Function-related payments – gross per year (1)	Attendance fees of SB and committees – gross per year (2)	Total gross (1+2)	Total net	Commuting allowances and reimbursement of costs	Insurance premiums	Options and other rewards
Sergei Volk	Member of SB and Member of SF	27,000	4,106	31,106	22,623	—	220	—
Miodrag Borojević	Member of SB, President of AC and Member of SF from June 5, 2019	45,000	7,700	52,700	38,328	—	220	—
Paul Michael Foley	Member of SB and President of SF from June 5, 2019	43,210	6,350	49,560	38,409	—	220	—
Fabris Peruško	Member of SB	25,210	3,717	28,927	21,039	—	220	—
Matej Lahovnik	Vice-president of SB, Member of AC, President of HR and Member of SF	45,000	9,625	54,625	39,728	—	220	—
Ivica Mudrinić	Member of SB, Member of HR and Member of SF	36,000	5,092	41,092	29,886	—	220	—
Vesna Stojanović	Member of SB and Member of HR	27,000	3,300	30,300	22,037	—	—	—
Veljko Tatić	Member of SB from May 21, 2019	18,000	2,200	20,200	14,691	—	—	—
Jože Lavrenčič	Member of SB	18,000	2,200	20,200	14,691	—	—	—
Aleksander Igličar	Extraordinary Member of AC	9,000	2,200	11,200	8,146	—	—	—

SB = Supervisory Board AC = Audit Commit   HR = Human Resource Committee   SF = Strategy and Finance Committee

Compensation of the Supervisory Committee of the company Poslovni sistem Mercator d.d. in 2020 (in EUR)

Name and surname	Function	Function-related payments – gross per year (1)	Attendance fees of SB and committees – gross per year (2)	Total gross (1+2)	Total net	Commuting allowances and reimbursement of costs	Insurance premiums	Options and other rewards
Filipović Nenad	—	6,000	—	6,000	4,364	—	—	—

Transactions with related parties in the Agrokor Group

Transactions of Poslovni sistem Mercator d.d. with subsidiaries (eliminated on the consolidation level)

As for 2020 year and as at December 31, 2020	Transactions						Balances			
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
Mercator–S d.o.o.	405	—	—	—	322	—	954	—	—	—
Mercator–H d.o.o.	—	—	—	—	941	—	49	—	32,973	—
Mercator–BH d.o.o.	225	—	—	—	—	76	133	—	—	1,802
Mercator–CG d.o.o.	39	—	—	—	—	169	27	—	—	4,337
Mercator–Emba d.d.	20	2,278	—	—	—	182	75	464	—	5,215
Mercator IP d.o.o.	123	12,134	212	—	—	272	203	2,877	—	8,460
M–Energija d.o.o	—	—	4	—	38	41	1	3	—	463
Total	**813**	**14,411**	**216**	**—**	**1,301**	**739**	**1,441**	**3,343**	**32,973**	**20,278**

As for 2019 year and as at December 31, 2019	Transactions						Balances			
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
Mercator–S d.o.o.	562	2	—	—	64	—	1,339	—	5,000	—
Mercator–H d.o.o.	93	296	—	—	507	—	3,241	59	18,194	—
Mercator–BH d.o.o.	423	3	—	—	—	127	139	8	—	2,633
Mercator–CG d.o.o.	118	1	—	—	—	230	6	232	—	6,381
Mercator–Emba d.d.	20	1,793	—	—	—	135	68	376	—	4,200
Mercator IP d.o.o.	597	17,029	266	—	—	208	174	2,842	—	6,761
M–Energija d.o.o	52	401	4	1	60	39	116	307	1,955	—
Total	**1,866**	**19,525**	**270**	**1**	**632**	**739**	**5,083**	**3,824**	**25,149**	**19,974**

Transactions with Agrokor d.d. and its subsidiaries

As for 2020 and 2019 year	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Sales	Purchases	Rental income	Rental costs	Interes income	Interest expenses
2020	—	—	—	—	—	—	—	—	—	—	—	—
2019	1,793	8,789	1,629	20	136	—	(20)	6,764	13	20	—	—

Balances open with Agrokor d.d. and its subsidiaries as of reporting date

As at December 31, 2020 and December 31, 2019	Mercator Group				Poslovni sistem Mercator, d.d.			
in EUR 000	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
2020	52	981	—	20,000	34	780	—	20,000
2019	81	1,323	—	20,000	39	779	—	20,000

Terms of transactions with related parties

In determining the prices in transactions with affiliated companies, Mercator Group observes its internal rules and Regulations on transfer pricing, and the arm's length principle as laid down by the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

In the reporting period, *sales* were consistent with the adopted sales and payment terms and conditions for agro and transit (opposite/offsetting transactions that hedge the credit risk due to the possibility of netting, reciprocity of payment terms, agreed mark-up on the purchase price of material), and it was conducted based on the effective purchase and sale agreements for the requirements of agro and transit sales for all customers. Prices of *services* provided by Mercator were based on relevant price lists. The same price list is used for both affiliated and non-affiliated persons/entities. The prices are based on comparable market prices or based on the actual ratio between supply and demand.

Purchase of goods were consistent with the General Terms and Conditions of the Mercator in Procurement of Goods, effective as of January 1, 2017, and as of January 1, 2019, for all suppliers. General Terms and Conditions are a constituent part of the Goods Procurement Agreement signed by the company Mercator with suppliers of goods, non-affiliated and affiliated companies.

In determining or setting the prices for *lease of real estate* to affiliated companies, Mercator observes both market aspects that are relevant in determining the price of lease in relation to non-affiliated parties (arm's length principle) and other comparable circumstances.

Mercator Group manages liquidity on a group level. Since additional borrowing from non-related parties is limited by the MRA, Mercator Group manages liquidity within the group. Subsidiaries which had surplus cash have *given loans* to the parent company Poslovni sistem Mercator, d.d. and companies which required cash were given loans by the parent.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given to or received from Agrokor d.d. and its subsidiaries. Financial guarantees provided by Poslovni sistem Mercator d.d t to its subsidiaries are disclosed in Note 32.

34. Fortenova Group transactions

As of April 1, 2019, the company Fortenova grupa d.d. commenced its operations. The company was founded based on the implementation of the agreement between the Agrokor creditors, and with the intent of transferring to this new company the healthy core operations from the Agrokor Group system. The company Fortenova grupa d.d. and the companies affiliated to it are separate in terms of ownership and management from Agrokor and the parties affiliated to it, and they are not an affiliate party of Agrokor. The company Fortenova grupa d.d. and the companies affiliated to it are also not affiliated to Mercator.

In 2020, Mercator Group and the company Poslovni sistem Mercator d.d. also conducted business with the Fortenova grupa d.d. and its subsidiaries. In order to ensure transparency of Mercator's operations, are below presented the transactions effected with the companies from the Fortenova Group.

Transactions with Fortenova grupa d.d. and its subsidiaries

As for 2020 and 2019 year	Mercator Group						Poslovni sistem Mercator, d.d.					
in EUR 000	Sales	Purchases	Rental income	Rental costs	Interest income	Interest expenses	Sales	Purchases	Rental income	Rental costs	Interest ncome	Interest expenses
2020	529	69,747	6,811	129	452	1,441	38	30,327	39	65	1	—
2019	6,529	61,987	5,087	59	375	1,659	(3)	23,538	27	59	—	—

Balances open with Fortenova grupa d.d. and its subsidiaries as of reporting date

As at December 31, 2020 and December 31, 2019	Mercator Group				Poslovni sistem Mercator, d.d.			
in EUR 000	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities	Trade and other receivables	Trade and other liabilities	Loans given	Borrowings and lease liabilities
2020	8,765	28,161	—	12,674	284	6,221	—	—
2019	12,003	34,722	—	—	209	3,614	—	—

35. Major events after the balance sheet date

As at March 1, 2021, Poslovni sistem Mercator d.d. became the 100% owner of the Mercator H d.o.o., Croatia, after the purchase of the share from the Republic of Croatia and one private person in the total amount of EUR 22 thousand.

In 2021, Mercator Group continued with monetization processes in Slovenia. In March 2021, the Supervisory Board agreed with sale of 22 Mercator's existing retail facilities (operating units) and the lease back of these retail facilities with the exception of the one building, and sale of 5 Mercator's properties/real estates (land areas with existing non-functional buildings) as a part of development project transaction with regard to opening of new stores. Total value price of the transaction is estimated to EUR 34 million.

The company Poslovni sistem Mercator, d.d. received a notification from the company Sberbank and the company Fortenova Group TopCo by which they informed that on March, 12 2021 entered into a put option contract relating to shares of the company Poslovni sistem Mercator, d.d. Pursuant to the Put Option Agreement, the company Fortenova Group TopCo granted to Sberbank a put option, which grants Sberbank a right to require Fortenova Group TopCo to purchase for agreed consideration at maximum 1,128,803 ordinary registered no-par value shares with the security code MELR, which represents 18.53% share in the share capital of Poslovni sistem Mercator, d.d.

At at March 31 2021, the company Poslovni sistem Mercator d.d. received a notification from Sberbank and Fortenova Group TopCo whereby the latter informs of the transfer of of 1,128,803 Mercator shares (18.53%), from Sberbank to Fortenova Group TopCo.

On April 16, 2021, the wider refinancing was signed, whereunder the Company entered into debt facilities with Fortenova grupa d.d. ("FNG") in the total amount of EUR 480 million (the "FNG Facility").

On April 23, 2021, EUR 385 million (out of EUR 480 million of the total facility available) was drawn in order to fully refinance the existing WGD senior facilities and to apply in other working capital purposes. More details are provided in Note 2. d) and Note 31.

On April 23, 2021, also the transfer to Fortenova Group of Agrokor's shareholding in Mercator was completed. After the transfer Fortenova Group owns 5,366,179 or 88.1% ordinary registered no-par values shares with the security code MELR.

On 26 April 2021, the Fortenova Group announced to the public, pursuant to Article 24 of the Takeovers Act ("Zakon o prevzemih") its intention of making a takover bid for all Mercator shares. Fortenova will announce its takeover bid for the purchase of the shares of Poslovni sistem Mercator, d. d., no later than 30 days and no sooner than 10 days following the announcement of its intention of taking over.

Independent auditor's report

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Independent Auditor's Report

To the Shareholders of Poslovni sistem Mercator d.d.:

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Poslovni sistem Mercator d.d. (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2020, and the Company's consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 21 April 2021.

What we have audited

The Company's consolidated and separate financial statements comprise:

- the consolidated and separate statements of financial position as at 31 December 2020;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the separate statement of changes in equity for the year then ended;
- the consolidated and separate cash flow statements for the year then ended; and
- the notes to the consolidated and separate financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (the "Regulation"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Matriculation No.: 5717159, VAT No.: SI35498161
The company is entered into the company register at Ljubljana District Court under Insert no. 12156800 per resolution Srg. 200110427 dated 19 July 2001 and into the register of audit companies at the Agency for Public Oversight of Auditing under no. RD-A-014/04. The registered share capital is EUR 34,802. The list of employed auditors with valid licenses is available at the company's registered office.

Independence

We are independent of the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Slovenia. We have fulfilled our other ethical responsibilities in accordance with those requirements and with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in Slovenia and that we have not provided non-audit services that are prohibited under Article 5(1) of the Regulation.

The non-audit services that we have provided to the Company and its subsidiaries, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 11 "Cost of goods sold, selling costs and administrative expenses" to the consolidated and separate financial statements.

Material uncertainty relating to going concern

We draw attention to Note 2. d) x. "going concern" in the consolidated and separate financial statements, which explains that the Group and the Company pledged their assets as collateral for Fortenova Grupa d.d.'s debt upon refinancing transactions after the end of the reporting period. This Fortenova Grupa d.d.'s debt requires compliance requirements with certain debt covenants at the end of each quarter and next annual period. Fortenova Grupa d.d. may breach some of these obligations as a result of a risk of not completing the transaction of sale of a business as disclosed in Note 2. d) x. "going concern". These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

- Overall Group and Company materiality: Group – EUR 21,700 thousand, Company – EUR 12,500 thousand, which represent approximately 1% of Sales revenue and Rental income of the Group and the Company.

- We conducted audit work at five reporting units in five countries.
- Our audit scope addressed 99.4% of the Group's Sales revenue and Rental income and 98.1% of the Group's Property, plant and equipment and Investment property.

- Subsequent measurement of Property, plant and equipment using the revaluation model and Investment property using the fair value model (Group and Company)
- Subsequent measurement of Investments in subsidiaries (Company)

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated and separate financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated and separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and the Company materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated and separate financial statements as a whole.

Overall Company and Group materiality	The Group: EUR 21,700 thousand The Company: EUR 12,500 thousand
How we determined it	Approximately 1% of Sales revenue and Rental income
Rationale for the materiality benchmark applied	We chose Sales revenue and Rental income as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the Company is most commonly measured by users, and is a generally accepted benchmark. Additionally, profit or loss has been volatile for years, while Sales revenue and Rental income were a more consistent measure of performance. We chose the threshold of 1% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Key audit matter	How our audit addressed the key audit matter
Subsequent measurement of Property, plant and equipment using the revaluation model and Investment property using the fair value model (Group and Company)	
Refer to Note 2.d (Use of estimates and judgements), Note 3.f and 3.h (Significant accounting policies – Property, plant and equipment and Investment property), Note 6.a and 6.c (Fair value determination – Property, plant and equipment and Investment property), Note 15 and Note 18 to the financial statements. The Group's and the Company's property portfolio is split between Property, plant and equipment and Investment property, amounting to EUR 708,726 thousand and EUR 198,978 thousand respectively for the Group and EUR 489,647 thousand and EUR 3,043 thousand respectively for the Company as at 31 December 2020. The valuation of the Group's and the Company's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and future income and returns expected from the property. The valuations for all properties were carried out by external third-party valuers (the "external valuers"). The external valuers were engaged by the management and performed their work in accordance with the International Valuation Standards. *We draw attention to Note 6 "Fair value determination" to the consolidated and separate financial statements, which explains that there is a significant estimation uncertainty in relation to the valuation of the Group's and the Company's properties. The third-party valuers engaged by management have reported that the valuation of the Group's properties as at 31 December 2020 was prepared under material valuation uncertainty due to COVID-19. This highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic.*	We engaged PwC valuation experts in relevant jurisdictions to review the property valuation report. We assessed whether the valuation methodology used was in accordance with the International Valuation Standards and was suitable for use in determining the fair value for the purpose of the financial statements. We assessed the external third-party valuers' qualifications and expertise and read their terms of engagement with the Company and the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Company, the Group and the external valuers. We found no evidence to suggest that the objectivity of any external valuers in their performance of the valuations was compromised. We attended meetings with management, our internal PwC valuation experts and the external valuers, at which the valuations and the key assumptions therein were discussed. We carried out procedures, on a sample basis, to satisfy ourselves of the accuracy of the property information supplied to the external valuers. We compared the investment yields used by the external valuers with the range of expected yields and the year on year capital movement to our expected range.

Management considered that external valuers used by the Company and the Group have relevant experience of the markets in which the Company and the Group operate. The results of the external valuations were reviewed and approved by the management.

In determining the value of the Group's and the Company's property portfolio, the external valuers took into account property specific information such as the current rent agreements (e.g: contracted rents and expiry terms). They analyzed current market rents at the valuation date and applied them to the periods after the expiry of current rent agreements, as well as to the vacant space assuming gradual decrease in vacancy. To arrive at the final value of the properties, they applied relevant assumptions for capitalization yields sourced from market analysis based on comparable market transactions, and the external valuers' professional judgement on the investor sentiment. For some properties, the comparable transactions method is used. The comparable transactions method estimates fair value on the basis of recent transactions for comparable assets in the market, adjusted to reflect the characteristics of the valued property.

The significance of the estimates and judgements involved, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus in this area.

Where assumptions were outside the expected range or otherwise appeared unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with management and the external valuers and obtained evidence to support explanations received. The valuation commentaries provided by management and the external valuers and the supporting evidence received, enabled us to consider the property specific factors that may have had an impact on value, including recent comparable transactions where appropriate.

We received evidence that alternative assumptions had been considered and evaluated by management and the external valuers, before determining the final valuations. We considered whether the assumptions used in the valuations were supportable in light of available and comparable market evidence.

We have assessed the completeness and accuracy of information disclosed in the notes to financial statements.

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Subsequent measurement of Investments in subsidiaries (Company)

Refer to Note 2.d.v (Use of estimates and judgements – Impairment of Investments in subsidiaries), Note 3.m (Significant accounting policies – Impairment of non-financial assets) and Note 19 to the financial statements.

In its statement of financial position as at 31 December 2020, the Company reported Investments in subsidiaries of EUR 235,520 thousand, after recording the net impairment of EUR 34,929 thousand.

In line with the requirements of IAS 36 – Impairment of Assets, management of the Company assessed indicators that the Investments in subsidiaries as at 31 December 2020 may be impaired. Management's assessment showed that there are impairment indicators, and accordingly management engaged external third-party valuers to estimate the recoverable amount of these assets.

External third-party appraisers (the "external appraisers") performed their work in accordance with the International Valuation Standards.

Management considered that external appraisers used by the Company have relevant experience of the markets in which the Company and its subsidiaries operate. The results of the external appraisers were reviewed and approved by the management.

The recoverable amount of Investments in subsidiaries is considered to be a key audit matter due to its significance to the Company's statement of financial position.

We engaged PwC valuation experts to review the external appraisers' report on the recoverable amount of Investments in subsidiaries.

We assessed the external third-party valuer's qualifications and expertise and read their terms of engagement with the Company to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We also considered other engagements which might exist between the Company, the Group and the external appraisers. We found no evidence to suggest that the objectivity of any external appraisers in their performance of the valuations was compromised.

We evaluated whether the approach used by the external third-party appraisers to determine the recoverable amount of individual investments complies with the requirements of IAS 36.

Our internal valuation expert evaluated the approach and methods used by the external third-party valuators.

We have assessed the completeness and accuracy of information disclosed in the notes to financial statements.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Company is located in Slovenia and the consolidated financial statements are a consolidation of the Company and its subsidiaries operating in Slovenia, Serbia, Croatia, Bosnia and Herzegovina and Montenegro.

pwc

In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us, as the lead engagement team, or by auditors from other PwC network firms. Where the work was performed by auditors from other PwC network firms, we determined the level of involvement we needed to have in directing, supervising and challenging their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole.

Material components and operations were identified primarily on the basis of their contribution to total Sales revenue and Rental income and total Property, plant and equipment and Investment property of the Group. Our scoping resulted in a coverage of 99.4% of total Sales revenue and Rental income and 98.1% of total Property, plant and equipment and Investment property.

Reporting on other information including the Business Report

Management is responsible for the other information. The other information comprises the "Introduction", "Business Report", "Non-financial Report", "Management Responsibility Statement" and "Other information" sections (but does not include the consolidated and separate financial statements and our auditor's report thereon).

Our opinion on the consolidated and separate financial statements does not cover the other information, including the Business Report and except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report we also performed procedures required by the Slovenian Companies Act. Those procedures include assessing whether the Business Report is consistent with the consolidated and separate financial statements and whether the Business Report was prepared in accordance with valid legal requirements.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Business Report for the financial year for which the consolidated and separate financial statements are prepared is consistent with the consolidated and separate financial statements; and
- the Business Report has been prepared in accordance with the requirements of the Slovenian Companies Act.

In addition, in the light of knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Business Report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated and separate financial statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Group and the Company at the shareholders meeting of the Company on 5 June 2019 for the financial year ended 31 December 2019. The deputy president of the supervisory board signed the audit contract on 19 August 2019. The contract was concluded for three years. Uninterrupted period of our appointment for the Group and the Company as a public interest entity is two years.

The certified auditors on the audit resulting in this independent auditor's report are Aleš Grm and Damjan Ahčin.

For and on behalf of PricewaterhouseCoopers d.o.o.:

Aleš Grm

Certified auditor

Damjan Ahčin

Certified auditor

Director

26 April 2021

Ljubljana, Slovenia

This version of our report is a translation from the original, which was prepared in Slovenian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the assurance engagement in relation to compliance of the format of the separate and consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

To the Shareholders of Poslovni sistem Mercator d.d.

Introduction

We have been engaged by the Management Board of Poslovni sistem Mercator d.d. (the "Company") on the basis of an agreement to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the electronic reporting format of the separate and consolidated financial statements of Group Poslovni sistem Mercator d.d. (the "Group") for the year ended 31 December 2020 included in the accompanying 2020 Annual Report of the Group (the "Electronic Reporting Format of the Separate and Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Electronic Reporting Format of the Separate and Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Electronic Reporting Format of the Separate and Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Electronic Reporting Format of the Separate and Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

An independent auditor issues an opinion on whether the Electronic Reporting Format of the Separate and Consolidated Financial Statements has been prepared in accordance with the requirements of the ESEF Regulation. This report fulfils this requirement.

Responsibility of the Management Board and the Supervisory Board

The Management Board of the Company is responsible for the application of the Electronic Reporting Format of the Separate and Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility incudes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and for designing, implementing and maintaining internal controls relevant for the

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Matriculation No.: 5717159, VAT No.: SI35498161
The company is entered into the company register at Ljubljana District Court under Insert no. 12156800 per resolution Srg. 200110427 dated 19 July 2001 and into the register of audit companies at the Agency for Public Oversight of Auditing under no. RD-A-014/94. The registered share capital is EUR 34,802. The list of employed auditors with valid licenses is available at the company's registered office.

preparation of the Electronic Reporting Format of the Separate and Consolidated Financial Statements which is free from material non-compliance with the requirements of ESEF Regulation.

The Supervisory Board is responsible for overseeing the preparation of the Electronic Reporting Format of the Separate and Consolidated Financial Statements as part of the financial reporting process, which should also be understood as the preparation of financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Electronic Reporting Format of the Separate and Consolidated Financial Statements complies with the ESEF Regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements Other than an Audit or Review of Historical Financial Information 3000 (Revised). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Electronic Reporting Format of the Separate and Consolidated Financial Statements complies prepared, in all material aspects, in accordance with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000 (R) will always detect the existing material misstatement (material non-compliance with the requirements).

Quality Control requirements

We apply the provisions of the International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Electronic Reporting Format of the Separate and Consolidated Financial Statements was applied, in all material aspects, in accordance with the applicable requirements and such application is free from material errors or omissions. Our procedures included, in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Separate and Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;

- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the XBRL mark-up language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of XBRL tags selected from the ESEF taxonomy and the creation of extension mark-ups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We draw your attention to the fact that the application of ESEF Regulation was not subject to audit as defined in International Standards on Auditing. Furthermore, in the course of performing the assurance procedures, we have not conducted an audit or review of the historical financial information used in the process of preparation of the consolidated financial statements and therefore we do not accept any responsibility for the issuance or update of any reports or opinions on historical financial information of the Group.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, based on the procedures performed, the Electronic Reporting Format of the Separate and Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Restrictions on distribution[1] and use

This report has been prepared by PricewaterhouseCoopers d.o.o. for the shareholders of the Company and is intended solely to fulfil the purpose described in the section "Description of a subject matter and applicable criteria". It should not be used for any other purpose or distributed to any other parties.

In connection with this report, PricewaterhouseCoopers d.o.o. does not accept any liability resulting from contractual and non-contractual relationships (including for negligence) with entities other than the Company in the context of this report. The above does not relieve us of liability where such release is excluded by law.

[1] Poslovni sistem Mercator d.d's management is responsible for placing information on the Company's web-site and for accuracy of such information. The scope of our performed work does not include reviewing these matters; consequently, we do not assume any responsibility for any amendments that might have been made to the Electronic Reporting Format of the Separate and Consolidated Financial Statements underlying this Independent auditor's report or any differences between the report issued by us and the information presented on the Company's web-site

On behalf of PricewaterhouseCoopers d.o.o.:

Aleš Grm
Certified auditor

Damjan Ahčin
Certified auditor
Director

26 April 2021
Ljubljana, Slovenia

This version of our report is a translation from the original, which was prepared in Slovenian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

WE PAY ATTENTION TO DETAIL, BUT LOOK BEYOND THE BOX.

Other informations

List of abbreviations

APM - Alternative Performance Measures

B2B - Business to business

B2C - Business to costumers

GDP - Gross Domestic Product

C&C - Wholesale (Cash & Carry)

CAPEX - Capital expenditures

CEETV - The leading media platform for television intelligence in Central and Eastern Europe

COVID-19/SARS-CoV-2 - New coronavirus

EBIT - Earnings before interest and taxes (operating profit)

EBITDA - Earnings before interest, taxes, depreciation and amortization

EURIBOR - Interbank interest rate in the euro zone (abbreviation of EURO Interbank Offered Rate)

FFS (WPF) - Waste phytopharmaceuticals

FURS - Financial Administration of the Republic of Slovenia

HACCP - Hazard Analysis Critical Control Point

HoReCa - Hotel, restaurants, catering

ISO - International Organization for Standardization

IT - Information Technology

KPI - Key performance indicators

LDC - Logistics and distribution centre

IFRS - International Financial Reporting Standards

NAPTE - The National Association of Television Program Executives

NIJZ - National institute of Public Health

NKO - National Infectious Diseases Coordination Body

NSV - Net sales value

OEEO (WEEE) - Waste electric and electronic equipment

OEM (WP) - Waste packaging

PKP 6 - The sixth package of anti-corona measures

RS - Republic of Slovenia

SCO - Self-checkouts

SEOnet - Ljubljana Stock Exchange electronic information dissemination system

SLA - Service-level agreements

SOF - Slovenian Advertising Festival

VCP - Value Creation plan

WGD - Wider Group Deal

WMS - Warehouse Management Sistem

ZGD-1 - Companies Act

ZIUZEOP - Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy

Alternative Performance Measures (APM)

Following is a review of alternative performance measures (APM) that offer additional insight into the trends and performance of Mercator Group, and which are defined based on the ESMA Guidelines on Alternative Performance Measures (APM). Thus, an APM is an indicator not specified in the International Accounting Standards. It is likely that the indicator is not directly comparable to other competitors and enterprises in other industries, due to differences in the methodology applied. All specified alternative performance measures pertain to business performance in the preceding reporting period and they include benchmark periods against which they are compared[19].

APM	▪ The most equivalent/closest IFRS item ▪ Definition ▪ Purpose	Calculation basis

Income statement

Sales revenue and rental income

- Sales revenue and rental income
- Sales revenue and rental income includes total sales revenue and total rental income from Mercator Group in the markets of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina
- The indicator is an important measure of Mercator Group performance, as the represent the size and indirectly the growth of the Mercator Group in the markets of its operations

Mercator Group (in EUR 000)	2020	2019
Sales revenue	2,127,256	2,091,021
Rental income	42,761	47,718
Change in methodology	—	(2,031)
Sales revenue and rental income	**2,170,018**	**2,136,707**

Retail revenue

- Sales revenue and rental income
- Retail revenue includes total revenue from Mercator Group core activity in the markets of Slovenia, Serbia, Montenegro, and Bosnia and Herzegovina.
- The indicator is an important measure of Mercator Group performance, since retail revenue accounts for the predominant share of total revenue.

Mercator Group (in EUR 000)	2020	2019
Retail	1,756,844	1,693,485
Other activities/businesses	413,174	447,285
Change in methodology	—	(2,031)
Sales revenue and rental income	**2,170,018**	**2,138,739**

Labour force cost

- No direct item
- The indicator is calculated as a sum of expenses pertaining to regular work based on collective and individual employment contracts, costs of student service agencies, hired workers, and costs related to other employment contracts.
- The indicator represents the total cost of labour.

Mercator Group (in EUR 000)	2020	2019
Labour costs from collective and individual employment contracts	275,993	254,012
Costs of student labour, hired workers, and other employment contracts	19,960	22,379
Labour force cost	**295,953**	**276,390**

EBIT

- Operating profit (EBIT)
- Earnings before interest and taxes
- The indicator is a measure of operating profitability, which is the key for attainment of Mercator Group's long-term goals

The calculation is presented in the income statement in the Financial Report section of the Business Report.

Normalized EBITDA

- Operating profit (EBIT)
- Earnings before interest, taxes, depreciation and amortization, excluding the effect of non-recurring business events. Non-recurring business events pertain especially to revaluation adjustments to inventory and receivables, revaluation adjustments to property, plant, and equipment (fixed assets), effect of divested activities, recognized gains and losses in divestment of real estate in the process of monetization etc.
- The indicator is a measure operating performance, and it is an approximation of cash flow from operating activities.

Mercator Group (in EUR 000)	2020	2019
Operating profit (EBIT)	-108,227	59,830
Depreciation and amortization	109,560	111,235
EBITDA	1,333	171,065
Change in methodology	—	(2,032)
Non-recurring business events	161,422	1,388
Normalized EBITDA	**162,755**	**170,422**

[19] 2019 figures are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

APM	▪ The most equivalent/closest IFRS item ▪ Definition ▪ Purpose	Calculation basis

Normalized EBITDA margin

- Sales revenue and rental income, Operating profit (EBIT)
- The indicator is calculated as the ratio between normalized EBITDA and sales revenue and rental income.
- Improvement in this indicator is an important sign of operating performance, and it allows comparison with competitors and other industries, regardless of the scope of operations.

Mercator Group (in EUR 000)	2020	2019
Normalized EBITDA	162,755	170,422
Sales revenue and rental income	2,170,018	2,136,707
EBITDA margin (in %)	**7.5**	**8.0**

Productivity per retail employee

- Sales revenue and rental income
- The indicator is calculated as the ratio between retail revenue and number of FTE (number of employees based on hours worked) in retail.
- The use of this indicator is common in the retail industry, and it measures performance in the company's core activity.

Mercator Group	2020	2019
Retail revenue (EUR thousand)	1,756,844	1,693,485
Number of FTE (employees based on hours worked) in retail	14,108	13,980
Productivity per Employee in retail (EUR thousand)	**124.5**	**121.1**

Value added per retail employee

- The indicator is calculated as earnings before interest, taxes, and depreciation and amortization (EBITDA) excluding labour costs, divided by FTE (number of employees based on hours worked). The indicator is annualized (adjusted to annual level). The indicator measures the contribution of each employee in the company's core business.

Mercator Group (in EUR 000)	2020	2019
Normalized EBITDA in retail	237,250	227,439
Short-term and low value lease expense in retail	990	981
Labour force cost in retail	181,096	164,502
Number of retail employees based on hours worked (FTE)	14,108	13,980
Value added per employee in retail	**29.7**	**28.1**

Statement of financial position

Long-term coverage of non-current assets with non-current liabilities

- Non-current assets, non-current liabilities, equity
- The indicator is calculated as the ratio between the sum of equity and non-current liabilities, and non-current assets.
- It is a measure of coverage of long-term assets with longterm liabilities, and it indicates adequacy of financing.

Mercator Group (in EUR 000)	2020	2019
Equity	292,046	438,974
Non-current liabilities	382,985	809,643
Change in methodology		—
Non-current assets	1,409,966	1,581,592
Change in methodology		—
Long-term coverage of non-current assets with non-current liabilities	**47.9%**	**78.9%**

Net financial debt*

- Borrowings, lease liabilities, cash and cash equivalents
- The indicator is calculated a: non-current and current borrowings + non-current and current lease liabilities – cash and cash equivalents
- The indicator measures indebtedness and Mercator Group's ability to settle all of its financial liabilities if they matured immediately.

Mercator Group (in EUR 000)	2020	2019
Financial liabilities	897,952	945,024
Change in methodology		3,197
Cash and cash equivalents	49,884	45,777
Change in methodology		7,199
Net financial debt	**848,068**	**895,244**

Net financial debt/equity

- Borrowings, lease liabilities, cash and cash equivalents, equity
- The indicator is calculated as the ratio between net financial debt and equity.
- The indicator measures Mercator Group's ability to finance its assets with equity (share capital).

The calculation is presented in Note 31 in the Financial Report section of the Annual Report.

*2019 figures in the Business section of the Annual Report are for comparable reasons adjusted in accordance with changed accounting methodology, which is used in 2020

APM	▪ The most equivalent/closest IFRS item ▪ Definition ▪ Purpose	Calculation basis
Net financial debt / normalized EBITDA	• Borrowings, lease liabilities, cash and cash equivalents, operating profit (EBIT) • The indicator is calculated as the ratio between net financial debt and 12-month normalized EBITDA. • The indicator measures the ability to repay the Mercator Group's financial debt from existing sources of liquidity and the generated cash flow from operating activities, and thus indicates the number of years required to repay the financial debt.	The calculation is presented in chapter Financial Management in the Business Report section of the Annual Report.
Available liquidity	• Cash and cash equivalents • The indicator is calculated as the sum of cash and cash equivalents and undrawn approved revolving lines. • The indicator presents the balance of all liquidity lines available to the company on a particular date.	The calculation is presented under the chapter Financial Management in the Business Report section of this Annual Report, and Note 31 in the Financial Report section of the Annual Report.
Other performance indicators		
Capital expenditure	• No direct item • Capital expenditure presents investment into expansion of retail network, refurbishment of existing units, investment into information technology and distribution centres, and investments into non-trade operations. • The indicator allows the attainment of the business strategy laid down	Calculation, broken down by respective types of investment in markets, is presented in the chapter Real Estate Management and Retail Network Development in the Business Report section of the Annual Report, and in the Cash Flow Statement in the Financial Report section of the Annual Report.
Earnings per share	• Net profit for the year • The indicator is calculated as the ratio between net profit for the year and weighted average number of ordinary shares in the period at hand, excluding own shares. • The indicator is an estimate of performance and returns for shareholders	The calculation is presented in Note 27 in the Financial Report section of the Annual Report.

Contacts

Trade, service, and manufacturing companies

Slovenia

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