



Mercator

**Business report of the Mercator Group
and the company
Poslovni sistem Mercator, d.d.,
for the period I - IX 2009**



Poslovni sistem Mercator, d.d.
Management Board

October 2009

TABLE OF CONTENTS

SUMMARY	3
MAJOR EVENTS IN THE PERIOD 1-9 2009	6
MAJOR EVENTS FOLLOWING THE BALANCE SHEET DATE	9
FINANCIAL HIGHLIGHTS FOR THE PERIOD 1-9 2009	10
COMPANY PROFILE	11
BUSINESS REPORT	13
BUSINESS STRATEGY OF THE MERCATOR GROUP	13
IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD 1-9 2009	15
DEVELOPMENT AND INVESTMENT	16
MARKETING	18
Market Share	18
Marketing Strategy	18
Customer Relations Management	19
Development of Private Label Lines	21
Sales Promotion Projects	23
Communication with the Customers	24
STORE FORMATS	24
SALES	25
CATEGORY MANAGEMENT AND SUPPLIER RELATIONS	26
LOGISTICS	27
ORGANIZATION AND QUALITY OF OPERATIONS	27
INFORMATION TECHNOLOGY	29
FINANCIAL MANAGEMENT	30
MERCATOR SHARE AND OWNERSHIP STRUCTURE	31
Mercator Share	31
Company Ownership Composition	33
RISK MANAGEMENT	35
SOCIALLY ACCOUNTABLE ACTION	36
Sponsorships, Donations, and Charity Campaigns	36
Care for the Environment	38
Human Resource Management	39
FINANCIAL REPORT	44
ACCOUNTING POLICIES	44
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP	44
Consolidated Income Statement	45
Consolidated Statement of Comprehensive Income	45
Consolidated Statement of Financial Position	46
Consolidated Statement of Cash Flows	47
Consolidated Statement of Changes in Equity	47
Notes to the Consolidated Financial Statements	48
Financial Indicators	54
CONDENSED FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.	55
Income Statement	55
Statement of Comprehensive Income	55
Statement of Financial Position	56
Statement of Cash Flows	57
Statement of Changes in Equity	57
Notes to the Financial Statements	58
Financial Indicators	62
MANAGEMENT BOARD STATEMENT PURSUANT TO ARTICLE 113 OF THE MARKET IN FINANCIAL INSTRUMENTS ACT	63

SUMMARY

Stable operation of the Mercator Group in the first nine months of 2009

The first nine months of 2009 have seen remarkably challenging economic conditions resulting from the global financial crisis and its effects on the real economy.

Despite the harsh circumstances, Mercator Group generated over EUR 2 billion of net sales revenues in the first three quarters of 2009, assuming constant exchange rates, which is 2.3 percent more than in the same period last year. When the changes in exchange rates are accounted for, Mercator Group revenues have dropped by 0.6 percent in the first three quarters of 2009, compared to the same period last year.

In Slovenia, revenue growth reached 0.5 percent; in foreign markets, the growth amounted to 6.1 percent at constant exchange rates; when the changes in exchange rates are accounted for, the revenues abroad dropped by 2.3 percent.

In the first three quarters of the year, Mercator carried out its development and investment activities as planned. The group's investments, totaling at EUR 93.6 million, were mostly allocated for the development of retail network. The opening of a hypermarket in Stara Zagora in October 2009 denoted Mercator's entry into the Bulgarian market.

In the first three quarters of 2009, the Group generated EUR 17.6 million of net income, which is 51.8 percent less than in the same period last year. Eliminating the extraordinary proceeds from disposal of property, plant, and equipment, extraordinary proceeds from disposal of financial assets, and currency translation differences, the adjusted income before taxes (EUR 21.5 million) is 14.6 percent lower than in the same period last year (EUR 25.2 million). The Management Board sees this as a solid result, given the exceptionally harsh economic conditions in all markets.

Economic conditions highly challenging in all markets

Mercator Group operations in the first nine months of 2009 were marred by arduous economic conditions stemming from the global financial crisis and its effects on the real economy, which seemed to grow in intensity in the second and third quarter. Economic activity was markedly below expectations in all markets, which was notably reflected in the changes of both volume and composition of consumer demand. At the same time, the global financial crisis has, despite falling reference interest rates, kept the financing costs at high levels.

The macroeconomic situation in many countries of the Western Balkans is difficult and the "payment indiscipline", i.e. the risks of debtors defaulting on their payments to the Group, is quite considerable, particularly in light of the decreased amount of credit available to the companies and households. In addition, Republic of Serbia has seen substantial depreciation of its local currency whose average per-EUR rate has increased by nearly 17 percent in the first three quarters of this year, compared to the same period last year.

Carrying on the intensive consumer-oriented activities in Slovenia

Operations in Slovenia in the first three quarters of the year included intensive marketing activities aimed at providing favorable offer for the consumers, and at retaining consumer loyalty. These activities resulted in a 0.5 percent growth of net revenues from sales in Slovenia; however, the numerous campaigns, paired with strong competition in the market, contributed to a decrease in the share of gross profit in total revenues by 0.7 percentage point.

As at September 30th 2009, Mercator Group had 12,991 employees in all Slovenian companies combined. Thus, it has retained the position of Slovenia's largest employer.

Revenues abroad considerably affected by exchange rates

In addition to the general economic conditions, our foreign operations were significantly affected by the changes in exchange rates, particularly the Serbian dinar. Its average per-EUR rate rose by 16.8 percent in the first three quarters of the year, compared to the same period last year, causing a decrease in Mercator Group revenues of EUR 56 million. Despite the harsh conditions, however, Mercator carried on its development activities in foreign markets and attained a 6.1 percent revenue growth outside Slovenia in the first three quarters the year, if constant exchange rates are assumed; when the changes in exchange rates are accounted for, the revenues abroad dropped by 2.3 percent.

As at September 30th 2009, Mercator Group had 8,080 employees in companies outside Slovenia.

In the first three quarters of the year, net profit amounted to EUR 17.6 million

In 2009, Mercator Group continued to carry out its activities planned to dam the effects of the adverse economic conditions. These activities are divided into two groups: activities of providing favorable offer for the consumers, and activities of business rationalization. Intensive investments into consumer-oriented activities, paired with harsh situation in all markets, resulted in a decrease in the share of gross profit in total revenues (i.e. the profit margin), which could not be fully compensated for by business rationalization measures - mostly due to still considerable financing costs. Thus, net income (profit) amounted to EUR 17.6 million, which is 51.8 percent less than in the same period last year. This should, however, be further clarified by noting that the profit generated in the first three quarters last year was considerably higher due to the proceeds from the disposal of fixed assets and proceeds from disposal of financial assets, which have amounted to a much lower figure in this year. Furthermore, this year's results were considerably affected by the negative currency translation differences. Eliminating these two effects, profit before taxes for this year would have amounted to EUR 21.5 million, which is 14.6 percent less than in the same period last year (EUR 25.2 million).

The management finds this as a solid performance, given the severe economic conditions in all markets.

Stable cash flows and unfettered investment and financial operations

In the first three quarters of 2009, Mercator Group generated EUR 141 million of gross cash flow from operating activities before rental expenses (EBITDAR),

representing a 3.5 percent growth assuming fixed exchange rates, or 0.7 percent growth when currency translation differences are accounted for. Stable generation of cash flow from operating activities, even in the time of severe economic conditions, points to high financial power, competitiveness, and business efficiency of the entire Group.

In the first three quarters of 2009, the Group pursued its investment activities as planned. Investments totaled at EUR 93.6 million, equivalent to 60 percent of the annual investment plan; they were predominantly allocated for the development of retail network. Furthermore, preparations for entering two new markets, Bulgaria and Albania, were under way without setbacks; by opening a hypermarket in Stara Zagora in October 2009, Mercator entered the Bulgarian market.

The Groups financial operations were equally smooth. The Group has refinanced all of its short-term financial liabilities while managing to obtain additional finance sources that even enabled a premature settlement of a major part of payables to suppliers, resulting in corresponding financial discounts.

Trade performance in the last quarter will be decisive for overall results

In the Semiannual Report, the company Management Board already published an estimate of key categories and financial indicators for 2009, taking into account the fact that economic conditions in 2009 are much harsher than expected, which will preclude the company from fully attaining the initially planned results. Since the conditions in the third quarter are not considerably different than anticipated three months ago, the Management Board believes there aren't any reasons to alter the estimates of key categories and financial highlights for 2009.

It should also be noted that trade performance in the last quarter, when the largest share of sales revenues is usually generated, will be of paramount importance to the overall results. Any major changes in the economic environment in the last quarter could therefore significantly affect the Group's performance for the entire year.

MAJOR EVENTS IN THE PERIOD 1-9 2009

DEVELOPMENT OF RETAIL NETWORK

In **SLOVENIA**, Planina supermarket was opened in Kranj on February 5th 2009; On April 30th, hypermarket and Intersport were opened in Škofja Loka; and on May 23rd 2009, a refurbished superette was opened in Primskovo in Kranj.

In **SERBIA**, Roda Centar Šabac was opened on February 25th 2009; a supermarket was opened in Ruma on April 28th 2009; seven superettes and a supermarket were opened in Sombor; a market was opened in Zrenjanin; four superettes were opened in Novi Sad, and a supermarket was opened in Belgrade.

In **CROATIA**, Supermarket Buje was opened on March 4th 2009, and Mercator Center Varaždin was opened on May 21st 2009.

In **BOSNIA AND HERZEGOVINA**, a hypermarket, Intersport, Modiana, and Beautique were opened in the Ilidža - Sarajevo shopping center on April 16th 2009, and on May 7th 2009, Mercator Center Banja Luka was opened.

CHANGES IN THE COMPOSITION OF THE MERCATOR GROUP

- ✓ On January 1st 2009, the company Mercator - S, d.o.o., took over the activity of the company M - Rodić, d.o.o.; the merger is currently in its final stage.
- ✓ On April 9th 2009, the company Belpana, d.o.o., Croatia, was merged with the company Mercator-H, d.o.o.
- ✓ On April 16th 2009, a new company called Mercator-A, sh.p.k., Tirana, was opened in order to enter the Albanian market.
- ✓ Based on the agreement on strategic combination in the field of trade activity, signed on October 19th 2006 by Holding Rodić M&B and Mercator, d.d., the company Poslovni sistem Mercator, d.d., purchased on May 29th 2009 an additional 12 percent share of the company M-Rodić, d.o.o., Novi Sad. Before the transaction, the company Mercator, d.d., Ljubljana, held 88 percent of the share capital of the company M-Rodić, d.o.o.; after the transaction, the company Mercator, d.d., Ljubljana holds 100 percent of the share capital of the company M-Rodić, d.o.o.
- ✓ On June 1st 2009, the companies Pekarna Grosuplje, d.d., and Evolution, d.d., were merged with the company Poslovni sistem Mercator, d.d.
- ✓ On July 31st 2009, the company Interier, d.o.o., was merged with the company Poslovni sistem Mercator, d.d.

CORPORATE GOVERNANCE

- ✓ Supervisory Board of the company Poslovni sistem Mercator, d.d., met four times in the period 1 - 9, 2009. It adopted the audited Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2008, proposals of the

Audit Committee and the Supervisory Board Report on the Revision of the Annual Report, and the opinion on the allocation of distributable profit for 2008. Board members were also presented the Business Reports for the first quarter and first half of 2009.

- ✓ The 15th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on Monday, July 20th 2009, saw the adoption of the resolutions on the allocation of distributable profit, dividend payment, and granting discharge to the Management Board and Supervisory Board. A new 8-member Supervisory Board was appointed. Members of the Supervisory Board representing capital are Stefan Vavti, Robert Šega, Jadranka Dakič, and Kristjan Verbič. The Supervisory Board members shall assume their respective terms on October 31st 2009; pursuant to the company Articles of Association and Bylaws, the term lasts four years, i.e. until October 31st 2013. The Shareholders Assembly was informed that the Workers Council also appointed employee representatives who will assume their terms simultaneously with the representatives of capital. Employee representatives include Mateja Širec, Jože Cvetek, Janez Strniša, and Ivica Župetič. The company KPMG Slovenia, podjetje za revidiranje (auditing company), d.o.o., Železna cesta 8a, Ljubljana, was appointed as the authorized auditing company for the year 2009.

MARKETING AND CORPORATE ACTIVITIES

- ✓ This year, Mercator is celebrating its **60th anniversary**. As Slovenia's leading retailer, we were constantly improving our offer during this time, surprising our customers with novelties, while a solid corporate culture has proved conducive to continuous growth and development of the company, the employees, and our business partners.
- ✓ In the beginning of February we launched a long-term activity "**Price perception**" which includes permanently reducing the prices of the most commonly sold items. It is a socially accountable gesture in a time of economic slowdown, aimed at offering competitive prices and improving the price perception of Mercator's offer. In April, we related these activities to marketing of our most affordable private label products, the so-called **barcode line** (product baskets "everything for breakfast" and "basic aliments").
- ✓ On February 11th, we carried out **10th Marketing days**. The event that took place in Cankarjev dom was attended by 500 suppliers and other business partners.
- ✓ On March 4th, we organized the **meeting with financial partners** for the ninth consecutive year. The main purpose of the event that took place in Cankarjev dom was to provide representatives of commercial banks, leasing companies, and insurance companies, with information on the business plans, operations and performance, and financing policy of the Mercator Group in 2009.
- ✓ In March 2009, we established the **employment portal** at Mercator website www.mercator.si/kariera.

- ✓ In May 2009, we launched the marketing activities related to the **10th anniversary of the Mercator private label**. We prepared a special campaign flyer marketing the products of the private label lines, and worked with our suppliers to prepare special promo packages ("gratis" packaging) to celebrate the occasion.
- ✓ In May 2009, the first products of the **revamped Lumpi line** were launched in the aisles. The assortment of products is confirmed by the Pediatric Clinic in Ljubljana, and the Kranj Institute of Public Health. The Lumpi logo got a face lift and the entire line will become distinctive for its new lovable characters. In June, the first promotion of the new **Lumpi Club** and of the new Lumpi ice cream took place as a part of the Luna Festival.
- ✓ In June 2009, the company received an award for **ranking second among the finalists for the Slovenian Award of Social Accountability HORUS 2009**.
- ✓ Throughout the summer, we conducted our central humanitarian campaign "**Good Deeds Stem from Good Words**". The campaign included collecting "kind words", a symbolic support for our campaign, which will be transformed into charitable aid to socially deprived persons. The aid in the total amount of EUR 500,000, contributed by Mercator and its suppliers, will be distributed by Slovenian Red Cross and Slovenian Karitas.
- ✓ In September 2009, Mercator received the **Trusted Brand Award**, presented as a result of a consumer survey by the Reader's Digest Magazine. The survey is conducted by Mediana, an independent market and media research institute. The key criteria of the survey are high quality of products and positive personal experience of consumers.



PROCEEDINGS AT THE COMPETITION PROTECTION OFFICE

- ✓ Completing and terminating the proceedings instituted against the companies Mercator, d.d., Spar Slovenija, d.o.o., and Engrotuš, d.d., on the grounds of allegedly concerted action between the said companies, the Competition Protection Office issued on **May 7th 2009** a decision to accept the commitment proposed to the Office by the parties in the proceedings. The commitments are related to various aspects of managing relationships between retailers and suppliers of fast-moving consumer goods, and to reporting on such activities to the Office.
- ✓ On **June 26th 2009**, the Competition Protection Office, completing and terminating the proceedings instituted due to alleged abuse of the allegedly dominant position in the upstream market of fast-moving consumer goods, issued a decision to accept the commitments proposed by the company Mercator, d.d. The commitments are related to various aspects of managing the relations with the suppliers of fast-moving consumer goods, and to reporting on such activities to the Office. The commitments shall be valid for the period of five years. The company Poslovni sistem Mercator,

d.d., will regularly report on the implementation of the commitments in the audited Annual Reports.

Thereby, both proceedings instituted by the Competition Protection Office against the company at the end of 2007, were completed.

KEY INFORMATION FOR THE SHAREHOLDERS

As at September 30th 2009, the average price per share of the company Poslovni sistem Mercator, d.d., as traded on the regular official market of the Ljubljana Stock Exchange, d.d., with the code MELR, amounted to EUR 178.33.

Share book value, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at September 30th 2009, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 209.26.

Basic net earnings per ordinary share, 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 treasury shares, amounts to EUR 4.3.

At its meeting held on September 21st 2009, the Management Board of the company Poslovni sistem Mercator, d.d., adopted a resolution to commence the proceedings of preliminary preparations for a secondary equity offering that would include a 20-percent increase in share capital, based on authorized capital. The purpose of such measure is to provide an option to raise additional financial funds in case of any further strategic combinations or alliances in the field of trade, real-estate, or other activities.

MAJOR EVENTS FOLLOWING THE BALANCE SHEET DATE

After the end of the first three quarters of 2009, the operations of the Mercator Group saw the following major events:

- ✓ In October, we have entered a new market: on October 7th 2009, we opened our first hypermarket in Bulgaria. It is located in the city of Stara Zagora.



FINANCIAL HIGHLIGHTS FOR THE PERIOD 1-9 2009

Financial highlights

	Mercator Group		
	1-9 2008	1-9 2009	Index 1-9 2009 / 1-9 2008
Revenue (EUR thousand)	1,977,631	1,966,295	99.4
Results from operating activities (EUR thousand)	68,343	59,305	86.8
Profit before income tax (EUR thousand)	43,604	21,472	49.2
Profit for the financial period (EUR thousand)	36,444	17,570	48.2
Gross cash flow from operating activities (EUR thousand)	125,206	121,917	97.4
Gross cash flow from operating activities before rental expenses (EUR thousand)	139,981	140,992	100.7
Capital expenditure (EUR thousand)	182,976	93,580	51.1
Long-term financial investments (EUR thousand)	7,297	-	-
Return on equity*	6.5%	2.9%	45.1
Return on sales	1.8%	0.9%	48.5
Gross cash flow from operating activities / net sales revenues	6.3%	6.2%	97.9
Gross cash flow from operating activities before rental expenses / net sales revenues	7.1%	7.2%	101.3
Number of employees based on hours worked	20,450	20,293	99.2
Number of employees as at the end of the period	21,318	21,071	98.8

* The indicator is adjusted to the annual level.

Selected financial highlights assuming constant exchange rates

	Mercator Group		
	1-9 2008	1-9 2009	Index 1-9 2009 / 1-9 2008
Revenue (EUR thousand)	1,977,631	2,022,411	102.3
Gross cash flow from operating activities (EUR thousand)	125,206	124,315	99.3
Gross cash flow from operating activities before rental expenses (EUR thousand)	139,981	144,851	103.5

Due to a considerable impact of currency translation differences with regard to the Serbian dinar (RSD), some financial highlights are also listed as comparable figures calculated through a simulation in which the average RSD exchange rate in the period at hand is the same as in the corresponding period last year.

COMPANY PROFILE

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 47.110 Retail in non-specialized food retail outlets
Identification number	5300231
VAT Tax Code	45884595
Court registry date	January 1 st 1990
Company share capital as at September 30 th 2009	EUR 157,128,514.53
Number of shares issued and paid-up as at September 30 th 2009	3,765,361
Share listing	Ljubljana Stock Exchange (Ljubljanska borza, d.d.) official market, prime market, trading code MELR
President of the Management Board & CEO	Žiga Debeljak
Management Board Members	Vera Aljančič Falež, Mateja Jesenek, Peter Zavrl
President of the Supervisory Board	Robert Šega
Deputy chairman of the Supervisory Board	Kristjan Sušinski

COMPOSITION AND ORGANIZATION OF THE MERCATOR GROUP

December 31 st 2008	September 30 th 2009
TRADE COMPANIES IN SLOVENIA	
Poslovni sistem Mercator, d.d.	Poslovni sistem Mercator, d.d.
M.COM, d.o.o. (100.0 %)*	M.COM, d.o.o. (100.0 %)*
TRADE COMPANIES ABROAD	
Mercator - H, d.o.o., Croatia (99.9 %)	Mercator - H, d.o.o., Croatia (99.9 %)
Mercator - S, d.o.o., Serbia (100.0 %)	Mercator - S, d.o.o., Serbia (100.0 %)
M - Rodić, d.o.o., Serbia (88.0 %)	M - Rodić, d.o.o., Serbia (100.0 %)**
Mercator - Mex, d.o.o., Montenegro (51.0 %)	Mercator - Mex, d.o.o., Montenegro (51.0 %)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)	Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator Makedonija, d.o.o., Macedonia (100.0 %)	Mercator Makedonija, d.o.o., Macedonia (100.0 %)
M - BL, d.o.o., Bosnia and Herzegovina (100.0 %)	M - BL, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator - B, e.o.o.d., Bulgaria (100.0 %)*	Mercator - B, e.o.o.d., Bulgaria (100.0 %)
Investment International, d.o.o., Macedonia (100.0 %)*	Investment International, d.o.o., Macedonia (100.0 %)*
-	Mercator - A, sh.p.k., Albania (100.0 %)*
NON-TRADE COMPANIES	
Pekarna Grosuplje, d.d. (100.0 %)**	-
- Belpana, d.o.o., Croatia (100.0 %)**	-
Eta, d.d. (100.0 %)	Eta, d.d. (100.0 %)
Mercator - Emba, d.d. (100.0 %)	Mercator - Emba, d.d. (100.0 %)
Mercator - Optima, d.o.o. (100.0 %)	Mercator - Optima, d.o.o. (100.0 %)
Interier, d.o.o. (97.6 %)**	-
M - nepremičnine, d.o.o. (100.0 %)	M - nepremičnine, d.o.o. (100.0 %)
Evolution, d.d. (100.0 %)**	-
Mercator IP, d.o.o. (100.0 %)	Mercator IP, d.o.o. (100.0 %)

* The company has not yet commenced its operating activities.

** The company is merged with the company Mercator - H, d.o.o., Croatia as of April 9th 2009.

*** The company is merged with the company Poslovni sistem Mercator, d.d., Slovenia as of June 1st 2009.

**** Company operations have been taken over by the company Mercator - S, d.o.o., Serbia, as of January 1st 2009.

***** The company is merged with the company Poslovni sistem Mercator, d.d., Slovenia as of July 31st 2009.

BUSINESS REPORT

BUSINESS STRATEGY OF THE MERCATOR GROUP

Strategic policies and strategic goals of the Mercator Group for the medium term period 2008 - 2012 were adopted in December 2007. A summary thereof was published on December 18th 2007 on SEOnet, the electronic information dissemination system of the Ljubljana Stock Exchange, d.d.

Vision

To be the leading retail chain with FMCG program (market program) in Southeastern Europe.

Mission

Our business is aimed at creating:

- benefit for the customers by providing excellent retail services, high-quality goods and competitive prices,
- benefit for employees by providing a safe and pleasant working environment and a possibility of personal and professional development,
- benefit for suppliers by taking part in the development of high-quality and innovative products and by providing the possibilities for growth in Slovenia and in emerging markets,
- benefit for shareholders by attaining a profitable growth of business operations, improving business efficiency, and increasing the company market value,
- benefit for wider environment by a responsible attitude towards our natural and social environment and by respecting the business ethics and social values in all fields of operation.

Corporate culture values

We are bound by trust and mutual respect. Our values are:

- ✓ sound teamwork,
- ✓ sincere relationships,
- ✓ encouraging creativity,
- ✓ motivating the fellow workers.

Nobody knows the customer preferences better than we do. Our values are:

- ✓ unwavering education at home and abroad,
- ✓ constant transfer of knowledge,
- ✓ ensuring personal growth and development,
- ✓ excellent staff competitiveness.

Our operations are always diligent and transparent at all levels. Our values are:

- ✓ competitiveness as the foundation of any partnership,
- ✓ accessibility of key information,
- ✓ consistency and honesty.

We are expanding with a sound corporate culture. Our values are:

- ✓ training key human resources for assuming international tasks,
- ✓ understanding the differences and adapting to local environment.

Strategic policies of the Mercator Group

1. **LARGEST RETAILER IN SLOVENIA:** To retain the leading market share of market program in Slovenia, primarily by the following activities:
 - ✓ improving the competitiveness of our offer,
 - ✓ developing the retail network.
2. **LEADING RETAILER ON NEIGHBORING MARKETS OF SE EUROPE:** To become the largest or second largest retailer with market program in the markets of Croatia, Serbia, and Bosnia and Herzegovina, by:
 - ✓ strategic combinations and alliances,
 - ✓ development of our own retail network.
3. **ENTERING OTHER SE EUROPEAN MARKETS:** To enter or enable the entrance to other markets in Southeastern Europe, where we could become one of the five leading retailers with market program; this will be attained by:
 - ✓ purchasing attractive locations,
 - ✓ development of our own retail network,
 - ✓ strategic combinations and alliances.
4. **DEVELOPMENT OF NON-MARKET PROGRAMS:** To develop non-market programs and supplementary programs that will:
 - ✓ enable reaping the potential of positive synergies with market program and/or
 - ✓ provide a concept for development of the second fundamental commercial program with a long-term potential of growth and profitability in the target markets,
 - ✓ foster the development of long-term competitive advantages.
5. **PROFITABLE OPERATION:** Ensure profitable operation by:
 - ✓ measures for retaining the level of trade margins,
 - ✓ measures for cost rationalization and increasing the productivity,
 - ✓ measures for increasing the productivity of invested capital.

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD 1-9 2009

Mercator Group operations in the first nine months of 2009 were marred by arduous economic conditions stemming from the global financial crisis and its effects on the real economy, which seemed to grow in intensity in the second and third quarter. Economic activity was markedly below expectations in all markets, which was notably reflected in the changes of both volume and composition of consumer demand. At the same time, the global financial crisis has, despite falling reference interest rates, kept the nominal financing costs at high levels. The macroeconomic situation in many countries of the Western Balkans is difficult and the "payment indiscipline", i.e. the risks of debtors defaulting on their payments to the Group, is quite considerable, particularly in light of the decreased amount of credit available to the companies and households. In addition, Republic of Serbia has seen substantial depreciation of its local currency whose average per-EUR rate has increased by nearly 17 percent in the first three quarters of this year, compared to the same period last year.

Slovenia

- ✓ In the second quarter of 2009, Slovenia officially entered recession. Forecasts about economic growth for 2009 tend to vary considerably, ranging from -2.7 percent (IMF) to -5.8 percent (OECD) and to -7.3 percent (Institute of Macroeconomic Analysis and Development). In the first half of the year, year-on-year real GDP growth dropped by 9.3 percent. Average year-on-year inflation rate in the period 1-9 2009 amounted to 0.8 percent (6.4 percent in the same period last year), and by the end of 2009 it is expected to reach 1.0 percent.

Serbia

- ✓ In the second quarter of 2009, Serbia had a negative economic growth at -4.0 percent, which is even lower than in the first quarter. In that period, growth in manufacturing and construction saw the most notable decline. Inflation in the period 1-7 2009, compared to the period 1-7 2008, was 9.3 percent. Analysts are forecasting a -4.4 percent economic growth in Serbia in 2009, while the average inflation rate in 2009 is expected at 8.9 percent. Dinar, Serbian currency, continued to depreciate as its value dropped from RSD 89.4 per 1 EUR as at December 31st 2008, to RSD 93.1 per 1 EUR as at September 30th 2009.

Exchange rate RSD/EUR	1-9 2008	1-12 2008	1-9 2009	Change 1-9 2009 / 1-9 2008
Average exchange rate of the period	80.2	81.1	93.7	116.8
Exchange rate at the end of the period	76.2	89.4	93.1	122.1

Croatia

- ✓ In the second quarter of 2009, Croatia saw a strong, 6.3 percent decline in GDP, while the same period last year it saw a growth of 3.4 percent. The main reasons for the downturn include a drop in exports, retail, tourist services, and manufacturing. For 2009, a negative economic growth is expected, amounting to -5.2 percent. Inflation for the period 1-8 2009, compared to the period 1-8 2008, amounted to 2.9 percent, which is equal to the estimates for the entire year.

Bosnia and Herzegovina

- ✓ Compared to the equivalent period last year, inflation in the period 1-8 2009 amounted to 0.2 percent. The analysts expect the economic growth in 2009 to be negative at -2.8 percent, while the inflation is expected at 0.9 percent.

Montenegro

- ✓ According to the first estimates by the Montenegro Ministry of Finance, economic growth in the first half of 2009 was negative at -3.5 percent. Inflation in the period January - August 2009 amounted to 4.2 percent, compared to the same period last year. The analysts expect the economic growth in 2009 to amount to 2.0 percent while the forecast for inflation is 0.9 percent.

DEVELOPMENT AND INVESTMENT

- ✓ In the period 1-9 2009, Mercator Group's investment into property, plant, and equipment amounted to EUR 93,580 thousand, which is 58.9 percent of the annual investment plan. Of this sum, EUR 51,558 thousand (55.1 percent) was invested abroad. The most funds, EUR 61,294 thousand, or 65.5 percent, were allocated for construction, completion, and equipment of shopping centers, while the rest was invested into new independent stores, refurbishments, distribution centers, and upgrades of the IT system.

Investment summary

Country	Capital expenditure 1-9 2009 (in EUR 000)	Structure in %	Plan 2009 (in EUR 000)
Slovenia	42,022	44.9%	72,508
Serbia	7,492	8.0%	29,686
Croatia	18,168	19.4%	31,262
Bosnia and Herzegovina	15,359	16.4%	19,596
Montenegro	1,989	2.1%	2,900
Bulgaria	5,632	6.0%	3,000
Albania	1,639	1.8%	0
Macedonia	1,280	1.4%	0
TOTAL	93,580	100.0%	158,952

SLOVENIA

- ✓ On February 5th 2009, we opened the supermarket Planina in Kranj, with a total area of 784 square meters.
- ✓ On April 30th 2009, we opened the Škofja Loka hypermarket and Intersport, including one supplementary offer outlet (a café). The newly constructed facility has a total area of 3,516 square meters and it includes 113 parking spots.
- ✓ On May 23rd 2009, we opened an extended and refurbished superette in Primskovo in Kranj, with a total area of 445 square meters.



FOREIGN MARKETS

CROATIA

- ✓ On May 21st 2009, we opened the Mercator Center Varaždin, a facility with a total area of 9,310 square meters and 411 parking spots, of which 266 are in the subterranean garage. The offer comprises a hypermarket (total area of 3,037 square meters), Intersport, Modiana, café, and 21 outlets offering supplementary services.



SERBIA

- ✓ On February 25th 2009, we opened Roda Center Šabac, a facility with a total area of 14,646 square meters and 206 parking spots, of which 180 are roofed. The center includes a hypermarket extending over 4,379 square meters, Intersport, Modiana, Beautique, hardware and electronics store, and 39 facilities offering supplementary services. The company Mercator-S, d.o.o., signed a long-term lease agreement for the center.
- ✓ On April 28th 2009, we opened a supermarket in Ruma; the facility with a total area of 753 square meters is leased.



BOSNIA AND HERZEGOVINA

- ✓ On April 16th 2009, we opened a hypermarket, Intersport, Modiana, and Beautique in the shopping center Ilidža-Sarajevo. Total area of Mercator's leased outlets amounts to 3,643 square meters, of which the hypermarket extends over 2,690 square meters.



- ✓ On May 7th 2009, we opened the Mercator Center Banja Luka. Gross trade area of the facility amounts to 17,271 square meters; 631 parking spots are available to the customers in the garage. The Center includes a hypermarket (total area of 6,201 square meters), Intersport, Modiana, Beautique, and 51 outlets leased out to supplementary service providers.



MARKETING

Market Share

Mercator Group market shares in the markets of its operations have not seen any considerable change in the period 1-9 2009, compared to the market shares in 2008.

Mercator Group Market shares by markets of operation

	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro
Market share	36.0 %	8.0 %	6.0 %	4.0 %	4.0 %

Source: market share in Slovenia - Mercator market share survey (a survey by Valicon); market shares abroad - various market research and Mercator estimates.

Marketing Strategy

We wish to position Mercator as the most competitive retailer in the market by offering added value for the customer and providing a modern and pleasant shopping experience.

- ! Our customers will be provided with an offer that is suited to the contemporary way of life;
- ! We care for the environment and health
- ! Innovation in the offer of products and services

Changed social and economic conditions have led us to devise new activities in the field of marketing and purchasing, and to redefine our priorities to include the following:

- ! Care for the customer and adjustment to new market conditions: intensive adjustment of prices of the most commonly sold products
- ! Upgrade of the customer loyalty system
- ! Development of private label line products
- ! Adjustment of the sales assortment and sales area
- ! Rationalization of costs in marketing activities, but not at the expense of customer benefits

! High level of service

! Social accountability

Customer Relations Management

Mercator Pika Card Customer Loyalty System

At the end of the third quarter of 2009, there were a total of **1,394,206 Mercator Pika card holders** in all markets combined. In the period 1-9 2009, their number increased by 122,369.

Mercator Pika card holders	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Total
as at December 31 st 2008	836,851	129,017	213,418	92,551	1,271,837
as at September 30 th 2009	899,623	148,850	236,766	108,967	1,394,206
new holders 1-9 2009	62,772	19,833	23,348	16,416	122,369

In Slovenia, the share in total retail revenues pertaining to purchases effected with Mercator Pika card amounted to **54.0 percent** in the period 1-9 2009 (in 2008, this share was 50.8 percent); in all markets of Mercator's operations, this share amounted to **43.8 percent** (40.6 percent in 2008).

Each month, we are working with our partners in the Mercator Pika card system, to prepare the **Special Pika Discounts** campaign, and in the period 1-9 2009, we also carried out several **Double** and **Triple bonus point** campaigns. To celebrate the 10th anniversary of the Mercator Pika card, the card holders were awarded 10 additional points at every 10th purchase, within the campaign called "**10 on 10**". Upon the completion of the 20th and 21st customer benefit period, two prize competitions were held during the **Pika Day**. In July, two new partners joined the Mercator Pika card customer loyalty system: **Kaval Group** and **Lipica Turizem**.



Revising the Mercator Pika card customer loyalty system, which includes replacing the POS terminals at all Mercator points of sale, will grant the card holders all advantages of the currently existing system, as well as simplification of procedures, cost rationalization, higher level of service, and new possibilities for upgrading the customer loyalty programs. We have launched the preparation of the first stage of the system upgrade which will enable additional functionality and new basis for recognizing a Mercator Pika card holder.

Healthy Lifestyle club

In the first three quarters of 2009, members of the Healthy Lifestyle Club received two new issues of the Healthy Lifestyle Magazine, two direct mails and nine e-bulletins with current news. Prize competitions and special discounts on specially selected

products are also prepared for the members, and on the club website, experts from various fields are providing answers to the questions submitted by the club members.

Lumpi Club

At Mercator, we are always looking to offer the parents and their babies something new; hence, the Lumpi Club was founded in May this year. The parents are expected with a range of interesting activities and ideas for the kids, including advice on raising and education, nutrition, care, learning, play, and development of their Lumpi child, which are prepared in cooperation with renowned experts. Members are regularly informed on club activities, events and workshops for children, and on numerous easy-on-the-pocket offers of products and services.



Maxi Club

The purpose of the Maxi Club is to provide links between people who like shopping in the tranquil environment of the Maxi department store and who value the high quality of offer and expert service. Maxi Club is aimed at attaining an even more adjusted and customized approach to loyal customers at the Maxi department store. The members are regularly informed on favorable offers prepared for them.

M Mobil

By launching the M Mobil service in 2006, Mercator became the first retailer in Slovenia to enter the mobile telephony market. Numerous benefits are offered each month to the M Mobil club members.

M Holidays

Since March 2009, our operations are carried out independently within the M Holidays offices. By the end of September, nine offices were opened. In the same period, we also issued two seasonal M Holidays catalogues, Spring/Summer 09 and Fall/Winter 2010, and carried out the activities of linked purchases with Mercator market program stores.



Mercator Call Center

Mercator Call Center is in operation in Croatia, Bosnia and Herzegovina, and Serbia. Our operators are available 24/7, throughout the year, to all Mercator Pika card holders and other customers, at a toll-free number, to assist and advise on any questions or dilemmas regarding the offer, service, and mostly transactions with the Mercator Pika card. A new service called "live chat", integrated into the Mercator website, is in the implementation stage.

Mercator Web Store

In the first three quarters of 2009, Mercator webstore saw a 2 percent growth of sales volume and 4 percent growth in the number of orders compared to the same period last year.

Mercator Web Portal

Mercator's web appearance is being continuously upgraded by introducing new web presentations. In March 2009, an employment portal was launched, intended both for those seeking employment and for the existing employees. In June, we set up the website for the companies Mercator-B, e.o.o.d., Sofia, and M-BL, d.o.o., Banja Luka, and at the end of May, the Lumpi Club website came to life.

Mercator on social networking sites

As of June 2009, Mercator has a presentation website on the LinkedIn social network. It provides a platform for connections between our employees, and presents the basic and current information on the company. As of August 2009, we are also present on the Facebook and Twitter networks where a less formal and more direct relationship is being established with the users to improve their awareness of Mercator activities.

Development of Private Label Lines

In the period 1-9 2009, Mercator Group continued to pursue the following goals in the field of private label development:

- ✓ preparing the strategy for future development and upgrade of all private label lines;
- ✓ improving the reputation and distinctiveness of the private label lines;
- ✓ promoting shopping among various target groups of users by sales promotion activities and innovative communication;
- ✓ increasing the number of products offered under private label lines;
- ✓ clarity and focus of individual private label lines and building on respective lines with market potential;
- ✓ growth of the share of private label products in total sales revenues;
- ✓ monitoring trends, sales, efficiency of communication;
- ✓ focusing on safety, quality, and compliance of products of all private label lines (testing products within internal focus groups and external testing at the Faculty of Biotechnology and the Institute of Public Health Kranj);
- ✓ launching the first products of the revamped Lumpi line.

Mercator Line

- ✓ Activities upon the 10th anniversary of the Mercator private label: special "gratis" packaging of products, private label flyer, marketing.
- ✓ We carried on the redesign of product packaging and intensive development of new products. As at the end of September, the line



included **510** products (384 featuring redesigned packaging).

Total Body Care

- ✓ By the end of the year, this line of products will be redesigned, and the product assortment will be revised. At the end of September 2009, the line included **39** products.

Generic Line

- ✓ This line includes FMCG products for the most price-sensitive customers, as it follows a clearly defined goal: lowest price in the market.
- ✓ As at the end of September 2009, the line included **74** products.

Ambient Line

- ✓ The line includes high-quality trendy textile products, household accessories, and interior decoration products for home. It is an upgrade to the M-Line.
- ✓ As at the end of September 2009, the line included **53** products (while the M-Line included 52 products).

Lumpi

- ✓ Products of the Lumpi line are being redesigned. New products are added under surveillance of the Kranj Institute of Public Health and the Ljubljana Pediatric Clinic.
- ✓ As at the end of September 2009, the line included **224** products, of which 44 already feature new packaging.



The Wishing Table

- ✓ This line enables simple and fast preparation of a high-quality and hearty meal.
- ✓ As at the end of September 2009, the line included **100** products.

Healthy Living

- ✓ The selection of products, confirmed by the Kranj Institute of Public Health, complies closely with the recommendations and modern findings in the field of healthy nutrition.
- ✓ As at the end of September 2009, the line included **83** products.



Premium

- ✓ This line, launched in the beginning of 2009, is intended for the customers with a refined taste. The products are made from finest ingredients; they are of higher quality, with less artificial additives, and mostly of Slovenian origin.



- ✓ As at the end of September 2009, the line included **8** products.

Grosuplje Bakery

- ✓ At the end of September 2009, a total of **50** products from our own bakery were included in the line. The offer was extended by introducing the "Spring Bread with Tarragon" and the summer bread with corn kernels.



Five a Day - Let Some Color Into Your Life:

- ✓ In January and February, the project "**Five a Day - Let Some Color Into Your Life**" which is aimed at promoting the consumption of fruit and vegetables among our customers, included carrying out a coupon campaign and offering weekly discounts on selected categories of fruit and vegetables.

Number of products in the Mercator private label

	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Total
Number of products as at September 30th 2009	2,214	936	1,470	919	5,539

Sales Promotion Projects

We are constantly working to offer our customers a wide choice of high-quality products and services at competitive, affordable prices. Thus, we are carrying out numerous long-term and short-term sales promotion projects.

The long-term projects included the promotion campaigns "Every Day Low Price", "Slovenian Basket", "Locked Price", "YES! Coupon" with 10 percent Tuesday discounts, 10 percent discount for pensioners on Thursdays, and the "Collect and Choose" customer loyalty program.

Short-term sales promotion projects include regular special offer flyers, category and brand discounts, and special weekend discounts.

Sales promotion projects were also carried out within specialized programs.

Sales promotion activities that have proven successful in Slovenia are also carried out in foreign markets. In 2009, we focused in all markets primarily on improving price competitiveness and localization of all marketing projects.

Communication with the Customers

In March, we issued a revamped catalogue "**Shopping Companion**" which lists the events and the offer at Mercator shopping centers in Ljubljana.

In April, we issued the 38th edition of the **Mesec magazine**, which was focused on celebrating Mercator's 60th anniversary and presenting Mercator projects.



We also continued to issue the publication "**Merry-go-round of events**" which communicates all events and activities in Mercator Centers across Slovenia.

In retail units, we introduced a **new system of product labeling** for various campaigns and projects, thus establishing a uniform and distinctive labeling method.



STORE FORMATS

As a response to the uncertain market conditions, changes in shopping habits of our customers, and changes of market trends, we started preparing a revision of Mercator hypermarket programs in Slovenia, which includes the following activities:

- ✓ redistributing the sales area among sales programs and categories;
- ✓ increasing sales area allocated for special offer goods (special offer aisles or islands within all programs, and final allocation of aisle compartments for targeted special offers);
- ✓ increasing the sales area intended for seasonal offer - establishing season-related aisles or islands where attractive season-related products can be promoted;
- ✓ more pronounced and effective labeling of special offer within regular and special offer sales areas.

Store Formats in Foreign Markets

In the period 1-9 2009, we prepared:

- ✓ starting points for defining the marketing mix for hypermarkets in Bulgaria;
- ✓ starting points for defining the sales area and marketing mix for a new "open cash and carry" store format in Bulgaria.

Development of New Technologies and Services

In 2009, we have continued to introduce new technologies in our stores. This year, self-checkout cashiers were introduced to four more hypermarkets in Croatia and to the newly opened HM Škofja Loka. Thus, Tik-tak cashiers are in operation in 28 Mercator hypermarkets and two supermarkets. In Slovenia and Croatia combined, a total of 132 self-checkout cashiers have been installed at which the customers complete an average of 28 percent of all their shopping.

Retail Unit Composition

Breakdown of the composition of Mercator Group retail units by types of stores, particular programs, and particular markets as at September 30th 2009

COUNTRY	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO	MERCATOR GROUP		
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	20	12	13	6	-	51	249,882	158,997
Supermarkets	128	23	29	11	4	195	224,098	142,733
Superettes	281	27	41	1	4	354	148,682	83,999
Neighbour stores	68	7	15	-	1	91	15,752	8,560
Cash & Carry	12	2	-	-	-	14	35,355	22,966
Hard discount stores	16	-	-	-	-	16	13,134	9,209
TOTAL FMCG programme	525	71	98	18	9	721	686,903	426,464
Technical programme	98	6	15	-	-	119	161,896	89,603
Technical programme	66	3	14	-	-	83	125,067	62,645
Furniture programme	32	3	1	-	-	36	36,829	26,958
Clothing programme and drugstores	97	18	30	12	-	157	70,128	57,262
Clothing programme	80	10	30	8	-	128	66,690	54,474
Drugstores and perfumeries	17	8	-	4	-	29	3,439	2,788
Intersport	30	9	23	8	1	71	40,117	31,100
Restaurants	19	6	17	12	-	54	16,505	10,742
Other	9	-	-	-	-	9	173	166
TOTAL specialised programmes	253	39	85	32	1	410	288,819	188,874
TOTAL	778	110	183	50	10	1,131	975,722	615,338
Franchise stores	226	-	76	-	-	302	54,332	35,103
TOTAL with franchise stores	1,004	110	259	50	10	1,433	1,030,054	650,441

SALES

In the period 1-9 2009, Mercator Group generated EUR 1,966,295 thousand of **revenues from sales**, which is 0.6 percent less than in the same period last year. Assuming a constant exchange rate of the Serbian currency relative to EUR, revenues from sales for the Mercator Group would have amounted to EUR 2,022,411 thousand, which would be a **2.3 percent growth compared to the same period last year**.

Mercator Group's sales revenues in the period 1-9 2009 arrived at 72.6 percent of the estimated annual revenues based on the revised plan, announced in the semi-annual report for 2009.

Mercator Group revenues from sales by geographical segments

In Slovenia, revenues from sales of the Mercator Group amounted to EUR 1,314,169 thousand in the period 1-9 2009, which is 0.3 percent more than in the same period last year. Revenues from retail rose by 0.7 percent, while revenues from wholesale dropped by 2.7 percent.

In **foreign markets**, revenues from sales in the period 1-9 2009 amounted to EUR 652,126 thousand, which is 2.3 percent less than in the same period last year. Assuming constant exchange rates, companies abroad would have attained revenues from sales in the amount of EUR 708,242 thousand, which would mean a 6.1 percent growth compared to the same period last year.

Mercator Group revenues from sales by business segments

Mercator Group generated 98.4 percent of total sales revenues in **trade activity**; **non-trade activity** accounts for 1.6 percent of total net revenues from sales.

In the period 1-9 2009, the majority of Mercator Group trade activity revenues resulted from sales of **market program** products as they accounted for 85.7 percent of trade activity revenues from sales; share of total revenues from sales generated in other **specialized trade programs** amounted to 14.3 percent.

CATEGORY MANAGEMENT AND SUPPLIER RELATIONS

Category Management

In the first three quarters of 2009, category management was focused on improving the price competitiveness and price perception in Slovenia. Despite a general drop in consumer confidence in retailers, we managed to retain our position in all surveys and even to improve the perception on the scope of our assortment. We are currently developing a promotional tool by simulating the effects of the marketing mix (product, price, promotion, place), with the aim of improving the effectiveness of promotional activities.

In order to redefine the development strategy of the private label lines, we analyzed sales and prices in all Mercator private label lines, comparing them to the competition and the comparable branded products. We completed a segmentation of categories and calculated the price dispersion within each category, which will facilitate an easier definition of new products and their pricing in the future.

In Croatia, we set up the organization of market program in compliance with the principles of category management, and commenced the tests for the pricing model and measuring the effect of various aspects on sales. Until the end of this year, the main focus will be on improving the price competitiveness and price perception, as well as on development of strategies for selected categories.

Purchasing of trade goods and supplier relations

In the first three quarters of 2009, we continued to look for new procurement sources and to adjust our offer to various segments of customers; the currently prevailing market conditions pushed the offer for the most price-sensitive customers to the forefront of our attention. We expanded the offer of generic private label line products and launched the first products of the new, upmarket Premium line.

We introduced numerous additional products into our permanent sales promotion projects such as the "Every Day Low Price", "Locked Price", etc., thus offering an even more affordably priced assortment.

We have prepared the starting points for purchasing policy for 2010 and already started the first negotiations in Slovenia. We continued to decrease delivery failures, inventories, and to optimize our operations.

Supplier negotiations were carried out in compliance with the commitments adopted and accepted on June 26th 2009 by the Competition Protection Office, in compliance with the Trade Goods Supplier Relation Management Code, Working instructions on business communication, and Working instructions on price effecting changes, all of which were adopted as sound practice measures for providing compliance of company operations and its commercial transactions with the internal and external rules and regulations related to competition protection.

LOGISTICS

In the period 1-9 2009, we continued to provide quality logistics services for all entities of the system that require them.

With regard to the implementation of strategic program for improving competitiveness, we continued to carry out the logistics infrastructure optimization project. Following are the most notable activities performed in the period at hand:

In Slovenia:

- ✓ We have carried on the process of introducing paperless operation and revising the fruit and vegetables distribution processes.
- ✓ Due to the economic crisis, volume of investment was cut down in 2009; as a result, we temporarily halted the construction of the central logistics center in Želodnik.

In foreign markets:

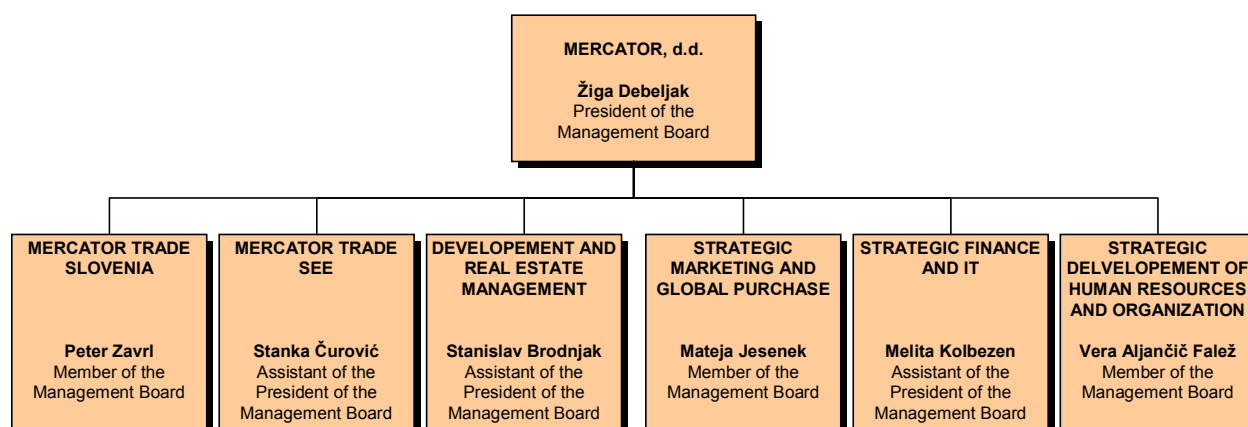
- ✓ In Croatia, the activities related to the lease of a distribution center are carried out in compliance with the provisions of the underlying contract.
- ✓ In Bosnia and Herzegovina, logistics facilities were relocated from the Rajlovac location to the Kakanj location. The new location is more convenient both from the aspect of logistics operations and economics.

ORGANIZATION AND QUALITY OF OPERATIONS

In the period 1-9 2009, Mercator Group carried out numerous organizational changes: we also successfully passed the external evaluations and obtained several certificates. We carried out the activities within the framework of the strategic project of a general optimization of operations within the Mercator Group.

Organization management

Management Board of Mercator, d.d., adopted a new macro-organizational structure, effective as of January 1st 2010. The main reasons for reorganization are improvement in local responsiveness in all markets and improved responsiveness to consumer requirements, improved efficiency of operations, adjusting the organizational complexity of international operations, and preparation for the possibility of monetization of Mercator's real estate allocated as trade facilities, in order to accelerate the development cycle.



Quality standards

In May, we carried out the most extensive external audit thus far, according to the requirements of four standards. This audit allowed us to extend the ISO 9001 certificate of quality, to carry out the certification audit for obtaining the ISO 14001 certificate for environmental management systems, to complete the first step of certification audit to obtain the ISO 22000 certificate for food safety management, and to carry out the regular audit of Mercator web store by the QWeb certification scheme. Internal audit plan for 2009 was compiled and confirmed, and its spring and summer part were carried out. At Mercator-H, d.o.o., a regular external audit for ISO 9001 (quality management system) was carried out, while at Mercator-S, d.o.o., we have successfully completed the first part of ISO 9001 certification audit for quality management system, as a part of the project for obtaining the ISO 9001 quality certificate. At the company Poslovni sistem Mercator, d.d., we introduced an electronic application for paperless management of incompliance, recommendations, and commendations. We also prepared a blueprint of solution, and devised a prototype of application, for electronic register of contracts, which is currently in the stage of user testing. The revision of the existing application for electronic council management is in the final stage.

Internal control at our sales units

We have been following the legislation changes in the field of goods and services flow processes in commerce, and accordingly notified the users on requirements, advised them and introduced these changes into internal standards. We carried out regular and extraordinary internal control in our sales units, coordinated examinations, and

performed training programs. We are also taking part in the emergency task force - special measures in case of a pandemic of the new flu virus.

With regard to food safety, we carried out the corrective measures based on the findings of the first part of external certification audit for "ISO 22000" - food safety management. We appointed a food safety team, as well as an emergency task force responsible for withdrawing the products during store working hours, outside the regular working hours of administrative workers. In Bulgaria at the end of September, we offered assistance for setting up internal control according to the HACCP system principles, and implemented our sound practice, complemented by the specific features of the Bulgarian legislation.

Strategic project of general optimization of operations

Within the framework of the strategic project of general optimization of operations in the Mercator Group, we have continued to work on improvement of efficiency and reduction of operating costs in the period 1-9 2009. By employing various productivity management tools, we managed to retain the productivity level attained last year in Slovenia, while in Croatia, the measures for improving the productivity of retail units and transforming the management models of retail units resulted in achieving the majority of planned savings. We have prepared a model of efficient management of retail areas. In Slovenia, Serbia, and Croatia, we are carrying out continuous activities for disposing of unviable inventory at the stores. We have also implemented a system of regular monitoring of the goals laid out, as well as monthly corrections to the measures employed. With regard to decreasing the costs of procuring investment equipment and maintenance costs, we prepared proposals of annual contracts for the Mercator Group, and appointed a list of common suppliers for all markets, and commenced negotiations. With regard to optimization of logistics costs in Slovenia, we provided the conditions for implementing the fall/winter timetable of goods delivery, which includes Mercator stores and wholesale customers.

INFORMATION TECHNOLOGY

Consistently with the **strategic project of IT system revision**, the following activities were carried out in the first three quarters of 2009:

- ✓ As a part of the **support function IT system revision project**, we completed the extension of the use of the basic SAP modules in the companies Mercator-H, d.o.o., Mercator-BH, d.o.o., Mercator-BL, d.o.o., and Mercator - B, e.o.o.d. The extension of the use of these modules shall continue by introduction at the companies Mercator - S, d.o.o., in Serbia;
- ✓ As a part of the **material operation IT system revision project** or the implementation of the G.O.L.D. software solution for operation management in retail, logistics, and wholesales, we carried out the following:
 - We have extended the use of G.O.L.D. CENTRAL module intended for editing and maintaining master data, managing procurement processes, and managing

promotion activities. In Slovenia, over 470 stores of the market program were connected to this module;

- We connected 111 market format outlets to the G.O.L.D. SHOP module (module for ordering and inventory management in the store) by integrating the new POS trade system.
- we provided support to material operation at the company Mercator - B, e.o.o.d.

The following activities were carried out in other fields:

- ✓ we continued to upgrade the **Mercator Pika card customer loyalty system**;
- ✓ With regard to **IT support to general operations optimization projects in the Mercator Group** we introduced the goods acceptance at the Fruit & Vegetables warehouse and continued to upgrade and expand the order generation system that employs distributors, automatic ordering system, and reporting system;
- ✓ **IT support to management and decision-making** included further activities within the program of category management, customer relationship management (CRM) and the project of Integral Material Operation Data Warehouse (inclusion of data from new markets and inclusion of units that have introduced G.O.L.D.);
- ✓ **IT support to retail, manufacturing, and catering** included further qualitative upgrade of the POS trade systems, unification of IT support, and extension of the self-check-out cashiers in Slovenia and Croatia. We also established IT support for tourist services;
- ✓ In the field of **infrastructure and security**, we upgraded the infrastructural environment (G.O.L.D. and other systems), established the infrastructural environment for M Holidays, carried on the implementation of the risk management system in the field of SAP authorizations (security), and completed the implementation of the revised communication system.

In foreign markets, we carried on the unification of the infrastructure and the IT support to retail and wholesale in compliance with the standards of support to the companies of the Mercator Group. We established IT support for the companies M-BL, d.o.o., and Mercator-B, e.o.o.d., and started to set up the IT support for Mercator - A, sh.p.k.

FINANCIAL MANAGEMENT

Financial liabilities

In the period 1-9 2009, financial liabilities in the Mercator Group rose by EUR 85,369 thousand or by 8.2 percent compared to the end of 2008. The increase is a result of the intra-year dynamics of the requirements for cash and the active policy of premature payment of trade payables that result in beneficial financial discounts.

Net borrowings of the Mercator Group, calculated as the difference between financial liabilities and financial assets of the Mercator Group, as at September 30th 2009, amount to EUR 1,074,293 thousand.

Capitalization ratio

As at September 30th 2009, the capitalization ratio of the Mercator Group amounted to 1 : 1.34 (at the end of 2008, the ratio was 1 : 1.22). This is the ratio between equity (comprising disclosed equity plus provisions for liabilities and charges), and debt capital (comprising non-current and current financial liabilities).

Long term coverage of non-current assets

As at September 30th 2009, long-term coverage of non-current assets with non-current liabilities for the Mercator Group amounted to 79.2 percent.

Obtaining sources of financing

In the period 1-9 2009, Mercator mostly signed agreements on bilateral short-term loans for refinancing the existing sources. Despite harsh conditions in the financial markets, we have managed to completely refinance all due borrowings in the period at hand.

In addition, we entered several new long-term loan (borrowing) agreements, lease agreements, and extended some of the long-term financing sources that had reached maturity. All this allows us to retain a sound maturity composition of our financial liabilities.

The Group also obtained additional short-term financing sources which were predominantly used for pursuing the policy of trade payables management.

Current liabilities management

Due to its active policy of current liability management and their premature settlement in order to gain the corresponding economic benefit, the Group obtained additional short term financing resources. As a result of that and the intra-year dynamics, the amount of trade payables, compared to January 1st 2009, dropped by EUR 147 million.

MERCATOR SHARE AND OWNERSHIP STRUCTURE

Mercator Share

As at September 30th 2009, the **share capital of the company Poslovni sistem Mercator, d.d.**, was divided into 3,765,361 shares. Nominal value of each share amounts to EUR 41.73.

The shares of the company Poslovni sistem Mercator, d.d., are listed on the **prime market of the Ljubljana Stock Exchange, d.d.**, under the trading code **MELR**.

Pursuant to provisions of the Securities Market Act and the Rules and Regulations of the Ljubljana Stock Exchange, d.d., the company regularly informs the public of the results of its operation and other relevant events.

Key information for the shareholders

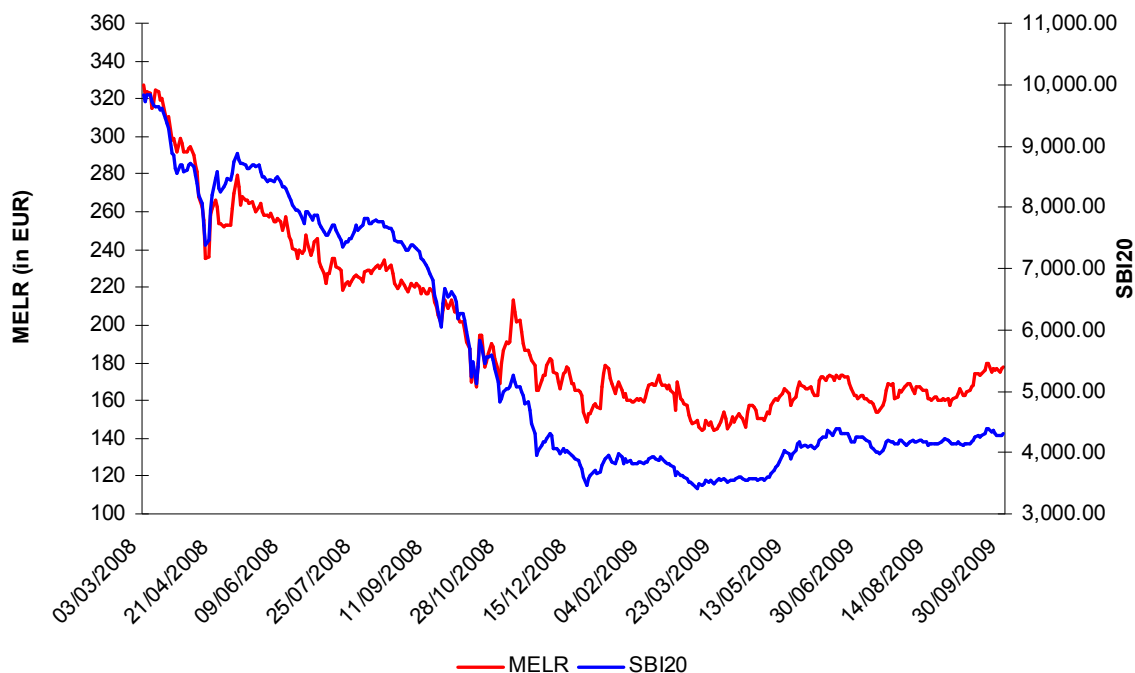
September 30 th 2009	
Number of shares registered in Court Register	3,765,361
Market capitalization (in EUR)	671,476,827
Market value of share (in EUR)	178.33
Book value per share (in EUR)	209.26
Annual low (in EUR)	144.03
Annual high (in EUR)	179.66
Weighted average market price, excluding block and cross trades (in EUR)	164.88
Earnings per share (in EUR)	4.3

Market capitalization is calculated as the product of the number of shares entered into Court Register as at September 30th 2009, and the market price per share as at September 30th 2009.

Earnings per share is calculated as the ratio between profit of the company Poslovni sistem Mercator, d.d., and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Book value per share is calculated as the ratio between the value of equity of the company Poslovni sistem Mercator, d.d., as at September 30th 2009, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Movement of average price per MELR share compared to the movement of the SBI20 index



Dividend policy

At its regular meeting held on April 17th 2007, the Supervisory Board of the company Poslovni sistem Mercator, d.d., adopted the company dividend policy for the period 2007-2010. Based on the newly adopted dividend policy, the Supervisory Board and the company Management Board proposed to the Shareholder's Assembly in the years 2007-2010 the payment of gross dividend in the following sums:

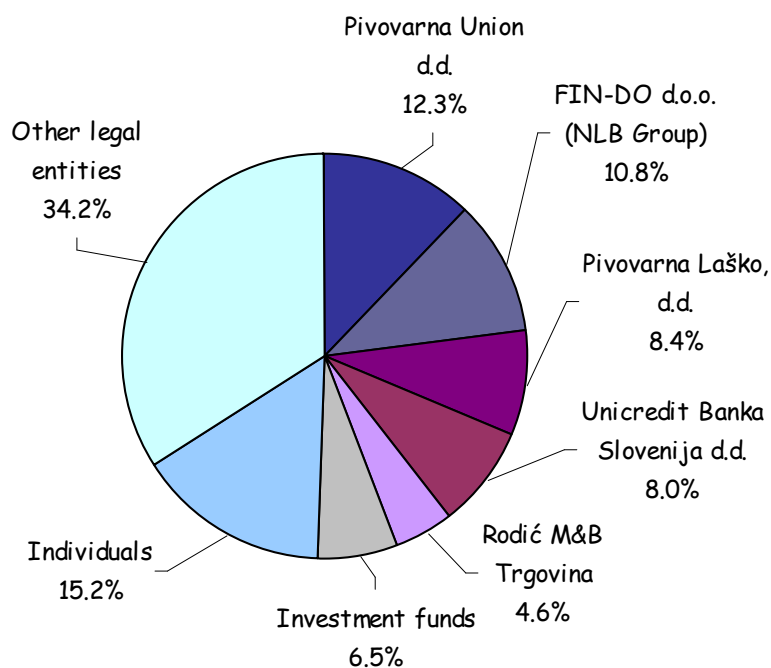
- ✓ EUR 4.00 per share in 2007,
- ✓ EUR 4.25 per share in 2008,
- ✓ EUR 4.50 per share in 2009,
- ✓ EUR 4.75 per share in 2010.

The actual sum of dividend per share for each business year respectively will be subject to Shareholder's Assembly decision. The adopted dividend policy - considering the development, taxation, and other relevant issues - represents an appropriate compromise between dividend yield of the shareholders and allocation of net profit for financing company investment plans; on one hand, this will enable long-term maximization of shareholder benefit, while on the other hand it will support long-term growth and development of the Mercator Group.

Company Ownership Composition

As at September 30th 2009, the **Share Register** of the company Poslovni sistem Mercator, d.d., indicated **17,123** shareholders or 181 less, compared to the situation as at December 31st 2008.

As at September 30th 2009, the **ownership structure of the company Poslovni sistem Mercator, d.d.**, was as follows:



Major shareholders

As at September 30th 2009, the following ten largest shareholders combined owned **60.52 percent** of the company:

Major shareholders	Country	Number of shares	Ownership share
1 Pivovarna Union d.d.	Slovenia	464,390	12.33%
2 FIN-DO d.o.o. (NLB Group)	Slovenia	404,832	10.75%
3 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 Unicredit Banka Slovenija d.d.	Slovenia	301,437	8.01%
5 Rodić M&B Trgovina	Serbia	174,517	4.63%
6 Banka Celje d.d.	Slovenia	165,270	4.39%
7 GB d.d., Kranj	Slovenia	142,920	3.80%
8 NFD 1 Delniški Investicijski Sklad d.d.	Slovenia	107,211	2.85%
9 Abanka d.d.	Slovenia	103,750	2.76%
10 Radenska, d.d. Radenci	Slovenia	96,952	2.57%
Total		2,278,777	60.52%

Foreign shareholders

As at September 30th 2009, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **12.29 percent**, which is 0.05 percentage points more than at the end of 2008.

Shares owned by Management Board members as at September 30th 2009

Name and surname	Number of shares	Ownership share
Ziga Debeljak	1,100	0.0292%
Vera Aljančič Falež	30	0.0008%
Mateja Jesenek	1,000	0.0266%
Peter Zavrl	60	0.0016%
Total	2,190	0.0582%

Shares owned by Supervisory Board members as at September 30th 2009

Name and surname	Number of shares	Ownership share
President of Supervisory Board		
1. Robert Šega	0	0.0000%
Members of Supervisory Board (representatives of capital)		
2. Matjaž Božič	0	0.0000%
3. Dušan Mohorko	0	0.0000%
4. Kristjan Sušinski	0	0.0000%
5. Mateja Vidnar	0	0.0000%
Members of Supervisory Board (workers representatives)		
6. Ksenija Bračič	0	0.0000%
7. Jože Cvetek	2,000	0.0531%
8. Dragica Derganc	0	0.0000%
9. Jelka Žekar	400	0.0106%
10. Ivica Župetić	0	0.0000%
Total	2,400	0.0637%

Treasury shares

As at December 31st 2008, the company Poslovni sistem Mercator, d.d., held 42,381 treasury shares. In July 2009, the company Poslovni sistem Mercator, d.d., carried out a merger of the company Lesno podjetje Interier, d.o.o., with the company Poslovni sistem Mercator, d.d. In this transaction, 189 shares of the acquiring company were used as payment to minority shareholders, according to the exchange ratio defined in the merger agreement. As at September 30th 2009, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares.

RISK MANAGEMENT

The global financial crisis which displayed its severity and depth as early as in the second half of 2008, continues to directly affect the trade activities in all markets of Mercator's operations in 2009.

At Mercator, we are constantly reexamining and analyzing the existing and potential new risks, as we devise and implement the measures for their management in daily operations. In the period 1-9 2009, particular attention was paid to the changes in economic conditions and their effect on individual area of risk management.

✓ With regard to **business risks**, we focused on managing the following:

- Risk of a decline in the purchasing power:

As a result of harsh economic conditions, the risk of a decline in purchasing power remains high. Furthermore, changes in shopping habits and behavior of our customers have also been perceived, which affects the changes in both volume and composition of consumption. Particularly, the effect on the volume of demand is notable in foreign markets. In the third quarter, the effects of the global economic hardship were eventually also felt in Slovenia. In all markets, we have adapted the marketing activities to the new conditions in order to provide a favorable offer for our customers, and to retain our revenue level. This is the key risk in 2009.

✓ With regard to **financial risks**, we were focused on managing the following aspects:

- Foreign currency risks:

For Mercator Group, foreign currency risk, defined as the probability of a loss of economic benefit due to a change in the exchange rate of a particular currency, appears in the markets of Serbia and Croatia; therefore, we are actively monitoring the macroeconomic background of the changes in exchange rates and attempt to adapt our operations so as to mitigate the exposure to the foreign currency risk, by responding to general trends and by natural hedging. Foreign exchange risk is among the key risks. The Group is looking to hedge the foreign currency risk in the business segments with appropriate business measures.

- Credit risk:
Due to the aggravation of the economic crisis, exposure of companies to liquidity problems is increasing; hence, credit risk in Mercator's wholesale is also increasing. The same applies to the probability that receivables arising from deferred or overdue payments will only be settled partly or not at all. As a response, we intensified our activities in receivable collection processes, restricted the exposure to individual customers, and intensified our efforts to obtain insurance of our receivables.
 - Refinancing risks:
As a result of the global financial crisis, credit activity of the banks has also shrunk and there is a risk that the banks will refuse to refinance the existing financial liabilities. In the first three quarters of the year, all Mercator's short-term borrowings were successfully refinanced. Moreover, we managed to acquire additional financial loans. At Mercator, we believe that refinancing risk is no longer a key risk for the Group.
- ✓ In the field of **operating risks**, no additional measures were implemented due to the global financial crisis.

Management Board reevaluated the exposure to key risks and found that as at September 30th 2009, Mercator Group's total exposure to business, financial, and operating risks has not changed considerably compared to the assessment dating from June 30th 2009.

SOCIALY ACCOUNTABLE ACTION

Sponsorships, Donations, and Charity Campaigns

In **Slovenia**, our traditional central humanitarian campaign was dedicated to those who are unexpectedly facing social distress. The campaign called "Good Deeds Stem from Good Words" encourages all people who are willing to help to support the campaign by clicking on the good words on Mercator website or special screens at Mercator Centers, while we shall make sure that good words actually give birth to good deeds. Products for people in distress will be donated to the Red Cross of Slovenia and the Slovenian Caritas organization; the aid is particularly intended for children who are socially or financially deprived.

As a socially responsible company we respond to numerous requests addressed to us throughout the year by schools, nurseries, health and cultural organizations, various associations and local societies from all over Slovenia. We have donated resources to the Okrešelj Fund that helps school children of the tragically deceased mountain rescuers on the Okrešelj Mountain, the House of Shelter for children in Pilštanj, The Friends of Youth Association for their project A Wink to the Sun, and to The Children Help Foundation. We have supported the charity concert for the construction of the first Children's Down Syndrome Centre and joined with Henkel to support a non profit organization The Red Noses - clown doctors. Moreover, we have supported eco-schools

all around Slovenia in their endeavor to plant 10,000 fruit trees of autochthonous sorts in the schools' surroundings as well as on public areas and rewarded the so-called Golden High School Graduates for their outstanding performance at the final national examinations. Among several projects we have sponsored the UNICEF project "Say It Out Loud!", the Slovenian Science Festival and several projects of the Faculty of Economics. Traditionally, we have backed the Party Smart Foundation, Cankarjev dom (Business and Congress Centre), the National Gallery, the National Museum, the International Centre of Graphics and Visual Arts, the City Museum, the Prešeren Theatre in Kranj, the Slovenian Olympic Committee and in addition to various sports clubs and societies we have also sponsored the traditional Recreational March along the Ring of Barbwire of the enemy-occupied Ljubljana, the bicycle race Tour of Slovenia, as well as the Run for Hope, organized by Europa Donna.

In **Serbia**, we donated products to the maternity department of the Šabac General Hospital upon the opening of the Roda Center Šabac. We again sponsored the "Euroleague Basketball Nike International Junior Classification Tournament" in Belgrade; at the end of March, we also sponsored the concert of Slovenian musician Zoran Predin in Novi Sad. Furthermore, we sponsored the children's events Baby Exit and the 52nd traditional "Dragon Children's Games" in Novi Sad, as well as backed the events of the Association of International Relations, Cooperation, and Tolerance. We also contributed a donation to the Institute for Raising and Education of Children and Youth in Belgrade, while in September, we signed a sponsorship contract for a period of four years with the Serbian Olympic Committee.

In **Croatia**, we announced a public call for applications for our sponsorships and donations for the first time and selected organizations and projects which we shall support in their socially accountable activities. We donated funds to the diving club "Vrtoglavica" ("Vertigo") which carries out a special diving program for children with special needs; we cooperate with the Croatian Association for Therapeutic Horse Riding, particularly in terms of training volunteers; this is also our central humanitarian campaign. The summer took off with our traditional sponsorship of the Ulysses theatre on Brijuni islands and sponsorship of breaking the Guinness World record of graduate dance (square dance) in Metković. Upon the opening of Mercator Center in Varaždin, we also donated funds to the municipal solidarity fund. We also supported the "Association for Education against Breast Cancer" and donated funds to the Association of the Blind and Visually Impaired for equipment of a children's playground for the blind and visually impaired children, and to association Modri telefon (Blue telephone), which helps children in need. We have also contributed to the project for improving the quality of life of the elderly, by cooperating with the Society for Promotion of Creativity.

In **Bosnia and Herzegovina**, we started the year with donations to 52 children who were born on the first day of the year. We also carried out the first public call for applications for sponsorships and donations in the categorizers of culture, sports, education, humanitarian campaigns, and awarded the funds to the applicants that met the most criteria. In cooperation with the Dobro ("Good") Association, we raised funds to aid 92 deprived families, and we supported the project "A Walk For Life" which was

aimed at raising funds for the purchase of a mammography equipment. We are also sponsoring the volleyball club "Jedinstvo" from Brčko, the Slovenian "Cankar" Society in Sarajevo, Association of Citizens of Slovenian Origin in Tuzla, Hiking Society "Friends of Nature" ("Prijatelji prirode"), Second Gymnasium from Sarajevo, women's handball club "Ljubuški - Lido osiguranje", bicycle race "Giro di Sarajevo", cycling club "The Dragon of Bosnia" from Tuzla, and Arts Society "Lola" from Sarajevo.

In the territory of **Republika Srpska**, we donated funds, upon the start of our operations, to the Center for Developmentally Impaired Children and Youngsters "Protect Me" in Banja Luka. We donated funds to 18 kindergartens in the Banja Luka region as a part of the "Play by Drawing" campaign; the resulting drawings were then exhibited at the Mercator Center Banja Luka. We also sponsored the Radivoj Korač Basketball Club, while Intersport was a sponsor of the Rafting World Championship, thus far the largest sports event in Republika Srpska and Bosnia and Herzegovina. 40 Mercator employees took part in a blood donor campaign, and 30 children from financially deprived families were provided with school accessories.

In **Montenegro**, among other activities, we sponsored the children's quiz show "Through the Doors of Knowledge to a Trip", and continued to sponsor the handball club "Budućnost" and the karate club "Ariston". We also donated funds to the "Maksim Gorki" elementary school, Ulcinj municipality, and Podgorica municipality.

Care for the Environment

In compliance with the legislation and market requirements, as well as requests by our customers, Mercator Group is committed to pursuing the **principles of sustainable commerce**. We strive to make our activities sustainable, all the while stimulating our suppliers to embrace sustainable manufacturing and our customers to embrace sustainable consumption.

Following is a list of activities we conducted in the first three quarters of 2009 in order to **reduce the use of raw materials and energy**:

- ✓ The company Poslovni sistem Mercator, d.d., obtained the **certificate for environmental management systems** in compliance with the ISO 14001 standard.
- ✓ The company Poslovni sistem Mercator, d.d., received an award for **ranking second among the finalists for the Slovenian Award of Social Accountability HORUS 2009** in the category of large companies.
- ✓ We are aware of the importance of information on the environmental impact in the decision-making process; therefore, we started to set up a **system of key environment efficiency indicator management** which will lead to sound management of the company's environmental impacts.
- ✓ In order to **optimize the business processes that bear an impact on the environment**, we have set up automated reporting on key environment indicators for each location, and assessment of their deviation from the most efficient locations in the Group.

- ✓ We have prepared a **Waste Management Plan** for the period 2009-2012, which also includes measures for preventing and reducing the generation of waste.
- ✓ We have established a **waste battery management system** and enabled the consumers to dispose of waste batteries (both dry-cell and wet-cell / car batteries) at our locations free of charge.
- ✓ We have established a service for efficient use and renewable energy sources.
- ✓ In order to promote rational use of energy at our retail units, we compiled a **Manual of Efficient Energy Use** for our managers and employees.
- ✓ In order to improve the efficiency of system management and maintenance, we compiled **Maintenance Technician's Instructions for Efficient Use of Power and System Maintenance**.
- ✓ In order to **reduce power consumption**, we are optimizing the lighting, heating, air conditioning, and cooling equipment. We are also controlling the use of energy, gradually eliminating energy waste, and changing the power consumption groups.
- ✓ In order to **reduce heating fuel consumption**, we have prepared an overview of the status and condition of central control systems and their operation at major Mercator centers.
- ✓ In order to comply with the provisions of the Regulation on Light Pollution and reduce the use of power, we prepared an **internal lighting standard** for lighting elements with corporate graphics at the company Poslovni sistem Mercator, d.d.
- ✓ In our regular offer, we included the **reusable shopping bags**, thus helping our customers take a step towards a more environment-friendly daily conduct.

Human Resource Management

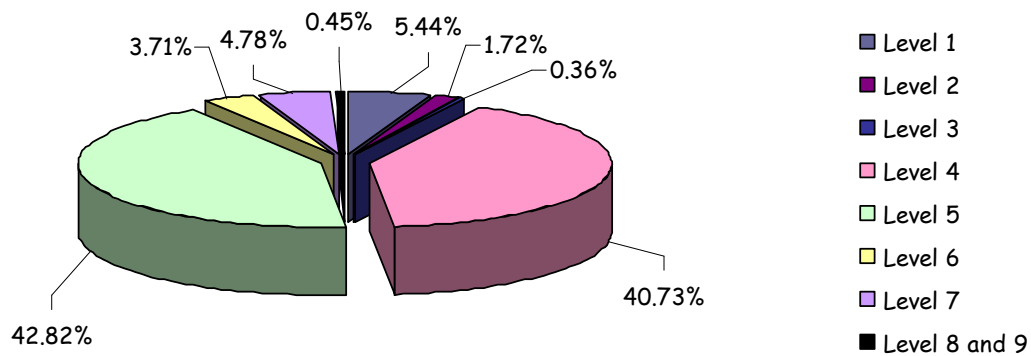
Number of employees

As at September 30th 2009, the Mercator Group employed **21,071** people of which **38.3 percent** were employed in foreign markets. The company Poslovni sistem Mercator, d.d., had **12,456** employees, or **59.1 percent** of all employees.

Number of employees

	No. of employees as at 31th December 2008	No. of employees as at 30th September 2009	Index No. of employees as at 30th September 2009 / No. of employees as at 31th December 2008	No. of employees based on hours worked in 1-9 2009
SLOVENIA	13,139	12,991	98.9	12,273
FOREING MARKETS	8,497	8,080	95.1	8,020
TOTAL MERCATOR GROUP	21,636	21,071	97.4	20,293

Breakdown by level of education



Employment of the disabled

Mercator Group employs 897 disabled persons, or 4.00 percent of all employees. Of these, 777 are employed in the parent company, 114 in non-trading sector, and 6 persons in foreign markets. Compared to the period 1-9 2008, the share of disabled persons in the Group rose by 0.04 percentage point. During the period (1-9 2009), 155 employees from the parent company were reemployed in the Social enterprise, of which 65 were disabled persons.

The share of disabled persons at the parent company amounts to 6.24 percent (which is 0.52 percentage point less than in the period 1-9 2008).

Employee relations

Career planning for key employees

- ✓ In Slovenia, we are conducting career interviews with key employees, as part of the **key employee system**.
- ✓ We have carried on the **business workshops for directors and heads of individual departments and services**.
- ✓ We selected a group of **29** promising employees for the **3rd International Mercator Business Academy**. For the first time, the group included promising employees from non-trade subsidiaries.

Education and training

- ✓ We organized a seminar "**Presentation of commitments adopted in the proceedings of cartel and monopoly, instituted by the Competition Protection Office**" for the leading, managerial, and other employees who are often and regularly in contact with the suppliers. The seminar was attended by 316 employees.

- ✓ We also prepared training on occupational health and safety and fire safety, in the form of self-education. 1,107 employees from administration were trained using programmed materials and a test.
- ✓ In Croatia and Serbia, we carried out the **Store Manager School**. In Slovenia, we prepared a concise program for **Mercator School for Deputy Store Managers**, and included a third of market program deputies.
- ✓ We have continued to train new tutors for the tutoring network in retail. In Slovenia, there are currently **404 trained tutors**.
- ✓ We organized the **9th Meeting of Internal Teachers at Mercator, d.d.**, which was attended by nearly 400 internal teachers. 27 employees were presented the awards for special achievements and awards for their work as mentors, lecturers, instructors, or tutors.
- ✓ We were also presented **an award by the Slovenian Institute for Adult Education for outstanding teaching and expert achievements in teaching of Mercator employees**.
- ✓ In Slovenia, we organized **training for the employees from Bulgaria, Albania, and Montenegro**.
- ✓ We have completed the invitation for requests for **part time studies**, based on which agreements on enrollment in part-time education programs were signed with 57 employees.
- ✓ We have completed the **training camps** on Vogel where 17 international management teams, or 298 employees, took part in motivational training.

Staffing and recruitment

- ✓ We have set up the **employment portal** on our website, at www.mercator.si/kariera.
- ✓ We completed the transition to the new **SAP** information system in the field of **human resource administration and education**.
- ✓ We have adopted the **standard for recruitment** for the company Poslovni sistem Mercator, d.d.
- ✓ At the company Poslovni sistem Mercator, d.d., we received approximately **7,000 applications for employment** in the period 1-9 2009, which is nearly **50 percent more** than in the same period last year. We have employed **573 new employees**, mostly in retail.
- ✓ In 2009, **staffing and recruitment** is focused mainly on foreign markets: **Bosnia and Herzegovina, Bulgaria, and Albania**.

Motivation and compensation

- ✓ At a special festivity held in June, **20** most distinguished employees received the prestigious "**Mercator Award**" for 2008.
- ✓ Management Board member in charge of human resources, organization, legal and general affairs, Mrs. **Vera Aljančič Falež**, was awarded the **Human Resource Manager of the Year 2009**. The award is presented by the company Planet GV.
- ✓ The **expert task force for changes in the employee compensation system**, aimed at constant monitoring and improving of the employee compensation system at the parent company, was joined by representatives of relevant trade unions.
- ✓ Responding to the harsh economic and living conditions, the company Poslovni sistem Mercator, d.d., decided to implement a **solidarity redistribution of salaries and performance bonuses** from those with higher salaries to those with lower ones. Hence, gross salary of the Management Board President was cut by 25 percent, salary of Management Board members were decreased by 15 percent, and salaries of other employees with individual employment agreements were reduced by 10 percent. Other employees in the highest salary categories saw their performance bonus decreased by 3-5 percent, while the employees in the lower salary categories saw an increase in this bonus by 3-7 percent.

Communication with employees

- ✓ **Annual discussions** took place at the Mercator Group from March 20th to June 26th 2009 in all markets.
- ✓ In Slovenia, three regular issues and one anniversary issue of the "**Časomer**" ("Timekeeper") **internal magazine** were issued. In Serbia and Croatia, four issues were published, while in Bosnia and Herzegovina and Montenegro two issues of the internal magazine were published in the first three quarters of 2009.
- ✓ The project "Family-Friendly Company" included presenting a "**Lumpi Package**" to 221 newborn babies of the employees at the controlling company. We also published two brochures: "**Mercator - a Family Friendly Company - Benefits for the Entire Family**", received by all employees, and "**What Should I Know When Expecting a Baby**", received by female employees before going on maternity leave.
- ✓ We also received an award for innovative staffing practice, for the project "**Humanitarian aspects of Human Resource Management at Mercator**".
- ✓ In the period at hand, the Mercator Humanitarian Foundation awarded aid to 92 applicants.

Intercultural organizational development

- ✓ At the end of May, traditional **Mercator Sports Games** took place.
- ✓ **Mercator corporate culture** is currently being transferred to the Bulgarian and Albanian market, using various training and other methods.
- ✓ Mercator, a **family-friendly company**, has 17 percent more maternity leaves in the period 1-9 2009 than in the same period last year.

Occupational health and safety

- ✓ The project "**Promotion of health at the company Mercator, d.d.**," includes various activities. We organized **exercise** for our employees, conducted **discussions with frequently absent workers**, **Health** has become a regular section in the internal magazine "**Časomer**" ("The Timekeeper"), we have set up a **medical advice phone number**, and we organized **seminars on breast cancer** for female employees over 45 years of age.
- ✓ We appointed a **task force** for devising and implementing preventive measures in case of the **new influenza** and anti-crisis measures in case of a pandemic outburst.
- ✓ On September 21st 2009, we organized the **3rd Mercator Human Resource Days** at Cankarjev dom in Ljubljana. The central topic of the round table was **Health - a Common Concern of the Employees, Employers, and the State**.



- ✓ **Mercator Hiking Society**, with a membership of 320, organized 9 hikes attended by 683 hikers.

Mercator Social Enterprise

- ✓ As at September 30th 2009, Mercator Social Enterprise has 194 employees, of which 146 are women and 48 are men. Their core activity is **production of cosmetics and decoration products** for the brand **Dvorec Trebnik**. The program also includes packaging vegetables and both fresh and dried fruit. Their products are marketed by the company primarily for the requirements of the parent company. In addition, they provide for the parent company services of **archiving, occupational safety, fire safety, and decoration**.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-9 2009 were compiled in compliance with the International Financial Reporting Standards, and they are unaudited.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated financial statements of the Mercator Group include the company Poslovni sistem Mercator, d.d., and 16 subsidiaries, in which the parent company directly or indirectly holds a majority interest. These subsidiaries are the following:

- ✓ **in Slovenia:** Eta, d.d., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Mercator IP, d.o.o., M.COM, d.o.o., and M - nepremičnine, d.o.o.;
- ✓ **abroad:** Mercator - H, d.o.o., Croatia, Mercator - S, d.o.o., Serbia, M - Rodić, d.o.o., Serbia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Mercator - Mex, d.o.o., Montenegro, Mercator Makedonija, d.o.o.e.l., Macedonia, Investment International, d.o.o., Macedonia, Mercator - B, e.o.o.d., Bulgaria, and Mercator - A, sh.p.k., Albania.

Consolidated Income Statement

EUR thousand

	Type of revenue / expense / cost	1-9 2008	1-9 2009	Index
1	2	3	4	5=4/3
A.	Revenue	1,977,631	1,966,295	99.4
1.	Net sales of goods, materials and products	1,828,371	1,802,701	98.6
2.	Revenue from services sold	152,838	168,005	109.9
3.	Expenses for given discounts	-3,578	-4,411	123.3
B.	Cost of sales	-1,477,697	-1,481,303	100.2
1.	Purchase value of goods and material sold, production costs, received discounts	-1,474,559	-1,476,069	100.1
2.	Other expenses	-3,138	-5,234	166.8
C.	Gross profit	499,934	484,992	97.0
D.	Selling and marketing costs	-373,196	-363,498	97.4
E.	Administrative expenses	-76,223	-69,693	91.4
F.	Other income	17,828	7,504	42.1
G.	Results from operating activities	68,343	59,305	86.8
H.	Finance income	25,011	12,590	50.3
I.	Finance expenses	-49,750	-50,423	101.4
J.	Profit before income tax	43,604	21,472	49.2
K.	Income tax expense	-6,559	-4,431	67.6
L.	Deferred income tax	-601	529	-
M.	Profit for the financial period	36,444	17,570	48.2
N.	Attributable to equity holders of the Company	36,420	17,680	48.5
O.	Attributable to minority interest	24	-110	-
P.	Number of employees based on hours worked	20,450	20,293	99.2
R.	Gross cash flow from operating activities	125,206	121,917	97.4
S.	Gross cash flow from operating activities before rental expenses	139,981	140,992	100.7

Consolidated Statement of Comprehensive Income

EUR thousand

	1-9 2008	1-9 2009
1	2	3
Profit for the financial period	36,444	17,570
Other comprehensive income		
Foreign currency translation differences for foreign companies in group	27,071	-6,045
Disposal of available-for-sale financial assets	-3,997	0
Change in fair value of cash flow hedges	-2,206	-2,730
Revaluation of property	157,531	0
Deferred tax	-35,067	663
Other changes	-2,000	0
Other comprehensive income for the financial period	141,332	-8,111
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	177,776	9,459
Attributable to equity holders of the Company	177,725	9,566
Attributable to minority interest	51	-107

Consolidated Statement of Financial Position

EUR thousand

1	Type of assets / liabilities	30.9.2008	31.12.2008	30.9.2009	Structure 30.9.2009	Index
	2	3	4	5	6	7=5/4
	ASSETS					
	A. NON-CURRENT ASSETS	1,832,045	1,873,310	1,888,282	76.2%	100.8
I.	Property, plant and equipment	1,707,027	1,771,963	1,800,389	72.7%	101.6
II.	Investment property	9,673	9,563	5,125	0.2%	53.6
III.	Intangible assets	86,776	78,196	68,349	2.8%	87.4
IV.	Deferred tax assets	8,282	8,380	9,181	0.4%	109.6
V.	Trade and other receivables	352	333	365	0.0%	109.6
VI.	Bank deposits	54	51	42	0.0%	82.4
VII.	Available-for-sale financial assets	19,881	4,824	4,831	0.2%	100.1
	B. CURRENT ASSETS	635,830	666,811	589,268	23.8%	88.4
I.	Inventories	264,037	272,391	270,744	10.9%	99.4
II.	Trade and other receivables	346,540	329,123	282,558	11.4%	85.9
III.	Bank deposits	0	18,618	17,514	0.7%	94.1
IV.	Current tax assets	7,045	809	6,633	0.3%	819.9
V.	Derivative financial instruments	3,565	0	0	0.0%	-
VI.	Cash and cash equivalents	14,643	45,870	11,819	0.5%	25.8
	TOTAL ASSETS	2,467,875	2,540,121	2,477,550	100.0%	97.5
	A. EQUITY	848,376	814,100	806,052	32.5%	99.0
	Total equity attributable to equity holders of the Company	846,124	812,092	804,199	32.5%	99.0
I.	Ordinary shares	157,129	157,129	157,129	6.3%	100.0
II.	Share premium	198,848	198,848	198,872	8.0%	100.0
III.	Treasury shares	-3,250	-3,250	-3,236	-0.1%	99.6
IV.	Revenue reserves	247,720	267,640	267,042	10.8%	99.8
V.	Fair value reserve	181,953	188,751	180,367	7.3%	95.6
VI.	Retained earnings	4,465	0	14,101	0.6%	-
VII.	Profit for the year	36,420	24,682	17,680	0.7%	71.6
VIII.	Currency translation reserve	22,839	-21,708	-27,756	-1.1%	127.9
	Minority interest	2,252	2,008	1,853	0.1%	92.3
	LIABILITIES					
	B. NON-CURRENT LIABILITIES	722,230	708,969	688,690	27.8%	97.1
I.	Trade and other payables	0	2,271	3,617	0.1%	159.3
II.	Financial liabilities	635,402	622,787	602,458	24.3%	96.7
III.	Deferred tax liabilities	52,440	52,496	50,577	2.0%	96.3
IV.	Provisions	34,388	31,415	32,038	1.3%	102.0
	C. Current liabilities	897,269	1,017,052	982,808	39.7%	96.6
I.	Trade and other payables	480,562	599,933	451,693	18.2%	75.3
II.	Current tax liabilities	7,105	724	6,292	0.3%	869.1
III.	Financial liabilities	409,602	412,797	518,495	20.9%	125.6
IV.	Derivative financial instruments	0	3,598	6,328	0.3%	175.9
	TOTAL LIABILITIES	1,619,499	1,726,021	1,671,498	67.5%	96.8
	TOTAL EQUITY AND LIABILITIES	2,467,875	2,540,121	2,477,550	100.0%	97.5
	Number of employees as at the end of the period	21,318	21,636	21,071	-	97.4

Consolidated Statement of Cash Flows

EUR thousand

Cash flows	1-9 2008	1-9 2009
Cash flows from operating activities		
Gross cash flow from operating activities	125,206	121,917
Change in trade and other receivables	-47,712	40,750
Change in inventories	-16,201	1,647
Change in trade and other payables	-59,171	-145,725
Changes in working capital	-123,084	-103,329
Interest paid	-44,929	-41,664
Income tax paid	-6,559	-4,431
Net cash from operating activities	-49,366	-27,507
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-7,297	-3,040
Acquisition of property, plant and equipment	-172,037	-92,298
Acquisition of intangible assets	-10,939	-1,282
Proceeds from sale of property, plant and equipment	12,495	6,353
Proceeds from sale of intangible assets	2,104	26
Proceeds from sale of available-for-sale financial assets	7,233	0
Interest received	15,150	9,652
Dividends received	0	14
Deposits repayments received (deposits made)	114	1,113
Net cash used in investing activities	-153,177	-79,462
Cash flows from financing activities		
Proceeds (repayments) of borrowings	208,428	85,369
Dividends paid to company shareholders	-15,417	-12,412
Net cash from financing activities	193,011	72,957
Net increase in cash and cash equivalents	-9,532	-34,013
Cash and cash equivalents at the beginning of the period	23,089	45,870
Currency translation differences	1,086	-38
Cash and cash equivalents at the end of the year	14,643	11,819

Consolidated Statement of Changes in Equity

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at January 1st, 2008	157,129	198,848	-3,250	243,309	68,078	0	26,047	-4,223	685,938	2,258	688,196
Total comprehensive income for the financial period					113,875	368	36,420	27,062	177,725	51	177,776
Transfer of profit for the year in retained earnings						26,047	-26,047		0		0
Dividends to equity holders						-16,003			-16,003		-16,003
Allocation of disposable profit following the shareholders assembly resolution				4,411		-4,411			0		0
Purchase of minority interest						-1,536			-1,536	-57	-1,593
Balance at September 30th 2008	157,129	198,848	-3,250	247,720	181,953	4,465	36,420	22,839	846,124	2,252	848,376

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at January 1st, 2009	157,129	198,848	-3,250	267,640	188,751	0	24,682	-21,708	812,092	2,008	814,100
Total comprehensive income for the financial period					-8,384	6,318	17,680	-6,048	9,566	-107	9,459
Transfer of profit for the year in retained earnings						24,682	-24,682		0		0
Treasury shares sold		24	14	-14		14			38		38
Dividends to equity holders						-16,944			-16,944		-16,944
Allocation of disposable profit following the shareholders assembly resolution				-584		584			0		0
Purchase of minority interest						-553			-553	-48	-601
Balance at September 30th 2009	157,129	198,872	-3,236	267,042	180,367	14,101	17,680	-27,756	804,199	1,853	806,052

Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED INCOME STATEMENT

✓ Net sales revenues

Net sales revenues for the period 1-9 2009 amounted to EUR 1,966,295 thousand, which is 0.6 percent less than in the comparable period last year. Assuming constant exchange rates, net sales revenues amounted to EUR 2,022,411 thousand, which would mean a 2.3 percent growth compared to the same period last year.

EUR thousand	1-9 2008	1-9 2009	Index 1-9 2009/1-9 2008
Slovenia	1,310,176	1,314,169	100.3
Abroad	667,455	652,126	97.7
<i>Mercator Group</i>	1,977,631	1,966,295	99.4

Assuming fixed exchange rates:

EUR thousand	1-9 2008	1-9 2009	Index 1-9 2009/1-9 2008
Slovenia	1,310,176	1,314,169	100.3
Abroad	667,455	708,242	106.1
<i>Mercator Group</i>	1,977,631	2,022,411	102.3

Mercator Group's sales revenues in the period 1-9 2009 arrived at 72.6 percent of the estimated annual revenues based on the revised plan, announced in the semi-annual report for 2009.

✓ Cost of sales

Costs of sales including production costs, purchase value of goods sold and material, and other operating expenditures, amounted in the relevant period to EUR 1,481,303 thousand, and exceeded the figure for this category in the same period last year by 0.2 percent.

✓ Gross profit

Gross profit for the period 1-9 2009 amounted to EUR 484,992 thousand, which is a 3.0 percent decrease compared to the period 1-9 2008.

The share of gross profit in net sales revenues in the period 1-9 2009 amounted to 24.7 percent, which is 0.6 percentage point less than in the same period last year. This decrease is mostly the result of lower profit margins due to numerous consumer-oriented campaigns and changes in the composition of consumption.

✓ **Selling and marketing costs and administrative expenses**

Selling costs and administrative expenses amounted to EUR 433,191 thousand, which is EUR 16,228 thousand less than in the same period last year.

Administrative expenses also include losses from disposal of property, plant, and equipment in the amount of EUR 121 thousand.

Selling and marketing costs, administrative expenses and production costs

EUR thousand

	Type of Cost	1-9 2008	1-9 2009	Index
1	2	3	4	5=4/3
1.	Costs of material	69,744	68,269	97.9
2.	Costs of services	127,215	120,865	95.0
3.	Depreciation and amortisation	68,828	70,206	102.0
4.	Provisions for other liabilities and charges	18	0	-
5.	Labour costs	215,138	204,116	94.9
6.	Other costs	8,416	8,216	97.6
7.	Changes in the value of inventories	-15,752	-13,638	86.6
8.	Impairments and receivable write-offs	839	121	14.4
9.	SELLING AND MARKETING COSTS, ADMINISTRATIVE EXPENSES AND PRODUCTION COSTS	474,446	458,155	96.6
10.	Purchase value of goods and material sold	1,449,532	1,451,105	100.1
11.	Other expenses	3,138	5,234	166.8
12.	TOTAL COSTS	1,927,116	1,914,494	99.3

The share of costs excluding depreciation and negative revaluation adjustments in net revenues amounts to 18.5 percent, which is 0.7 percentage point lower than in the same period last year. Increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, logistics infrastructure optimization, and cost rationalization measures in the Mercator Group.

✓ **Other income**

Other income amounted to EUR 7,504 thousand, of which EUR 1,556 thousand is related to proceeds from disposal of property, plant, and equipment, while the remaining other revenues from operations relate to revenues from indemnities and other revenues.

✓ **Results from operating activities**

Results from operating activities for the period 1-9 2009 amounted to EUR 59,305 thousand, which is EUR 9,038 thousand, or 13.2 % less than in the period 1-9 2008.

Results from operating activities in the previous year were considerably increased by proceeds from disposal of property, plant, and equipment, in the amount of EUR 8,668 thousand; this year, such proceeds only amounted to EUR 1,556 thousand. Eliminating this extraordinary effect, this year's result from operating activities would have amounted to EUR 57.7 million, which is only 3.2 percent lower than the last year's figure (EUR 59.7 million).

✓ **Financial income and expenses**

Financial income amounted to EUR 12,590 thousand, which is 49.7 percent less than in the period 1-9 2008. Financial revenues were mostly generated by regular interest received from financing, revenues from default interest, and positive currency translation differences. Financial revenues in the previous year were also considerably affected by extraordinary proceeds from disposal of financial assets in the amount of EUR 6.9 million.

Financial expenses for the relevant period amount to EUR 50,423 thousand, of which a major portion relates to costs from interest paid to commercial banks and negative currency translation differences. Compared to the same period last year, they represent a 1.4 % increase, mostly resulting from increases in interest rates and larger scope of total debt.

Net effect of currency translation differences is negative and it amounts to EUR 1,980 thousand in the period 1-9 2009 (in the period 1-9 2008, the currency translation differences were positive, amounting to EUR 4,052 thousand).

✓ **Profit before income tax**

In the period 1-9 2009, the Mercator Group generated EUR 21,472 thousand of profit before income tax, which is 50.8 percent or EUR 22,132 thousand less than in the period 1-9 2009.

Profit in the first three quarters last year was considerably increased by extraordinary proceeds from disposal of property, plant, and equipment, and extraordinary proceeds from disposal of financial assets, which were considerably lower this year. In addition, this year's profits are considerably decreased by negative currency translation differences. Eliminating these three effects, this year's profit before income tax would have amounted to EUR 21.5 million, which is 14.6 percent lower than in the same period last year (EUR 25.2 million).

✓ **Profit for the financial period**

In the period 1-9 2009, the Mercator Group generated EUR 17,570 thousand of net profit, which is 51.8 percent less than in the same period last year. The decrease in net profit for the financial period is mostly the result of lower profit margins, negative currency translation differences, higher financing costs, and lower proceeds from disposal of property, plant, and equipment.

✓ **Gross cash flow from operating activities before rental expenses**

Gross cash flow from operating activities before rental expenses (EBITDAR) of the Mercator Group for the period 1-9 2009 amounted to EUR 140.992 thousand, which is 0.7 percent more than in the same period last year. Simulating fixed exchange rates, EBITDAR in the period 1-9 2009 would have amounted to EUR 144,851 thousand, which would be a 3.5 percent growth over the same period last year. The EBITDAR attained

by the Mercator Group in the period 1-9 2009 amounts to 70.5 percent of the estimated EBITDAR for the entire year, based on the revised plan, announced in the semi-annual report for 2009.

✓ **Gross cash flow from operating activities**

Gross cash flow from operating activities (EBITDA) of the Mercator Group for the period 1-9 2009 amounted to EUR 121,917 thousand, which is 2.6 percent less than in the period 1-9 2008. Simulating fixed exchange rates, EBITDA in the period 1-9 2009 would have amounted to EUR 124,315 thousand, which would be only 0.7 percent less than in the same period last year.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

✓ **Property, plant, and equipment, investment property, and intangible assets**

As at September 30th 2009, the value of property, plant, and equipment, investment property, and intangible assets amounts to EUR 1,873,863 thousand, which is EUR 14,141 thousand more than at the beginning of the year; these assets represent 75.6 % of total assets. Changes in the period 1-9 2009 are related to investments, depreciation, disposal of commercially unviable assets - property, plant, and equipment, and currency translation differences.

✓ **Available-for-sale financial assets**

As at September 30th 2009, available-for-sale financial assets amount to EUR 4,831 thousand, which is EUR 7 thousand more than as at December 31st 2008. The increase is a result of currency translation differences.

✓ **Inventories**

Inventories of trade goods, raw materials, and material as at September 30th 2009 amount to EUR 270,744 thousand, and represent 45.9 % of the total current assets. Compared to the beginning of the year, the inventories fell by EUR 1,647 thousand, or 0.6 percent.

✓ **Trade and other receivables**

As at September 30th 2009, trade and other receivables amounted to EUR 282,923 thousand, which is EUR 46,533 thousand less than at the beginning of the year.

Trade receivables also include loans to other parties, which amount to EUR 9,175 thousand as at September 30th 2009, which is EUR 1,150 thousand less than at the beginning of the year. The loans to other parties are related to loans for construction of several trade centers in Serbia, and accommodation loans.

✓ **Bank deposits**

As at September 30th 2009, bank deposits amount to EUR 17,556 thousand.

✓ **Equity**

In the period 1-9 2009, the equity of the Group decreased by EUR 8,048 thousand. Major changes are related to the following:

- Decrease in equity by EUR 16,944 thousand as a result of dividend payment.
- Increase by net profit of the majority interest holder attained in the period 1-9 2009, in the amount of EUR 17,680 thousand;
- Decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,730 thousand;
- Increase in equity by deferred taxes related to the change in fair value of derivative financial instruments and elimination of deferred taxes related to depreciation of revalued property, plant, and equipment in the amount of EUR 663 thousand;
- Decrease in equity due to currency translation differences in the translation of financial statements of foreign companies into the representation currency, in the amount of EUR 6,048 thousand;
- Increase of equity due to disposal of treasury shares in the amount of EUR 38 thousand;
- Decrease in minority capital in the amount of EUR 155 thousand.

Net return on equity, calculated as the ratio between net profit and average equity in the period at hand, amounts to 2.9 %.

✓ **Trade and other payables**

Trade and other payables as at September 30th 2009 amounted to EUR 455,310 thousand, which is EUR 146,894 thousand less than at the end of 2008. The decrease is mostly the result of early payment of payables to suppliers, and the intra-year business dynamics.

✓ **Financial liabilities**

Non-current financial liabilities as at September 30th 2009 amount to EUR 602,458 thousand, and have decreased by EUR 20,329 thousand compared to the beginning of the year.

Current financial liabilities as at September 30th 2009 amount to EUR 518,495 thousand, and have increased by EUR 105,698 thousand compared to the beginning of the year.

Total financial liabilities as at September 30th 2009 amount to EUR 1,120,953 thousand, which is EUR 85,369 thousand more than at the end of 2008. The increase in non-

current financial liabilities is mostly the result of borrowings due to the changes in trade payables which dropped by EUR 146,894 thousand since the end of 2008.

In the composition of financial liabilities, non-current financial liabilities represent 53.7 percent, and current financial liabilities represent the remaining 46.3 percent (as at December 31st 2008, the ratio between non-current and current financial liabilities was 60.1 : 39.9).

As at September 30th 2009, net debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets of the Mercator Group amounted to EUR 1,074,293 thousand.

✓ **Provisions**

As at September 30th 2009, the provisions amounted to EUR 32,038 thousand. Compared to the beginning of the year, these provisions have increased by EUR 623 thousand.

✓ **Derivative financial instruments**

As at September 30th 2009, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 6,328 thousand, which is EUR 2,730 thousand more than at the end of 2008. The difference is recognized as a decrease in equity.

✓ **Deferred tax**

As at September 30th 2009, the net deferred tax liabilities totaled at EUR 41,396 thousand.

SOME ADDITIONAL INFORMATION RELATED TO REAL ESTATE TRANSACTIONS AT THE MERCATOR GROUP

Since transactions with real estate considerably affect the operations and financial highlights of the Mercator Group, some information on this activity is presented in more detail below.

The table below presents a summary of gross effective surface area of real estate held by the Mercator Group as at September 30th 2009.

Gross effective surface area (square meters)	Employed for own operations	Leased out	Total as at September 30th 2009
Trade area, own	768,122	143,904	912,026
Trade area, leased	207,600	54,378	261,978
Trade area, total	975,722	198,281	1,174,004
Warehouse area, own	140,074	-	140,074
Warehouse area, leased	3,698	-	3,698
Warehouse area, total	143,773	-	143,773
Office area, own	43,981	-	43,981
Office area, leased	3,658	-	3,658
Office area, total	47,639	-	47,639
Effective surface area managed	1,167,134	198,281	1,365,415
- of which own	952,177	143,904	1,096,081
- of which leased	214,956	54,378	269,334

Book value of real estate held by the Group, with a total gross effective surface area of 1,096,081 square meters, amounts to EUR 1,566 million as at September 30th 2009. In compliance with the IFRS, all real estate is valued by fair value.

In the period 1-9 2009, Mercator Group generated EUR 22.7 million of net revenues from leasing its trade facilities to third party service providers.

Total cost of leasing trade, warehouse, and office facilities in the period 1-9 2009 amounts to EUR 16.3 million.

Financial Indicators

	Mercator Group	
	1-9 2008	1-9 2009
Indicators of profitability		
Return on equity*	6.5%	2.9%
Return on sales	1.8%	0.9%
Gross profit / revenue	25.3%	24.7%
Indicators of financial structure		
Financial liabilities / equity	1.2	1.4
Equity and provisions to total equity and liabilities	35.8%	33.8%
Financial liabilities to total equity and liabilities	42.3%	45.2%
Trade and other payables to total equity and liabilities	19.5%	18.4%
Indicators of operating efficiency and productivity		
Labour costs per hours worked (EUR thousand)*	14.0	13.4
Revenue / labour costs	9.2	9.6
Revenue per employee per hours worked (EUR thousand)*	128.9	129.2
Value added per employee per hours worked (EUR thousand)*	22.2	21.4
Business costs / sales	22.4%	22.0%
Gross cash flows from operating activities / revenue	6.3%	6.2%
Gross cash flows from operating activities before rental expenses / revenue	7.1%	7.2%

* The indicator is adjusted to the annual level.

Note: Value added is calculated as the sum of gross cash flow from operating activities and labor costs.

CONDENSED FINANCIAL STATEMENTS OF THE COMPANY POSLOVNI SISTEM MERCATOR, D.D.

The company Poslovni sistem Mercator, d.d., has a double role in the Mercator Group: it is the parent company that owns all ownership shares in the Group's subsidiaries; simultaneously, it is the operative company, carrying out all trade and other activities in Slovenia. Thus, employing the financial statements of the company Poslovni sistem Mercator, d.d., for economic analysis of Mercator Group's operation is inappropriate. For such analysis, it would be more sensible to apply only the consolidated financial statements that represent the performance of the Mercator Group as a uniform business entity.

Income Statement

EUR thousand				
	Type of revenue / expense / cost	1-9 2008	1-9 2009	Index
1	2	3	4	5=4/3
A.	Revenue	1,308,391	1,314,676	100.5
1.	Net sales of goods, materials and products	1,208,462	1,210,050	100.1
2.	Revenue from services sold	102,815	109,794	106.8
3.	Expenses for given discounts	-2,886	-5,168	179.1
B.	Cost of sales	-961,890	-975,305	101.4
1.	Purchase value of goods and material sold, production costs, received discounts	-960,019	-970,527	101.1
2.	Other expenses	-1,871	-4,778	255.4
C.	Gross profit	346,501	339,371	97.9
D.	Selling and marketing costs	-251,237	-245,347	97.7
E.	Administrative expenses	-52,875	-46,977	88.8
F.	Other income	8,262	4,676	56.6
G.	Results from operating activities	50,651	51,723	102.1
H.	Finance income	13,418	4,772	35.6
I.	Finance expenses	-33,877	-36,480	107.7
J.	Profit before income tax	30,192	20,015	66.3
K.	Income tax expense	-6,011	-4,338	72.2
L.	Deferred income tax	-598	161	-
M.	Profit for the financial period	23,583	15,838	67.2
N.	Number of employees based on hours worked	12,071	11,841	98.1

Statement of Comprehensive Income

EUR thousand		
	1-9 2008	1-9 2009
1	2	3
Profit for the financial period	23,583	15,838
Other comprehensive income		
Disposal of available-for-sale financial assets	-3,997	0
Change in fair value of cash flow hedges	-2,206	-2,730
Revaluation of property	133,897	0
Deferred tax	-28,578	573
Other changes	0	1,292
Other comprehensive income for the financial period	99,116	-864
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	122,699	14,975

Statement of Financial Position

EUR thousand

	Type of assets / liabilities	30.9.2008	31.12.2008	30.9.2009	Structure 30.9.2009	Index
1	2	3	4	5	6	7=5/4
	ASSETS					
	A. NON-CURRENT ASSETS	1,544,967	1,600,654	1,606,714	81.1%	100.4
I.	Property, plant and equipment	957,573	1,001,697	1,019,392	51.4%	101.8
II.	Investment property	9,635	9,563	5,125	0.3%	53.6
III.	Intangible assets	14,147	12,420	10,718	0.5%	86.3
IV.	Deferred tax assets	8,143	8,430	9,233	0.5%	109.5
V.	Trade and other receivables	332	261	321	0.0%	123.3
VI.	Bank deposits	0	51	42	0.0%	81.6
VII.	Participation in equity of group companies	537,542	564,019	557,636	28.1%	98.9
VIII.	Available-for-sale financial assets	17,594	4,213	4,247	0.2%	100.8
	B. CURRENT ASSETS	420,969	431,690	374,958	18.9%	86.9
I.	Inventories	175,407	180,819	175,046	8.8%	96.8
II.	Trade and other receivables	241,027	234,630	198,541	10.0%	84.6
III.	Bank deposits	0	15,700	5	0.0%	0.0
IV.	Current tax assets	0	541	1,315	0.1%	243.0
V.	Derivative financial instruments	3,565	0	0	0.0%	-
VI.	Cash and cash equivalents	970	0	52	0.0%	-
	TOTAL ASSETS	1,965,937	2,032,344	1,981,672	100.0%	97.5
	A. EQUITY	789,731	781,041	779,110	39.3%	99.8
I.	Ordinary shares	157,129	157,129	157,129	7.9%	100.0
II.	Share premium	198,848	198,848	198,872	10.0%	100.0
III.	Treasury shares	-3,250	-3,250	-3,235	-0.2%	99.6
IV.	Revenue reserves	219,390	235,460	238,015	12.0%	101.1
V.	Fair value reserve	191,751	173,341	162,735	8.2%	93.9
VI.	Retained earnings	2,280	3,444	9,757	0.5%	283.3
VII.	Profit for the year	23,583	16,070	15,838	0.8%	98.6
	LIABILITIES					
	B. NON-CURRENT LIABILITIES	496,320	480,507	461,436	23.3%	96.0
I.	Trade and other payables	0	2,271	3,617	0.2%	159.3
II.	Financial liabilities	422,237	411,959	391,489	19.8%	95.0
III.	Deferred tax liabilities	43,936	39,054	38,894	2.0%	99.6
IV.	Provisions	30,148	27,222	27,436	1.4%	100.8
	D. Current liabilities	679,885	770,796	741,126	37.4%	96.2
I.	Trade and other payables	332,995	423,490	318,089	16.1%	75.1
II.	Current tax liabilities	6,011	0	0	0.0%	-
III.	Financial liabilities	340,879	343,708	416,709	21.0%	121.2
IV.	Derivative financial instruments	0	3,598	6,328	0.3%	175.9
	TOTAL LIABILITIES	1,176,205	1,251,303	1,202,562	60.7%	96.1
	TOTAL EQUITY AND LIABILITIES	1,965,937	2,032,344	1,981,672	100.0%	97.5
	Number of employees as at the end of the period	12,688	12,737	12,456	-	97.8

Statement of Cash Flows

EUR thousand

Cash flows	1-9 2008	1-9 2009
Cash flows from operating activities		
Gross cash flow from operating activities	84,970	89,990
Change in trade and other receivables	-48,505	34,370
Change in inventories	-7,584	5,811
Change in trade and other payables	-15,549	-105,983
Gross cash from operating activities	-71,638	-65,801
Interest paid	-33,239	-34,301
Income tax paid	-6,011	-4,338
Net cash from operating activities	-25,918	-14,451
Cash flows from investing activities		
Acquisition of subsidiaries	-32,353	-14,211
Acquisition of property, plant and equipment	-105,947	-38,338
Acquisition of intangible assets	-7,401	-936
Proceeds from sale of property, plant and equipment	7,332	5,462
Proceeds from sale of intangible assets	1	0
Proceeds from sale of available-for-sale financial assets	7,233	0
Interest received	5,503	4,291
Dividends received	0	13
Deposits repayments received (deposits made)	0	15,705
Net cash used in investing activities	-125,632	-28,014
Cash flows from financing activities		
Proceeds (repayments) of borrowings	167,649	54,928
Dividends paid to company shareholders	-15,417	-12,412
Net cash from financing activities	152,232	42,516
Net increase in cash and cash equivalents	682	52
Cash and cash equivalents at the beginning of the period	288	0
Cash and cash equivalents at the end of the year	970	52

Statement of Changes in Equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Total equity
Balance at January 1st, 2008	157,129	198,848	-3,250	214,979	94,915	2,705	17,708	683,035
Total comprehensive income for the financial period	0	0	0	0	96,836	2,280	23,583	122,699
Dividends to equity holders	0	0	0	0	0	-16,003	0	-16,003
Transfer of profit for the year in retained earnings	0	0	0	0	0	17,708	-17,708	0
Allocation of disposable profit following the shareholders assembly resolution	0	0	0	4,411	0	-4,411	0	0
Balance at September 30th, 2008	157,129	198,848	-3,250	219,390	191,751	2,280	23,583	789,731

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Total equity
Balance at January 1st, 2009	157,129	198,848	-3,250	235,460	173,341	3,444	16,070	781,041
Total comprehensive income for the financial period	0	0	0	0	-10,606	9,743	15,838	14,975
Treasury shares sold	0	24	14	-14	0	14	0	39
Dividends to equity holders	0	0	0	0	0	-16,944	0	-16,944
Transfer of profit for the year in retained earnings	0	0	0	0	0	16,070	-16,070	0
Allocation of disposable profit following the shareholders assembly resolution	0	0	0	2,569	0	-2,569	0	0
Balance at September 30th, 2009	157,129	198,872	-3,235	238,015	162,735	9,757	15,838	779,110

NOTES TO THE INCOME STATEMENT

✓ **Net sales revenues**

Net sales revenues for the period 1-9 2009 amounted to EUR 1,314,676 thousand, which is an increase of 0.5 % over the comparable period last year.

Revenues resulting from the sales of goods, materials, and products amounted to EUR 1,210,050 thousand, which is 0.1 % more compared to the same period last year. In retail, revenues rose by 1.4 percent, while in wholesale, they dropped by 2.2 percent.

Revenues from sales of services amounted to EUR 109,794 thousand, which is a 6.8 percent increase compared to the same period last year.

✓ **Cost of sales**

Cost of sales, including production costs, purchase value of goods and materials sold, discounts on early payments received, and other expenses in the relevant period, amounted to EUR 975,305 thousand, and exceed the figure for the same period last year by 1.4 percent.

✓ **Gross profit**

Gross profit for the period 1-9 2009 amounted to EUR 339,371 thousand, which is 2.1 percent less compared to the period 1-9 2008.

The share of gross profit in revenues from sales in the period 1-9 2009 amounted to 25.8 percent, which is 0.7 percentage point less than in the same period last year.

✓ **Selling and marketing costs and administrative expenses**

Selling and marketing costs and administrative expenses amount to EUR 292,324 thousand, which is 3.9 percent less than in the same period last year.

The share of selling and marketing costs and administrative expenses excluding amortization, depreciation and revaluation adjustments, in total revenues, amounts to 19.1 percent, which is 1.3 percentage point less than in the same period last year. The increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, optimization of logistics infrastructure, and implementation of cost rationalization measures at the company.

Administrative expenses also include losses from disposal of property, plant, and equipment in the amount of EUR 12 thousand.

✓ **Other income**

Other income in the period 1-9 2009 amounts to EUR 4,676 thousand, of which EUR 1,010 thousand is related to proceeds from disposal of property, plant, and equipment. Compared to the same period last year, other income is lower by EUR 3,586 thousand.

✓ **Results from operating activities**

Results from operating activities in the period 1-9 2009 amount to EUR 51,723 thousand, which is 2.1 percent more than in the period 1-9 2008.

✓ **Financial income and expenses**

In the period 1-9 2009, financial income amounted to EUR 4,772 thousand, which is 64.4 percent less than in the period 1-9 2008. Financial income relates predominantly to financial income from interest received (EUR 2,841 thousand).

Financial expenses in the period 1-9 2009 amount to EUR 36,480 thousand, which is 7.7 percent more than in the same period last year. The majority of this figure, in the amount of EUR 34,124 thousand, relates to financial expenses from interest paid.

✓ **Profit for the financial period**

Company net profit for the period 1-9 2009 amounted to EUR 15,838 thousand, which is 32.8 percent less than in the same period of the last year.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

✓ **Property, plant and equipment, investment property and intangible assets**

As at September 30th 2009, the value of property, plant, and equipment, investment property, and intangible assets amounts to EUR 1,035,235 thousand, which is EUR 11,556 thousand more than at the beginning of the year. These assets represent 52.2 % of total assets. The change in this ratio is a result investment, amortization and depreciation, and disposal of commercially unviable assets.

✓ **Participation in equity of Group companies**

As at September 30th 2009, investment into interest of Group subsidiaries amounted to EUR 557,636 thousand; in the period 1-9 2009, the figure fell by EUR 6,383 thousand as a result of the merger of the companies Evolution, d.d., Interier, d.o.o., and Pekarna Grosuplje, d.d.

✓ **Available-for-sale financial assets**

Available-for-sale financial assets as at September 30th 2009 amounted to EUR 4,247 thousand, which is 0.8 percent more than at the beginning of the year.

✓ **Inventories**

Inventories of raw materials, material, and trade goods as at September 30th 2009 amount to EUR 175,046 thousand, and represent 46.7 percent of total current assets. Compared to the beginning of the year, the value of inventories fell by EUR 5,773 thousand, or 3.2 percent.

✓ **Trade and other receivables**

As at September 30th 2009, trade and other receivables amounted to EUR 198,863 thousand, which is EUR 36,028 thousand less than at the beginning of the year.

Trade receivables also include loans to other parties, which amount to EUR 5,010 thousand as at September 30th 2009, and which are related to loans to subsidiaries and accommodation loans.

✓ **Equity**

In the period 1-9 2009, company equity decreased by EUR 1,931 thousand. The major changes are related to the following:

- Decrease in equity for the payment of dividends in the amount of EUR 16,944 thousand;
- Increase by net profit generated in the period 1-9 2009, in the amount of EUR 15,838 thousand;
- Decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,730 thousand;
- Decrease in equity due to the merger of the company Evolution, d.d., in the amount of EUR 57 thousand;
- Decrease in equity due to the merger of the company Interier, d.d., in the amount of EUR 44 thousand;
- Increase in equity due to the merger of the company Pekarna Grosuplje, d.d., in the amount of EUR 1,394 thousand;
- Increase in equity by deferred taxes in the amount of EUR 573 thousand;
- Increase in equity due to the change in the holdings of treasury shares in the amount of EUR 39 thousand.

Net return on equity calculated as the ratio between net profit and average equity in the period at hand amounts to 2.7 %.

✓ **Trade and other payables**

Trade and other payables as at September 30th 2009 amounted to EUR 321,706 thousand, which is EUR 104,056 thousand less than at the end of 2008.

✓ **Financial liabilities**

Non-current financial liabilities as at September 30th 2009 amount to EUR 391,489 thousand, and have decreased by EUR 20,470 thousand compared to the beginning of the year.

Current financial liabilities as at September 30th 2009 amount to EUR 416,709 thousand, and have increased by EUR 73,002 thousand compared to the beginning of the year.

Total financial liabilities as at September 30th 2009 amount to EUR 808,198 thousand, which is EUR 52,531 thousand more than at the end of 2008.

In the composition of financial liabilities, non-current financial liabilities represent 48.4 percent, and current financial liabilities represent the remaining 51.6 percent (as at December 31st 2008, the ratio between non-current and current financial liabilities was 54.5 : 45.5).

As at September 30th 2009, net debt of the Mercator Group, calculated as the difference between the sum of financial liabilities and derivative financial instruments on one hand, and financial assets on the other hand (bank deposits, available-for-sale financial assets) amounted to EUR 810,181 thousand.

✓ **Provisions**

As at September 30th 2009, the provisions amounted to EUR 27,436 thousand. Compared to the beginning of the year, the figure has increased by EUR 214 thousand.

✓ **Derivative financial instruments**

As at September 30th 2009, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 6,328 thousand, which is EUR 2,730 thousand more than at the end of 2008. The difference is recognized as a decrease in equity.

✓ **Deferred tax**

As at September 30th 2009, the net deferred tax liabilities totaled at EUR 29,662 thousand.

TRANSACTIONS WITH ASSOCIATED PERSONS

The company Poslovni sistem Mercator, d.d., has two types of associated persons: managerial personnel, and subsidiaries. Managerial personnel include members of Management Boards, Supervisory Boards, and employees with individual employment contracts in the companies of the Mercator Group.

The company Poslovni sistem Mercator, d.d., is working with the subsidiaries of the Mercator Group in various business and financial fields under market conditions. Managerial personnel are receiving compensation based on the effective employment agreements or resolutions adopted by the Shareholders Assembly (Supervisory Board members).

Financial Indicators

	POSLOVNI SISTEM MERCATOR, D.D.	
	1-9 2008	1-9 2009
Indicators of profitability		
Return on equity*	4.3%	2.7%
Return on sales	1.8%	1.2%
Gross profit / sales	26.5%	25.8%
Indicators of financial structure		
Financial liabilities / equity	0.97	1.04
Equity and provisions to total equity and liabilities	41.7%	40.7%
Financial liabilities to total equity and liabilities	38.8%	40.8%
Trade and other payables to total equity and liabilities	16.9%	16.2%
Indicators of operating efficiency and productivity		
Revenue per employee per hours worked (EUR thousand)*	144.5	148.0
Business costs / sales	22.8%	22.1%

* The indicator is adjusted to the annual level.

**MANAGEMENT BOARD STATEMENT PURSUANT TO ARTICLE 113 OF THE
MARKET IN FINANCIAL INSTRUMENTS ACT**

The Management Board hereby confirms that the summary of the financial report of the company Poslovni sistem Mercator, d.d., and the Mercator Group, to their best knowledge, is compiled in compliance with the appropriate framework of financial reporting and that it presents a true and fair account of assets and liabilities, financial position, and the income of the company Poslovni sistem Mercator, d.d., and other companies included in the consolidated statements. The business report includes a fair account of information on relevant transaction with associated persons, and it is compiled in compliance with the relevant accounting standard.

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, October 23rd 2009