Business Plan of the Mercator Group and the Company Poslovni sistem Mercator, d.d., for the year 2010

*Mercator, an environmentally friendly neighbour

Poslovni sistem Mercator, d.d.
Management board

December, 2009

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SUMMARY

Mercator Group operations remain stable in 2009 despite exceptionally harsh economic conditions

Economic environment in 2009 was very harsh. It was marred by negative economic growth, a credit crunch, and other consequences and symptoms of the global financial crisis, which in turn effected the composition and volume of consumption, as well as operating and financing costs. Business conditions in the last quarter of 2009 were also more challenging than initially expected, perhaps revealing that the circumstances in 2010 will make it another strenuous year.

Mercator Group is estimated to generate EUR 2.66 billion of net sales revenues. Assuming constant exchange rates, this would mean a 1.1 percent growth compared to 2008; when actual changes in the exchange rates are applied, net sales revenues turn out 2.0 percent lower than in 2008.

Net profit of the Mercator Group is estimated at EUR 20.8 million in 2009, which is 49.1 percent less than in the year before. Lower net profit is a result of unexpectedly harsh economic conditions and extensive investment into more favorable and competitive offer for the consumers.

Gross cash flow from operating activities before rental expenses (EBITDAR – earnings before interest, taxes, depreciation, amortization, and rent) for the Mercator Group is estimated to reach EUR 190.4 million in 2009. Assuming constant exchange rates, this would be 0.9 percent less than in 2008. When actual changes in exchange rates are accounted for, EBITDAR is 3.9 percent lower than in 2008.

In 2009, Mercator Group is estimated to allocate a total of EUR 159 million for capital expenditure, which is consistent with the planned figure. Unhindered implementation of the annual investment plan is an indicator of unrestricted access to financial sources and of a high scope of development opportunities. In addition, the level of financial debt is estimated to remain at the planned level, which means that the Group financed its capital expenditure predominantly with own resources this year.

As at December 31st 2009, Mercator Group is expected to have 21,534 employees, of which approximately 40 percent will be employed abroad.

2010 is expected to be equally challenging as 2009. Nevertheless, Mercator Group is planning to carry on its stable operation.

In 2010, business environment will be equally challenging as in 2009. Very harsh economic conditions will bear a decisive negative impact on the composition and volume of consumption. Due to the situation in financial markets, access to long-term financing sources will remain restricted and upward pressure on interest rate margins will remain high, leading to higher financing costs. Macroeconomic circumstances will be very strenuous in many countries in the region where the Mercator Group is operating. All this will require proactive management of key business and financial risks.

Net sales revenues of the Mercator Group are planned at EUR 2.75 billion for 2010, which is 3.6 percent more than estimated for 2009. Planned revenue growth is influenced by the economic conditions, changes in consumption and lower investment activity. In 2010, no major changes in exchange rates are planned.

In 2010, Mercator Group is planning gross cash flow from operating activities before rental expenses – EBITDAR in the amount of EUR 202.6 million, which is 6.4 percent more than the estimate for 2009. Planned growth of gross cash flow is mainly the result of planned activities of business rationalization, reaping the economies of scale in all markets of our operation, and development and investment activities.

Mercator Group's net profit is planned to amount to EUR 21.9 million in 2010, which is 5.3 percent more than the estimated figure for 2009. In both 2009 and 2010, performance will be challenged by difficult economic conditions, changes in the volume and composition of consumption, and extensive investment into more competitive and favorable offer for the consumers.

Total capital expenditure at Mercator Group in 2010 is planned at EUR 120 million, which falls within the Group's own financing ability. Thus, net financial debt of the Group will not increase in 2010, according to plan.

By the end of 2010, Mercator Group is planned to have 22,167 employees, which is 2.9 percent more than the estimate for the end of 2009. Of these, nearly 42 percent will work in markets outside Slovenia at the end of 2010.

Given the expectations of extremely harsh business conditions and the business and financial risks, the company Management Board finds the 2010 Business Plan ambitious and consistent with Mercator Group's pursuit of its strategic policies.

Due to high uncertainty with regard to the assumptions of the economic conditions and environment in the year 2010, the Management Board will reevaluate the viability of the planned goals each quarter, while taking into account any deviations between the anticipated and actual influences from the economic environment; should such reevaluations be necessary, reports thereof will be included in the quarterly business reports.

FINANCIAL HIGHLIGHTS FOR THE YEAR 2010

	Mercator Group		
	Estimation 2009	Plan 2010	Index Plan 2010 / Estimation 2009
Revenue (EUR thousand)	2,655,478	2,750,263	103.6
Results from operating acitvities (EUR thousand)	80,026	83,698	104.6
Profit before income tax (EUR thousand)	25,760	27,184	105.5
Profit for the financial period (EUR thousand)	20,752	21,856	105.3
Gross cash flow from operating acitivites (EUR thousand)	166,081	174,588	105.1
Gross cash flow from operating acitivites before rental expenses	190,372	202,571	106.4
Capital expenditure (EUR thousand)	159,097	120,000	75.4
Return on equity	2.6%	2.7%	105.3
Return on sales	0.8%	0.8%	101.7
Gross cash flow from operating acitivites / net sales revenues	6.3%	6.4%	102.3
Gross cash flow from operating acitivites before rental expenses /	7.2%	7.4%	102.7
Number of employees based on hours worked	20,428	20,747	101.6
Number of employees as at the end of the period	21,534	22,167	102.9

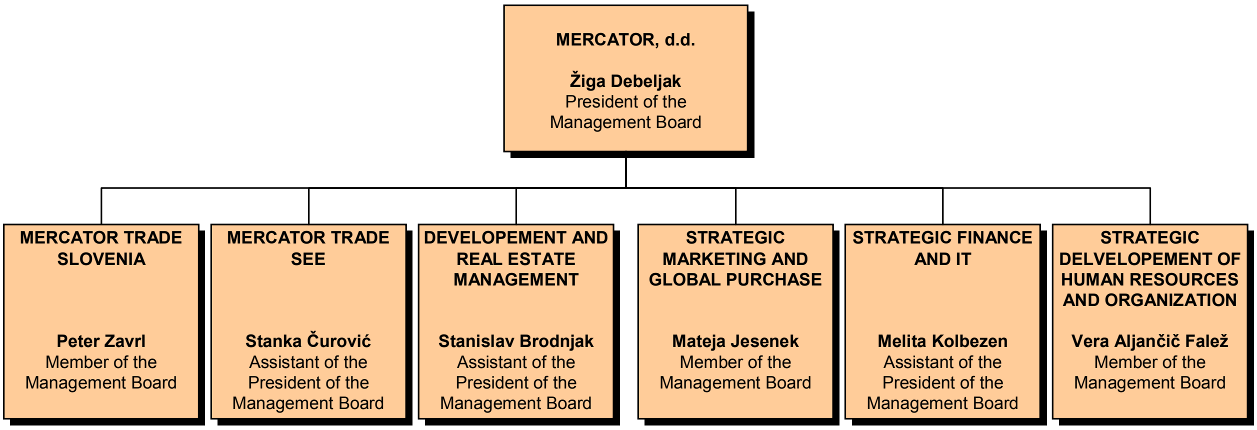
COMPANY PROFILE

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 1st 1990
Company share capital as at November 30th 2009	EUR 157,128,514.53
Number of shares issued and paid-up as at November 30th 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	Jadranka Dakič

COMPOSITION AND ORGANIZATION OF THE MERCATOR GROUP

The Management Board of Mercator, d.d., adopted a new macro-organizational composition effective as of January 1st 2010. The main reasons for reorganization are:

- improved local response in all markets,
- improved adjustment to consumer needs,
- improved efficiency of operations,
- adapting the organization to the complexity of international operations, and
- preparation for the possibility of monetization of commercial real estate in order to speed up the development cycle.



Composition of the Management Board shall remain unchanged after the reorganization in 2010.

In 2010, Mercator Group will include the following companies:

ESTIMATION 31.12.2009	PLAN 31.12.2010
TRADE SLOVENIA	
Poslovni sistem Mercator, d.d.	Poslovni sistem Mercator, d.d.
Mercator IP, d.o.o. (100.0 %)	Mercator IP, d.o.o. (100.0 %)
M.COM, d.o.o. (100.0 %)*	M.COM, d.o.o. (100.0 %)*
TRADE SOUTH EASTERN EUROPE	
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 (100.0 %)	
Mercator – Mex, d.o.o., Montenegro (81.0 %)	Mercator – Mex, d.o.o., Montenegro (81.0 %)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)	Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)
M – BL, d.o.o., Bosnia and Herzegovina (100.0 %)	M – BL, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator Makedonija, d.o.o.e.l., Macedonia (100.0 %)	Mercator Makedonija, d.o.o.e.l., Macedonia (100.0 %)
Mercator – B, e.o.o.d., Bulgaria (100.0 %)	Mercator – B, e.o.o.d., Bulgaria (100.0 %)
Mercator – A, sh.p.k., Albania (100.0 %)	Mercator – A, sh.p.k., Albania (100.0 %)
Mercator – K, d.o.o., Republic of Kosovo (100.0 %)	Mercator – K, d.o.o., Republic of Kosovo (100.0 %)
DEVELOPEMENT AND REAL ESTATE MANAGEMENT	
M – nepremičnine, d.o.o., Slovenia (100.0 %)	M – nepremičnine, d.o.o., Slovenia (100.0 %)
Investment International, d.o.o.e.l., Macedonia (100.0 %)*	Investment International, d.o.o.e.l., Macedonia (100.0 %)*
Mercator - Optima, d.o.o., Slovenia (100.0 %)	Mercator - Optima, d.o.o., Slovenia (100.0 %)
OTHER	
Modiana, d.o.o., Slovenia (100.0 %)***	Modiana, d.o.o., Slovenia (100.0 %)
-	Modiana, d.o.o., Croatia (100.0 %)
-	Modiana, Serbia, branch (100.0 %)
-	Modiana, d.o.o. Bosnia and Herzegovina (100.0 %)
Intersport, d.o.o., Slovenia (100.0 %)****	Intersport, d.o.o., Slovenia (100.0 %)
-	Intersport, d.o.o., Croatia (100.0 %)
-	Intersport, Serbia, branch (100.0 %)
-	Intersport, d.o.o., Bosnia and Herzegovina (100.0 %)
-	Intersport, Montenegro, branch (100.0 %)
Eta, d.d., Slovenia (100.0 %)	Eta, d.d., Slovenia (100.0 %)
Mercator – Emba, d.d., Slovenia (100.0 %)	Mercator – Emba, d.d., Slovenia (100.0 %)

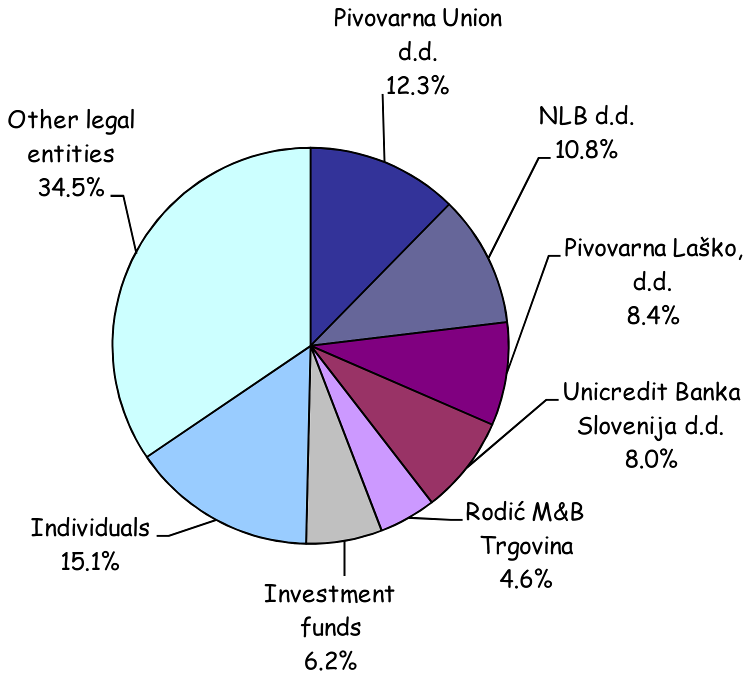
* The company has not yet commenced its operating activities.
** Merger of the company M-Rodić, d.o.o., whose activity was transferred to the company Mercator-S, d.o.o., as of January 1st 2009. The company M-Rodić, d.o.o., shall be deleted from the register of companies.

*** Textile chain operating within the company Mercator, d.d., shall be transformed into an independent company Modiana, d.o.o. Activities of the company will include marketing clothes of renowned domestic and foreign brands in all markets of Mercator's operations.
**** The Intersport chain, operating within the company Mercator, d.d., shall be transformed into an independent company Intersport, d.o.o. Mercator is the owner of the Intersport license in the markets of Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, and Albania. Company activities will include marketing state-of-the-art sports equipment, backed by expert services and advice.

OWNERSHIP STRUCTURE

As at November 30th 2009, **17,077 shareholders** were registered in the **Share Register** of the company Poslovni sistem Mercator, d.d., which means a decrease of 227 shareholders compared to December 31st 2008.

Ownership structure of the company Poslovni sistem Mercator, d.d., as at November 30th 2009, was as follows:



CORPORATE GOVERNANCE

Governance of the company Poslovni sistem Mercator, d.d., and the group of associated companies is based on legislation, provisions of the Corporate Governance Code in Slovenia, internal rules and regulations laid out in compliance with the ISO standards and the sound business practice; it is carried out according to the two-tier management system. The company is managed by a four-member Management Board, while a Supervisory Board supervises its activities.

Supervisory Board of the company Poslovni sistem Mercator, d.d., includes eight members. Half of the members who represent the interests of the shareholders, are elected by the Shareholders Assembly, while the members that represent the employees are elected by the Group Workers Council, pursuant to the Worker Participation in Management Act.

Supervisory Board

As at November 30th 2009, the Supervisory Board consisted of eight members. Following is a chart of MELR shares owned by the members of the Supervisory Board of the company Poslovni sistem Mercator, d.d.

	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.	Jadranka Dakič, deputy president	0	0.0000%
3.	Štefan Vavti	0	0.0000%
4.	Kristjan Verbič	0	0.0000%
	Members of Supervisory Board (workers representatives)		
5.	Mateja Širec	36	0.0010%
6.	Jože Cvetek	2,000	0.0531%
7.	Janez Strniša	0	0.0000%
8.	Ivica Županić	0	0.0000%
	Total	**2,036**	**0.0541%**

Management Board

The Management Board of the company Poslovni sistem Mercator, d.d., consists of the President and three members who assumed their five-year terms of office on January 1st 2006.

As at November 30th 2009, the members of the Management Board of the company Poslovni sistem Mercator, d.d., owned the following number of the company shares (MELR):

Name and surname	Number of shares	Ownership share
Žiga 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%**

Audit Committee

At its regular meeting held on November 11th 2008, the Supervisory Board of the company Poslovni sistem Mercator, d.d., appointed an Audit Committee. The Audit Committee is compulsory in all companies whose stock is traded on the regulated market. The operation of the Audit Committee improves the performance of supervisory function in the company.

The tasks of the Audit Committee are monitoring the process of financial reporting, monitoring the efficiency of internal control in the company, internal audit and risk management systems, monitoring the compulsory audit of annual and consolidated financial statements, reviewing and monitoring the independency of the auditor appointed to audit the company Annual Report, particularly in terms of providing additional non-audit services, proposing to the Supervisory Board the candidate to be appointed as the company Annual Report auditor, supervising the validity of financial information submitted by the company, estimating the compilation of the Annual Report, including submitting a proposal to the Supervisory Board, taking part in the defining the key auditing areas, taking part in the preparation of an agreement between the auditor and the company, performing other tasks defined either by Articles of Association and Bylaws or a Supervisory Board resolution, and working with the auditor during the company Annual Report audit.

The Audit Committee in the company Poslovni sistem Mercator, d.d., for the period until October 30th 2013 shall consist of Mrs. Jadranka Dakič as President of the Committee (Supervisory Board member), and two members: Mr. Jože Cvetek (Supervisory Board member) and Mr. Peter Ribarič (independent expert).

STRATEGIC POLICIES OF THE MERCATOR GROUP

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,

- → <u>benefit for shareholders</u> by attaining a profitable growth of business operations, improving business efficiency, and increasing the company market value,
- → <u>benefit for wider environment</u> by a responsible attitude towards our natural and social environment and by respecting the business ethics and social values in all fields of operation.

STRATEGIC POLICIES

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 exploiting 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.

PLANNED OPERATING ACTIVITIES OF THE MERCATOR GROUP

EXPECTED ECONOMIC AND MARKET CONDITIONS

Business plan for 2010 is compiled based on the following macroeconomic assumptions in respective markets of Mercator Group's operations:

Indicator	Slovenia	Croatia	Serbia	Bosnia and Herzegovina	Montenegro	Albania	Bulgaria
Average annual economic growth (in %)	0.00%	0.00%	1.50%	0.00%	-2.00%	2.20%	-2.50%
Average annual 6m Euribor (in %)	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%
Average annual index of inflation (in %)	1.50%	2.80%	7.30%	1.60%	2.10%	2.00%	1.60%
Average annual exchange rate	-	7.48	95.00	1.96	-	128.00	1.96

Source:

- International Monetary Fund (IMF)
- Institute of Macroeconomic Analysis and Development (UMAR)
- Bank of Slovenia (BS)
- Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments (JAPTI)

Slovenia

According to IMF forecasts, Slovenian GDP, measured in constant prices, will decline by 4.7 percent in 2009. For 2010, GDP stagnation is expected (0.0 percent) and in 2011 GDP growth is expected to recover to 3.8 percent. According to the IMF, inflation in 2009 will amount to 0.0 percent, while it is expected at 1.5 percent in 2010. Labor market indicators are considerably worse than in previous years, although they are not as depressing as anticipated by UMAR in its Spring Report. According to UMAR, employment rate is expected to decline by 2.4 percent. Employment rate will continue to fall in the two following years, by 1.6 and 0.9 percent, respectively. After falling by 1.7 percent in 2009, household consumption in Slovenia is expected to fall by further 0.2 percent in 2010, and to rise by 2.6 percent in 2011.

Croatia

According to IMF forecasts, Croatian GDP at constant prices will fall by 5.2 percent in 2009. In 2010, GDP is expected to stagnate (0.0 percent) and in 2011 is expected to rise by 2.5 percent. IMF forecasts further anticipate inflation rate of 2.8 percent in 2009, and the same figure for 2010. Izvozno okno ("Export Window") info portal predicts a rise in unemployment by approximately 0.5 percentage point in 2010, while household consumption will be stabilized in 2010 after falling by 5.2 percent in 2009.

Serbia

According to IMF forecasts, Serbian GDP at constant prices will fall by 4.0 percent in 2009. In 2010, GDP is expected to grow (1.5 percent) and growth is expected to continue in 2011 (+ 3.0 percent). IMF forecasts also anticipate inflation rate of 9.9 percent in 2009, while in 2010 is expected to drop to 7.3 percent. Izvozno okno ("Export Window") info portal predicts a rise in unemployment by approximately 0.5 percentage point in 2010, while household consumption will be stabilized in 2010 after falling by 2.0 percent in 2009.

Bosnia and Herzegovina

According to IMF forecasts, GDP at constant prices will fall by 3.0 percent in Bosnia and Herzegovina in 2009. In 2010, GDP is expected to stagnate (0.0 percent) and in 2011 is expected to growth again (+ 4.0 percent). According to IMF forecasts, inflation rate will be 0.0 percent in 2009, while in 2010 is expected at 1.6 percent and in 2011 at 1.9 percent. Izvozno okno ("Export Window") info portal predicts a rise in unemployment by approximately 2.0 percentage point in 2010.

Montenegro

According to IMF forecasts, GDP at constant prices will fall by 4.0 percent in Montenegro in 2009. In 2010, GDP is expected to drop by another 2.0 percent and in 2011 is expected to grow again (+ 3.7 percent). According to IMF forecasts, inflation rate will be 3.4 percent in 2009, while in 2010 is expected at 2.1 percent. Izvozno okno ("Export Window") info portal predicts a stable rate of unemployment while household consumption will be stabilized in 2010 after falling by 2.0 percent in 2009.

Albania

IMF is forecasting a stagnating (0.0 percent) GDP at constant prices for Albania in 2009, while in 2010 the GDP is expected to grow (+ 2.2 percent), with the growth rate increasing further in 2011 (+ 6.3 percent). IMF forecasts see inflation at 1.7 percent in 2009, and 2.0 percent in 2010.

Bulgaria

According to IMF forecasts, GDP at constant prices will fall by 6.5 percent in Bulgaria in 2009. In 2010, GDP is expected to drop by another 2.5 percent and in 2011 is expected to growth again (+ 2.0 percent). According to IMF forecasts, inflation rate will be 2.7 percent in 2009, dropping to 1.6 percent in 2010.

DEVELOPMENT AND INVESTMENT

In 2010, investment activities will take place in all seven existing markets where Mercator is conducting operating activities.

In 2010, Mercator Group is planning to invest EUR 120 million in property, plant, and equipment. Investment into new retail facilities represent 70.2 percent of the total planned property, plant, and equipment investment; 12.2 percent has been allocated for refurbishment of existing retail facilities; 4 percent will be invested into distribution centers; 8.8 percent will be invested in information technology; and 4.8 percent has been allocated for other investments. Investments in foreign markets represent 54.8 percent of total investment planned for 2010.

Breakdown of Mercator Group investments by markets:

Country	Capital expenditure Plan 2010 (in EUR 000)	Structure in %
Slovenia	54,250	45.2%
Foreign markets	65,750	54.8%
TOTAL	**120,000**	**100.0%**

In 2010, Mercator Group is planning to obtain EUR 9 million by disinvesting from property, plant, and equipment.

Investment will be financed by own resources: generated cash flow and disinvestment from commercially unviable assets, since Mercator Group is not planning to increase its net debt in 2010.

In 2010, Mercator Group is not planning any financial investments.

Following are the major investment projects scheduled for completion in 2010:

SLOVENIA

✓ **Mercator Center Velenje**

will include a total area of 11,219 square meters. The offer will include a 5,250 square meter hypermarket, Intersport (875 square meter), Modiana (625 square meter), Beautique (115 square meter), M Holidays (20 square meter) and facilities leased to providers of supplementary offer (2,090 square meter). 330 parking spots will be available for the customers, of which 294 will be in a garage located under the shop floor and 36 will be located outside the building. Opening is scheduled for the fourth quarter of 2010. The facility will add 8,975 square meters of retail area for Mercator's own activity and to be leased to third-party providers.

✓ **Other major projects:**

Supermarket Mengeš; hardware, electronics, and construction center and a Hura! discount store in Jesenice; Cash & Carry Maribor.

SERBIA

✓ **Roda Center Kruševac**

will operate in a rented facility built by a third-party investor according to Mercator's policies and standards. Total area of the center will include 13,359 square meters. 293 parking spots will be available for the customers, of which 142 will be roofed. The offer will include a 3,225 square meter hypermarket, Intersport (640 square meter), Beautique perfume shop (137 square meter), hardware and electronics store (924 square meter) and several outlets with supplementary offer on a total area of 4,088 square meters to be subleased. Opening is scheduled for the first quarter of 2010. The facility will add 9,014 square meters of retail area for Mercator's own activity and to be subleased to third-party providers.

✓ **Roda Center Srbobran**

Total area of the center will include 2,010 square meters. The offer will include a 1,322 square meter supermarket and several outlets with supplementary offer on an area of 256 square meters to be leased out. Opening is scheduled for the second quarter of 2010. The facility will add 1,578 square meters of area for Mercator's own activities and to be leased out.

✓ **Roda Center Voždovac, Beograd**

Roda Center Voždovac will include a 7,150 square meter hypermarket and Intersport (1,000 square meters). Opening is scheduled for the fourth quarter of 2010. Mercator's investment includes finishing the construction of both leased facilities and purchase of equipment.

✓ **Other major projects:**

Supermarket Bulevar Kralja Aleksandra, Belgrade, and Supermarket Kaluđerica, Belgrade (lease).

CROATIA

✓ **Trade center Rovinj**

will include a total area of 4,083 square meters and 257 parking spots, of which 193 will be located in the basement floor under the shopping floor, and 6 will be located outside the building. The offer will be provided in a 1,553 square meter hypermarket, Intersport (508 square meter), and 726 square meters of outlets to be leased to third-party providers of supplementary offer. Opening is scheduled for the second quarter of 2010. The facility will add 2,787 square meters of area for Mercator's own activities and to be leased to third-party providers.

✓ **Other major projects:**
Supermarket Zagreb - Rebro, Supermarket Z3 Zagreb, Supermarket and Intersport at Bure center Biograd, and Intersport at Arena center Zagreb. The latter three are leased facilities. Their construction will be completed and they will be equipped according to Mercator's standards.

BOSNIA AND HERZEGOVINA

✓ **Major projects:**
Supermarket in Sarajevo, Supermarket in Prijedor, and Supermarket in Prnjavor.

MONTENEGRO

✓ **Hypermarket and Intersport at the Topla shopping center in Herceg Novi**
will be located in leased facilities within an existing shopping center. The hypermarket will include a total area of 2,080 square meters, will Intersport will extend over 410 square meters. Opening is scheduled for the fourth quarter of 2010.

✓ **Other major projects:**
In the first quarter of 2010, a 550 square meter Intersport will be opened in a leased facility in the shopping center Mall of Montenegro, Podgorica, in addition to the hypermarket whose opening is scheduled for December 2009.

BULGARIA

✓ **Hypermarket Varna Towers, Varna**
will be located in a leased facility within a shopping center. Total area of the hypermarket will amount to 2,652 square meters. Opening is scheduled for the first quarter of 2010.

✓ **Hypermarket Galleria, Stara Zagora**
will be located in a leased facility within a shopping center. Total area of the hypermarket will amount to 2,935 square meters. Opening is scheduled for the third quarter of 2010.

✓ **Hypermarket Mega Mall Ljulin, Sofia**
will be located in a leased facility within a shopping center. Total area of the hypermarket will amount to 3,054 square meters. Opening is scheduled for the third quarter of 2010.

✓ **Hypermarket - Cash & Carry Vladimir Vazov, Sofia**
will operate in a leased building. Total area of the hypermarket – Cash & Carry will amount to 6,260 square meters. Opening is scheduled for the fourth quarter of 2010.

SALES AND MARKETING

SALES

In 2010, Mercator Group's net revenues from sales amount to a total of EUR 2,750,263 thousand, which is 3.6 percent more than in 2009.

in EUR thousand	Estimation 2009	Plan 2010	Index
Slovenia	1,760,241	1,760,634	100.0
Foreign markets	895,236	989,628	110.5
Total Mercator Group	2,655,478	2,750,263	103.6

MARKET SHARE

Mercator Group market shares in the markets of its operations are:

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.

FOUNDATIONS OF A LONG-TERM MARKETING STRATEGY

By offering added value for the customers and providing a contemporary and pleasant shopping experience, we wish to position Mercator as the most competitive retailer in the market.

Customers will be offered products and services that are in tune with the current, modern way of life. This involves the following aspects:

- ✓ extending the offer of fresh program, gourmet offer, and ready-made products;
- ✓ development of premium offer in all segments;
- ✓ high-quality offer of all fresh programs in any moment, with the aim to offer our customers maximum value for money;
- ✓ attractive offer of products for the home and ambient, as well as high-quality offer of hardware and electronics;
- ✓ a wide choice of clothing of renowned domestic and foreign brands, aiming for the segment of employed customers with medium to high purchasing power;
- ✓ offer of the most recent and cutting edge sports equipment, along with qualified personnel offering services and advice;

- ✓ improving the offer of supplementary and complementary program to our outlets and shopping centers.

Care for the environment and for health:

- ✓ extending the offer of organically grown, environment-friendly products,
- ✓ improving customer awareness on socially accountable treatment of the environment,
- ✓ development of environment-friendly materials, processes, and technologies.

Innovation in the offer of goods and services:

- ✓ development and implementation of new technology: Tik-Tak self-checkout cashiers, info stands, Mercator 'in-store TV', etc., in order to remain the most innovative retailer in the region;
- ✓ development of new store formats;
- ✓ development of services: clubs, M Mobil, communities, customer loyalty programs, and new partners who provide complementary offer.

MERCATOR CUSTOMERS

Monitoring shopping habits and the competition is of key importance for Mercator's successful performance in any market of the region. Primary and secondary data on the market, customer, and competition will continue to provide fundamental support for business decision making and development as a part of the comprehensive marketing information system.

Consumers in the market are segmented into several target groups which are then analyzed through their shopping habits, needs, values, and benefits, in order to offer the most suitable marketing and communication mix and required activities in the market.

MARKETING ACTIVITIES

Following is a presentation of the goals and activities by particular fields of marketing: market research, customer relations management, new services and clubs, development of private label lines, sales promotion, and market communication.

Market research

In 2010, we shall carry on continuous research such as Mercator customer satisfaction, Mystery Shopper (fictitious shopper research), research on Mercator's strategic projects (private label, Mercator Pika card, and clubs), research on the efficiency of market communication activities, perception of Mercator and its competitors, and segmentation analysis. Even more emphasis will be placed on the use and analysis of internal data. In 2010, we will continue our research into the markets of SE Europe, in which Mercator is present.

Customer relations management

Customer relations management at Mercator is based on the Mercator Pika card system which will be expanded with several new functionalities in 2010. A revamped customer loyalty system will provide the foundations for further development of a benefit system and additional activities such as direct communication with the Mercator Pika card holders.

A major part of development activities in the field of customer relations management in 2010 will be directed at improvement of data quality as the basis for developing analyses, and at development of analytical models of customer shopping behavior.

New services and clubs

Mercator's most powerful customer relations management tool is the Mercator Pika card loyalty system. An upgrade to this system is development of clubs that include, respectively, customers with a similar lifestyle, points of interest, shopping habits, leisure activities, etc. The purpose of establishing clubs is to adapt the offer and services to certain segments of customers and, as a result, to improve the loyalty of our customers to Mercator.

In 2010, we will continue to develop the Healthy Living club ("Uživajmo zdravo") and the Maxi club, predominantly by including additional benefits and activities for the members. We have founded the Lumpi club that will bring together those with interests, needs, and requirements of future parents and parents of children aged up to eight years.

In 2010, we will continue to develop services that are complementary to our core retail activity. We will revamp the M Mobil label in order to increase the number of users by introducing new technologies, and to link mobile telephony with other Mercator sales programs.

On March 1st 2009, we founded a travel service company called M Holidays which is conducting an independent activity within the company Mercator, with own offices, employees, production, and preparation of tourist arrangements. By the end of 2009, we upgraded the web portal. We are also expanding our own sales network of M Holidays offices. Currently, travel services are offered at 11 offices within Mercator Centers across Slovenia.

In 2010, we will continue to analyze and develop potential new supplementary trade services that will upgrade our core offer. Consistently with the development of contemporary sales channels for simple products and services, we will list these services on our website and offer telephone support via Mercator Call center to provide advice and facilitate orders. Hence, we will provide both new products and service for our customers, and increase the base of partners included in the Mercator system.

In order to reap the market potential of the web store, we will thoroughly revamp the Mercator web store for fast moving consumer goods in 2010. We are looking to establish processes that will provide a possibility to increase sales and revenues. According to this principle, we will also set up a web store for hardware and electronics and revamp the central website in the beginning of 2010.

Since 2009, we are also present and active in the social networks like Facebook, Twitter, LinkedIn, and Youtube. Personal, direct, and intensive communication with the users allows establishing a less formal and more straightforward relationship, increasing the level of consumer awareness about Mercator's activities, and establishing an internal system of information exchange. We shall set up our own web community that will include various contents and benefits for our loyal consumers. Dynamic communication between Mercator and the consumers, as well as between consumers themselves, will be employed to promote various ways of a healthy lifestyle, to improve the awareness about current socially relevant topics, and to promote Mercator and related brands. We are expecting to reap synergy effects with the revamped website and Mercator's entire multimedia approach.

Call center

Mercator call center will continue to pursue its vision to develop into a modern call center that combines the operative work of a call center and Mercator Pika club, in order to optimize the work processes and provide even more efficient support to the customers and Mercator Pika card holders. High standards will be set to establish an excellent relationship with our customers. At the same time, we will start to act more proactively with regard to outgoing sales promotional calling activities. We will remain the main hub and source of communication for the customers and Mercator Pika card holders. We will try to meet the expectations of even the most technologically demanding customers. As one of the possible communication channels, we will actively take part in and support any customer relations management activities.

Development of private label lines

As a result of the development of private label lines, commenced in early 1999, we are currently marketing eight private label lines:

- ✓ Mercator line;

- ✓ the most affordable - "Generic" line;
- ✓ Wishing Table line;
- ✓ Healthy Living line;
- ✓ Lumpi line;
- ✓ Ambient line;
- ✓ Pekarna Grosuplje line (Grosuplje Bakery line);
- ✓ Premium line.

In 2010, products of the private label line will be developed within the parent Mercator brand, while other lines will be treated as exclusive brands.

The lines to be developed as a part of the Mercator private label include the following:
- ✓ Premium line,
- ✓ Healthy Living line,
- ✓ Wishing Table line.

We will continue to develop the line of the most affordable products (the Generic line).

The following brands will be developed as exclusive brands:
- ✓ Lumpi line,
- ✓ Dvorec Trebnik line,
- ✓ Ambient line,
- ✓ Pekarna Grosuplje line (Grosuplje Bakery line),
- ✓ Kranjski kolaček (Cupcake of Kranj).

We are looking to establish user confidence in the quality of our private label and exclusive brand products, and satisfaction with the value-for-money that they deliver. Furthermore, we wish to increase price competitiveness and to improve price perception. We wish to be perceived as the exclusive provider of private label and exclusive brand products in order to be able to influence the customer's choice of preferred retailer.

According to our estimate, Mercator Group will generate approximately 15 percent of total retail revenues by sales of private label line products.

Sales promotion

Based on the experience with sales promotion projects in 2009, perceived strengths and weaknesses, activities of our competitors, internal analyses and evaluations of the campaigns carried out, shopping habits, and market trends, we will plan for 2010 activities that will support Mercator's core strategic policies and boost its competitiveness in all areas of operations.

Sales promotion activities are aimed at providing a high-quality, appealing and competitive offer of products, and at preparing inviting sales promotion projects. The sales promotion activities will be laid out to pursue Mercator's underlying mission, i.e. providing satisfaction and benefit for the customers – by offering excellent retail services, high-quality goods, and competitive prices, as well as Mercator's marketing policies.

Marketing communication

Guidelines of corporate communication and other marketing activities are defined consistently with the mission, vision, and strategic goals of the Mercator Group. In 2010, corporate and sales promotion activities will continue to be focused on establishing customer confidence in the Mercator corporate brand and other Mercator brands, and on increasing the number of customers and volume of sales. In addition, communication will be targeted at conveying the message of price competitiveness, care for the environment or sustainable development, and innovation with regard to products and services.

Communication in the media will be adapted to particular groups of the general population addressed with particular activities, in order to maximize the effect of such messages. When planning advertising in the media, we will heed the current condition in the market and the prevailing trends. Close attention will also be paid to web advertising and new media. We will choose the media rationally and selectively according to the project at hand in order to rationalize the cost of advertising and boosting its effect. Media planning will include monitoring information on the coverage of each media channel and company, and looking for those combinations of media that will yield maximum coverage.

We shall develop and create a uniform appearance of our stores, employing customer-friendly labeling and implementing the new elements of the corporate graphical image according to the latest trends.

DEVELOPMENT OF STORE FORMATS

In 2010, various activities are planned to contribute to further development of Mercator retail network and better customer satisfaction at Mercator. The most important activities include the following:

- ✓ redefinition of store formats from the aspect of the market and market opportunities;
- ✓ further continuous development and upgrade of trade concepts for particular store formats;
- ✓ definition of marketing starting points for various store formats;
- ✓ defining and upgrading particular sales area standards and manuals for designing individual store formats;
- ✓ further analysis and development of state-of-the-art technological novelties at Mercator stores.

Composition of the retail network

The following table includes the estimated composition of Mercator's retail network as at December 31st 2009:

COUNTRY	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO	BULGARIA	ALBANIA	MERCATOR GROUP		
ACTIVITY	Number of units	Number of units	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	14	6	1	1	1	**55**	**269,140**	**171,715**
Supermarkets	130	25	29	13	4	-	-	**201**	**230,703**	**147,320**
Superettes	281	30	42	1	4	-	-	**358**	**150,117**	**84,846**
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	527	76	100	20	10	1	1	**735**	**714,201**	**444,616**
Technical programme	98	7	15	-	-	-	-	**120**	**163,456**	**90,695**
Technical programme	66	4	14	-	-	-	-	84	126,627	63,737
Furniture programme	32	3	1	-	-	-	-	36	36,829	26,958
Clothing programme and drugstores	97	20	30	12	0	0	0	**159**	**70,808**	**57,778**
Clothing programme	80	11	30	8	-	-	-	129	67,250	**54,894**
Drugstores and perfumeries	17	9	-	4	-	-	-	**30**	3,559	**2,884**
Intersport	30	10	24	8	1	-	1	**74**	**44,134**	**34,156**
Restaurants	19	6	17	12	-	-	-	**54**	**16,505**	**10,742**
Other	9	-	-	-	-	-	-	**9**	**173**	**166**
TOTAL specialised programmes	253	43	86	32	1	-	1	**416**	**295,076**	**193,538**
TOTAL	780	119	186	52	11	1	2	**1,151**	**1,009,277**	**638,154**
Franchise stores	226	-	76	-	-	-	-	302	54,332	35,103
TOTAL with franchise stores	1,006	119	262	52	11	1	2	**1,453**	**1,063,609**	**673,257**

In 2010, retail network will develop in accordance with the planned investment and development activities. The Group will acquire new sales area both by construction of own facilities and by lease. The composition of gross retail area owned or leased, as estimated for December 31st 2009, is shown in the following table:

	SLOVENIA	FOREIGN MARKETS	TOTAL
Gross effective surface area (square meters)	594,446	414,831	1,009,277
- own	482,979	288,031	771,010
- leased	111,467	126,800	238,267

SUPPLIER RELATIONS AND LOGISTICS

Supplier relations and purchasing of trade goods

Cooperation with suppliers in 2010 will continue to be based on the principles of category management. We shall continue to engage in activities for improving productivity and cutting costs through mutual cooperation (introduction of half-load pallets, reducing delivery failures, optimization of ordering systems with data exchange, adjustment of product packaging to aisles in the stores, and cooperation of suppliers in stocking the aisles).

Activities will also be targeted at development of new and revamp of existing products of various lines of the private label. Particular attention will be paid to the variety and competitive pricing of products in the target categories, as well as to constant adaptation of the offer, including the offer for the most price-sensitive customers.

Logistics

In 2010, Mercator Group will continue to carry out consolidation and standardization of all processes and activities in logistics.

In Slovenia, we shall carry out logistics operations in nine locations in 2010. Due to the financial crisis and recession the Management Board adopted a resolution to temporarily suspend activities related to the construction of a new distribution center for Slovenia. In order to provide the existing level of supply to delivery hubs, a detailed plan of required, or urgent, investment in existing locations is being devised, which includes maintenance of infrastructure, providing operating conditions, and providing adequate capacity.

Within given options, integration and optimization of logistics operations will be carried on. The following measures are planned in order to improve productivity and the quality of work:

- ✓ further implementation and upgrade of the computer aided system for transport route planning in all warehouses;
- ✓ further implementation of tasks within the strategic project of general optimization of operations;
- ✓ IT support upgrade at all warehouses;
- ✓ further improvement in the quality of distribution of fresh program.

In foreign markets, logistics operations and development will be carried on as planned:

- ✓ At Mercator-H, d.o.o., a conventional warehouse for dry market program will be constructed by 2010, in compliance with Mercator standards, at the "Poslovni Park" ("Business Park") complex in Velika Nedelja, as stipulated in the lease agreement. For the existing warehouse in Velika Gorica, a plan will be devised to redesign the location into a fresh program warehouse.

- ✓ In other markets, logistics operations will take place in the existing facilities. At the same time, logistics optimization processes will take place in compliance with the requirements of the development of retail activities in these markets.

ORGANIZATION AND QUALITY OF OPERATIONS

In terms of organization and quality of operations, we will continue to work on organizational management, standardization of operations and implementation of the requirements set by international standards at retail companies of the Mercator Group in 2010. Preventive action on the part of internal control will be aimed at preventing incompliance of goods and services.

Following are the key tasks and goals in 2010:

- ✓ **Implementation of adopted organizational changes at the Mercator Group** → A change in organizational structures of the Mercator Group companies. Revision of the workplace / job catalogue for the Mercator Group and respective companies of the Mercator Group.

- ✓ **Revision of organizational rules →** Simplification of the procedure to control the organizational rues for the Mercator Group and its respective companies. Central management of organizational rules and regulations (Mercator Standards collection) and simple access for the users, according to the level of confidentiality.

- ✓ **Carrying out internal control and food safety system management (ISO 22000) →** We shall carry out regular and extraordinary internal controls and take part in resolving any incompliance after the inspection. We shall supervise the products of Mercator private label and track any cancellations of incompliant products. By managing the food safety system, the Internal Control and Food Safety service will provide central coordination and overview over all food safety activities.

- ✓ **Introduction and implementation of international management standard requirements →** We shall continue to introduce and implement the requirements of international management standards at the trade companies of the Mercator Group.

EMPLOYEES

In 2010, we shall pursue **four key goals**:

- ✓ simplifying the human resource management processes;
- ✓ standardization of fundamental human resource management processes in all markets of our operations, particularly the transfer of the human resource management part of the SAP software to other markets;
- ✓ applications for European development funds to aid development of our human resource management function;
- ✓ devising a human resource management strategy for the period 2010-2015.

Human resource management activities will be aimed predominantly at the following areas:

Key executive and promising associates career planning → We shall select the candidates for the fourth Mercator International Academy. We shall revise the required competencies for managerial and expert employees. We shall develop the assigned employees and management teams by particular markets. We shall develop a system of mentorship and succession, particularly in retail.

Recruitment and staffing → Employment portal will be introduced in other markets of our operations as well. Due to the economic situation, less new employments are expected in the year to come, as well as lower fluctuation and more internal staffing.

Transfer of knowledge and experience → We shall devise a system for comprehensive monitoring of education and training costs. We shall develop a coaching network. Compulsory education, stipulated by legislation, will be revamped by a self-education method (programmed material). We shall carry out leader training at all levels.

Compensation and motivation → We shall work with the partners in the social dialogue to prepare a proposal on a new salary system, with lower number of workplaces and more possibilities of horizontal promotion within a workplace. We shall organize occasional festivities for successful employees (Mercator award, The Best Boss, internal trainers meeting).

Dialogue with the employees → We shall devise an internal communication strategy, publish six issues of internal magazine, organize annual discussions of leaders with all employees, and revamp the intranet. We shall also pursue activities to obtain the full certificate of the "Family-friendly company".

Occupational health and safety → We shall continue to implement the project of "Health Promotion" to maintain good health of our employees and to reduce sick leave absenteeism. As a part of the project, particular attention will be paid to reducing the number of injuries at work and ergonomic design of workplaces. We shall offer expert support to the Mercator Humanitarian Foundation. We shall work with the Mercator IP (social enterprise) to provide better working conditions for people with disabilities.

Organizational and intercultural development → We shall measure the corporate climate and employee satisfaction and prepare a plan of measures to be taken. We shall take part in the revision of corporate value and Employee Code of Conduct.

Breakdown of the number of employees in the Mercator Group

	Estimation 2009		Plan 2010	
	No. of employees based on hours worked	No. of employees as at December 31st 2009	No. of employees based on hours worked	No. of employees as at December 31st 2010
SLOVENIA	12,259	12,986	12,014	12,897
FOREIGN MARKETS	8,169	8,548	8,733	9,270
TOTAL MERCATOR GROUP	**20,428**	**21,534**	**20,747**	**22,167**

INFORMATION TECHNOLOGY AND TELECOMMUNICATION

Consistently with the **Strategic project of IT system revision,** the following activities will be carried on in 2010:

The project of **Support function IT system revision** will include the following in the year to come:

- ✓ introduction of the basic modules of the SAP software solution at the company Mercator-S, d.o.o.;
- ✓ completion of the human resource management and salary accounting module of the SAP software solution in Slovenia, and commence implementation at Mercator-H, d.o.o.;

- ✓ completion of the implementation of basic modules at the companies Intersport and Modiana in Slovenia, Croatia, Serbia, and Bosnia and Herzegovina.

The following is planned within the **project of material operation IT system revision**:
- ✓ commencement of operation of the GOLD Central and GOLD Shop systems in Croatia;
- ✓ connection of all market program stores in Slovenia and Bulgaria to the GOLD Shop system;
- ✓ commencement of operation of the GOLD Shop systems in technical stores in Slovenia;
- ✓ adjustment and introduction of the POS Front Office as a complementary system to the central GOLD Shop, in cooperation with POS providers in Croatia.

The plan to revise and upgrade the existing IT system, by particular areas, includes the following:

1. **IT support to strategic programs:**
   - ✓ **revision of the customer loyalty system** where introduction of additional functionalities are planned in the revised Mercator Pika card system;
   - ✓ **category management** where we are planning to establish IT support for the Pricing Policy, Promotion, and Assortment models in Slovenia;
   - ✓ **customer relations management** where we are planning to set up IT support to individual (personalized) offers and marketing campaigns;
   - ✓ **strategic project of general optimization of the Mercator Group** where we are planning to complete the expansion of the transport route planning solution;
   - ✓ introduction and expansion of standardized (uniform) reports in all markets.
2. In the field of **material operation**, we are planning the following:
   - ✓ upgrade and standardization of IT support to **retail** processes and further implementation of self-checkout cashiers in foreign markets;
   - ✓ upgrade and standardization of IT support to process at the **companies Intersport and Modiana in all markets**.
3. **In the field of management, leadership, and decision-making**, we are planning an upgrade and inclusion of data from foreign markets into the material operations data warehouse.
4. **In the field of infrastructure, telecommunication, and safety**, we are planning to upgrade the infrastructure and to improve the reliability of key telecommunication channels.
5. **In the field of support to common operations and electronic operation**, we are planning to introduce an internal web portal, to set up hardware and electronics web store, to revamp the market program web store, and to introduce a tool for business process management in the field control of the private label related processes.

In all new foreign markets, we will continue to standardize and harmonize the infrastructure and IT support to retail and wholesale in compliance with the standards of support to the companies of the Mercator Group.

FINANCIAL MANAGEMENT AND SHAREHOLDER RELATIONS

Goals of financial management in 2010:

- ✓ providing stable financial sources for unimpeded operations of the Mercator Group;
- ✓ diversification of financing sources and increasing the role of alternative sources of investment financing;
- ✓ improving the composition of financial liabilities by maturity;
- ✓ looking for internal financial reserves and providing adequate liquidity in a time of harsh economic conditions, in order to secure the settlement of all Mercator's liabilities/payables;
- ✓ proactive financial risk management.

In 2010, Mercator shall pursue a financial policy that will be focused on efficient financial operations in a time of harsh economic conditions. In 2010, too, Mercator Group will obtain funds required to finance the planned investments from internal sources. Therefore, financial liabilities are expected to remain at the 2009 level in 2010.

On the one hand, we shall pursue the goal of 90 percent coverage of long-term assets with long-term sources, and finance net current assets with short-term bank borrowing. On the other hand, we shall focus, within given conditions in the financial markets on the improvement of maturity composition of financial liabilities, looking to attain a 65 : 35 ratio between long-term and short-term financial liabilities. Target leverage of the Mercator Group for 2010 is a ratio of 1:1.50 between equity and debt.

Given the macroeconomic forecasts, anticipated inflation in the euro zone, movement of oil prices, and the current level of swap interest rates, we believe that the average value of EURIBOR in 2009 will amount to approximately 1.40 percent. Particularly in the first half of 2010, we are expecting certain degree of upward pressure on the interest rate margins for all new loans.

According to the estimate for December 31st 2009, no assets of the Mercator Group will be pledged with financial institutions, as it is a part of Mercator Group financing policy to insure its financial liabilities by assuming financial commitments, without resorting to mortgages. This policy will also be pursued by the Mercator Group in 2010.

Lease contracts entered into by the Mercator Group do not include any change of control clauses, with the exception of one loan in the amount of EUR 5 million, which will be entirely paid off in January 2010.

Shareholders and the Mercator share

As at November 30th 2009, share capital of the company Poslovni sistem Mercator, d.d., was divided into 3,765,361 shares that are listed and traded at the Ljubljana Stock Exchange. Nominal value per share amounts to EUR 41.73. 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. Estimated book value per share as at December 31st 2010 is EUR 213.44.

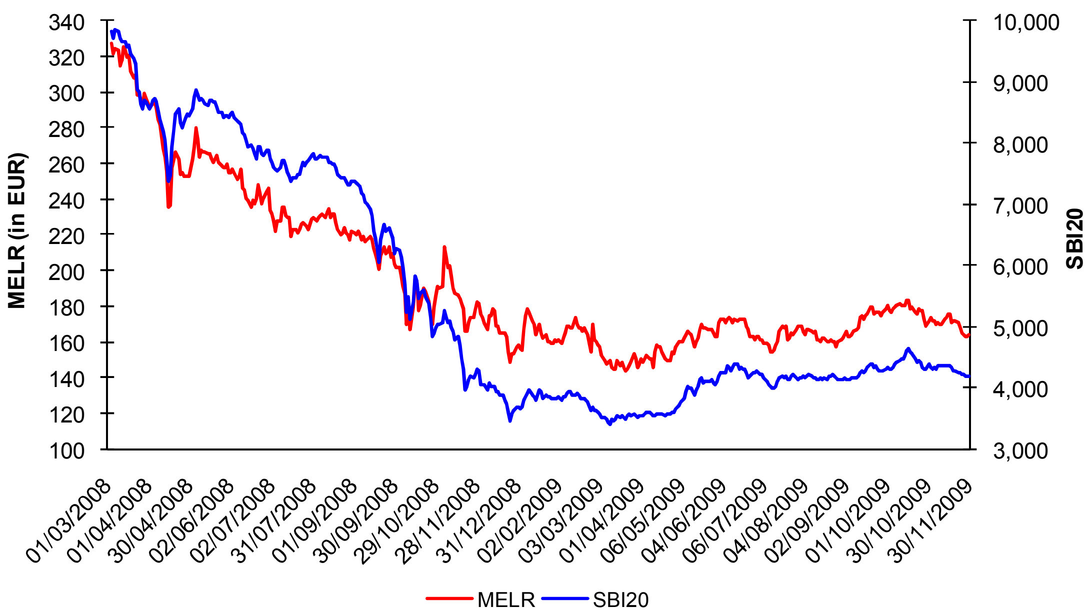
As at November 30th 2009, average price per share of the company Poslovni sistem Mercator, d.d., as traded at the prime market of the Ljubljana Stock Exchange, d.d., under the code MELR, amounted to EUR 164.46.

At its meeting held on September 21st 2009, the Management Board of the company Poslovni sistem Mercator, d.d., adopted a resolution to initiate the preliminary preparation proceedings for the issuance of 20 percent of new company share capital, based on approved capital, in order to secure in a timely manner the additional financial resources that may be required in case of any further strategic combinations and alliances in the field of trade, real estate, or other activities. Since it is uncertain when and if such issuance will take place, this event is not included in the 2010 Business Plan.

As at November 30th 2009, the following ten largest shareholders combined owned **60.51 percent** of the company share capital:

Major shareholders	Country	Number of shares	Ownership share
1 Pivovarna Union d.d.	Slovenia	464,390	12.33%
2 NLB d.d.	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	103,400	2.75%
10 Radenska, d.d. Radenci	Slovenia	96,952	2.57%
Total		**2,278,427**	**60.51%**

Movement of average price per MELR share



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. The policy defines dividends in the following amounts:

- ✓ 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.

Given that the harsh economic conditions in 2009 will result in a decline in net profit by approximately one half compared to the 2008 figure, the Management Board will propose to the Supervisory Board that it propose to the Shareholders Assembly for 2010 a dividend payment in the gross amount of EUR 2.50 per share. This is a good half of the dividend as defined in the medium term dividend policy.

RISK MANAGEMENT

The global financial crisis is a test in flexibility and survival for Slovenian and global companies. In the recent years, the importance of risk management procedures was more pronounced than ever. The companies that have a solid understanding of the advantages of risk management procedures and which can decide independently on the level of each risk that is still acceptable to them, are the ones most successful in tackling the crisis.

At Mercator Group, we are aware of the importance of risk management. Therefore, we decide already in 2008 to revise the risk management process. To this end, we reclassified and re-identified the risks, conducted elasticity analysis to determine how a certain risk, in case of occurrence, affects the generation of gross cash flow from operating activities, defined the marginal value for defining key risks, and defined the urgency of the revision of risk management measures.

When implementing the revised risk management process, respective committees identified all risks to which Mercator Group is exposed or may be exposed, according to our estimate, in the following year or in the upcoming medium term period. In addition, we prepared the assessments of Mercator's exposure to particular types of risk. The assessments are prepared based on the level of probability of occurrence, and expected damage in case a particular loss events actually took place.

The key risks were defined as those whose effect on the gross cash flow from operating activities exceeds 1 percent of total planned gross cash flow of the Mercator Group or a particular company within the Group, and for which appropriate measures have not yet been taken, or which have not yet been effectively hedged.

Particular attention was paid to the changes in economic circumstances and their effects in individual fields of risk. We focused in particular on managing, or hedging, credit risk by continuously monitoring customers with a history of defaulting; liquidity risk by providing adequate liquidity backup; business risk by maintaining the competitiveness of our offer; and carried out activities to improve the efficiency of business processes.

In 2010, close attention will be paid to the key risks to which Mercator Group is exposed.

Business risks

Managing the **risks of competitiveness of the marketing mix** will include further monitoring of price competitiveness and any plans of the retailers announcing their entry into any market of Mercator's operations; we shall also consistently consider the shopping habits, any changes in lifestyles, and feedback information from the customers, and adapt accordingly the sales equipment and outlet design both when refurbishing existing facilities and when preparing plans for construction of new ones; we will also continue to develop the Mercator private label lines. Furthermore, we shall adjust our business activities to the specific characteristics of respective local markets; hence, we are planning to include local products to the sales promotion projects, as well as to introduce and develop customer loyalty programs in all markets of our operations.

Managing **risks related to investment** will include appropriate planning of temporal investment dynamics. Particular attention will be paid to evaluating the potential of planned locations and to preparing investment studies that will enable a more accurate and reliable estimate of actual net revenues in the future. Close attention will be paid to investments in the markets that Mercator entered in 2009, i.e. Bulgaria and Albania.

In order to efficiently manage **business risks in the field of procurement of market program products**, we shall continue to work closely with our suppliers and try to motivate the manufacturers to produce novel, innovative products, and to invest more into sales promotion. We shall also include in our assortment key products of multinational companies and carry on the activities of entering international procurement chains in order to secure more favorable terms, particularly in non-alimentary program. We shall commit even more effort to the introduction of private label products in various price ranges and target groups.

All activities for improving the efficiency and reducing business risks will also be carried out in all other programs of the Mercator Group. In other programs, attention will above all be paid in 2010 to preventing the negative effects of a stagnating economy which is expected to affect the specialized programs more strongly than the core market program. In nonmarket programs, too, we shall continue to work closely with our suppliers.

Financial risks

In the period of economic hardship, we shall focus in 2010 on proactive management and hedging of financial risks, above all to mitigating the credit risk, liquidity risk, and currency translation, or exchange rate risk.

Credit risk: The goal of the Mercator Group is to reduce the risk of defaulting on payments on the part of our customers and Mercator Pika card holders. We shall launch the proceedings to collect any overdue receivables, and we shall continuously monitor the payment discipline of Mercator customers.

Liquidity risk management will include providing ample liquidity reserve for settling any liabilities, or payables, to suppliers; settle as many liabilities and claims through offset deals; take a more proactive approach to collection of overdue receivables; and optimize the scope of purchasing orders. We shall also continue to look for alternative financing sources.

Hedging the exchange rate risk in foreign markets shall include further monitoring of macroeconomic background defining the movement of exchange rates and other related macroeconomic factors and their trends. The choice of measures for reducing the exchange rate risk will depend on their suitability or viability, the nature of exposure, Mercator's planned operations, and anticipated economic effects.

Operational risks

Strategic risks related to long-term development of the Mercator Group will be hedged by maintaining high-quality and up-to-date communication with all stakeholders in order to maintain and improve Mercator's reputation in the public.

Development and investment risk management will involve carrying on with regular control of planning and performing regular checkups.

Operational cost efficiency risk hedging will involve carrying out the program of business operation optimization both in Slovenia and in markets abroad.

Food safety risk management will include constant and continuous checks of product expiration dates.

Hedging the **environmental risks** will include providing for target measurement and monitoring the use of electricity within the ISO 14001 system. We shall also define the guidelines for energy-efficient facility planning, and carry on the analyses of current energy consumption features as a part of the project of efficient use of power and heat.

Human resource risk hedging will include raising the awareness of the importance of a healthy lifestyle among our employees, continue to educate and train our employees, and continue to develop the policy of employing workers from abroad. We shall also adapt the compensation system to the conditions in the labor market and to individual performance of each employee.

SOCIAL ACCOUNTABILITY

The system of corporate social accountability management at Mercator is constantly upgraded and developed. It presents one of the fundamental sources of innovation in the entire business group.

Socially accountable action has long surpassed the mere system of communication management of the company values and its stakeholders, to become a real value of the company, which is managed and developed through a wide array of corporate management and throughout our operations and business functions, to include the following:

- ✓ comprehensive management of employee development;
- ✓ risk management (addressed earlier in a separate section);
- ✓ efficient energy resource management and sustainable care for the environment;
- ✓ strategy of managing parent corporate brand and product brands (addressed earlier in a separate section); and
- ✓ managing relations with other company participles.

Care for the environment

In 2010, our activities in the field of environment protection shall be targeted at managing our environment management system and rationalization and optimization of impacts on the environment.

Within respective tasks, the following goals have been set for 2010:

- ✓ **Managing the environmental management system (ISO 14001)** → In order to control the environment management system, we shall provide central coordination and insight into all environmental activities at Mercator, d.d.

- ✓ **IT support for monitoring and analysis of environmental aspects** → We shall provide monitoring, analysis, and management of environmental aspects and link them to the key financial efficiency indicators.

- ✓ **The project of environment protection cost management** → The Environment Protection Cost Management Project will include the following sub-projects:
    - Reduced power consumption through savings measures, current maintenance, and minor investment;
    - Reduced heating resources consumption through savings measures, current maintenance, and minor investment;
    - Management of environmental data, projects, goals, and reporting (Environmental standard ISO 14001).

- ✓ **Adjustment of business process** → In order to provide continuous mitigation of impacts on the environment and reduce the environment protection costs, we shall carry out the required business process adjustments.

- ✓ **Updating internal documentation** → Due to a change in the internal processes and environmental legislation, we shall update the internal documentation related to environment protection.

- ✓ **Carrying out training and education on environmental issues** → In order to roll out the internal operating standards from the field of environment protection all the way to the operative level, we shall carry out functional training and education for target groups and improve employee awareness using internal media.

- ✓ **Environmental activities for our customers** → In order to maintain customer loyalty and provide competitive edge, we shall also conduct environment protection activities for our customers.

PLANNED FINANCIAL STATEMENTS

FUNDAMENTAL ACCOUNTING POLICIES

All planned financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., are compiled in compliance with the International Financial Reporting Standards.

Consolidated financial statements are compiled according to the single company method. According to this method, the effects of all transactions between the associated companies within the group are omitted. Consolidated financial statements include the subsidiaries, i.e. the companies in which the parent company holds the majority interest.

COMPOSITION OF THE MERCATOR GROUP

In addition to the parent company Poslovni sistem Mercator, d.d., 25 subsidiaries are included in the planned consolidated financial statements of the Mercator Group for the year 2010, in which the controlling company directly or indirectly holds the 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 – nepremičnine, d.o.o.; M.COM, d.o.o., Modiana, d.o.o.; Intersport, d.o.o.

- ✓ abroad: Mercator - H, d.o.o., Croatia; Mercator - S, 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–B, e.o.o.d., Bulgaria; Mercator – A, sh.p.k., Albania; Mercator Makedonija, d.o.o.e.l., Macedonia; Investment International, d.o.o.e.l., Macedonia; Mercator-K, d.o.o., Republic of Kosovo; Modiana, d.o.o., Croatia; Modiana, Serbia, branch; Modiana, d.o.o., Bosnia and Herzegovina; Intersport, d.o.o., Croatia; Intersport, Serbia, branch; Intersport, d.o.o., Bosnia and Herzegovina; Intersport, Montenegro, branch.

QUARTERLY REVISION OF BUSINESS PLAN VIABILITY

The 2010 business year will be highly unpredictable in terms of the conditions in the global financial system and anticipated downturn in economic activity resulting from the impact of general business environment. According to current estimates, the economy is expected to stabilize in the first half of the year, and only in the second half of 2010 may we expect a mild growth. The Management Board prepared the Business Plan based on various planning assumptions, taking into account the best forecast available. However, the reliability of these forecasts is considerably lower than in recent years and therefore, the Management Board will include in each quarterly report an opinion on the need to alter or amend the Business Plan, if this is found necessary due to the deviations of the actual circumstances from the anticipated ones.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated Income Statement

EUR thousand

	Type of revenue / expense / cost	Estimation 2009	Plan 2010	Index Plan 2010 / Estimation 2009
A.	**Revenue**	**2,655,478**	**2,750,263**	**103.6**
1.	Net sales of goods, materials and products	2,436,592	2,524,802	103.6
2.	Revenue from services sold	224,405	230,539	102.7
3.	Expenses for given discounts	-5,519	-5,078	92.0
B.	**Cost of sales**	**-1,999,051**	**-2,073,844**	**103.7**
1.	Purchase value of goods and material sold, production costs, received discounts	-1,993,356	-2,071,164	103.9
2.	Other expenses	-5,696	-2,681	47.1
C.	**Gross profit**	**656,427**	**676,419**	**103.0**
D.	**Selling and marketing costs**	**-502,151**	**-514,048**	**102.4**
E.	**Administrative expenses**	**-84,835**	**-85,703**	**101.0**
F.	**Other income**	**10,585**	**7,030**	**66.4**
G.	**Results from operating acitvities**	**80,026**	**83,698**	**104.6**
H.	**Finance income**	**14,731**	**5,347**	**36.3**
I.	**Finance expenses**	**-68,997**	**-61,861**	**89.7**
J.	**Profit before income tax**	**25,760**	**27,184**	**105.5**
K.	Income tax expense	-5,589	-5,653	101.1
L.	Deferred income tax	581	325	56.0
M.	**Profit for the financial period**	**20,752**	**21,856**	**105.3**
N.	Attributable to equity holders of the Company	20,896	22,123	105.9
O.	Attributable to minority interest	-144	-267	186.2
P.	Number of employees based on hours worked	20,428	20,747	101.6
R.	**Gross cash flow from operating activities**	**166,081**	**174,588**	**105.1**
S.	**Gross cash flow from operating activities before rental expenses**	**190,372**	**202,571**	**106.4**

Consolidated Statement of Financial Position

EUR thousand

	Type of assets / liabilities	Estimation 2009	Plan 31.12.2010	Structure Plan 31.12.2010	Index Plan 2010 / Estimation 2009
	ASSETS				
A.	**NON-CURRENT ASSETS**	**1,918,662**	**1,939,929**	**77.0%**	**101.1**
I.	Fixed assets	1,904,302	1,925,455	76.5%	101.1
II.	Deferred tax assets	9,276	9,386	0.4%	101.2
III.	Trade and other receivables	363	367	0.0%	100.9
IV.	Bank deposits	42	42	0.0%	101.2
V.	Available-for-sale financial assets	4,679	4,679	0.2%	100.0
B.	**CURRENT ASSETS**	**585,324**	**578,650**	**23.0%**	**98.9**
I.	Inventories	279,748	278,237	11.0%	99.5
II.	Trade and other receivables	294,146	287,765	11.4%	97.8
III.	Bank deposits	5,091	4,821	0.2%	94.7
IV.	Current tax assets	2,348	1,748	0.1%	74.5
V.	Derivative financial instruments	300	1,500	0.1%	500.0
VI.	Cash and cash equivalents	3,690	4,579	0.2%	124.1
	TOTAL ASSETS	**2,503,986**	**2,518,579**	**100.0%**	**100.6**
					-
A.	**EQUITY**	**805,399**	**814,841**	**32.4%**	**101.2**
	LIABILITIES				-
B.	**NON-CURRENT LIABILITIES**	**738,951**	**752,118**	**29.9%**	**101.8**
I.	Trade and other payables	2,425	2,468	0.1%	101.8
II.	Financial liabilities	653,935	665,740	26.4%	101.8
III.	Deferred tax liabilities	50,385	51,161	2.0%	101.5
IV.	Provisions	32,207	32,749	1.3%	101.7
C.	**CURRENT LIABILITIES**	**959,636**	**951,621**	**37.8%**	**99.2**
I.	Trade and other payables	591,845	618,543	24.6%	104.5
II.	Current tax liabilities	109	278	0.0%	253.8
III.	Financial liabilities	361,354	330,712	13.1%	91.5
IV.	Derivative financial instruments	6,328	2,088	0.1%	33.0
	TOTAL LIABILITIES	**1,698,588**	**1,703,738**	**67.6%**	**100.3**
	TOTAL EQUITY AND LIABILITIES	**2,503,986**	**2,518,579**	**100.0%**	**100.6**
	Number of employees as at the end of the period	21,534	22,167	-	102.9

Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED INCOME STATEMENT

✓ **Net sales revenues**

In 2010, a total of EUR 2,750,263 thousand of net sales revenues is planned, which is 3.6 percent more than the estimated net sales revenues for the year 2009. In Slovenia, net sales revenues are planned at EUR 1,760,634 thousand and they remain at the level of 2009 estimate. Net sales revenues from abroad for 2010 are planned at EUR 989,628 thousand, which is 10.5 percent more than the 2009 estimate.

✓ **Cost of sales**

Cost of sales are planned in accordance with the growth of net revenues from sale of goods and material. These costs include manufacturing costs, purchase value of goods and material sold, and other operating expenses; in 2010, they are planned to amount to EUR 2,073,844 thousand, which is 3.7 percent more than the estimate for 2009.

✓ **Gross profit**

The planned gross profit for 2010 amounts to EUR 676,419 thousand and exceeds the estimated figure for 2009 by 3.0 percent. The share of gross profit in net sales revenues in 2010 is planned in the amount of 24.6 percent, which is 0.1 percentage point less than in the 2009 estimate. The decrease is primarily a consequence of planned decrease in margins.

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

Selling and marketing costs, and administrative expenses for 2010 are planned at EUR 599,751 thousand, which is 2.2 percent more than estimated for the year 2009. Given the increased planned revenues, this indicates intensive cost rationalization in 2010.

Planned share of selling and marketing costs, and administrative expenses, without depreciation, amortization, and revaluation adjustments, in revenues in 2010 amounts to 18.3 percent, which is 0.2 percentage point less than the 2009 estimate. Planned increase in cost efficiency is a result of planned further intensive implementation of strategic projects of business process optimization.

✓ **Other income**

Other revenues from operations are planned at EUR 7,030 thousand, of which EUR 1,683 thousand is related to business revaluation revenues for non-current assets, generated upon the disposal of commercially unviable assets, while the rest are other business revenues. In 2009, other revenues from operations are estimated to amount to EUR 10,585 thousand.

- ✓ **Result from operating activities**

The planned result from operating activities amounts to EUR 83,698 thousand, and it will exceed the estimated figure for 2009 by EUR 3,671 thousand, or 4.6 percent.

- ✓ **Finance income and expenses**

The finance income for 2010, planned in the amount of EUR 5,347 thousand, relate predominantly to proceeds from regular interest on financing. Compared to the 2009 estimate, financial income is lower by EUR 9,383 thousand, which is mostly the result of lower planned financial income from currency translation differences.

Financial expenses in the amount of EUR 61,861 thousand are primarily related to financial expenditures for interest on borrowings. Compared to the 2009 estimate, these are planned to decrease by 10.3 percent.

- ✓ **Profit before income tax**

Planned profit before income tax of the Mercator Group in 2010 amounts to EUR 27,184 thousand, which is EUR 1,424 thousand, or 5.5 percent, more than estimated for 2009, mostly due to higher planned results from operating activities.

- ✓ **Profit for the financial period**

In 2010, Mercator Group is planning EUR 21,856 thousand of net profit, which is EUR 1,104 thousand or 5.3 percent more than the estimated figure for 2009.

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

Planned gross cash flow from operating activities (earning before interest, taxes, depreciation, and amortization – EBITDA) of the Mercator Group in 2010 amounts to EUR 174,588 thousand, which is 5.1 percent more than estimated for 2009. However, the relevant indicator of the capacity to generate cash flow from operating activities that also takes into account the expansion of the Mercator Group's retail network by financial lease, is the gross cash flow from operating activities before rental expenses (EBITDAR); this figure is planned at EUR 202,571 thousand in 2010, which is 6.4 percent more than estimated for 2009.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

Value of property, plant and equipment, investment property, and intangible assets as at December 31st 2010 is planned at EUR 1,925,455 thousand, which is EUR 21,153 thousand more than the estimated value for December 31st 2009. The change is a result of investments, depreciation, amortization, and disposal of commercially unviable fixed assets.

- ✓ **Trade and other receivables**

Planned value of trade and other receivables as at December 31st 2010 amounts to EUR 288,132 thousand, which is 2.2 percent less than the estimate for December 31st 2009.

Planned value of bank deposits as at December 31st 2010 amounts to EUR 4,863 thousand, which is 5.2 percent less than estimated for December 31st 2009.

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

Planned value of available-for-sale financial assets as at December 31st 2010 amounts to EUR 4,679 thousand, which is the same as the estimated figure for December 31st 2009.

- ✓ **Inventories**

Inventories of raw materials, processed materials, and trade goods at the end of 2010 are planned in the amount of EUR 278,237 thousand, which is 48.1 percent of the short-term asset composition. Compared to December 31st 2009, the level of inventories is planned to decline by 0.5 percent.

- ✓ **Equity**

Equity is planned to rise by EUR 9,442 thousand in 2010, which is related to the following:

- increase by net profit of the majority interest holder in 2010, in the amount of EUR 22,123 thousand;
- decrease due to planned dividend payment in the amount of EUR 9,413 thousand (EUR 2.50 per share);
- decrease in minority capital in the amount of EUR 267 thousand;
- decrease due to currency translation differences in translation of financial statements of foreign companies into the currency of presentation, in the amount of EUR 3,001 thousand.

✓ **Financial liabilities**

Financial liabilities as at December 31st 2010 are planned to amount to EUR 996,452 thousand, which is 1.9 percent less than estimated for the end of 2009.

At the end of 2010, non-current financial liabilities will represent 67 percent of the total financial liability composition, while the current liabilities will amount to 33.0 percent (as at December 31st 2009, the ratio is estimated at 64 percent : 36 percent).

✓ **Provisions**

As at December 31st 2010, planned provisions for liabilities and charges amount to EUR 32,749 thousand, which is 1.7 percent more than on December 31st 2009.

✓ **Trade and other payables**

As at December 31st 2010, trade and other payables are planned at EUR 621,010 thousand, which is 4.5 percent more than the estimated figure for the end of 2009.

Financial Indicators for the Mercator Group

	Mercator Group	
	Estimation 2009	**Plan 2010**
Indicators of profitability		
Return on equity	2.6%	2.7%
Return on sales	0.8%	0.8%
Gross profit / revenue	24.7%	24.6%
Indicators of financial structure		
Financial liabilities / equity	1.3	1.2
Equity and provisions to total equity and liabilities	33.5%	33.7%
Financial liabilities to total equity and liabilities	40.5%	39.6%
Trade and other payables to total equity and liabilities	23.7%	24.7%
Indicators of operating efficiency and productivity		
Revenue per employee per hours worked (EUR thousand)	130.0	132.6
Value added per employee per hours worked (EUR thousand)	21.5	22.0
Business costs / sales	22.0%	21.7%
Gross cash flows from operating acitvities / revenue	6.3%	6.3%
Gross cash flows from operating acitvities before rental expenses / revenue	7.2%	7.4%

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	Estimation 2009	Plan 2010	Index Plan 2010 / Estimation 2009
A.	**Revenue**	**1,760,266**	**1,760,568**	**100.0**
1.	Net sales of goods, materials and products	1,620,153	1,618,895	99.9
2.	Revenue from services sold	146,011	145,577	99.7
3.	Expenses for given discounts	-5,898	-3,904	66.2
B.	**Cost of sales**	**-1,302,907**	**-1,302,621**	**100.0**
1.	Purchase value of goods and material sold, production costs, received discounts	-1,297,901	-1,300,265	100.2
2.	Other expenses	-5,006	-2,357	47.1
C.	**Gross profit**	**457,359**	**457,946**	**100.1**
D.	Selling and marketing costs	-331,900	-326,519	98.4
E.	Administrative expenses	-63,549	-62,519	98.4
F.	Other income	6,699	4,593	68.6
G.	**Results from operating acitvities**	**68,608**	**73,502**	**107.1**
H.	Finance income	6,358	3,420	53.8
I.	Finance expenses	-49,720	-50,532	101.6
J.	**Profit before income tax**	**25,246**	**26,390**	**104.5**
K.	Income tax expense	-5,471	-5,455	99.7
L.	Deferred income tax	203	213	104.5
M.	**Profit for the financial period**	**19,978**	**21,147**	**105.9**
N.	Number of employees based on hours worked	11,805	11,739	99.4

Statement of financial position

EUR thousand

	Type of assets / liabilities	Estimation 2009	Plan 31.12.2010	Structure Plan 31.12.2010	Index Plan 2010 / Estimation 2009
	ASSETS				
A.	**NON-CURRENT ASSETS**	**1,607,470**	**1,602,234**	**81.0%**	**99.7**
I.	Fixed assets	1,035,991	1,030,640	52.1%	99.5
II.	Deferred tax assets	9,233	9,342	0.5%	101.2
III.	Trade and other receivables	321	326	0.0%	101.4
IV.	Bank deposits	42	42	0.0%	101.2
V.	Participation in equity of group companies	557,636	557,636	28.2%	100.0
VI.	Available-for-sale financial assets	4,247	4,247	0.2%	100.0
B.	**CURRENT ASSETS**	**375,249**	**376,545**	**19.0%**	**100.3**
I.	Inventories	175,259	175,219	8.9%	100.0
II.	Trade and other receivables	198,320	198,453	10.0%	100.1
III.	Bank deposits	56	59	0.0%	105.0
IV.	Current tax assets	1,315	1,315	0.1%	100.0
V.	Derivative financial instruments	300	1,500	0.1%	500.0
VI.	Cash and cash equivalents	0	0	0.0%	-
	TOTAL ASSETS	**1,982,719**	**1,978,779**	**100.0%**	**99.8**
A.	**EQUITY**	**783,249**	**794,983**	**40.2%**	**101.5**
	LIABILITIES				
B.	**NON-CURRENT LIABILITIES**	**500,668**	**536,454**	**27.1%**	**107.1**
I.	Trade and other payables	3,617	3,660	0.2%	101.2
II.	Financial liabilities	430,721	465,454	23.5%	108.1
III.	Deferred tax liabilities	38,894	39,672	2.0%	102.0
IV.	Provisions	27,436	27,669	1.4%	100.8
C.	**CURRENT LIABILITIES**	**698,802**	**647,342**	**32.7%**	**92.6**
I.	Trade and other payables	384,713	394,625	19.9%	102.6
II.	Current tax liabilities	0	0	0.0%	-
III.	Financial liabilities	307,761	250,629	12.7%	81.4
IV.	Derivative financial instruments	6,328	2,088	0.1%	33.0
	TOTAL LIABILITIES	**1,199,470**	**1,183,796**	**59.8%**	**98.7**
	TOTAL EQUITY AND LIABILITIES	**1,982,719**	**1,978,779**	**100.0%**	**99.8**
	Number of employees as at the end of the period	12,445	12,357	-	99.3

Notes to the Financial Statements

NOTES TO THE INCOME STATEMENT

- ✓ **Net sales revenues**

In 2010, a total of EUR 1,760,568 thousand of net sales revenues is planned, which is EUR 301 thousand more than estimated net sales revenues for the year 2009.

- ✓ **Cost of sales**

Costs of goods sold include manufacturing costs, purchasing cost of goods sold, material, and other operating expenses. They are planned at EUR 1,302,621 thousand for 2010, which is at the same level as estimated for 2009.

- ✓ **Gross profit**

The planned gross profit for 2010 amounts to EUR 457,946 thousand and exceeds the estimated figure for 2009 by 0.1 percent. Share of gross profit in net sales revenues in 2010 is planned in the amount of 26.0 percent, which is the same as the estimate for 2009.

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

Selling and marketing costs, and administrative expenses for 2010 are planned at EUR 389,037 thousand, which is EUR 6,412 thousand, or 1.6 percent, less than the estimate for 2009.

Planned share of selling and marketing costs, and administrative expenses, excluding depreciation, amortization, and revaluation adjustments in total revenues amounts to 19.1 percent in 2010, which is 0.2 percentage point less than the estimate for 2009. Planned increase in cost efficiency is a result of planned further intensive activities of business process optimization strategic projects.

- ✓ **Other income**

In 2010, other income is planned at EUR 4,593 thousand, of which EUR 1,683 thousand is related to proceeds from disposal of commercially unviable assets.

- ✓ **Results from operating activities**

The planned results from operating activities amount to EUR 73,502 thousand, and will exceed the estimated figure for 2009 by EUR 4,894 thousand, or 7.1 percent.

✓ **Finance income and expenses**

Finance income planned at EUR 3,420 thousand for 2010, is mostly related to income from regular and default interest. It will be 46.2 percent lower than the estimate for 2009. Finance expenses are planned at EUR 50,532 thousand.

✓ **Profit before income tax**

In 2010, the company is planning to generate profit before income tax in the amount of EUR 26,390 thousand, which is 4.5 percent more than estimated for 2009.

✓ **Profit for the financial period**

In 2010, company net profit is planned at EUR 21,147 thousand, which is EUR 1.169 thousand, or 5.9 percent more than the estimated figure for 2009.

<u>NOTES TO THE STATEMENT OF FINANCIAL POSITION</u>

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

The value of property, plant and equipment, investment property, and intangible assets as at December 31st 2010 is planned at EUR 1,030,640 thousand, which is EUR 5,351 thousand less than the estimated value for December 31st 2009. The changes relate to investments, depreciation, amortization and disposal of commercially unviable assets.

✓ **Participation in equity of group companies**

Participation in equity of group companies as at December 31st 2010 is planned at EUR 557,636 thousand, which is the same as the estimate for the end of 2009.

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

The value of available-for-sale financial assets as at December 31st 2010 is planned at EUR 4,247 thousand, which is the same as the estimate for December 31st 2009.

✓ **Inventories**

Inventories of raw materials, processed materials, and trade goods at the end of 2010 are planned in the amount of EUR 175,219 thousand, which is 46.5 percent of the current asset composition.

✓ **Trade and other receivables**

Trade and other receivables as at December 31st 2010 are planned in the amount of EUR 198,779 thousand, which is 0.1 percent more than estimated for December 31st 2009.

Planned bank deposits as at December 31st 2010 amount to EUR 101 thousand, which is 3.4 percent more than estimated for December 31st 2009.

✓ **Equity**

We are planning a capital increase in the amount of EUR 11,734 thousand, which is related to the following:

- increase by net profit for the year 2010, amounting to EUR 21,147 thousand;
- decrease by planned payment of dividends in the amount of EUR 9,413 thousand (EUR 2.50 per share).

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

✓ **Financial liabilities**

Financial liabilities as at December 31st 2010 are planned to amount to EUR 716,082 thousand, which is EUR 22,399 thousand, or 3.0 percent, less than estimated for the end of 2009. At the end of 2010, total financial liabilities will consist of 65 percent of non-current liabilities and 35 percent of current liabilities.

✓ **Provisions**

Provision for liabilities and charges as at December 31st 2010 are planned in the amount of EUR 27,669 thousand, which is EUR 233 thousand more than estimated for December 31st 2009.

✓ **Trade and other payables**

Trade and other payables as at December 31st 2010 are planned to amount to EUR 398,285 thousand, which is 2.6 percent more than estimated for December 31st 2009.

Financial indicators

	Poslovni sistem Mercator, d.d.	
	Estimation 2009	Plan 2010
Indicators of profitability		
Return on equity	2.6%	2.7%
Return on sales	1.1%	1.2%
Gross profit / sales	26.0%	26.0%
Indicators of financial structure		
Financial liabilities / equity	0.94	0.90
Equity and provisions to total equity and liabilities	40.9%	41.6%
Financial liabilities to total equity and liabilities	37.2%	36.2%
Trade and other payables to total equity and liabilities	19.6%	20.1%
Indicators of operating efficiency and productivity		
Revenue per employee per hours worked (EUR thousand)	149.1	150.0
Business costs / sales	22.2%	21.9%

PROJECTION OF SELECTED DATA FROM THE MERCATOR GROUP FINANCIAL STATEMENTS FOR THE PERIOD 2011-2014

Mercator Group compiled and announced its most recent medium-term business plan with a projection of key financial categories in December 2007, for the period 2008-2012. As the economic circumstances have changed considerably since, the starting points and conditions of Mercator Group operations are also considerably different. Therefore, a revised projection of selected financial data of the Mercator Group for the period 2010-2014 is presented herein.

Despite the effects of the global financial crisis and recession, strategic policies of the Mercator Group remain unchanged. However, the said factors have led to significant changes in operations and performance, and in the rate of development and investment activities.

The projections presented below must be understood in a context of still extraordinary high uncertainty regarding the economic conditions. As a result, uncertainty with regard to the business projections is equally high. Company management, given the forecasts available, predicts that 2010 will be a year of stabilization of economic circumstances when the figures for the key categories will settle at relatively low level of 2009. 2011, however, is expected to be a beginning of a gradual recovery of economic circumstances in the entire region. Economic recovery will contribute to improvement of the purchasing power of consumers and therefore to organic growth. Hence, in addition to the investment, revenue growth is also presented below.

- ✓ projected net sales revenues:

in EUR million

	Realization	Estimation	Plan	Projection			
Period	2008	2009	2010	2011	2012	2013	2014
Revenues	2,708.6	2,655.5	2,750.3	2,887.8	3,104.4	3,337.2	3,504.0
% of revenues growth	10.8%	-2.0%	3.6%	5.0%	7.5%	7.5%	5.0%

- ✓ projected gross cash flow from operating activities (EBITDA):

in EUR million

	Realization	Estimation	Plan	Projection			
Period	2008	2009	2010	2011	2012	2013	2014
EBITDA	176.8	166.1	174.6	190.3	210.1	233.2	254.2
% of EBITDA growth	9.1%	-6.0%	5.1%	9.0%	10.4%	11.0%	9.0%

- ✓ projected investments:

in EUR million

	Realization	Estimation	Plan	Projection			
Period	2008	2009	2010	2011	2012	2013	2014
Capital expenditure	298.3	159.0	120.0	135.0	150.0	150.0	150.0

- ✓ Expected effective tax rate in the projection amounts to 18.5 percent.

- ✓ According to our projection, annual investments of EUR 75 million into the maintenance of retail network are required in order to retain a 2.5 percent average nominal growth of net sales revenues and EBITDA after 2014.

- ✓ As at December 31st 2009, Mercator Group is estimated to have approximately EUR 46 million of commercially unviable fixed assets.

- ✓ As at December 31st 2009, net debt of the Mercator Group is estimated at EUR 1,006 million.

All financial categories presented are nominal and given in euros.