Business Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period I - VI 2010

Poslovni sistem Mercator, d.d.
Management Board

August 2010

TABLE OF CONTENTS

SUMMARY

In the first half of 2010, Mercator Group operations are stable and consistent with the Business Plan

Challenging economic conditions
The economic conditions in the first half of 2010 were highly challenging. Virtually all countries in which Mercator Group has established its operations have faced further real drops in gross domestic product which has resulted in lower overall consumption, as well as changes in its composition. Furthermore, foreign exchange risks have increased as well, as the average per EUR exchange rate for Serbian dinar rose by 5.8 percent in the first half of 2010 compared to the corresponding period last year, while the closing rate rose by as much as 8.0 percent. Another effect of the economic situation is low level of liquidity and increased occurrence of payment defaults in all markets, which aggravates the credit risks, particularly in wholesale. The actual conditions in the first half of 2010 in all markets were notably worse than expected at the time of compiling the 2010 Business Plan.

Group revenues are growing
Despite the harsh economic conditions in the first half of 2010, Mercator Group generated revenues in the amount of EUR 1,335 million, which is 3.9 percent more than in the corresponding period last year if constant exchange rates are assumed, or 3.2 percent more considering actual exchange rates.
In Slovenia, revenues fell by 3.1 percent as a result of the economic circumstances which affected the volume and composition of consumption, which was particularly felt in sales of non-food products.
In foreign markets, revenues rose by 18.2 percent considering constant exchange rates, or by 15.9 percent at actual exchange rates. The acquisition of trade operations of Getro in Croatia had a major positive effect on revenue growth (11.1 percentage points of total growth), while negative effects, in addition to the general economic situation, caused the depreciation of Serbian dinar.

Development activities in the region pursued further
In the first half of 2010, Mercator Group continued to pursue the strategy of expanding its operations in the Southeastern European region. Thus, approximately EUR 45 million was invested in construction, acquisition, completion, refurbishment and equipment of retail facilities, distribution centers, and IT in this period. The Group has also successfully expanded through strategic combinations. In the first half of the year, Mercator took over the trade operations of the company Getro in the Croatian market, thus increasing its market share to 8-9 percent and becoming the second largest fast-moving consumer goods retailer in the country. In June, an agreement on the acquisition of retail activities of the Panto Group in the Montenegrin market was signed; after this takeover, Mercator will become the first among the Montenegrin FMCG retailers by revenues. Mercator will also boost its market share in the Serbian market where an agreement was signed with the Coka Group in August, on a long-term lease of 22 trade facilities in Serbia. Strategic combination with the Coka Group will additionally consolidate Mercator's position as the second largest retailer in Serbia; the merger will proceed after obtaining the approval by the Serbian competition protection authorities.

Employees

As at June 30th 2010, Mercator Group had 22,407 employees, which makes Mercator one of the largest employers in the entire region of Southeastern Europe. As much as 43.6 percent of all employees were working outside Slovenian national borders at the end of the first half of the year. In the first half, the number of employees rose considerably in Croatia, as a result of the takeover of the company Getro, d.d. In companies in Slovenia, Mercator Group employed a total of 12,636 workers as at June 30th 2010, which makes it the biggest employer in the country.

Smooth financial operations and stable cash flows

In the first half of the year, Mercator Group generated a total of EUR 100,947 thousand of gross cash flow from operating activities before rents (EBITDAR). Assuming constant exchange rates, this is 6.2 percent more than in the corresponding period last year; at actual rates, the increase amounts to 5.4 percent. Mercator Group's gross cash flow from operating activities (EBITDA) in the first half of the year amounted to EUR 84,767 thousand, which is a 2.8 percent increase over the corresponding period last year assuming constant exchange rates, or 2.2 percent increase considering actual exchange rates. Stable generation of cash flows from operating activities points to strong financial power, competitiveness, and business efficiency of the Group.

In the first half of 2010, the Group smoothly operated in the financial field as it managed to refinance all short-term financial liabilities that fell due in the period and obtain additional sources to finance its investments and operations. Moreover, as at June 30th 2010, it still had EUR 84 million of standby liquidity reserves.

In the first half of 2010, the Group's financial performance was notably affected by currency translation differences with regard to Serbian dinar, as negative net exchange rate differences in financing amounted to as much as EUR 7.5 million (EUR 2.3 million in the corresponding period of 2009).

Preparations for the possibility of monetizing the real estate portfolio

As at June 30th 2010, Mercator Group operated a total of 1,498,013 gross square meters of real estate, of which 1,180,972 gross square meters are the Group's property while the remaining real estate area is leased. Thus, Mercator Group is not only the largest retailer in the region; it is also among the region's largest real estate operators.

In the beginning of 2010, a real estate division was established at the Group level in order to centralize and improve the efficiency of all activities related to real estate management, as well as to start the preliminary activities for detailed analysis of the possibilities to monetize a part of the Mercator Group's real estate portfolio in order to change the composition of financing sources and to obtain new financial resources for supporting and speeding up the development plans. As a part of these activities, the Group commissioned a reevaluation of its real estate as at January 1st 2010, which was conducted by the certified real estate appraiser. The new evaluation (the previous dating back to January 1st 2008) indicated an additional positive effect in the amount of EUR 20 million. Furthermore, numerous activities in recent years, which contributed to the extension of the useful life of property and equipment, led the Group to commission an assessment of the useful life of all major categories of assets from the expert appraisers as well. This, too, resulted in a positive effect on the cost of depreciation in 2010.

After the completed and updated appraisal, Mercator will continue its activities to prepare for the monetization of its real estate portfolio in the second half of 2010. The Group is planning to appoint specialized international real estate consultants to aid the analysis and evaluation of various possible approaches to monetization.

Net income

In the first half of 2010, Mercator Group's net income amounted to EUR 17.7 million. Net income for the period was positively affected by: increase in revenues, marketing and development activities, business rationalization measures, and positive effect of the extension of useful life of commercial assets. At the same time, net income was negatively affected by the general economic conditions and their impact on consumption in all markets, as well as by the currency translation differences.

Estimated performance in 2010

In order to account for considerable change of actual economic conditions from the anticipated ones and strategic alliances and changes in planned investment activities as well as activities related to real estate and other assets, Mercator Group has amended its performance estimate for the entire fiscal year 2010. The revised estimate is based on the current expectations with regard to the development of economic conditions and relevant business aspects in the second half of 2010.

Assuming constant exchange rates, revenues are expected to amount to EUR 2.83 billion (7.1 percent increase compared to 2009) assuming constant exchange rates, or EUR 2.78 billion (5.2 percent growth compared to 2009) considering actual expected exchange rates.

The Group's gross cash flow from operating activities before rents (EBITDAR) is planned at EUR 203.3 million (6.6 percent growth compared to 2009), while the gross cash flow from operating activities (EBITDA) is forecast at EUR 170.2 million (1.8 percent increase over 2009). Net income of the Mercator Group is estimated at EUR 30.2 million.

At the end of the third quarter, the Management Board shall again reevaluate the adequacy of assumptions considered in the current estimates and their viability thereof. Any further changes will be reported in the following interim report.

Additional activities in investor relations

Responding to very low liquidity and meager volumes of trading with the company stock at the Ljubljana Stock Exchange, as well as negative trends in the price per share, the company has already carried out some activities as well as plans to carry out additional activities, with regard to investor relations. By providing more extensive and detailed reports and quality business information, we seek to motivate investor interest in the company shares and thus to potentially influence positively the stock's market liquidity and price, which is in the best interest of both the shareholders and the company.

Along these lines, the following activities have been carried out or are planned:

- Mercator Group's Semiannual Report is more extensive and it includes more detailed disclosures about the company's operations compared to the previous years. In addition, the company also commissioned a review of the condensed consolidated semiannual financial statements by a certified auditor whose opinion on the audit is also attached herewith. Furthermore, a revised estimate of the Group's consolidated financial statements for the entire year 2010 has been prepared. Thus, existing and prospective investors are provided with in-depth quality information on the Group's operations in 2010.
- In early September, the company Mercator, d.d., intends to organize a meeting with potential investors and financial analysts. All potentially interested parties will be informed of the event in a timely manner through the Ljubljana Stock Exchange information system. If the participants find such events interesting, the company will continue to organize them regularly in the future.

In the future, the company shall also examine and carry out any activities in the field of investor relations that are believed to have the potential to positively affect investor interest and confidence in company share.

MAJOR EVENTS IN THE PERIOD 1-6 2010

Retail network development

- **Slovenia**
  - On April 28th 2010, we opened an Intersport store in Mercator Center Koper.
  - On March 27th 2010, we opened a refurbished supermarket in Šempeter pri Celju, and on April 26th 2010, we opened a new M Holidays office at a new location in Koper.

- **Serbia**
  - On January 15th 2010, we opened a supermarket in Belgrade; on March 26th 2010, a superette was opened in Novi Sad; on April 27th 2010, a supermarket was launched in Srbobran; and on May 25th 2010, we opened a supermarket in Bečej.
  - On May 25th 2010, we opened a hardware and electronics store in Roda Center Senta.

- **Croatia**
  - On January 28th 2010, we opened a superette in Zagreb; on February 8th 2010, a supermarket was inaugurated in Biograd.
  - On February 17th 2010, we took over the operating activities of sixteen Getro Cash & Carry stores on a long-term operating lease.

- **Montenegro**
  - On May 20th 2010, we launched a supermarket in Ulcinj; on June 26th 2010, we opened a refurbished supermarket in Bar.

Organizational changes at the Mercator Group

- As of January 1st 2010, the new macro-organizational structure for the Mercator Group has been in effect. The key reasons for the reorganization are the need for improved local responsiveness in all markets and improved adjustment to consumer needs, enhanced operating efficiency, adjustment of the organizational complexity of international operations, and preparation for the option to dispose of and thus monetize our commercial property and facilities in order to accelerate our development cycle.
- Consistently with the new organizational structure, Intersport and Modiana will henceforth operate as independent legal persons. To this end, the company Poslovni sistem Mercator, d.d., founded in December 2009 the company Intersport ISI, d.o.o., and on January 4th 2010 the company Modiana, d.o.o. The Activities of Intersport stores, and of the textile and beauty program, were transferred to these two companies, respectively. In addition, on February 9th 2010, the company Intersport ISI, d.o.o., founded the company Intersport H, d.o.o., followed by founding of the company Intersport BH, d.o.o., Bosnia and Herzegovina, on May 6th 2010, and the company Intersport S-ISI, d.o.o., Serbia, on June 28th 2010, to which all Intersport's operating activities in respective markets are to be transferred. On March 18th 2010, the company Modiana, d.o.o., Slovenia, founded the company Modiana, d.o.o., Croatia, Modiana, d.o.o., Bosnia and Herzegovina, on June 2nd 2010, and the company Modiana, d.o.o., Serbia, on June 28th 2010. The activities of the textile and beauty program in respective markets shall be transferred to these newly founded companies.
- On April 15th 2010, the company Mercator – Emba, d.d., opened a new food production plant in the Zapolje industrial zone in Logatec.

- On June 23rd 2010, Mercator Group founded the company Mercator-CG, d.o.o., Montenegro, to be in charge of the Group's operations in the Montenegrin market.

Strategic combinations

- On February 17th 2010, the companies Getro, d.d., and Mercator-H, d.o.o., completed a strategic combination based on the agreement on the acquisition of operations of the Croatian trade company Getro, d.d., signed by the partners on December 18th 2009. The strategic combination includes the acquisition of the "Getro" trademark and a long-term lease of sixteen Getro trade centers and other commercial facilities with a total area of nearly 120,000 square meters.

Corporate governance

- The Supervisory Board of the company Poslovni sistem Mercator, d.d., met four times in the period 1-6, 2010. It adopted the audited Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2009, proposals of the Audit Committee, Supervisory Board Report on the Audit of the Annual Report, the opinion on the allocation of distributable profit for 2009, and Business Report for the Mercator Group and the company Mercator, d.d., for the period 1 – 3 2010.
- At its meeting held on March 30th 2010, the Supervisory Board appointed a six-member Management Board for the term 2011-2015. As of January 1st 2011, the Management Board will comprise the following members:
  - Mr. Žiga Debeljak, MScBA, Management Board President;
  - Mrs. Mateja Jesenek, MBA, Strategic Marketing and Global Supply Management, Senior Vice President;
  - Mrs. Melita Kolbezen, MScBA, Strategic Finance and IT, Senior Vice President;
  - Mrs. Vera Aljančič Falež, LL.M., Strategic Human Resources and Organization Development, Senior Vice President;
  - Mr. Peter Zavrl, BA Economics, Senior Vice President for Mercator Operations Slovenia; and
  - Mrs. Stanka Čurović, MSc, Senior Vice President for Mercator Operations SE Europe.
- The number of Board members and division of responsibilities is consistent with the new macro-organizational composition of the Mercator Group, as implemented in the beginning of 2010. Additionally, real estate activities will be managed directly by the Management Board President, in cooperation with Senior Vice President for Mercator Real Estate. In addition to appointing the new Management Board, the Supervisory Board also adopted the Mercator Group strategic policies for the period 2011-2015.

Marketing and corporate activities

- In February 2010, we carried out the 11th Marketing Days. The event that took place in Cankarjev dom was attended by a record number of 523 business partners.
- In March 2010, we organized the 10th Financial Partners Meeting. Held in Cankarjev Dom, the event hosted over 50 representatives of commercial banks and leasing companies.

Key information for the shareholders

As at June 30th 2010, the average price per share of the company Poslovni sistem Mercator, d.d., as traded in the prime market of the Ljubljana Stock Exchange, d.d., with the code MELR, amounted to EUR 158.39.

Book value per share, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at June 30th 2010, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 221.31.

Basic net earnings per ordinary share, calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 6.7.

MAJOR EVENTS FOLLOWING THE END OF PERIOD AT HAND

Strategic combinations

- On June 30th 2010, the companies Mercator-S, d.o.o., Serbia, and the company Pantomarket, d.o.o., Herceg Novi, signed a strategic combination agreement based on which the company Mercator-CG, d.o.o., Podgorica, will take over the trade operations, employees, and a long-term operating lease of 77 commercial facilities owned by the companies Pantomarket, d.o.o., Herceg Novi, and Plus Commerce, d.o.o., Nikšić, in the market of Montenegro, with a combined gross sales area of 31,700 square meters. Combined commercial facilities of Pantomarket, d.o.o., Herceg Novi, and Plus Commerce, d.o.o., Nikšić, make these two companies the largest retailer with fast-moving consumer goods in the Montenegrin market. By this strategic combination, Mercator will increase its market share in Montenegro, in the FMCG industry, from the current 4 percent to approximately 20 percent, thus becoming the largest retailer with fast-moving consumer goods in the market. The transaction has already been approved by the Montenegrin competition protection office. Takeover of commercial facilities is planned for completion by the end of August 2010.
- On August 4th 2010, the company Mercator-S, d.o.o., Serbia, and the company Coka, d.o.o., Vučak, signed a strategic combination agreement based on which the company Mercator-S, d.o.o., Novi Sad, will take over the long-term operating lease and sublease of 22 commercial facilities of the Coka Group in the Danube region, with a combined area of over 12 thousand square meters. The strategic combination also includes the purchase of inventory and equipment, and takeover of all employees at the companies of the Coka Group: Coka, d.o.o., Vučak, Serbia; Dunav, a.d., Smederevo, Serbia; Inex, a.d., Velika Plana, Serbia; Mlava, a.d., Petrovac, Serbia; and Nova trgovina, a.d., Požarevac, Serbia. This strategic combination will further consolidate Mercator's position of the second largest retailer in the Serbian market. The agreement on strategic alliance shall become effective upon obtaining approval by the Serbian Competition Protection Agency.

Corporate governance

- At the 16th regular Shareholders Assembly held on July 13th 2010, the shareholders of the company Poslovni sistem Mercator, d.d., adopted the following resolutions:
  - The number of Supervisory Board members shall be increased by four to a total of twelve members. Mr. Matjaž Kovačič and Mr. Miro Medvešek were appointed as new Supervisory Board members representing the interests of the shareholders for a term of four years.

- The Shareholders Assembly confirmed the proposal on dividend payout in the gross amount of EUR 7.20 per ordinary share and granted discharge to the company Management Board and Supervisory Board.
- The Management Board was authorized to acquire and dispose of treasury shares up to the amount of 10 percent of the company share capital, for a period of 36 months starting with the day the authorization is issued.
- The Shareholders Assembly also confirmed the changes to the Articles of Association in order to reach compliance with the revised Companies Act ZGD-1C and the revised standard classification of activities; and appointed the certified auditing company for the year 2010.

FINANCIAL HIGHLIGHTS FOR THE PERIOD 1-6 2010

Financial highlights

	Mercator Group				
	1-6 2009	Plan 2010	1-6 2010	Index 1-6 2010 / 1-6 2009	Index 1-6 2010 / Plan 2010
Revenue (EUR thousand)	1,293,618	2,750,263	1,334,836	103.2	48.5
Results from operating acitvities (EUR thousand)	40,544	83,698	53,113	131.0	63.5
Profit before income tax (EUR thousand)	13,297	27,184	23,791	178.9	87.5
Profit for the financial period (EUR thousand)	11,268	21,856	17,657	156.7	80.8
Gross cash flow from operating activities (EUR thousand)	82,949	174,588	84,767	102.2	48.6
Gross cash flow from operating activities before rental expenses (EUR thousand)	95,739	202,571	100,947	105.4	49.8
Capital expenditure (EUR thousand)	66,049	120,000	45,330	68.6	37.8
Long-term financial investments (EUR thousand)	1	0	0	-	-
Return on equity*	2.8%	2.7%	4.4%	156.5	160.2
Return on sales	0.9%	0.8%	1.3%	147.0	166.5
Gross cash flow from operating activities / net sales revenues	6.4%	6.3%	6.4%	99.2	100.0
Gross cash flow from operating activities before rental expenses / net sales	7.4%	7.4%	7.6%	102.2	102.7
Number of employees based on hours worked	20,318	20,747	20,828	102.5	100.4
Number of employees as at the end of the period	21,258	22,167	22,407	105.4	101.1

* The indicator is adjusted to the annual level.

Selected financial highlights assuming constant exchange rates

	Mercator Group				
	1-6 2009	Plan 2010	1-6 2010	Index 1-6 2010 / 1-6 2009	Index 1-6 2010 / Plan 2010
Revenue (EUR thousand)	1,293,618	2,750,263	1,344,622	103.9	48.9
Gross cash flow from operating activities (EUR thousand)	82,949	174,588	85,239	102.8	48.8
Gross cash flow from operating activities before rental expenses (EUR thousand)	95,739	202,571	101,680	106.2	50.2

Due to the considerable impact of currency translation differences with Serbian Dinar (RSD), Croatian Kuna (HRK), and Albanian lek (ALL), some financial highlights are also indicated as comparable figures calculated through a simulation in which the average RSD, HRK, and ALL exchange rates in the period at hand are held constant relative to the corresponding period last year.

COMPANY PROFILE

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 June 30th 2010	EUR 157,128,514.53
Number of shares issued and paid-up as at June 30th 2010	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

December 31st 2009	June 30th 2010
OPERATIONS SLOVENIA	
Poslovni sistem Mercator, d.d., Slovenia	Poslovni sistem Mercator, d.d., Slovenia
Mercator IP, d.o.o., Slovenia (100.0 %)	Mercator IP, d.o.o., Slovenia (100.0 %)
M.COM, d.o.o., Slovenia (100.0 %)*	M.COM, d.o.o., Slovenia (100.0 %)*
OPERATIONS SE EUROPE	
Mercator - S, d.o.o., Serbia (100.0 %)	Mercator - S, d.o.o., Serbia (100.0 %)
-	• Mercator - CG, d.o.o., Montenegro (100.0 %)*
Mercator - H, d.o.o., Croatia (99.9 %)	Mercator - H, d.o.o., Croatia (99.9 %)
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 - Mex, d.o.o., Montenegro (81.0 %)	Mercator - Mex, d.o.o., Montenegro (81.0 %)
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 Makedonija, d.o.o.e.l, Macedonia (100.0 %)	Mercator Makedonija, d.o.o.e.l, Macedonia (100.0 %)
Mercator - K, d.o.o., Republic of Kosovo (100.0 %)*	Mercator - K, d.o.o., Republic of Kosovo (100.0 %)*
REAL ESTATE	
M - nepremičnine, d.o.o., Slovenia (100.0 %)	M - nepremičnine, d.o.o., Slovenia, (100.0 %)
Mercator - Optima, d.o.o., Slovenia (100.0 %)	Mercator - Optima, 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 %)**
Tomkon, d.o.o., Serbia (100.0 %)**	Tomkon, d.o.o., Serbia (100.0 %)**
Tomveloping, d.o.o., Serbia (100.0 %)**	Tomveloping, d.o.o., Serbia (100.0 %)**
Tomsales, d.o.o., Serbia (100.0 %)**	Tomsales, d.o.o., Serbia (100.0 %)**
Sitireks, d.o.o., Serbia (100.0 %)**	Sitireks, d.o.o., Serbia (100.0 %)**
Magnoreks, d.o.o., Serbia (100.0 %)**	Magnoreks, d.o.o., Serbia (100.0 %)**
OTHER	
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 %)
Intersport ISI, d.o.o., Slovenia (100.0 %)	Intersport ISI, d.o.o., Slovenia (100.0 %)
-	• Intersport H, d.o.o., Croatia (100.0 %)
-	• Intersport BH, d.o.o., Bosnia and Herzegovina (100.0 %)*
-	• Intersport S-ISI, d.o.o., Serbia (100.0 %)*
-	Modiana, d.o.o., Slovenia (100.0 %)
-	• Modiana, d.o.o., Croatia (100.0 %)
-	• Modiana, d.o.o., Bosnia and Herzegovina (100.0 %)*
-	• Modiana, d.o.o., Serbia (100.0 %)*

* The company has not yet commenced its operating activities.
** Project-based real estate companies not conducting business operations; they are to be merged with the parent companies in respective markets.

BUSINESS REPORT

BUSINESS STRATEGY OF THE MERCATOR GROUP

Mercator Group strategic policies and goals for the medium term period 2011-2015 were adopted at the Supervisory Board meeting held on March 30th 2010.

Vision

To be the consumers' first choice when shopping for fast moving consumer goods and home products.

Mission

Mercator's mission is summarized in four points:

1) To provide optimum value for the consumers with our service and offer of fast moving consumer goods.
2) To provide consumers with the best possible service in a pleasant shopping environment, by offering expert support of highly motivated employees.
3) To provide returns for our shareholders through growth and efficient operation.
4) To manage our operations in a way that improves the quality of life in our social and natural environment.

Corporate values

Following are Mercator's corporate values:

RESPONSIBILITY
Every employee is responsible for their work.

INTEGRITY
We perform our work with integrity.

TRUST
Each individual matters and should be respected.

TEAMWORK
What one person cannot do, we can accomplish together.

LEARNING
We build on our knowledge and experience.

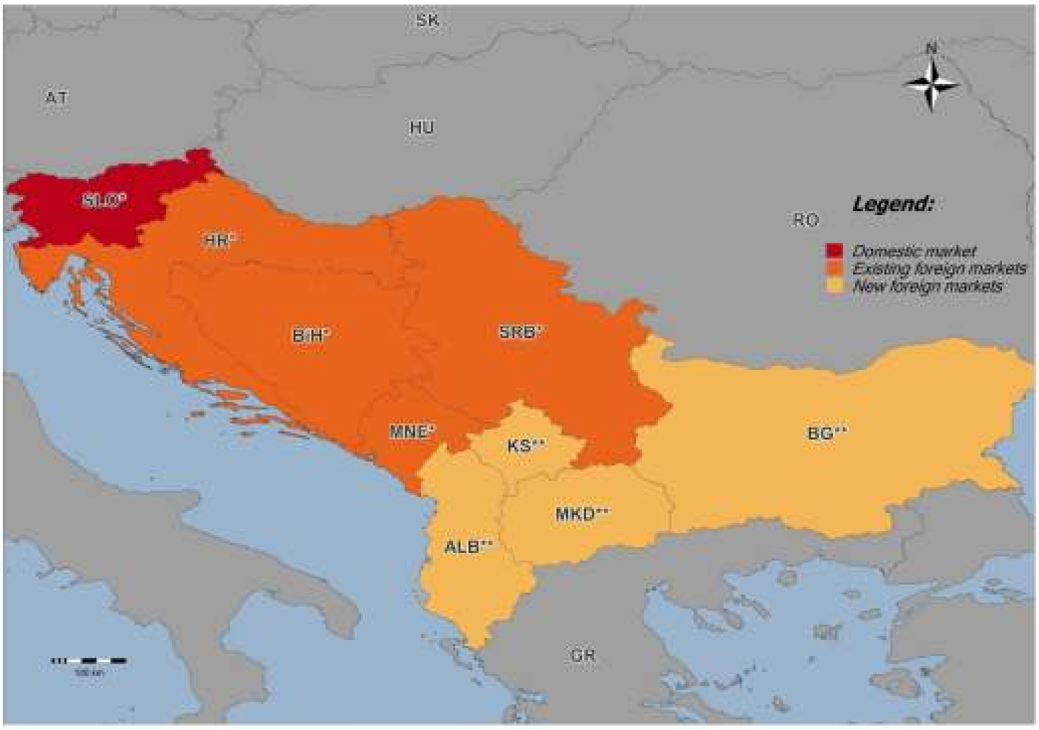
RESPONSIVENESS
Prompt response is our advantage.

Strategic objectives

Following are Mercator Group's fundamental strategic goals:

1) In our **domestic market** (Slovenia):
    a. To retain the position of the leading fast moving consumer goods retailer.
    b. To consolidate the position of the second largest retailer of home products.
    c. To develop supplementary trade services related to our customer loyalty system.
2) In **existing foreign markets** (Serbia, Croatia, Bosnia and Herzegovina, Montenegro):
    a. To consolidate or attain the position of the second largest fast moving consumer goods retailer.
    b. To rank among the top three retailers of home products.
    c. To develop supplementary trade services related to our customer loyalty system.
3) In **new foreign markets** (Bulgaria, Albania, Macedonia, Kosovo):
    a. To rank among the top five retailers of fast moving consumer goods.

The strategic region of Mercator Group operations in the period 2011-2015 is graphically presented in the map below:



* Markets where Mercator Group is conducting or intends to conduct FMCG and home product trade operations.
** Markets where Mercator Group is conducting or intends to conduct FMCG trade operations.

The medium term business plan for the period 2011-2015 will be announced simultaneously with the annual business plan for 2011.

DEVELOPMENT AND INVESTMENT

In the period 1-6 2010, Mercator Group's investment into property, plant, and equipment (capital expenditure) amounted to EUR 45,330 thousand, of which EUR 26,886 thousand (59.3 percent) was invested abroad. The majority of investments amounting to EUR 34,478 thousand or 76.1 percent were allocated for construction, purchase, completion, and equipment of shopping centers and individual stores, while the rest was invested into refurbishments, distribution centers, and IT.

Investment summary

Country	Capital expenditure 1-6 2010 (in EUR 000)	Structure in %
Slovenia	18,444	40.69
Serbia	4,712	10.39
Croatia	20,100	44.34
Bosnia and Herzegovina	985	2.17
Montenegro	677	1.49
Bulgaria	74	0.16
Albania	338	0.75
TOTAL	**45,330**	**100.00**

In the period 1-6 2010, Mercator's biggest acquisition is the long-term lease of sixteen Getro Cash & Carry stores and one Getro distribution centre in Croatia, including the purchase of equipment. Consistently with our investment plan, we have also launched several other facilities listed below.

Major openings in the period at hand

Slovenia

- On April 28th 2010, we opened an Intersport sportswear store in Mercator Center Koper.
- On March 27th 2010, we opened a refurbished supermarket in Šempeter pri Celju, and on April 26th 2010, we opened a new M Holidays office at a new location in Koper.

Serbia

- On January 15th 2010, we opened a supermarket in Belgrade; on March 26th 2010, a superette was opened in Novi Sad; and on May 25th 2010, we opened a supermarket in Bečej. These stores are operated by Mercator on an operating lease.
- On April 27th 2010, a Roda supermarket was launched in Srbobran, including several outlets to be leased out; on May 25th 2010, we opened a hardware and electronics store as a part of Roda Center Senta.

Croatia

- On January 28th 2010, we opened a superette in Zagreb.
- On February 8th 2010, a supermarket was inaugurated in Biograd, in a leased facility.
- On February 17th 2010, we took over the operating activities of sixteen Getro Cash & Carry stores on a long-term operating lease. Of these, four are in Zagreb (Vrbani, Novi Zagreb, Sesvete, Črnomerec), and one is located in Bjelovar, Karlovac, Umag, Split, Dubrovnik, Sinj, Slavonski Brod, Rijeka, Varaždin, Zadar, Pula, and Sisak, respectively.

Combined area of these facilities amounts to 106,528 square meters.

- On February 17th 2010, we also took over the operations of Getro distribution center in Zagreb, with a total area of 13,214 square meters, on an operating lease.

Montenegro

- On May 20th 2010, we launched the Amelino supermarket in Ulcinj, for which a long-term operating lease was signed; on June 26th 2010, we opened a refurbished supermarket in Bar.

Following is a summary of total gross useful area operated by the Mercator Group as at June 30th 2010.

Gross effective surface area (square meters)	Employed for own operations	Leased out	Total as at June 30th 2010
Trade area, own	816,890	186,478	1,003,368
Trade area, leased	273,201	24,017	297,218
Trade area, total	**1,090,091**	**210,495**	**1,300,586**
Warehouse area, own	148,676	0	148,676
Warehouse area, leased	15,642	0	15,642
Warehouse area, total	**164,318**	**0**	**164,318**
Office area, own	26,259	2,669	28,928
Office area, leased	4,110	71	4,181
Office area, total	**30,369**	**2,740**	**33,109**
Effective surface area managed	**1,284,778**	**213,235**	**1,498,013**
- of which own	991,825	189,147	1,180,972
- of which leased	292,953	24,088	317,041

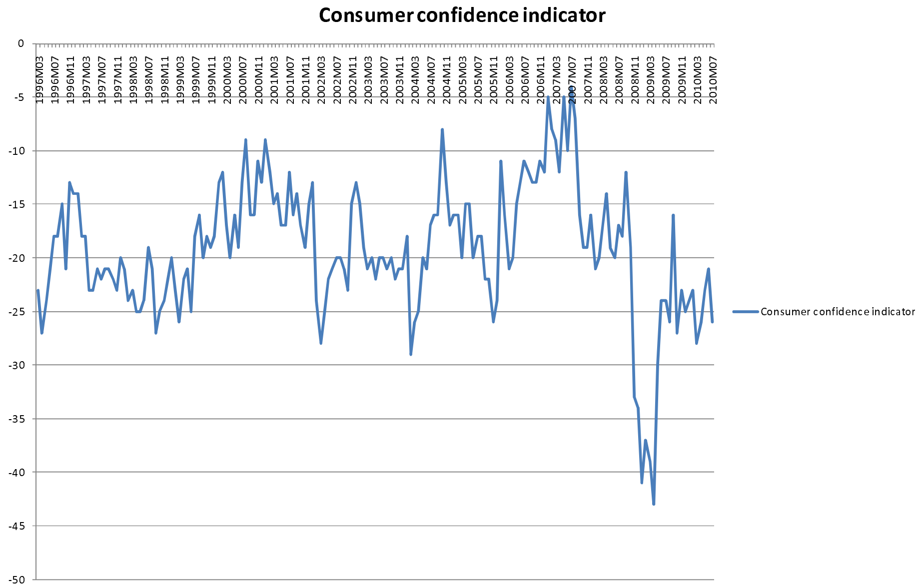
IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD 1-6 2010

Many countries of the Western Balkans are still facing strong effects of the economic crisis while the most notable characteristic of the first half of 2010 are a further drop in purchasing power in all countries of Mercator's operations, depreciation of local currency in Serbia, and aggravating occurrence of payment defaults (so-called payment indiscipline) in the countries of the Western Balkans. Furthermore, competition has also become harsher, particularly with the expansion and entry of new discount retailers in individual markets. Business conditions in all markets of our operations are worse than expected for the year 2010.

Slovenia

Compared to the figure for the first quarter of 2009, Slovenian gross domestic product (GDP) dropped by 1.2 percent in real terms. This is the sixth consecutive quarter in which Slovenian economy has seen a decline in economic activity. Compared to the last quarter of 2009, real GDP drop amounts to 0.5 percent. Increase in Slovenian exports had a positive effect on the Slovenian economy, while low domestic demand caused a negative effect. Inflation in the period 1-6 2010 was 1.8 percent compared to the corresponding period last year. For 2010, analysts have forecasted economic growth of 0.6 percent and inflation in the amount of 1.3 percent.
Consumer shopping and spending behavior in the first half of 2010 continues to reflect the tendencies to rationalize consumption, which were first perceived last year. In our estimate, the impact of the entire mix of impulses from the environment on spending behavior will be permanent. Recession has a strong influence on the segment of consumers whose financial

situation is worse and who, consequently, tend to spend less on daily shopping. In the first half of 2010, this segment of consumers seems to have expanded somewhat (from 25 percent in 2009 to 28 percent in the first half of 2010; source: Marketing Monitor, Slovenian Marketing Association, Spring 2010). On the other hand, the number of those who expect to spend less is decreasing. Cutting back on spending on the part of the "affected" consumers began with cutting down the vacation budget, as well as more rational shopping for clothing and footwear and postponement of major investments or expenditures (e. g. homes and automobiles). Only then did the consumers start to reduce the amount of funds intended for food and beverages. Compared to last fall, expectations on personal income and financial position in general are slightly more optimistic. All key indicators point out that the effects of recession on consumption will gradually subside. Similarly, the Consumer Confidence Index (Source: SORS) shows signs of recovery as its trend in the first half of 2010 is positive, compared to a steep drop in the first half of 2009.



Serbia

In the beginning of 2010, the Serbian dinar depreciated considerably. Average exchange rate of the Serbian dinar in the period 1-6 2010 amounted to RSD 99.32 per 1 EUR, which is 5.8 percent more than the average rate in the corresponding period last year. As at June 30th 2010, the exchange rate amounted to RSD 102.56 per 1 EUR, which is 8 percent more than on December 31st 2009. In May 2010, inflation relative to May last year amounted to 3.7 percent. Forecasts on economic growth for 2010 differ, and range from -0.5 percent to +2.0 percent. Inflation is expected at around 5 percent. In the first quarter of 2010, Serbia has seen GDP growth of 0.6 percent.

Exchange rate RSD/EUR	1-6 2009	1-12 2009	1-6 2010	Change 1-6 2010 / 1-6 2009
Average exchange rate of the period	93.83	93.79	99.32	105.8
Exchange rate at the end of the period	94.94	95.03	102.56	108.0

In Serbia, a trend of decline in the volume of sales can be observed in the fast-moving consumer goods market in the beginning of 2010. The trend is more pronounced in categories of food and beverages and somewhat less in body care and home products. The average basket is larger by value, which could be accounted for by the instability of the domestic currency and inflationary pressure on prices. During recession, the consumers started to cut back on the number of shopping sessions for FMCG products, and the drop in the number of shopping trips continues in 2010.

Croatia

In the first quarter of 2010, Croatian GDP fell in real terms by 2.5 percent compared to the corresponding period last year, which is worse than expected. Negative trends have persisted, with low household consumption and a drop in government spending and investment contributing most to the economic slowdown. In June 2010, inflation relative to June 2009 amounted to 0.7 percent. According to current forecasts, Croatian economy is expected to see a drop in GDP by 1.0 percent, while the inflation is expected at 3.2 percent. Average exchange rate of the Croatian kuna in the period 1-6 2010 amounted to HRK 7.27 per 1 EUR; as at June 30th 2010, the exchange rate was 7.198 HRK per 1 EUR.
In 2008, Croatian consumers were quick to react to the increase in prices by shopping less frequently. Until the first half of 2010, recession and economic hardship at households mostly resulted in a drop in the volume of consumption, followed by a minor drop in the value of the average basket resulting both from lower shopping volumes and shopping for products that are an alternative to branded goods in the market. This is also pointed out by a rise in the share of private label product sales in 2009.

Bosnia and Herzegovina

In 2009, Bosnia and Herzegovina saw its economy slow down by 3.2 percent, which is worse than expected at the beginning of 2010. In June 2010, inflation was 1.8 percent relative to June last year. For 2010, the analysts currently forecast GDP growth between –0.5 and + 1.0 percent. Exchange rate of the Bosnian convertible mark is pegged to the euro at BAM 1.95583 per 1 EUR.
The fast-moving consumer goods market is showing signs of a late response by the consumers to the increase in prices and recession in Bosnia and Herzegovina. Unlike in Slovenia and Croatia, frequency of shopping sessions did not change until the second half of 2009. In the first quarter of 2010, the change in the frequency of shopping is more significant, which could affect the consumers' choice of store formats in the future. Contrary to the other two markets, the households responded particularly by changing the composition of their shopping basket, which resulted in stable or even slightly increasing volume, yet simultaneous drop in the value of sales. This points to a change in the selection of products, as the consumers are less loyal to branded goods and turn instead to increased offer of products in the lower price ranges. In this case, the consumers are more willing to replace a product with a less expensive alternative than to give up or decrease the volume of their purchase.

Montenegro

According to the most recent estimates, lower domestic consumption and exports pulled the Montenegrin economy down by 5.3 percent in 2009. In 2010, the government of Montenegro expects a slight recovery at +0.5 percent while the International Monetary Fund forecasts a drop in GDP by 1.7 percent. In June 2010, inflation relative to June last year was at 0.2 percent. The currency used in Montenegro is the euro.

Bulgaria

In the first quarter of 2010, Bulgarian GDP declined by four percent compared to the corresponding period last year, which is almost twice the slowdown predicted when the plan for 2010 was compiled. For 2010, the International Monetary Fund estimates low economic growth at 0.2 percent. In June 2010, inflation relative to June 2009 amounted to 1.4 percent. Exchange rate of the Bulgarian lev is pegged to euro at BGN 1.9558 per 1 EUR.

Albania

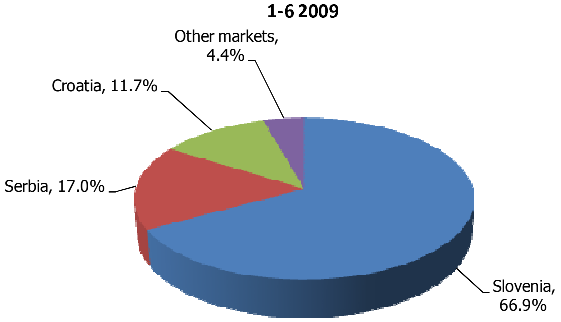
Albania is the only country in the Southeastern Europe to see positive economic growth at 4 percent in 2009, thus exceeding the forecasts of the majority of analysts. As a result of lower capital inflow from abroad, as well as slower growth of credit and loans, economic growth is expected to slow down to a rate of +1.4 and 2.3 percent in 2010, according to forecasts. In June 2010, inflation relative to June last year was 3.2 percent. The average exchange rate of the Albanian lek in the period 1-6 2010 was ALL 138.24 per 1 EUR. The closing rate as at June 30th 2010 was ALL 137.30 per 1 EUR.

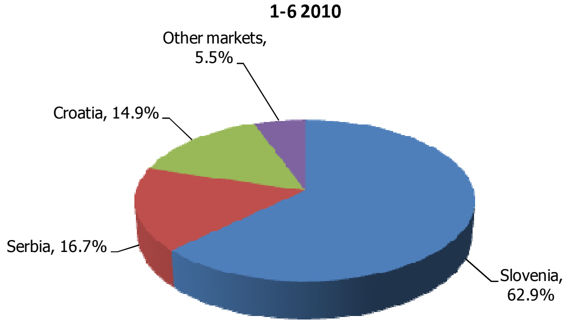
SALES AND MARKETING

Sales

In the period 1-6 2010, Mercator Group generated a total of EUR 1,335 million of revenues from sales, which is 3.9 percent more than in the corresponding period of 2009 assuming constant exchange rates, or 3.2 percent more at actual rates.

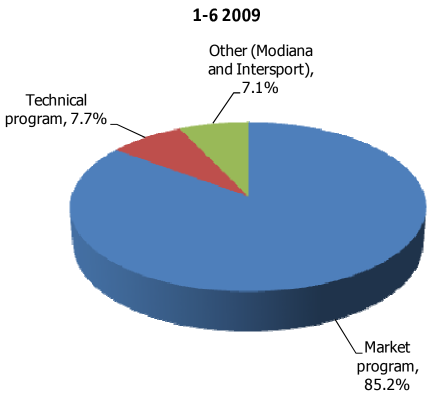
Mercator Group net revenues from sales by geographical segments:

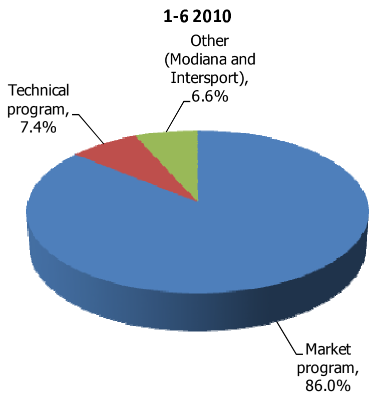




In Slovenia, Mercator Group net sales revenues amounted to EUR 839.0 million in the period 1-6 2010, which is 3.1 percent less than in the corresponding period of 2009. In foreign markets, EUR 495.8 million of sales revenues was generated in the first half of 2010, which is 18.2 percent more than in the same period of 2009 assuming constant exchange rates. At actual exchange rates, sales revenues abroad rose by 15.9 percent, of which 11.1 percent is related to the takeover of the trade operations of the company Getro.

Mercator Group sales revenues in trade operations by programs:



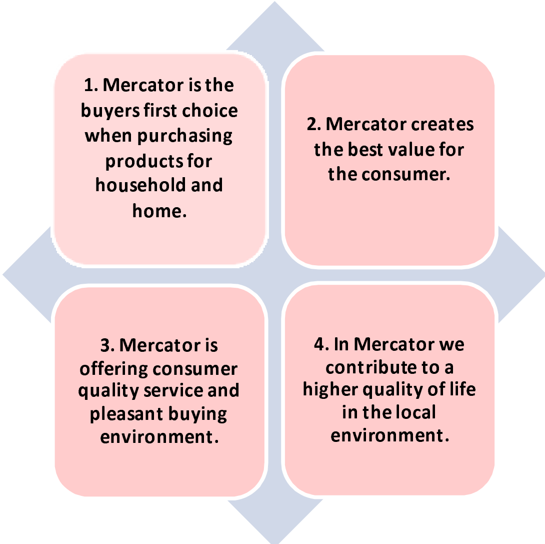


Within its trade operations, Mercator Group generated the majority of its net sales revenues (86.0 percent) in the period 1-6 2010 in market program. The remaining share of 14.0 percent was generated in other specialized trade programs.

In the period 1-6 2010, Mercator Group generated 89.8 percent of net sales revenues in retail, while 10.2 percent were generated by wholesale and other activities.

Marketing strategy

Mercator's marketing strategy is pursuing four goals around which actual projects and activities for the customers are developed in all markets of Mercator's operations, depending on the development and expectations of each market:



Customer satisfaction survey

Each year, Mercator conducts a customer satisfaction survey among the customers at all store formats in all markets of the Group's operations. The composite rating of the market program in the first half of this year amounts to **4.2** (on a scale from 1 to 5), which is approximately the same as in 2009.

1. Mercator is the first choice when shopping for household and home products

Customer relationship management: development of the Mercator Pika customer loyalty system and other customer loyalty clubs

Mercator Pika

At the end of the period 1-6 2010, there was a total of **1,498,058 Mercator Pika card** holders. In the period at hand, the number of Mercator Pika card holders rose by 64,259.

Mercator Pika card holders	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Total
as at December 31st 2009	917,499	154,915	243,329	118,056	1,433,799
as at June 30th 2010	**944,378**	**167,654**	**258,737**	**127,289**	**1,498,058**
new holders in 1-6 2010	26,879	12,739	15,408	9,233	64,259
new holders growth share	3 %	8 %	6 %	8 %	4 %

Mercator Pika card holders are members of the following customer loyalty clubs

Healthy Lifestyle Club

- Designed for people who share the idea of a healthy lifestyle.
- More than 70,000 members.

Lumpi Club

- NEW in 2009.
- Offering parents interesting ideas and activities for children as well as advice on education, nutrition, care, learning and play.
- 20,000 members.

Maxi Club

- To unite people who shop in the Maxi up-scale convenient store and appreciate premium offer and excellent service.
- 11,700 members.

M mobil Club

- Offering competitive prepaid mobile telephony and additional benefits.
- In 2010 we will enrich and develop new content of M mobil Club.

2. Mercator creates the best value for the consumer

Creating a perception of quality and price perception: Mercator regularly monitors the perception of quality and prices among the consumers. In the first half of 2010, Mercator maintained the perception of the retailer with the highest quality of service, a trustworthy retailer, and retailer where the customer gets the best quality relative to the price paid.

Development of private label lines and exclusive brands

In the first half of 2010, the development of private label lines and exclusive brands in all markets of Mercator operations, was focused on further pursuit of the goals laid out in the Development Strategy for Mercator's Exclusive Brands, as follows:

- introduction of new and revitalization of some of the existing lines: upgrade of the generic line and the lines M Premium, Dvorec Trebnik, M Active (Healthy Living), M On the go (The Wishing Table) and development of the Eko line;
- improving the recognition and reputation of these lines;
- motivating purchases by various target groups of customers by carrying out the sales promotion activities;
- development of new products and revived product packaging;
- increasing the share of private label line sales in total sales;
- within the development of new products, strong emphasis is placed on safety and quality

of all private label lines (internal testing of products and external testing and the Faculty of Biotechnology and the Institute of Public Health Kranj, as well as at the Ljubljana Pediatric Clinic for the Lumpi line).

Products are developed within the following private label lines and exclusive brands:

- **Mercator Line** includes alimentary products, products for households, and products of textile and hardware and electronics program. It seeks to offer the best price to quality ratio. Products are available in the aisles of our market program stores, as well as our hardware and electronics stores.

- **Generic Line** includes fast-moving consumer goods for the most price sensitive, or price-aware customers. Sales of these products saw the steepest rise in the first half of 2010. Products of the generic line assure the lowest price at Mercator.
- **Lumpi** includes quality food, cosmetics, and apparel for children aged up to 10, as well as toys, school stationery, gift program, and accessories. All new products are under the supervision of the Institute of Public Health, Kranj, and the Ljubljana Pediatric Clinic. The assortment of products is defined in compliance with the ratios in the food pyramid.

- **My Body** is the revived sub-line of cosmetics products Popolna nega (Total body care) which offers the customer favorably priced consumer products for personal care, facial care, hair care, and sun blocks (packaging consistent with the new visual identity is already being prepared for the first products).

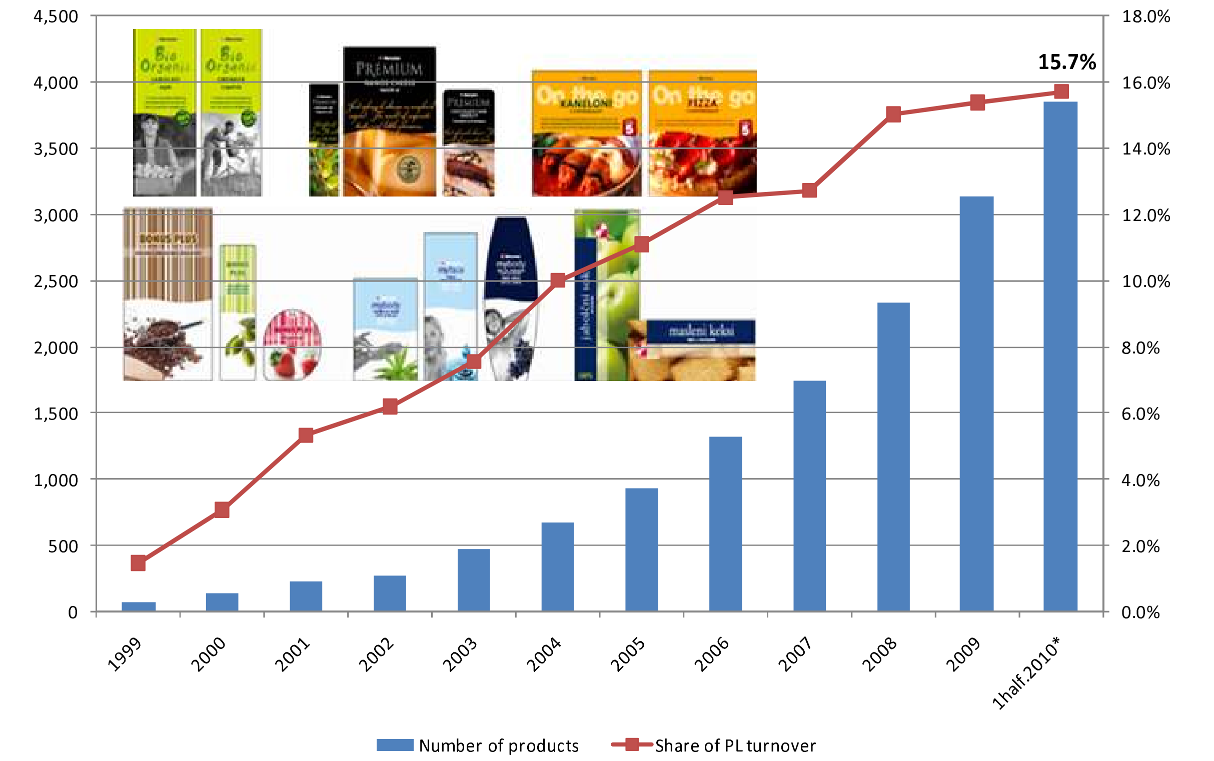
- **Ambient Line** includes high-quality products for interior decoration and daily household use. It is an upgrade to the M-line which also includes products for the home. Products are available in the aisles of the market program and hardware and electronics stores.
- **Trebnik Mansion** ("Dvorec Trebnik") is an exclusive line of natural cosmetics and body and facial care products. The products contain natural ingredients, and the selection of scents, fragrances, and other ingredients is attuned to the most recent trends in the market for natural cosmetics.

- **The Wishing Table** includes products that allow simple and rapid preparation of a hearty meal.
- **Healthy Living** includes products that contribute to the improvement of our customers' diets.
- **Premium Line** is intended for the customers with more exquisite taste. These high-quality products are made of the best ingredients, with less artificial additives; they are mostly of Slovenian origin and produced manually or by traditional methods.

- **Grosuplje Bakery** line includes premium bread and pastry. Mercator and its in-house bakery continue to bring the legacy of bread making closer to their customers and other visitors. In May this year, we revived the Bread Celebration, a two-day event that includes sampling sessions, animation for the children, and demonstration of making braided yeast buns (challah).

- **The Kranj Cupcake** ("Kranjski kolaček") includes high-quality pastry products, particularly the traditional hand-made delicacies.

Share of Mercator private label line product sales in Slovenia and the number of products by years:



Note: information on the number of products for the period 1-6 2010 includes all products (fragrances and flavors) sold in the period. For previous years, the data is adjusted to the new methodology of data acquisition for comparability.

In foreign markets, up to 5 percent of total revenues are generated by sales of Mercator private label line products.

Presence of particular private label lines and share in total sales in all markets of Mercator's operations

Country / Private label line	Mercator Line	Generic Line	Healthy Living	The Wishing Table	Lumpi	Grosuplje Bakery	Total Body Care	Ambient	Premium	Trebnik Mansion	M Line	Kranj Cupcake
Slovenia	√	√	√	√	√	√	√	√	√	√	√	√
Serbia	√	√	√	√	√	-	√	√	-	√	√	-
Croatia	√	√	√	√	√	-	√	√	-	-	√	-
Bosnia and Herzegovina	√	√	√	√	√	-	√	-	-	-	√	-
Montenegro	√	-	-	-	√	-	√	√	-	-	√	-
Bulgaria	√	-	-	-	-	-	-	√	-	-	-	-
Albania	√	√	√	-	√		√	√	-	-	√	-

Extending the offer of complementary trade services

M holidays

M Holidays operates independently in the market, with eleven offices across Slovenia.

Mercator web store

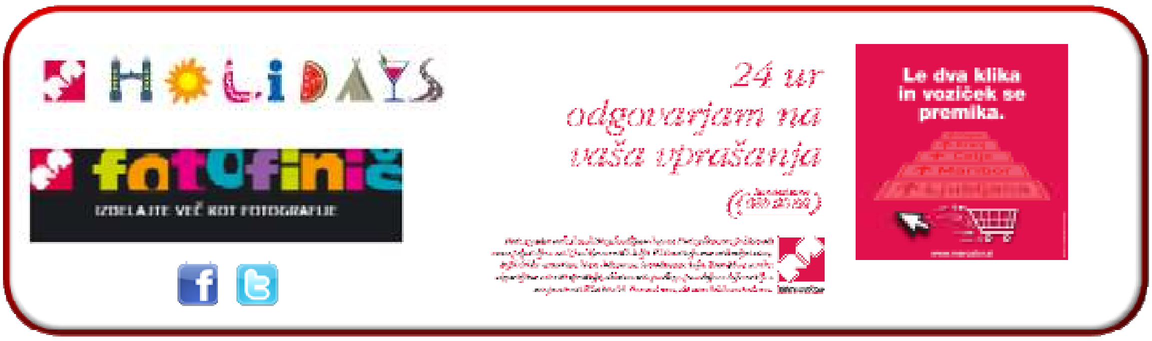
Mercator web store has been present in Slovenia since 1999. The delivery area includes 5 major cities with their surroundings: Koper, Kranj, Ljubljana, Celje, and Maribor.
In Croatia, Mercator web store (called "Mercator Internet trgovina") has been present since 2007. The delivery area currently includes the city of Zagreb with its immediate surroundings.

Mercator web portal and Mercator at social networking sites

In the period 1-6 2010, we carried out activities to set up a revived central web portal www.mercator.si that will offer its visitors a range of information that is richer and more neatly arranged. In 2010, Mercator's presence at social network sites such as Facebook, Twitter, and YouTube was upgraded with the Lumpi brand and the sweepstakes application Zberi in izberi (collect and choose).

Mercator Call Center

In the beginning of 2010, Mercator Call Center was merged into a single, modern and high-tech supported Customer Support Service. This will allow even better and more efficient individual treatment of our customers and the Mercator Pika card holders.



Sales Promotion Projects

Our sales promotion projects are constantly aimed at offering our customers a wide range of competitively priced high quality products and services. Some activities, particularly long-term projects, are carried out in all markets, while short-term activities are adjusted to the needs and characteristics of local markets. The key policy in all markets, however, is improving the competitiveness of pricing and localization of all marketing projects.

- In **Slovenia**, already established long-term sales promotion projects like "Every Day Low Price", "Slovenian Basket", "YES! Coupon", and Thursday's retiree discount were carried on. Short-term sales promotion projects include distributing regular special offer campaign flyers, category and brand / private label discounts, double and triple Pika points, special weekend offers, and offers adapted to current holidays.

In **Serbia**, numerous long-term and short-term sales promotion projects are in progress. Long term projects include the "Serbian basket", "Every Day Low Price", "Tuesday Coupon", "Exclamation Mark" project, "Locked price", and the customer loyalty project "Collect and choose". Short-tem sales promotion projects also include regular campaigns, discounts on categories and private labels or brands, double Pika points, and special weekend campaigns.

In **Croatia**, established activities were carried on, such as "Super Price", "Good Idea" flyer, "Croatian basket", and the "Every Day Low Price" project, renamed to "Ever the best, now the most reasonably priced" ("Od uvijek najbolji, sada i najpovoljniji") as of April 2010.

In **Bosnia and Herzegovina**, the projects proven as most efficient, included "Low Price Every Day" and "Home basket". In addition, the following sales promotion projects were carried out: YES! campaign, retiree discounts, "Price of the day" project, and various customer loyalty programs.

In **Montenegro**, "Football World Cup" was carried out as a special project that included collecting and trading stickers with motives from the World Cup. In addition, the projects of "Weekend campaigns" and "Retiree cheques" were introduced in the first half of the year. Already established campaigns like "Five per day", "YES!", and "Dormeo" customer loyalty campaign were further carried on.

In **Bulgaria**, the existing sales promotion projects were carried on in the first half of the year: customer loyalty program "Select and Save", "Bulgarian basket", "YES!", "Five per day", "Hyper Weekend", "Hyper Day", and "Happy Hours". Considerable emphasis was placed on locally adapted campaigns and local habits and customs.

In **Albania**, the project "YES!" was presented to the customers in May 2010. Established activities like the "Slovenian basket" and "Super Prices" project were carried on.

3. Mercator offers the consumers quality services and pleasant shopping environment

Store formats

Mercator is either present or entering markets that offer business opportunities on the one hand, but are also very diverse in terms of economic maturity or efficiency on the other. Therefore, Mercator decided in 2010 to maintain different brands, or banner brands, in particular markets of its operations, i.e. a chain of stores by a particular retailer, identified under a certain name, are perceived by the customers either in terms of added value or in terms of price. This will allow Mercator to approach the market at several levels with regard to store formats: premium (premium program and ambiance stores), value (emphasis on the price-to-quality ratio), and economy store format (favorably priced and cost-efficient format seeking to provide the most favorable prices in the market).

In the first half of 2010, the central task of the store format development team was defining a clear profile and positioning of the banner brand of a chain of stores. Multi-level approach including premium, value, and economy stores, stressing the differences between them, and development of key elements in each of the three concepts were at the focal point of our development activities. Key goals pursued here are to define store formats which are competitive and which offer the customers added value while allowing the retailers to rationalize their operations.

As a result of the considerable span of market presence (premium, value, and economy) sought by Mercator, **two market program brands will be present in each market**:

- Mercator
  - premium & value,
  - "primary" brand,
  - innovative, modern retailer with appealing offer.
- Roda, Getro
  - economy & value,
  - providing for the essential needs of the population,
  - reaping economies of scale, boosting market share.

Summary and description of brands:

COUNTRY	MARKET PROGRAM BRANDS	ALREADY INITIATED
SLOVENIA	MERCATOR	√
	HURA	√
CROATIA	MERCATOR	√
	GETRO	√
SERBIA	MERCATOR	√
	RODA	√
BOSNIA AND HERZEGOVINA	MERCATOR	√
	GETRO	
	RODA	
MONTENEGRO	MERCATOR	√
	RODA	√
BULGARIA	MERCATOR	√
	RODA	
ALBANIA	MERCATOR	√

In all markets of its operations, Mercator shall be present in all segments of the market. All store formats are derived from the three marketing positions (premium, value, and economy) and they cover all store formats in terms of size.

Existing store formats and the spread of Mercator's trade operations

One characteristic feature of Mercator's trade activities is the widely spread retail network including various store formats both in the market program and hardware and electronics program.

Mercator centers and shopping centers
Mercator centers are shopping centers with a wide offer of all Mercator programs, as well as offer of other attractive service providers operating in leased outlets, and the offer of complementary services. Hence, our customers are offered everything at one place. These facilities are located in major urban centers.
Roda centers are a format of modern shopping centers that combine the benefits of affordable shopping at Roda megamarkets or supermarkets with the offer of many other attractive service providers, as well as some specialized Mercator programs.

Market Program Store Formats
Mercator hypermarkets are located in larger shopping centers where people not only do their major weekly shopping, but also socialize and spend their leisure time.
Mercator supermarkets and neighborhood stores are located in larger residential and commercial areas, and are the right place for daily shopping.
Mercator comfort stores are located in central or, downtown, areas of larger cities. Their program mix is adapted to the requirements of contemporary urban customers who are constantly in a rush. The emphasis is on fresh program and a wide assortment of ready-made food.
Mercator web store enables saving time and comfortable shopping without leaving your home.
Mercator Cash & Carry are conventional Cash & Carry stores selling only to legal entities, or only offering wholesale services. Assortment and sales area (larger, commercial packaging; larger quantities, units, and product packaging; functionality of store equipment; commissioning and delivery of the goods ordered; etc.) are adapted accordingly. These stores are located outside city centers, on the periphery of major cities; excellent traffic access is highly important for this store format.
Roda Cash & Carry is an open-type Cash & Carry format serving for both legal entities and individuals. Assortment and sales area are adapted accordingly. Open type Cash & Carry stores are located outside city centers, on the periphery of major cities; excellent traffic access and a large number of visitors are highly important for this store format.
Getro Cash & Carry is an open type Cash & Carry format, meaning that it welcomes both legal entities and individuals. In Croatian market, Getro has a total of 16 Cash & Carry centers; each has an average sales area of approximately 4,000 square meters.
At discount stores, customers are offered rational shopping for basic fast-moving consumer goods under the Hura! brand. The offer is based on the best ratio between price and quality, while providing the most competitively priced products in the market.
Roda mega markets are larger stores offering affordably priced products, mostly to customers doing their major weekly or monthly shopping. They are located in Roda centers where the offer of various supplementary service providers and complementary services allows socializing and enjoying leisure time.
Roda supermarkets and markets are located in major residential and commercial areas. They are intended primarily for daily shopping.

Hardware and electronics store formats

Home improvement and gardening centers are located on the outskirts of major cities as well as smaller towns (on access roads) and in environments with intensive property development dynamics. The stores offer the customers everything required for major construction works or major home improvement, as well as basic landscaping.

Home interior stores are intended for young singles and families decorating their homes, as they offer everything required to equip and decorate an apartment. They are located in shopping centers in major cities, in smaller towns as a part within a department store, and as independent stores in Mercator centers.

Hardware centers offer everything customers may need to refurbish their homes. They are located in Mercator centers as independent stores, or as independent stores in major cities and smaller towns.

Other retail programs

Apparel and beauty program comprises various formats of textile stores, which differ by size, scope and level of offer (Fashion Avenue – "Avenija mode", Modiana, Outlet stores). The offer of beauty program is presented under the Beautique label (drugstores and perfume ries).

Mercator Group is the license holder for Intersport, the world's largest global chain of sports equipment stores. The license applies to the markets of Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, and Albania. Intersport stores are available to customers both within Mercator Centers as well as independently, i.e. as City Shops located in the centers of major cities. In tourist resorts, we are developing the so-called Ski & Resort stores.

Development of new technologies and services

In 2010 we have continued to implement new technologies at our stores. In Slovenia, there are already 110 Tik Tak self-checkout cashiers at 24 stores; in Croatia, 44 Tik Tak cashiers have been introduced at ten stores. This year, self-service checkout cashiers were introduced in the Serbian market where 8 such cashiers were installed. Combined, a total of 162 Tik Tak self-checkout cashiers have been installed in the markets of Mercator's operations.

In order to determine whether additional savings in power and fuel could be made at Mercator stores, the test of closing the refrigerators and freezers was conducted at the end of 2009. Since the results have shown that total power and fuel consumption has indeed decreased considerably, closed refrigerators and freezers will henceforth be introduced in all supermarkets (newly built and refurbished) in Slovenia.

Further Standardization of Store Formats

In 2010, upgrade of existing and development of new standards is further pursued in order to standardize, optimize, rationalize, and modernize individual trade projects. Emphasis is placed on the upgrade of existing standards and development of new ones in order to define larger store formats, i.e. hypermarkets and major specialized hardware and electronics stores.

Standards were compiled, by considering diverse levels of economic development in particular markets, aimed at adapting the formats as much as possible to individual markets. In order to simplify the work processes, we are setting up a Store Format Standards Portal that will allow all users to access all effective standards defining the store area.

Composition of Retail Units

Breakdown of the composition of Mercator Group retail units by types of stores, particular programs, and particular markets as at June 30th 2010:

COUNTRY	SLOVENIA	SERBIA	CROATIA	BOSNIA AND HERZEGOVINA	MONTE-NEGRO	ALBANIA	BULGARIA	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**	**266,897**	**174,842**
Supermarkets	**131**	**26**	**30**	**12**	**4**	**-**	**-**	**203**	**231,729**	**148,768**
Superettes	**275**	**26**	**42**	**2**	**5**	**1**	**-**	**351**	**148,859**	**83,753**
Neighbour stores	**64**	**3**	**15**	**2**	**1**	**-**	**-**	**85**	**14,160**	**7,659**
Cash & Carry	**12**	**2**	**16**	**-**	**-**	**-**	**-**	**30**	**131,435**	**93,844**
Hard discount stores	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**12,551**	**8,845**
TOTAL FMCG program	**518**	**69**	**117**	**22**	**11**	**2**	**1**	**740**	**805,632**	**517,710**
Technical program	**96**	**9**	**14**	**-**	**-**	**-**	**-**	**119**	**159,014**	**91,465**
Technical program	64	7	14	-	-	-	-	85	125,743	66,609
Furniture program	32	2	-	-	-	-	-	34	33,271	24,856
Clothing program and drugstores	**97**	**19**	**30**	**13**	**-**	**-**	**-**	**159**	**68,431**	**57,563**
Clothing program	77	10	30	9	-	-	-	126	64,715	54,477
Drugstores and perfumeries	20	9	-	4	-	-	-	33	3,717	3,086
Intersport	**31**	**10**	**24**	**8**	**1**	**1**	**-**	**75**	**45,768**	**35,097**
Restaurants	**17**	**6**	**-**	**12**	**-**	**-**	**-**	**35**	**11,060**	**6,523**
M Holidays	**11**	**-**	**-**	**-**	**-**	**-**	**-**	**11**	**186**	**186**
TOTAL specialised programs	**252**	**44**	**68**	**33**	**1**	**1**	**-**	**399**	**284,459**	**190,835**
TOTAL	**770**	**113**	**185**	**55**	**12**	**3**	**1**	**1,139**	**1,090,091**	**708,545**
Franchise stores	220	-	66	-	-	-	-	286	51,970	33,819
TOTAL with franchise stores	**990**	**113**	**251**	**55**	**12**	**3**	**1**	**1,425**	**1,142,061**	**742,364**

4. Mercator is contributing to a higher quality of life in the local environment

Corporate social responsibility

At Mercator, corporate social responsibility is developed throughout the corporate governance process. Mercator Group is pursuing its strategy of comprehensive corporate social responsibility which includes all fields and processes of operation, from employee development and relations, through implementation of appropriate technologies and processes in trade, logistics, and manufacturing processes, to establishing and maintaining an active relation with our social and natural environment. A major part of the latter includes sponsorships, donations, and participation in humanitarian campaigns.

As a socially responsible company, we respond to numerous applications submitted by schools, kindergartens, healthcare and cultural institutions, and various societies and clubs from local environments in the entire region of Mercator's operations, throughout the whole year.

In the second round of selection of companies for the European Business Award, Mercator was awarded the Ribbon of Honor (Ruban d' Honneur) for corporate sustainability. The European Business Award is intended to promote excellence, best practices, and innovation in the European business community. Consistently with the broader goals of the European Union, the award committee monitors representative companies in all member states and invites the best performing ones to compete for the business award. An independent jury of prominent economists, scholars, businessmen, politicians, and media owners rated the applications by over 250 companies that represent their respective countries, and selected the top 100 companies to receive the Ribbon of Honor in one of the ten categories. Owing to the quality of the participants and the severity of the selection process, the winners of the Ribbon of Honor can justifiably be declared as being among the best in their respective industries in Europe.

Care for the environment

At Mercator Group, we are aware that sustainability and competitiveness are two closely intertwined notions. Therefore, environmentally sustainable operation has since long been a part of the Group's strategy. We are committed to balanced inclusion of environmental aspects into our daily operating activities. We have defined the Code of Responsible Energy and Environment Management and thus motivated our employees to adopt an appropriate approach to energy, material, and waste management in their workplaces.
The Viennese stock market included the company Poslovni sistem Mercator, d.d., into CEERIUS (CEE Responsible Investment Universe) Sustainability Index, a capitalization-weighted price index composed of the leading companies in reference to social and ecological quality, whose stock is listed and traded on stock exchanges in the region of Central, Eastern and South-Eastern Europe.
In the first half of 2010, Mercator carried out several activities to make the Group's operations sustainable and responsible to the environment.

SUPPLIER RELATIONS AND LOGISTICS

Purchasing of Trade Goods and Supplier Relations

Sales programs tailored to the customer – that is the goal pursued by constantly looking for reliable suppliers offering reasonable prices, with which we establish and maintain long-term relationships. Only then can we provide an optimum ratio between price and quality of the products offered, while constantly improving the cost efficiency of the Mercator Group. In a highly competitive environment, development of services is also important as they are the response to the consumers' lifestyles and could be an extra reason to stimulate their trust and loyalty to us.
In early 2010, we thus defined the roles, strategies, and tactics for each category. Pricing and promotional forecast model and assortment management model were successfully introduced into the category management process. We have developed and implemented a uniform methodology for analyzing all sales promotion activities.
In Slovenia, we continued to regularly update the planograms for most categories at all hypermarkets, as provided in the Annual Plan. Furthermore, we carried on the activities of establishing a uniform reporting system and preparing a uniform methodology of work for assortment management in the hardware and electronics program.
In Croatia, we set up a uniform reporting system and implemented tools for fact-based negotiation. In the first half of 2010, we implemented planograms at all hypermarkets, for some of the major categories.
In Serbia, a uniform reporting system has been set up since the beginning of the year, and activities were started in the field of defining the roles, strategies, and tactics at the level of each category.
Attention was also paid to improvement in inventory management, particularly for seasonal goods in all programs.
Supplier relations are managed in compliance with the principles of category management as well as all with the commitments adopted and accepted last year by the Slovenian Competition Protection Office.

Logistics

In the first half of 2010, our logistics operations included efficient and successful provision of the agreed level of logistics services for the entities requiring them. Strategic programs for improvement of competitiveness were focused on further progress of the logistics infrastructure optimization project, with the following activities being at the forefront in the period:

- Integration of the Hura! Naklo warehouse was completed. The warehouse was divided into two distribution centers for market program to cover a part of the Ljubljana region and the Gorenjska region.
- The process of merging two warehouses and establishing external connections has been continued; hence, the location at Slovenčeva Street will be combined into a single warehouse and distribution hub.

Our operations are focused in particular on cost rationalization. Hence, discussions were held in the first half of 2010 on redirecting particular deliveries in order to cut logistics costs.

ORGANIZATION AND QUALITY OF OPERATIONS

Organizational Management

On January 1st 2010, the company Mercator, d.d., was reorganized. Two new companies were formed within the Mercator Group to accommodate the reorganization: Intersport ISI, d.o.o., and Modiana, d.o.o. Consistently with the reorganization and restructuring of the activities of Intersport and Modiana, new companies were founded in foreign markets: Intersport-H, d.o.o., Modiana, d.o.o., Croatia, Intersport BH, d.o.o., and Modiana, d.o.o., Sarajevo, Intersport S-ISI, d.o.o., Belgrade, and Modiana, d.o.o., Belgrade.
Trade operations of the company Getro, d.d., were integrated into Mercator-H, d.o.o.. A new company Mercator-CG, d.o.o., was founded in Montenegro to take over the trade operations of the Panto Group.

Quality standards and internal control

Mercator, d.d., was awarded the ISO 22000 certificate for our food safety management system, which makes us the only Slovenian company dealing with retail and wholesale food products and products in contact with food, to hold the ISO 22000 certificate, and the second trade company in the European Union to hold such certificate.
Customs Administration of the Republic of Slovenia, in charge of certification in compliance with the criteria for awarding the AEO status, granted the company Mercator, d.d., the status of an "Authorized Economic Operator". The AEO status means that Mercator is recognized throughout the European Union as a safe and reliable partner in international trade, particularly with regard to customs operations, and is eligible for several benefits throughout the Community.
The company Mercator-S, d.o.o., was awarded the HACCP Certificate for Food Safety Management.

Business Process Optimization and Standardization Projects

Standardization of key processes, as well as distribution and implementation of best practices at the Mercator Group is of key importance for providing an efficient organization of operations, comprising well though-off and appropriately structured processes.
In the period 1-6 2010, we joined the Pan-Slovenian pilot project for implementing an electronic trade goods catalogue for Slovenia, kept and managed by the organization GS1 Slovenia. This organization is in charge of disseminating global standards, labeling and

document exchange in goods trade. In the period at hand, the functionality of the application-level solution "Electronic Product Catalogue" was examined by both our suppliers and customers, who also performed a coordinated test of this solution. The pilot project of implementation of electronic trade goods catalogue at GS1 has been completed; now, preparations are underway to implement the project, starting January 1st 2011.
In June, we set up the project of Electronic Operation with Suppliers and launched the initial activities. Introduction of electronic operation will improve the accuracy of information and coordination with the suppliers. Furthermore, automation of certain stages of work will reduce the required scope of document processing, thus speeding up the material processes on the account of faster data exchange and processing.

IT AND TELECOMMUNICATION

Consistently with the strategic project of IT system revision, the following activities were carried out in the first half of 2010:

- As part of the project of support function IT system revision, we completed the extension of the use of the basic SAP modules at the company Mercator-S, d.o.o., and at the companies Intersport ISI, d.o.o., and Modiana, d.o.o., in Slovenia, and established the basic SAP modules in Croatia.

- As part of the project of material operation IT system revision, or the implementation of the G.O.L.D. software solution for operation management in retail, logistics, and wholesales, we carried on the upgrade, connection of market format stores in Slovenia, and integration of the trade POS system.

In the period 1-6 2010, we carried on with the upgrade of the Mercator Pika card customer loyalty system, automatic ordering and reporting system, upgrade of POS system contents, unification of IT support, and rollout of self-service check-out cashiers in Slovenia, Croatia, and Serbia. We managed the operation, replacement and upgrade of the infrastructural environment which was adjusted for independent operation of the companies Modiana, d.o.o., and Intersport ISI, d.o.o. We also completed the introduction of the risk management system with regard to SAP authorizations, introduced videoconference systems to headquarters of all companies at the Mercator Group, launched the implementation of IP telephony in Slovenia, and carried on the revision of the communication network. The field of support to information production included establishing a User Assistance Center during the implementation of business processes for the entire region.

In foreign markets, we carried on the unification of the infrastructure and IT support to retail and wholesale, in compliance with the standards of support to the companies of the Mercator Group. At Mercator – H, d.o.o., we took over the management of IT support to trade operations of the company Getro, d.d.

FINANCIAL MANAGEMENT

Finance income and expenses

EUR thousand	Mercator Group 1-6 2009	Mercator Group 1-6 2010	Index 1-6 2010/ 1-6 2009
Finance income from interests	4,174	1,611	38.6
Finance expenses from interests	-24,431	-22,033	90.2
Net finance expenses from interest	-20,257	-20,422	100.8
Financial income from currency translation differences	3,420	221	6.5
Financial expenses from currency translation differences	-5,751	-7,723	134.3
Net financial expenses from currency translation differences	-2,331	-7,501	321.8
Other financial income	1,163	3,646	313.5
Other financial expenses	-5,822	-5,045	86.7
Net other financial expenses	-4,659	-1,399	30.0
Net finance expenses	**-27,247**	**-29,322**	**107.6**

Mercator Group's finance expenses from interest amounted to EUR 22,033 thousand in the period 1-6 2010, pertaining mostly to expenses for regular interests on borrowings from commercial banks, and financial lease.

Finance expenses were notably affected by the currency translation differences in Serbia where the average RSD exchange rate as at June 30th 2010 saw depreciation of 8.0 percent compared to the beginning of the year. This depreciation of the Serbian currency resulted in EUR 7,501 thousand of finance expenses due to currency translation differences.

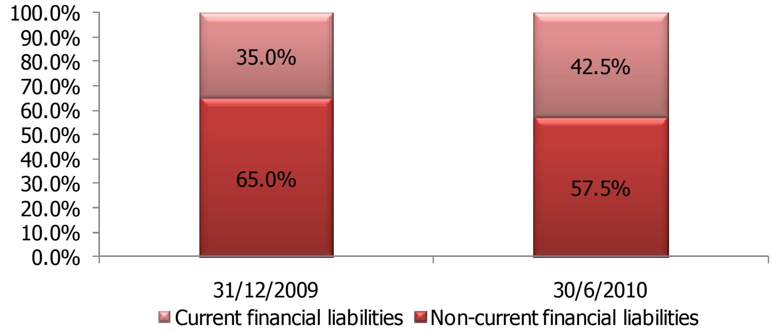
Net financial debt and capital structure

in EUR thousand	Jun 30 2009	Dec 31 2009	Jun 30 2010	Index Jun 30 2010/ Dec 31 2009
Non-current financial liabilities excl. other financial liabilities	593,876	682,744	624,292	91.4
Current financial liabilities excl. other financial liabilities	499,415	360,089	454,398	126.2
Derivative financial instruments (liabilities)	6,173	4,945	5,310	107.4
Financial liabilities	**1,099,464**	**1,047,778**	**1,084,000**	**103.5**
Cash and cash equivalents	28,916	16,844	15,449	91.7
Derivative financial instruments (assets)	0	737	216	29.3
Available-for-sale financial assets	4,828	5,473	4,398	80.4
Loans and deposits	32,749	37,585	73,108	194.5
Financial assets	**66,493**	**60,639**	**93,171**	**153.6**
Net debt	**1,032,971**	**987,139**	**990,829**	**100.4**

Net financial debt of the Mercator Group as at June 30th 2010 amounts to EUR 990,829 thousand, which is 0.4 percent more than as at December 31st 2009.

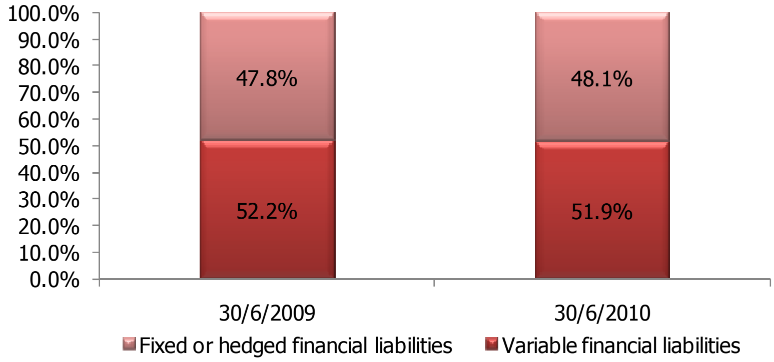
As at June 30th 2010, Mercator Group attained a debt-to-equity (capital structure) ratio of 1 : 1.15. The ratio is a quotient between equity, which includes share capital as reported in financial statements and long-term provisions, and net financial debt.

Long-term Asset Coverage and procurement of financing sources



- The composition of financial liabilities as at June 30th 2010, is consistent with the year-on-year dynamics. By the end of the year, the ratio between current and non-current liabilities will presumably reach a level comparable to that from the end of 2009.
- In the period 1-6 2010, Mercator obtained both short-term bilateral loans and long-term bilateral loans, and also signed long-term finance lease agreements.
- Particularly abroad, the use of long-term operating lease of trade facilities was employed as an increasingly important form of investment financing. These facilities are constructed for Mercator by local real estate partners.

Ratio between variable and fixed or hedged financial liabilities of the Mercator Group



At Mercator, derivative financial instruments are used to hedge the risk of rising interest rates. As at June 30th 2010, the amount of borrowings hedged against the changes in variable interest rates amounted to EUR 350 million. Of this sum, EUR 150 million of borrowings was hedged with interest rate swaps, and EUR 200 million of borrowings was hedged with interest rate caps.

Available liquidity sources

In the period 1-6 2010, Mercator Group maintained a stable capital structure (debt-to-equity ratio) while ensuring high level of solvency and liquidity. As at June 30th 2010, Mercator Group held over EUR 84 million of available standby liquidity reserves.

Available liquidity reserves	EUR thousand
Undrawn revolving credit lines	63,104
Short-term bank deposits	5,508
Cash and cash equivalents	15,449
Total	**84,061**

MERCATOR SHARE AND OWNERSHIP STRUCTURE

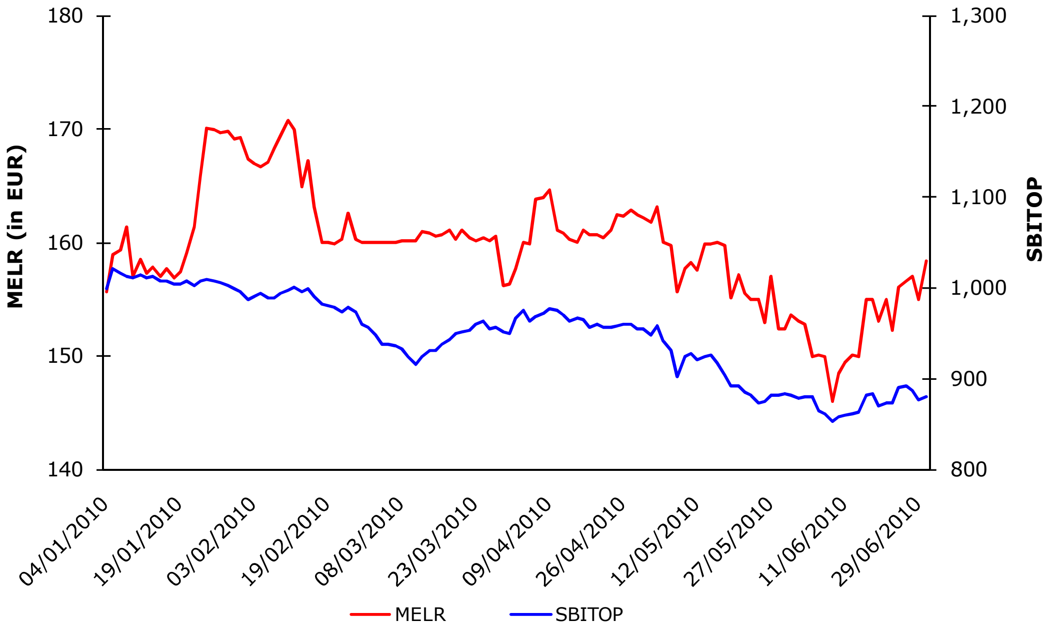
Mercator share

As at June 30th 2010, share capital of the company Poslovni sistem Mercator, d.d., was divided into 3,765,361 shares. Nominal value per share amounted to EUR 41.73.

Shares of the company Poslovni sistem Mercator, d.d., are listed and traded in the prime market of the Ljubljana Stock Exchange (Ljubljanska borza, d.d.), under the trading code MELR.

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

Movement of average price per MELR share in 2009, compared to the movement of the SBITOP index



Key information for the shareholders

	June 30th 2010
Number of shares registered in Court Register	3,765,361
Number of treasury shares	42,192
Market capitalization (in EUR)	596,395,529
Market value of share (in EUR)	158.39
Book value per share (in EUR)	221.31
Annual low (in EUR)	146.00
Annual high (in EUR)	170.69
Earnings per share (in EUR)	6.7

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

Basic net income per share is calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.
Share book value is calculated as the ratio between the value of equity of the company Poslovni sistem Mercator, d.d., as at June 30th, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Dividend policy

At their 16th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., held on July 13th 2010, shareholders adopted the proposal on the allocation of distributable profit for 2009, according to which a gross dividend of EUR 7.20 per ordinary share will be paid. The dividends shall be paid out in cash in 60 days after the Shareholders Assembly.

Ownership Structure

As at June 30th 2010, the Share Register of the company Poslovni sistem Mercator, d.d., indicated **16,738 shareholders** or 341 less compared to the situation as at December 31st 2009.

Major Shareholders

As at June 30th 2010, the following ten largest shareholders combined owned **61.36 percent** of the company:

	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	Nova KBM, d.d.	Slovenia	197,274	5.24%
6	Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
7	Gorenjska Banka 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.	Slovenia	96,952	2.57%
Total			**2,310,431**	**61.36%**

Foreign shareholders

As at June 30th 2010, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **13.98 percent**, which is 1.5 percentage points more than at the end of 2009.

Shares held by Management Board members as at June 30th 2010

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%**

Shares held by Supervisory Board members as at June 30th 2010

	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%**

Treasury shares

As at June 30th 2010, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1-6 2010, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

RISK MANAGEMENT

Negative economic trends that deeply characterized the year 2009 have persisted in 2010. Many countries of the Western Balkans are still facing strong effects of the economic crisis, while foreign currency risks are increasing again. Most countries have seen negative economic growth which is reflected in a notable drop in the volume and value of retail demand in all markets of the Group's operations. Payment defaults, referred to as payment indiscipline, are another notable risk resulting from the restricted availability of credit and loans to businesses and households. Consequently, wholesale revenues are hit as well. Against this backdrop, well planned and thought off management of risks, encountered through operations in these changed economic conditions, is all the more important for Mercator Group.

Identification of key risks in the period 1-6 2010

At Mercator, we are constantly reexamining and analyzing the existing and potential new risks, as we devise and implement the measures for their management in daily operations. Particular attention is paid to the changes in economic conditions and their effect on individual areas of risk management. Following is a presentation of risks that were defined as key risks within their respective types, or groups of risks and were therefore most closely monitored in 2010.

Among the **business risks**, the following was defined as the key risk:

- <u>Risk of a decline in the purchasing power</u>

As a result of harsh economic conditions, the risk of a decline in purchasing power remains high. Furthermore, the volume and composition of consumption are changing as well.

Therefore, we have adapted our marketing activities in all markets to the new conditions in order to provide a favorable offer for our customers, and to retain our revenue level. This year, additional attention was paid to defining a clear profile of trade chain brands (so-called banners) in each market, differing amongst themselves by the level of service and pricing of the sales program.

In marketing, our activities are highly intensive. By maintaining a high level of promotional activities and constant presence in the marketing mix, we seek to provide conditions for successful sales. At the level of strategic marketing, we have carried on the establishment of the customer relationship management system (CRM) which will allow us to use transaction databases for a more detailed insight into the wishes and needs of our customers. Moreover, the support to commercial and marketing activities also includes establishing constant monitoring of key consumer behavior indicators when shopping for fast-moving consumer goods, and monitoring the operating performance in a way that will allow fast identification of correlations between such parameters.

The following were defined as key risks among the **financial risks**:

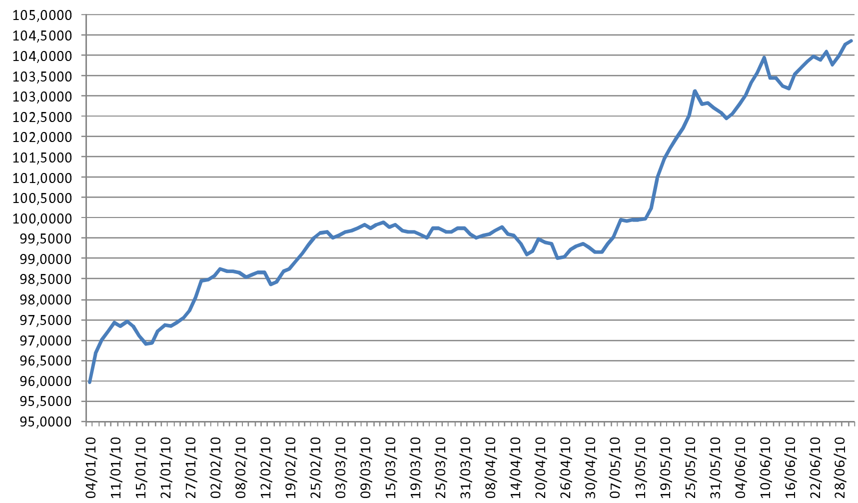
- Foreign exchange risk

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

Derivative financial instruments are not used to hedge the foreign exchange risks; rather, measures of natural hedging are employed, as there are no effective derivative financial instruments available. Natural hedging of foreign exchange risk includes highly committed daily planning and coordination of the amount of inflows and outflows in currencies with higher risk, and increasing the share of liabilities in local currency.

In the beginning of 2010, Serbian dinar depreciated considerably. Average exchange rate of the Serbian dinar as at June 30th 2010 amounted to RSD 102.56 per 1 EUR; compared to the exchange rate as at December 31st 2009, it depreciated by 8.0 percent.

Movement of the EUR/RSD exchange rate in the period 1-6 2010:



*Source: Central Bank of Serbia

The effect of net negative currency translation differences from financing on Mercator Group's performance in the period 1-6 2010 was negative, amounting to EUR -7,501 thousand, while currency translation differences from financing amounted to EUR -2,331 thousand in the period 1-6 2009.

Credit risk

Due to the sluggish economic activity in 2010, the exposure of companies to liquidity problems is increasing. Hence, credit risk in Mercator's wholesale is also increasing, as is the possibility that receivables will only be collected, or settled, partly or not at all.

In the analysis of risks for 2010, credit risk to wholesale was defined as a key risk. As a result, the following risk management measures were adopted:

- obtaining first-rate insurance from customers with poorer rating;
- continuous monitoring of customers with a history of payment defaults, and harsher restrictions of exposure to a single customer;
- reducing the number of days of payment default when any further deliveries are blocked;
- proactive collection of receivables – improved coordination between sales and finance function;
- more active legal proceedings;
- resorting to bilateral or multilateral netting (netting by novation) with customers, where possible.

Mercator Pika card-related credit risks may include a possibility that receivables from customers, resulting from deferred payment, shall only be settled partly or not at all. In analysis of risks for 2010, credit risk of Mercator Pika card receivables was defined as a key risk, and the following measures for its management were adopted:

- proactive collection from Mercator Pika card holders;
- implementation of a new scoring model for defining initial (overdraft) credit lines on the Mercator Pika card and so-called dynamic monitoring of credit lines approved to the existing card holders.

EMPLOYEE DEVELOPMENT

Number of employees

As at June 30th 2010, Mercator Group had 22,407 employees, of which 43.6 percent were employed in markets outside Slovenia.

Number of employees:

	Number of employees as at December 31st 2009	Number of employees as at June 30th 2010	Index Number of employees June 30th 2010/ December 31st 2009	Number of employees based on hours worked in period 1-6 2010
Poslovni sistem Mercator, d.d.	12,297	11,148	90.7	10,699
Mercator IP, d.o.o.	200	202	101.0	162
Intersport ISI, d.o.o.	0	312	-	239
Modiana, d.o.o., Slovenia	-	646	-	396
Mercator - Optima, d.o.o.	21	17	81.0	17
Eta, d.d.	198	193	97.5	186
Mercator - Emba, d.d.	111	118	106.3	119
Slovenia	**12,827**	**12,636**	**98.5**	**11,819**
Mercator - S, d.o.o.	3,714	3,755	101.1	3,800
Mercator - H, d.o.o.	3,023	3,831	126.7	3,351
Mercator - BH, d.o.o.	1,024	1,017	99.3	985
M - BL, d.o.o.	241	244	101.2	222
Mercator - Mex, d.o.o.	368	375	101.9	329
Mercator - B, e.o.o.d.	76	61	80.3	52
Mercator - A, sh.p.k.	131	112	85.5	98
Intersport H, d.o.o.	-	212	-	100
Modiana, d.o.o., Croatia	-	164	-	73
Foreign countries	**8,577**	**9,771**	**113.9**	**9,010**
MERCATOR GROUP	**21,404**	**22,407**	**104.7**	**20,828**

Employee Relations

Employee development

New Human Resource Management Strategy for the Period 2011-2015 was adopted. Fundamental strategic policies in this period will include the following: leadership development, dialogue with employees and social partners, transfer of knowledge and experience, motivation and compensation (rewards), internal and external staffing and recruitment, employment and training of sales personnel, and occupational health and safety.

Talent development and career planning

The Third International Mercator Business Academy was completed. The work of the attendants resulted in six project papers.

- Leadership and communication workshops organized for the members of the Mercator Group Management Board Council, assistants to the Management Board members, and executive directors, are in their final stage.

- Annual performance appraisal interviews with key employees of the Mercator Group were completed.

- A round table was organized for attendants of previous Mercator International Business Academies to discuss intergenerational collaboration.

- In Slovenia, we launched the development of the human resource management SAP module.

- We have selected the participants of the 4th Mercator International Academy. It will be attended by 27 promising employees, of which 22 are from Slovenia, two from Serbia, two from Croatia, and one from Bosnia and Herzegovina.

- In Serbia and Slovenia, store manager and deputy store manager training was carried out; a total of 300 key employees took part in the training.

- We have carried on the development of our coaching and mentorship network. We have improved the materials for the coaches and prepared IT support for comprehensive coaching and mentorship network management.

- We have organized the 10th meeting of internal educators. It was attended by over 300 Mercator internal lecturers, mentors, instructors, and coaches. The best 26 educators were presented with awards.

- Additional training on competition protection was organized for 500 employees.

- We are working with vocational schools of business and commerce, offering their teachers training and taking part in schools' open door days to present Mercator as a potential employer to future sales clerks and assistants. Many high school students complete their practical training at Mercator.

Staffing and recruitment

- Major part of staffing in the period was related to opening of new facilities and establishing a new field of Mercator trade Southeastern Europe. In Croatia, we carried out all required activities upon the takeover of the company Getro, d.d., including 1,241 of its employees.

- We have revised the Manual for New Employees.

- We have conducted career interviews with promising employees.

- The company Mercator-BH, d.o.o., received the Best Employer Award presented by the web employment portal www.posao.ba.

Dialogue with the employees

- Retail and human resource management continued to pay visits to hypermarkets and supermarkets in order to discuss performance and any open issues with the employees.

- We published internal magazines in Slovenia, Serbia, Croatia, and Bosnia and Herzegovina.

- In Slovenia, the Management Board met with the leaders of representative trade unions. We have also held regular monthly meetings with representatives of the representative trade unions.

- Revision of the intranet which is expected to improve internal communication is fully underway and it is scheduled for completion by the end of the year.

Corporate culture

- Preparations are in progress for corporate climate and employee satisfaction measurement at all companies of the Mercator Group.

- We have organized the 32nd Mercatoriada, a sporting event attended by nearly 1,000 contestants, all Mercator employees, competing in eight disciplines.

- In Slovenia, application and action plan for obtaining the full Family-Friendly Company Certificate has been prepared.

Occupational health and safety

- In Slovenia, we founded the Mercator Society of Sports and Culture.

- The Health Promotion project includes offering exercise with fitness instructors, yoga classes, lectures on preventive health activities, procedures to revise workplace footwear for retail personnel, and activities of the ergonomics team.

- In the period 1-6 2010, the Humanitarian Aid Committee of the Mercator Humanitarian Foundation met five times and approved humanitarian aid to 67 persons, in a total amount of EUR 36,150.

Employee motivation and compensation

- We regularly carry out teambuilding events for employees in retail, in order to improve direct communication and relations between colleagues.

- In the period 1-6 2010, 162 employees were presented with Lumpi packages for newborns.

- The "Best Bosses" were selected at Mercator-BH, d.o.o., and M-BL, d.o.o.

- In Montenegro, the project "Choosing the best one among us" included selecting 15 employees who were awarded with holiday package on the Montenegrin seaside.

Social enterprise

- As at June 30th 2010, Mercator social enterprise employed 202 people, of which 92, or 45.5 percent of all employees, were persons with disabilities.

- Manufacturing activity at the company includes development and production of cosmetics products and products of the textile and decoration program, packaging of fresh fruit and vegetables, drying fruit, and packaging dry fruit.

- Our services include archiving, fire extinguisher servicing, control and testing of fire hydrants, supply of water dispensers, occupational health and safety services, fire safety services, and services of decoration and graphic design.

- Mercator social enterprise mostly provides their products and services for the requirements of the controlling company.

FINANCIAL REPORT

FINANCIAL REPORT OF THE MERCATOR GROUP

Responding to very low liquidity and meager volumes of trading with the company stock at the Ljubljana Stock Exchange, as well as to negative trends in the price per share, the company has already carried out some additional activities with regard to investor relations, and plans to carry out more in the future. By providing more extensive and detailed reports and quality business information, we seek to motivate investor interest in the company shares and thus to influence positively the stock's market liquidity and price, which is in the best interest of both the shareholders and the company.

Hence, Mercator Group's Semiannual Report is more extensive and it includes more detailed disclosures about the company operations compared to the previous years. In addition, the company also commissioned a review of the condensed consolidated semiannual financial statements by a certified auditor whose opinion on the audit is also attached herewith. The opinion does not pertain to the information presented in the Group's condensed statement of financial position as at June 30th 2009.

Condensed consolidated financial statements, complete with notes and explanations for the period 1-6 2010, have been compiled in compliance with the effective relevant legislation and the International Accounting Standard 34 on Interim Financial Reporting as adopted by the European Union. The auditing company KPMG Slovenia, d.o.o., issued an Auditor's Report for these statements. An independent auditor conducted a review / audit of condensed consolidated financial statements and financial statements of materially relevant companies in Slovenia, Serbia, Croatia, and Bosnia and Herzegovina.

The consolidated financial statements were compiled in strict and consistent compliance with the relevant accounting policies; accounting estimates were made according to the principle of fair value, prudence, and sound management to ensure that the consolidated financial statements present a true and fair account of the Group’s property and performance in the period 1-6 2010.

Condensed interim consolidated financial statements for the period 1-6 2010 should be read in conjunction with the annual financial statements compiled for the fiscal year that ended on December 31st 2009.

Condensed consolidated statement of financial position

EUR thousand

	Type of assets / liabilities	30.6.2009	31.12.2009	Plan 31.12.2010	30.6.2010	Structure 30.6.2010	Index	Index
1	2	3	4	5	6	7	8=6/4	9=6/3
	ASSETS							
A.	**NON-CURRENT ASSETS**	**1,898,346**	**1,947,842**	**1,939,929**	**1,999,123**	**77.8%**	**102.6**	**105.3**
I.	Property, plant and equipment	1,794,551	1,863,291	1,859,329	1,873,157	72.9%	100.5	104.4
II.	Investment property	9,486	4,127	3,922	4,033	0.2%	97.7	42.5
III.	Intangible assets	70,018	51,995	62,204	50,818	2.0%	97.7	72.6
IV.	Deferred tax assets	8,837	8,086	9,386	8,313	0.3%	102.8	94.1
V.	Loans	10,626	14,870	409	58,404	2.3%	392.8	549.6
VI.	Available-for-sale financial assets	4,828	5,473	4,679	4,398	0.2%	80.4	91.1
B.	**CURRENT ASSETS**	**565,569**	**528,506**	**578,650**	**571,742**	**22.2%**	**108.2**	**101.1**
I.	Inventories	269,118	292,050	278,237	277,986	10.8%	95.2	103.3
II.	Trade and other receivables	241,458	193,521	287,881	258,048	10.0%	133.3	106.9
III.	Current tax assets	3,954	2,639	1,748	5,340	0.2%	202.3	135.0
IV.	Loans	22,123	22,715	4,705	14,705	0.6%	64.7	66.5
V.	Derivative financial instruments	0	737	1,500	216	0.0%	29.3	-
VI.	Cash and cash equivalents	28,916	16,844	4,579	15,449	0.6%	91.7	53.4
	TOTAL ASSETS	**2,463,915**	**2,476,348**	**2,518,579**	**2,570,866**	**100.0%**	**103.8**	**104.3**
A.	**EQUITY**	**812,140**	**805,390**	**814,841**	**823,898**	**32.0%**	**102.3**	**101.4**
	Total equity attributable to equity holders of the company	**810,223**	**805,136**	**814,173**	**823,644**	**32.0%**	**102.3**	**101.7**
I.	Ordinary shares	157,129	157,129	157,129	157,129	6.1%	100.0	100.0
II.	Share premium	198,848	198,872	198,872	198,872	7.7%	100.0	100.0
III.	Treasury shares	-3,250	-3,235	-3,236	-3,235	-0.1%	100.0	99.6
IV.	Revenue reserves	267,640	270,194	267,042	270,194	10.5%	100.0	101.0
V.	Fair value reserve	183,909	186,029	180,366	198,416	7.7%	106.7	107.9
VI.	Retained earnings	27,146	8,697	25,585	31,893	1.2%	366.7	117.5
VII.	Profit for the year	11,362	21,232	22,123	17,663	0.7%	83.2	155.5
VIII.	Currency translation reserve	-32,561	-33,782	-33,708	-47,288	-1.8%	140.0	145.2
	Minority interest	**1,917**	**254**	**668**	**254**	**0.0%**	**100.1**	**13.3**
	LIABILITIES							
B.	**NON-CURRENT LIABILITIES**	**678,546**	**772,933**	**752,118**	**714,335**	**27.8%**	**92.4**	**105.3**
I.	Trade and other payables	1,981	2,872	2,468	2,872	0.1%	100.0	145.0
II.	Financial liabilities	594,322	683,547	665,740	625,094	24.3%	91.4	105.2
III.	Deferred tax liabilities	51,509	49,326	51,161	52,340	2.0%	106.1	101.6
IV.	Provisions	30,734	37,188	32,749	34,030	1.3%	91.5	110.7
C.	**CURRENT LIABILITIES**	**973,229**	**898,025**	**951,620**	**1,032,632**	**40.2%**	**115.0**	**106.1**
I.	Trade and other payables	452,007	525,062	618,542	558,634	21.7%	106.4	123.6
II.	Current tax liabilities	4,869	164	278	6,525	0.3%	3,978.7	134.0
III.	Financial liabilities	510,180	367,854	330,712	462,164	18.0%	125.6	90.6
IV.	Derivative financial instruments	6,173	4,945	2,088	5,310	0.2%	107.4	86.0
	TOTAL LIABILITIES	**1,651,775**	**1,670,958**	**1,703,738**	**1,746,967**	**68.0%**	**104.5**	**105.8**
	TOTAL EQUITY AND LIABILITIES	**2,463,915**	**2,476,348**	**2,518,579**	**2,570,866**	**100.0%**	**103.8**	**104.3**
	Number of employees as at the end of the period	21,258	21,636	22,167	22,407	-	103.6	105.4

Condensed consolidated income statement

EUR thousand

	Type of revenue / expense / cost	1-6 2009	Plan 2010	1-6 2010	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	**Revenue**	**1,293,618**	**2,750,263**	**1,334,836**	**103.2**	**48.5**
B.	**Cost of sales**	**-1,209,924**	**-2,587,892**	**-1,238,189**	**102.3**	**47.8**
C.	**Gross profit**	**83,694**	**162,371**	**96,647**	**115.5**	**59.5**
D.	Administrative expenses	-47,935	-85,703	-52,757	110.1	61.6
E.	Other income	4,785	7,030	9,222	192.7	131.2
F.	**Results from operating acitvities**	**40,544**	**83,698**	**53,113**	**131.0**	**63.5**
G.	Finance income	5,337	5,347	3,863	72.4	72.2
H.	Finance expenses	-32,584	-61,861	-33,185	101.8	53.6
I.	**Profit before income tax**	**13,297**	**27,184**	**23,791**	**178.9**	**87.5**
J.	Income tax expense	-2,211	-5,653	-6,282	284.1	111.1
K.	Deferred income tax	182	325	148	81.2	45.5
L.	**Profit for the financial period**	**11,268**	**21,856**	**17,657**	**156.7**	**80.8**
M.	Attributable to equity holders of the Company	11,362	22,123	17,663	155.5	79.8
N.	Attributable to minority interest	-94	-267	-6	6.4	2.3
O.	Number of employees based on hours worked	20,318	20,747	20,828	102.5	100.4
P.	**Gross cash flow from operating activities**	**82,949**	**174,588**	**84,767**	**102.2**	**48.6**
R.	**Gross cash flow from operating activities before rental expenses**	**95,739**	**202,571**	**100,947**	**105.4**	**49.8**

Condensed consolidated statement of comprehensive income

EUR thousand

	1-6 2009	1-6 2010
Profit for the financial period	**11,268**	**17,657**
Other comprehensive income		
Foreign currency translation differences for foreign companies in group	-10,850	-13,500
Change in fair value of available-for-sale financial assets	0	-1,077
Change in fair value of cash flow hedges	-2,575	-887
Revaluation of property	0	19,872
Deferred tax	603	-3,557
Other changes	158	0
Other comprehensive income for the financial period	**-12,664**	**851**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	**-1,396**	**18,508**
Attributable to equity holders of the Company	-1,305	18,508
Attributable to minority interest	-91	0

Condensed consolidated statement of changes in equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at 1 January 2009	**157,129**	**198,848**	**-3,250**	**267,640**	**188,751**	**0**	**24,682**	**-21,708**	**812,092**	**2,008**	**814,100**
Total comprehensive income for the period											
Profit for the period							11,362		11,362	-94	11,268
Other comprehensive income					-4,842	3,028		-10,853	-12,667	3	-12,664
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**-4,842**	**3,028**	**11,362**	**-10,853**	**-1,305**	**-91**	**-1,396**
Contributions by and distributions to owners											
Transfer of profit for the period to retained earnings						24,682	-24,682		0		0
Total contributions by and distributions to owners	**0**	**0**	**0**	**0**	**0**	**24,682**	**-24,682**	**0**	**0**	**0**	**0**
Changes in ownership interests in subsidiaries that do not result in a loss of control											
Acquisition of non-controlling interest						-564			-564		-564
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**24,118**	**-24,682**	**0**	**-564**	**0**	**-564**
Balance at 30 June 2009	**157,129**	**198,848**	**-3,250**	**267,640**	**183,909**	**27,146**	**11,362**	**-32,561**	**810,223**	**1,917**	**812,140**

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at 1 January 2010	**157,129**	**198,872**	**-3,235**	**270,194**	**186,029**	**8,697**	**21,232**	**-33,782**	**805,136**	**254**	**805,390**
Total comprehensive income for the period											
Profit for the period							17,663		17,663	-6	17,657
Other comprehensive income					12,387	1,964		-13,506	845	6	851
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**12,387**	**1,964**	**17,663**	**-13,506**	**18,508**	**0**	**18,508**
Contributions by and distributions to owners											
Transfer of profit for the period to retained earnings						21,232	-21,232		0		0
Total contributions by and distributions to owners	**0**	**0**	**0**	**0**	**0**	**21,232**	**-21,232**	**0**	**0**	**0**	**0**
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**21,232**	**-21,232**	**0**	**0**	**0**	**0**
Balance at 30 June 2010	**157,129**	**198,872**	**-3,235**	**270,194**	**198,416**	**31,893**	**17,663**	**-47,288**	**823,644**	**254**	**823,898**

Condensed consolidated statement of cash flows

EUR thousand

Type of cash flow	1-6 2009	1-6 2010
Cash flows from operating activities		
Profit for the period	**11,268**	**17,657**
Adjustments:		
Income tax expense	2,029	6,134
Depreciation of property, plant and equipment	43,040	33,239
Depreciation of investment property	423	88
Amortisation of intangible assets	5,389	5,363
Gain on sale of property, plant and equipment	-944	-1,459
Change in provisions, accruals and deferrals	-844	-2,373
Net foreign operating exchange loss	0	-1,805
Net foreign finance exchange loss	2,331	7,501
Interest received	-4,174	-1,611
Interest paid	24,431	22,033
Gross cash flow from operating activities	**82,949**	**84,767**
Change in trade and other receivables	60,194	-67,228
Change in inventories	3,273	14,065
Change in trade and other payables	-148,215	38,602
Changes in working capital	**-84,748**	**-14,561**
Interest paid	-24,431	-22,033
Income tax paid	-2,211	-6,282
Net cash from operating activities	**-28,440**	**41,891**
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-3,001	0
Acquisition of property, plant and equipment	-64,785	-40,097
Acquisition of intangible assets	-1,264	-5,232
Loans given and bank deposits made	-9,978	-43,534
Proceeds from sale of property, plant, and equipment	4,692	2,613
Proceeds from sale of intangible assets	0	390
Interest received	4,174	1,611
Proceeds from loans given and bank deposits made	15,776	6,791
Net cash from investing activities	**-54,387**	**-77,458**
Cash flows from financing activities		
Proceeds (repayments) from borrowings	66,586	34,851
Dividends paid	-105	0
Net cash from financing activities	**66,481**	**34,851**
Net (decrease) increase in cash and cash equivalents	**-16,346**	**-716**
Cash and cash equivalents at the beginning of the year	45,870	16,844
Currency translation differences	-608	-679
Cash and cash equivalents at the end of the year	**28,916**	**15,449**

Notes to condensed reviewed consolidated interim financial statements

1. Reporting company

Poslovni sistem Mercator, d.d., (hereinafter referred to as Mercator, d.d.) is a company headquartered in Slovenia. The address of the company's registered office is Ljubljana, Dunajska cesta 107. The company's condensed consolidated interim financial statements for the first half of 2010 include the company Mercator, d.d., and its subsidiaries (together referred to as the "Mercator Group"). The predominant activity of the Mercator Group is retail and wholesale of fast-moving consumer goods.

The Group's consolidated financial statements for the year 2009 are available upon request at the headquarters of the company Poslovni sistem Mercator, d.d., in Ljubljana, at Dunajska cesta 107, or on the company website at www.mercator.si.

2. Statement of compliance

The condensed consolidated interim financial statements are compiled in compliance with the IAS 34 *Interim Financial Reporting* as adopted by the EU. The statements do not include all information required in the annual financial statements and should be read in conjunction with the Group's consolidated financial statements for the year 2009.

The company Management Board confirmed the condensed consolidated interim financial statements on August 16th 2010.

3. Key accounting policies

Unless noted otherwise below, the accounting policies applied by the Group for these condensed consolidated interim financial statements are the same as those applied for the consolidated financial statements for the year 2009.

(a) Changes in accounting policies

(i) Accounting of business combinations
As of January 1st 2010, the Group has applied IFRS 3 Business Combinations (2008) for accounting of business combinations. The change in the accounting policy has been effective as of the day it was adopted and it had no effect on the earnings per share in the current year.

For acquisitions on or after January 1st 2010, the goodwill has been measured by the Group as the fair value of the cost of acquisition (including the fair value of all existing interests in the acquiree, i.e. the company being acquired) and the value of non-controlling interests in the acquiree, minus the value of assets and liabilities taken over, all values referring to the day of the acquisition. If the difference is negative, the profit shall be recognized directly and immediately in the income statement.

(ii) Accounting for acquisitions of non-controlling interests
As of January 1st 2010, the Group has applied the IAS 27, *Consolidated and Separate Financial Statements (2008)* to account for the acquisitions of non-controlling interests. In case of changes in interests (shareholdings) that do not result in a change of the control

over the company, any excess of the costs of additional investment over the book value of assets shall be recognized in equity.

4. Revaluation of real estate and assessment of useful life

Reorganization of the Mercator Group effective as of January 1st 2010 also included the business segment of Real Estate. The activities to prepare the analysis of possible monetization of Mercator Group real estate also comprised an appraisal of fair value of real estate and its useful life thereof by independent certified appraisers.
During the sale of outdated equipment in 2010, the internal committee for appraisal of property, plant, and equipment found evidence pointing to the need of reevaluation of the useful life of equipment. In recent years, Mercator carried out numerous activities that positively affected the actual useful life of equipment. The evaluation of useful life as at January 1st 2010 was carried out by an independent certified appraiser for machinery and equipment.

a) Determination of fair value of real estate

In compliance with the Rules and Regulations of Accounting, the Mercator Group periodically, in intervals not longer than three years, reevaluates the fair value of its real estate. Appraisal of real estate was carried out as at January 1st 2010 by a certified appraiser for real estate, in compliance with the International Valuation Standards in conjunction with the International Financial Reporting Standards. The basis for evaluating the value of real estate was provided by plans, measurements, land register records, title plans, purchase agreements, data on planned income and expenditures for cash-generating units, and other expert documentation and literature.
As early as in 2005, the company defined its cash-generating units in compliance with the International Accounting Standards for the purpose of determining the fair value of real estate. These include all real estate located at the same location – address.

The revaluation effect in 2010 amounts to a combined increase in value by EUR 19,864 thousand; due to revaluation of real estate, the cost of depreciation in the period 1-6 2010 was increased by EUR 1,134 thousand.

EUR thousand	Land	Buildings	Total
Revaluation surplus	7,354	12,510	19,864
Impairment loss	-	-	-
Reversal of impairment loss	-	-	-
Total	**7,354**	**12,510**	**19,864**

b) Determination of useful life of real estate and equipment

At Mercator Group, depreciation of property, plant, and equipment is calculated on a straight-line basis, applying the depreciation rates that reflect the estimated useful life of a particular asset at respective companies of the Mercator Group. Useful lives and residual value of property, plant, and equipment shall be evaluated each year by an internal panel of experts or by external independent appraisers based on any events that may indicate a need for revaluation of a particular asset.

The estimation of useful lives of property, plant, and equipment as at January 1st 2010 was performed by external independent appraisers in compliance with the mandatory methodology.

Numerous measures introduced by Mercator in recent years to optimize its operations, included direct or indirect effect on the useful life of property, plant, and equipment, as follows:

- **high investment into current and investment maintenance**

In the last three years, Companies of the Mercator Group allocated over EUR 75 million for investment and current / regular maintenance. It should be noted that this amount only includes the costs of material and services of maintaining real estate and equipment by external partners or service providers, and that it does not include the costs of material and hours worked by internal maintenance technicians. Hence, regular investment into maintenance contributed notably to the increase in useful life of equipment.
Moreover, Mercator reorganized its own maintenance service which is now organized by regions and available virtually 24 hours a day. The maintenance service centrally coordinates the work of external partners and service providers who are experts in their respective fields, which additionally improves the quality and timeliness of servicing, repair, and maintenance of real estate and equipment.

- **comprehensive standardization of store formats**

In recent years, Mercator has standardized its store formats. Thus, it increased the throughput of its stores, adjusted the shopping path to the needs and habits of the consumers, and consequently enabled safe and efficient use of store equipment. Widening the shopping path, or aisles, at appropriate locations, resulted in lower probability of damage to the store equipment. Furthermore, organizing the real estate within a new division allowed more efficient real estate management.

- **technological standardization of equipment**

In addition to standardization of store formats, in recent years, Mercator also developed and upgraded very accurate standards for the purchase of quality equipment in retail, by particular store formats. Furthermore, standards for dealing with the purchase of IT equipment and equipment in other fields of operation have been introduced. In this regard, the ratio between quality, price, and useful value of a particular piece of equipment is particularly important. Procurement of equipment is now organized as part of a special Sector for Procurement of Non-Traded Goods. An expert in the use of particular type of equipment takes part in the procurement of such equipment, working with the purchasing manager who selects the appropriate supplier.

- **implementation of the category management concept**

One of the positive effects of the category management project introduced in 2009 and the reorganization of logistics,c is lower frequency of deliveries to retail units, which has resulted in more rational use of store equipment, cargo vehicles, and other logistics equipment. Based on experience, Mercator also adapted the work processes and procedures in recent years, in order to make the use of equipment safer and more efficient. These process changes also included cooperation from the side of trade goods suppliers, who agreed to prepare and pack the goods in a way that improves the efficiency of the use of equipment.

- **standardization of computer equipment**

In addition to the standards for procurement of computer equipment, the IT service also provided accurate instructions on equipment handling. Any relocations or changes to the computer equipment may only be carried out by appropriately skilled experts.

- **active internal education and training**

In recent years, Mercator has established an in-house coaching and mentorship network to organize and carry out daily training and education on correct, economic, and safe use of machinery and equipment.

- **property insurance**

In recent years, Mercator has set up and defined a system for reporting and claiming loss events, by producing highly accurate instructions and defining the procedures for reporting such events. A special department was organized to be in charge or preparing instructions, procedures, forms, as well as education on reporting loss events, and to monitor the relevant results and constantly improve them. Each loss event should be reported in no more than 24 hours, which should contribute to a fast and efficient elimination of the damage and to bringing the equipment back to a useful condition.

- **measures to improve energy efficiency**

Mercator has been carrying out numerous activities in order to reduce power consumption and cut the costs related thereto. Activities such as organizational measures (handbooks on efficient energy use, setting the temperature in a building, setting the lighting regime, instructions for correct use of refrigeration equipment, etc.) and consistent compliance with all standards, guarantee appropriate quality of the products, provide pleasant conditions in Mercator buildings, and reduce the load on various systems and technologies to prolong their useful life. Activities such as investment measures (closing the refrigeration chests, cabinets, and counters with covers and doors, replacement of existing lighting equipment with LED lighting panels / lamps, installation of lighting sensors, etc.) have led to a decrease in total power consumption and in average power, thus reducing the load on some systems and devices to prolong their useful life.

The evaluation of the useful life of real estate and equipment was carried out by a certified real estate appraiser and a certified machinery and equipment appraiser. In evaluating the useful life of real estate and equipment, the certified appraisers relied on the information on the value and chronological age of the property and equipment, empirical information on the frequency of real estate refurbishment and equipment replacement at Mercator Group, as well as information from literature, catalogues, and own databases used by appraisers to define the useful life of a particular type of assets. Additionally, changes in the evaluation of useful life were supported by information on regular and investment maintenance of buildings and equipment and by the comprehensive property insurance system at Mercator Group.
Serving as the basis for evaluation of useful life of real estate and equipment were the International Financial Reporting Standards in conjunction with the International Valuation Standards and other effective and adopted standards and information including physical, economic, market, and ecological information related to the subject of the appraisal or valuation.

5. Financial risk management

The goals and policies of financial risk management are consistent with the disclosures in the Mercator Group 2009 Annual Report.

6. Business segments

Information on reportable segments
For the period ended on June 30th

	Trade		Non-trade		Total	
EUR thousand	**1-6 2010**	**1-6 2009**	**1-6 2010**	**1-6 2009**	**1-6 2010**	**1-6 2009**
Total segment revenues	**1,325,182**	**1,283,992**	**21,373**	**21,663**	**1,346,555**	**1,305,655**
Inter-segment revenues	1,286	1,692	10,432	10,345	11,719	12,037
Total segment results from operating activities	**51,895**	**39,952**	**1,389**	**592**	**53,283**	**40,544**

Reconciliations of revenues and results from operating activities of reportable segments

Revenues

EUR thousand	**1-6 2010**	**1-6 2009**
Total segment revenues	1,346,555	1,305,655
Elimination of inter-segment revenues	(11,719)	(12,037)
Consolidated revenue	**1,334,836**	**1,293,618**

Results from operating activities

EUR thousand	**1-6 2010**	**1-6 2009**
Total segment results from operating activities	53,283	40,544
Elimination of inter-segment profits	(170)	-
Consolidated results from operating activities	**53,113**	**40,544**

7. Strategic combinations

Business combinations and founding of new companies

On February 17th 2010, the Group took over the trade activities of the company Getro, d.d., in Croatia.

The takeover of the activities of the company Getro, d.d., resulted in an increase in Mercator's market share in Croatia to 8-9 percent, making the company Mercator-H, d.o.o., the second largest fast-moving consumer goods retailer in the country. The management estimates that the increase in the volume of operations in Croatian market will pave the way for reaping synergies in procurement, as well as economies of scale; in the long run, both will improve the performance and efficiency of the Mercator Group, including optimization of business processes.

From the day of the takeover, i.e. February 17th 2010, and until June 30th 2010, revenues from trade activities of the company Getro, d.d., incrementally amounted to EUR 47,315 thousand, while the net income amounted to approximately EUR -1.2 million. Negative net income of the recently acquired company in the period at hand is a result of the costs of integration of acquired trade facilities and the integration of employees. Total effect can still not be estimated as the integration activities are still under way; it will be disclosed in the Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2010.

The strategic combination includes the acquisition of the "Getro" trademark, long-term operating lease of all 16 Getro trade centers and other facilities with a total area of almost 120,000 square meters; also, the company Mercator-H, d.o.o., took over all Getro employees. Independent experts at the company KPMG poslovno svetovanje (business consulting), d.o.o., issued their opinion on the justifiability and fairness of the transaction from the aspect of the company Mercator, d.d., and its shareholders, stating that the conditions of the acquisition of the operating activities, assets, and trade liabilities / payables are appropriate and, given the economic and financial conditions, financially fair. As a part of the acquisition, compensation equal to the acquired identifiable assets and liabilities was paid; hence, there was no goodwill in this regard.

As at January 4th 2010, the Group founded the company Modiana, d.o.o., by paying up initial share capital in the amount of EUR 10,000 thousand.

As at February 9th 2010, the Group founded the company Intersport-H, d.o.o., Croatia, by paying up initial share capital in the amount of EUR 4,504 thousand.

As at March 18th 2010, the Group founded the company Modiana, d.o.o., Croatia, by paying up initial share capital in the amount of EUR 3 thousand.

As at May 6th 2010, the Group founded the company Intersport-BH, d.o.o., Bosnia and Herzegovina, by paying up share capital in the amount of EUR 800 thousand.

As at June 2nd 2010, the Group founded the company Modiana, d.o.o., Bosnia and Herzegovina, by paying up initial share capital in the amount of EUR 10 thousand.

As at June 28th 2010, the Group founded the company Intersport S-ISI, d.o.o., Serbia, by paying up initial share capital in the amount of EUR 1 thousand.

As at June 28th 2010, the Group founded the company Modiana, d.o.o., Serbia, by paying up initial share capital in the amount of EUR 1 thousand.

As at June 23rd 2010, the Group founded the company Mercator-CG, d.o.o., Montenegro, by paying up initial share capital in the amount of EUR 30,000 thousand.

8. Revenues

EUR thousand	1-6 2010	1-6 2009
Sales of goods	1,215,760	1,170,865
Sales of services	109,763	112,071
Sales of products	11,660	13,057
Sales of materials	246	239
Expenses for given early payment discounts	(2,593)	(2,614)
Total	**1,334,836**	**1,293,618**

Revenues from sales of goods are reduced by discounts to Mercator Pika card holders.

9. Other income

EUR thousand	1-6 2010	1-6 2009
Net gain on sale of property, plant and equipment	1,477	1,078
Reversal of provisions	4,702	745
Other operating income	3,043	2,962
Total	**9,222**	**4,785**

Income from reversal of provisions is related particularly to reversal of provisions for legal actions, as a result of a favorable final court decision for the company Mercator, d.d. Remaining items of other income include revenues from indemnity and compensation based on insurance premiums and other indemnities, as well as revenues from compensation for employment of persons with disabilities.

10. Expenses by nature

EUR thousand	1-6 2010	1-6 2009
Depreciation of property, plant and equipment	33,239	43,040
Amortisation of intangible assets	5,363	5,389
Depreciation of investment property	88	423
Employee benefit expenses	140,992	135,922
Costs of materials	37,608	36,181
Costs of services	77,051	75,677
Rental expenses	16,179	12,789
Cost of provisions	2,866	-
Other expenses	5,959	4,674
Loss on sale of property, plant and equipment	19	134
Change in inventories	22	(343)
Other operating expenses	925	2,293
Cost of goods sold	970,635	941,680
Total cost of goods sold, selling and marketing costs and administrative expenses	**1,290,946**	**1,257,859**

In the first half of 2010, production costs amounted to EUR 15,680 thousand (1-6 2009: EUR 14,756 thousand); selling and marketing costs amounted to EUR 250,949 thousand (1-6 2009: EUR 251,195 thousand); and administrative expenses amounted to EUR 52,757 thousand (1-6 2009: EUR 47,935 thousand).

If the effect of revaluation of real estate and useful life of property, plant, and equipment had been ignored, depreciation of property, plant, and equipment in the period 1-6 2010 would have amounted to EUR 43,790 thousand.

11. Employee benefit expenses

EUR thousand	1-6 2010	1-6 2009
Wages and salaries	102,013	99,233
Pension insurance costs	12,351	10,040
Health insurance costs	6,102	8,241
Other payroll costs	20,526	18,408
Total	**140,992**	**135,922**
Number of employees as at 30 June	22,407	21,258

Average number of employees in the Group during the period 1-6 2010 (calculated based on hours worked) amounted to 20,828 (1-6 2009: 20,318).

Increase in costs is mostly the result of adjustment of the employee benefit system to the new legislation on minimum wage, of strategic alliances, and of opening of new units.

12. Finance income and expense

Recognized in income statement

EUR thousand	1-6 2010	1-6 2009
Interest income	1,611	4,174
Net operating foreign currency translation differences	1,805	841
Other finance income	447	322
Finance income	**3,863**	**5,337**
Interest expense	(22,033)	(24,431)
Impairment of trade and other receivables	(3,499)	(5,289)
Net finance foreign currency translation differences	(7,501)	(2,331)
Other finance expense	(152)	(533)
Finance expense	**(33,185)**	**(32,584)**
Net finance expense recognised in profit and loss	**(29,322)**	**(27,247)**

Recognized in other comprehensive income (net)

EUR thousand	1-6 2010	1-6 2009
Foreign currency translation differences on consolidation	(13,500)	(10,850)
Effective portion of net changes in fair value of cash flow hedges	(887)	(2,575)
Net change in fair value of available-for-sale financial assets	(1,077)	-
Finance (expense) income recognised directly in comprehensive income	**(15,464)**	**(13,425)**
Attributable to:		
Equity holders of the Company	(15,470)	(13,428)
Non-controlling interest	6	3
Finance (expense) income recognised in comprehensive income		
Recognised in:		
Fair value reserve	(1,964)	(2,575)
Currency translation reserve	(13,506)	(10,853)
Non-controlling interest	6	3
Total	**(15,464)**	**(13,425)**

13. Income tax expense

EUR thousand	1-6 2010	1-6 2009
Current tax expense	6,282	2,211
Deferred tax expense	(148)	(182)
Total	**6,134**	**2,029**

Income tax liability recognized in the Group's profit or loss amounts to EUR 6,281 thousand for the period 1-6 2010 (1-6 2009: EUR 2,211 thousand). Effective tax rate in the first half of 2010 amounted to 25.9 percent.

According to IAS 12, current tax and deferred tax are recognized as revenue or expense and are included in profit or loss. If tax relates to items recognized in equity, deferred tax is also recognized directly in equity, as debit or credit.

Deferred taxes are calculated based on temporary differences applying the balance sheet method, and considering the tax rate effective in each country. In the period 1-6 2010, the Group recognized both payables and receivables for deferred taxes. Deferred tax receivables and payables are not reconciled in the balance sheet.

14. Property, plant, and equipment

EUR thousand	Land and buildings	Production equipment	Office and other equipment	Constru-ction in progress	Commer-cially unviable assets	Commer-cially unactive assets	Total
At 1 January, 2009							
Cost or valuation	1,890,329	181,122	199,224	117,917	71,777	98,409	2,558,778
Accumulated depreciation	-488,674	-131,515	-137,343	-	-31	-29,252	-786,815
Carrying amount	**1,401,655**	**49,607**	**61,881**	**117,917**	**71,746**	**69,157**	**1,771,963**
Year ended 31 December, 2009							
Opening carrying amount	**1,401,655**	**49,607**	**61,881**	**117,917**	**71,746**	**69,157**	**1,771,963**
Effect of movements in exchange rates	-10,749	-1,029	-778	-358	-617	106	-13,425
Acquisitions through business combinations	7,498	-	-	-	4,727	3,523	15,748
Additions	39,892	9,748	6,010	76,757	17,326	-	149,733
Transfers	144,523	39,109	280	-159,260	-	4,642	29,294
Disposals	678	-105	-470	-	-	-4,662	-4,559
Depreciation charge	-46,955	-18,534	-18,576	-	-80	-1,318	-85,463
Closing carrying amount	**1,536,542**	**78,796**	**48,347**	**35,056**	**93,102**	**71,448**	**1,863,291**
At 31 December, 2009							
Cost or valuation	2,039,232	251,282	162,159	35,056	94,165	100,954	2,682,848
Accumulated depreciation	-502,690	-172,486	-113,812	-	-1,063	-29,506	-819,557
Carrying amount	**1,536,542**	**78,796**	**48,347**	**35,056**	**93,102**	**71,448**	**1,863,291**
Year ended 30 June, 2010							
Opening carrying amount	**1,536,542**	**78,796**	**48,347**	**35,056**	**93,102**	**71,448**	**1,863,291**
Effect of movements in exchange rates	-11,703	-2,230	-441	-158	-452	381	-14,603
Acquisitions through business combinations	-	14,000	2,772	-	-	-	16,772
Additions	6,017	215	1,908	14,742	181	262	23,325
Transfers*	5,006	591	3,321	-8,009	-1,901	-	-992
Disposals	391	-84	-24	-	-	-1,544	-1,261
Depreciation charge	-20,122	-7,169	-5,369	-	-34	-545	-33,239
Revaluation surplus	18,744	-	-	-	-	1,120	19,864
Closing carrying amount	**1,534,875**	**84,119**	**50,514**	**41,631**	**90,896**	**71,122**	**1,873,157**
At 30 June, 2010							
Cost or valuation	2,240,357	270,811	162,903	41,631	91,993	104,386	2,912,081
Accumulated depreciation	-705,482	-186,692	-112,389	-	-1,097	-33,264	-1,038,924
Carrying amount	**1,534,875**	**84,119**	**50,514**	**41,631**	**90,896**	**71,122**	**1,873,157**

* Related mostly to transfers between groups in the amount of EUR 992 thousand. Advance payments are included in construction in progress in the amount of EUR 4,702 thousand.

Qualifying assets relate to land (landed property) which the Group intends to use for development projects in the future, in the field of retail network and logistics infrastructure.

Carrying amount of landed property and buildings is related to land in the amount of EUR 621,585 thousand, and buildings in the amount of EUR 1,063,771 thousand.

Investments into property, plant, and equipment, including increases through acquisitions, in the amount of EUR 40,097 thousand are related to the following:

EUR thousand	**1-6 2010**
Additions of property, plant and equipment (new facilities)	34,478
Refurbishment of retail units and other	5,619
Total	**40,097**

Disposal of property, plant, and equipment in the amount of EUR 1,261 thousand is related to the disposal of commercially unviable assets.

The value of commitments, i.e. contractually agreed investments into property, plant, and equipment not yet recognized as at the financial statement date, amounts to EUR 22,676 thousand.

15. Intangible assets

EUR thousand	Goodwill	Trademarks, rights and licenses	Total
At 1 January, 2009			
Cost	12,941	93,994	106,935
Amortisation and impairment losses	-	(28,739)	(28,739)
Carrying amount	**12,941**	**65,255**	**78,196**
Year ended 31 December, 2009			
Opening carrying amount	**12,941**	**65,255**	**78,196**
Effect of movements in exchange rates	92	(3,206)	(3,114)
Acquisition through business combinations	18	-	18
Additions	-	7,596	7,596
Disposals	-	(36)	(36)
Transfers	-	(20,277)	(20,277)
Impairment	(50)	-	(50)
Amortisation charge	-	(10,338)	(10,338)
Closing carrying amount	**13,001**	**38,994**	**51,995**
At 31 December, 2009			
Cost	13,001	103,178	116,179
Amortisation and impairment losses	-	(64,184)	(64,184)
Carrying amount	**13,001**	**38,994**	**51,995**
Year ended 30 June, 2010			
Opening carrying amount	**13,001**	**38,994**	**51,995**
Effect of movements in exchange rates	172	(828)	(656)
Acquisition through business combinations	-	4,000	4,000
Additions	-	1,232	1,232
Disposals	-	(390)	(390)
Amortisation charge	-	(5,363)	(5,363)
Closing carrying amount	**13,173**	**37,645**	**50,818**
At 30 June, 2010			
Cost	13,173	69,718	82,891
Amortisation and impairment losses	-	(32,073)	(32,073)
Carrying amount	**13,173**	**37,645**	**50,818**

Intangible assets in development as at June 30th 2010 amount to EUR 399 thousand.

Goodwill is tested for impairment once per year, during compilation of annual consolidated financial statements.

16. Investment property

EUR thousand	30 June, 2010	31 December, 2009
Balance at 1 January	**4,127**	**9,563**
Additions	-	24
Transfer to property, plant and equipment	-	(4,314)
Disposals	(6)	(935)
Depreciation charge	(88)	(211)
Balance at 30 June / 31 December	**4,033**	**4,127**
Closing carrying amount		
Cost	7,959	8,047
Accumulated depreciation	(3,926)	(3,920)
Carrying amount	**4,033**	**4,127**

17. Available-for-sale financial assets

EUR thousand	30 June, 2010	31 December, 2009
Balance at 1 January	**5,473**	**4,824**
Effect of movements in exchange rates	4	2
Changes in fair value	(1,079)	841
Impairment	-	(194)
Balance at 30 June / 31 December	**4,398**	**5,473**

Revaluations in the amount of EUR 1,079 thousand relate to decrease in fair value of financial investment into equity securities and shares in other companies.

18. Derivative financial instruments

EUR thousand	30 June, 2010	31 December, 2009
Assets		
Interest rate caps	216	737
Total	**216**	**737**
Liabilities		
Interest rate swaps	(5,310)	(4,945)
Total	**(5,310)**	**(4,945)**

19. Inventories

EUR thousand	30 June, 2010	31 December, 2009
Raw materials	6,858	4,978
Work in progress	3,825	4,370
Finished goods	2,096	1,597
Merchandise	284,408	297,979
Less: write-down of inventories	(19,201)	(16,874)
Total	**277,986**	**292,050**

In the first half of 2010, the Group recognized a write-down of trade goods inventories in the amount of EUR 5,768 thousand (1-6 2009: EUR 5,406 thousand). The write-down is included in the selling and marketing costs in the condensed consolidated income statement.

As at June 30th 2010, the inventories are 3.3 percent higher than on June 30th 2009, which is a result of an increase in the volume of operating activities.

20. Trade and other receivables

EUR thousand	30 June, 2010	31 December, 2009
Trade receivables	230,738	188,304
Deferred costs	8,373	2,431
Accrued revenues	18,937	2,786
Total trade and other receivables	**258,048**	**193,521**
Of which non-current trade and other receivables	-	-

Compared to June 30th 2009, trade and other receivables as at June 30th 2010 are higher by 6.9 percent, which is a result of increased volume of operating activities. Compared to the balance as at December 31st 2009, amount of receivables, in addition to other changes, includes a positive amount of EUR 17,951 thousand for value-added tax, as the Group does not reconcile these receivables with the value-added tax payables during the year. The increase is mostly due to an increase in accrued revenues, resulting from annual (year-on-year) dynamics of operating activities: during the year, a part of revenues and costs is estimated and either accrued or deferred.

21. Loans given and deposits made

EUR thousand	30 June, 2010	31 December, 2009
Deposits in banks	5,508	12,983
Loans	67,600	24,602
Total loans	**73,108**	**37,585**
Of which non-current loans	58,404	14,870

As at June 30th 2010, long-term loans are higher by 216.8 percent compared to the end of 2009.
The loans include advanced payments on rents for the trade facilities of the company Getro, d.d., in Croatia, in the amount of EUR 37,927 thousand; advance payments to companies constructing trade facilities in Serbia, in the amount of EUR 28,096 thousand; advance payments for trade facilities in Bosnia and Herzegovina, in the amount of EUR 1,029 thousand; and other minor loans and deposits in the amount of EUR 548 thousand.
All loans given are insured with mortgages on trade facilities.

22. Equity

Dividends

The company Mercator, d.d., did not pay out any dividends in the first half of 2010, nor in the first half of 2009.

The Shareholders Assembly adopted a resolution that in 2010, the dividends shall be paid in total amount of EUR 27,111 thousand (2009: EUR 16,944 thousand), or 7.2 EUR gross per share (2009: EUR 4.5 gross per share). Since the company Mercator, d.d., did not dispose of any treasury shares accounted for in the calculation of required sum for dividend payment, the amount of EUR 304 thousand was allocated back to net income carried forward. Thus, distributable net income for dividend payment was actually decreased by EUR 26,807 thousand (2009: EUR 16,754 thousand).

Currency translation reserve

In the period 1-6 2010, currency translation reserve was decreased by EUR 13,506 thousand, which is related to currency translation differences resulting from integration of financial statements of foreign subsidiaries into consolidated financial statements. Total decrease in equity is related to depreciation of the Serbian dinar.

23. Financial liabilities

EUR thousand	30 June, 2010	31 December, 2009
Non-current financial liabilities		
Bank borrowings	376,850	442,845
Finance lease liabilities	210,877	203,329
Bonds	36,540	36,540
Borrowings from other companies	25	30
Other financial liabilities	802	803
Total	**625,094**	**683,547**
Current financial liabilities		
Bank borrowings	212,574	190,948
Borrowings from other companies	1,896	1,873
Current portion of finance lease liabilities	13,218	12,044
Current portion of bank borrowings	226,710	155,225
Current portion of other financial liabilities	7,766	7,765
Total	**462,164**	**367,855**
Total financial liabilities	**1,087,258**	**1,051,402**

Following are the effective interest rates as at the statement of financial position date:

	30 June, 2010
Bank borrowings	3.50 %
Other borrowings	3.27 %

Finance lease liabilities

Finance lease liabilities – minimum lease payments:

EUR thousand	30 June, 2010	31 December, 2009
Less than one year	17,940	16,862
Between one and five years	108,720	92,407
More than five years	122,124	133,358
Total	**248,784**	**242,627**
Future finance charges on finance leases	24,689	27,254
Present value of finance lease liabilities	**224,095**	**215,373**

Breakdown of the present value of finance lease liabilities:

EUR thousand	30 June, 2010	31 December, 2009
Less than one year	13,218	12,044
Between one and five years	94,228	76,570
More than five years	116,649	126,759
Total	**224,095**	**215,373**

Carrying amounts of all financial liabilities are consistent with their respective fair values. The share of non-current financial liabilities in total financial liabilities as at June 30th 2010 amounted to 57.5 percent (65 percent as at December 31st 2009).

24. Provisions

EUR thousand	Restitution claims	Restructuring provisions	Legal claims	Retirement benefits and jubilee premiums provisions	Other provisions	Total
At 31 December, 2009	**3,272**	**488**	**11,973**	**20,937**	**518**	**37,188**
Increase	-	-	2,866	-	907	3,773
Utilisation	(147)	(247)	(1,323)	(446)	(30)	(2,193)
Reversal	-	-	(3,980)	-	(722)	(4,702)
Effect of movements in exchange rates	-	-	30	(69)	3	(36)
At 30 June, 2010	**3,125**	**241**	**9,566**	**20,422**	**676**	**34,030**

Provisions for restitution claims
As at June 30th 2010, provisions for restitution claims amount to EUR 3,125 thousand. Compared to the end of 2009, liabilities are lower by EUR 147 thousand.

Provisions for restructuring costs
As at June 30th 2010, provisions for restructuring costs amount to EUR 241 thousand. Compared to the end of 2009, the liability is lower by EUR 247 thousand.

Legal claims
Provisions for legal claims in the first half of 2010 were reversed by an amount of EUR 3,980 thousand based on final (res judicata) court decisions or judgments. In the first half of 2010, new legal claims in the amount of EUR of EUR 1,323 were recorded to the debit of legal claim provisions, with regard to which the company continues to protect its interests. Based on the existing legal claim and opinion by legal experts, the Group recognized additional provisions in the total amount of EUR 2,866 thousand in the first half of 2010.

Retirement benefits and jubilee premiums provisions
As at June 30th 2010, provisions for retirement benefits and jubilee premiums amount to EUR 20,422 thousand. Compared to last year, provisions are lower by EUR 515 thousand. In the first half of 2010, retirement benefits and jubilee premiums in the total amount of EUR 446 thousand were paid out to the debit of retirement benefits and jubilee premiums provisions.

Other provisions
Other provisions saw a net increase due to provisions for improvement of work conditions of persons with disabilities in the total amount of EUR 907 thousand. In the first half of 2010, provisions for improvement of work conditions for persons with disabilities were drawn in the total amount of EUR 752 thousand, in order to compensate for the increased costs due to increased sick leaves of employees with disabilities and for the costs of depreciation of property, plant, and equipment related to the work of persons with disabilities, lease costs of property, plant, and equipment related to the work of persons with disabilities, maintenance costs for property, plant, and equipment and purchase of petty inventory and write-down of work uniforms, costs of medical examinations, and costs of education and training.

25. Trade and other payables

EUR thousand	30 June, 2010	31 December, 2009
Trade payables	459,300	468,996
Social security and other taxes	57,439	27,527
Other payables	2,983	7,513
Accrued costs	24,738	14,791
Deferred revenues	17,044	9,107
Total	**561,504**	**527,934**

As at June 30^{th} 2010, the Group does not have any liabilities towards the members of the Supervisory Board, while towards Management Board and other employees it has liabilities on account of recognized undisbursed compensation for June 2010.

Increase in liabilities compared to December 31^{st} 2009 is largely related to the increase of accruals resulting from annual (year-on-year) dynamics of operating activities: during the year, a part of costs and revenues is estimated and either accrued or deferred. Compared to the balance as at December 31^{st} 2009, amount of payables, in addition to other changes, includes a positive amount of EUR 17,951 thousand for value-added tax, as the Group does not reconcile these payables with the value-added tax receivables during the year.

26. Contingencies

EUR thousand	30 June, 2010	31 December, 2009
Coupons	8,681	6,316
Merchandise in consignation	3,255	5,582
Guarantees	7,724	11,482
Other	3,992	3,992
Total	**23,652**	**27,372**

As at June 30^{th} 2010, the Group did not have any mortgages or pledged property.

27. Events following the end of period at hand

- On June 30^{th} 2010, the companies Mercator-S, d.o.o., Serbia, and the company Pantomarket, d.o.o., Herceg Novi, signed a strategic combination agreement based on which the company Mercator-CG, d.o.o., Podgorica, will take over the trade operations, employees, and a long-term operating lease of 77 commercial facilities owned by the companies Pantomarket, d.o.o., Herceg Novi, and Plus Commerce, d.o.o., Nikšić, in the market of Montenegro, with a combined gross sales area of 31,700 square meters. Combined commercial facilities of Pantomarket, d.o.o., Herceg Novi, and Plus Commerce, d.o.o., Nikšić, make these two companies the largest retailer with fast-moving consumer goods in the Montenegrin market. By this strategic combination, Mercator will increase its market share in Montenegro, in the FMCG industry, from the current 4 percent to approximately 20 percent, thus becoming the largest retailer with fast-moving consumer goods in the market. The transaction has already been approved by the Montenegrin competition protection office. Takeover of commercial facilities is planned for completion by the end of August 2010.

- At the 16th regular Shareholders Assembly held on July 13th 2010, the shareholders of the company Poslovni sistem Mercator, d.d., adopted the following resolutions:
  - The number of Supervisory Board members shall be increased by four to a total of twelve members. Mr. Matjaž Kovačič and Mr. Miro Medvešek were appointed as new Supervisory Board members representing the interests of the shareholders for a term of four years.
  - The Shareholders Assembly confirmed the proposal on dividend payout in the gross amount of EUR 7.20 per ordinary share and granted discharge to the company Management Board and Supervisory Board.
  - The Management Board was authorized to acquire and dispose of treasury shares up to the amount of 10 percent of the company share capital, for a period of 36 months starting with the day the authorization is issued.
  - The Shareholders Assembly also confirmed the changes to the Articles of Association in order to reach compliance with the revised Companies Act ZGD-1C and the revised standard classification of activities; and appointed the certified auditing company for the year 2010.
- On August 4th 2010, the company Mercator-S, d.o.o., Serbia, and the company Coka, d.o.o., Vučak, signed a strategic combination agreement based on which the company Mercator-S, d.o.o., Novi Sad, will take over the long-term operating lease and sublease of 22 commercial facilities of the Coka Group in the Danube region, with a combined area of over 12 thousand square meters. The strategic combination also includes the purchase of inventory and equipment, and takeover of all employees at the companies of the Coka Group: Coka, d.o.o., Vučak, Serbia; Dunav, a.d., Smederevo, Serbia; Inex, a.d., Velika Plana, Serbia; Mlava, a.d., Petrovac, Serbia; and Nova trgovina, a.d., Požarevac, Serbia. This strategic combination will further consolidate Mercator's position of the second largest retailer in the Serbian market. The agreement on strategic alliance shall become effective upon obtaining approval by the Serbian Competition Protection Agency.

KPMG

Independent auditor's report on review of condensed consolidated interim financial information

To the Shareholders of Poslovni sistem Mercator, d.d., Ljubljana

Introduction

We have reviewed the accompanying condensed statement of financial position of the company Poslovni sistem Mercator, d.d. and its subsidiaries (the Mercator Group) as at 30 June 2010, and the condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flow for the six-month period then ended ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Danilo Bukovec, B.Sc.Ec.
Certified Auditor

Marjan Mahnič, B.Sc.Ec.
Certified Auditor
Partner

Ljubljana, 24 August 2010

KPMG Slovenija, d.o.o.

FINANCIAL REPORT OF THE COMPANY POSLOVNI SISTEM MERCATOR, d.d.

Condensed statement of financial position

EUR thousand

	Type of assets / liabilities	30.6.2009	31.12.2009	30.6.2010	Structure 30.6.2010	Index	Index
1	2	3	4	5	6	7=5/3	8=5/4
	ASSETS						
A.	**Non-current assets**	**1,603,997**	**1,627,550**	**1,650,451**	**81.9%**	**102.9**	**101.4**
I.	Property, plant and equipment	1,015,214	1,011,915	1,025,945	50.9%	101.1	101.4
II.	Investment property	9,486	4,127	4,033	0.2%	42.5	97.7
III.	Intangible assets	10,372	10,870	9,582	0.5%	92.4	88.1
IV.	Deferred tax assets	8,893	8,174	8,369	0.4%	94.1	102.4
V.	Loans	282	315	281	0.0%	99.6	89.1
VI.	Participation in equity of group companies	555,505	587,177	598,281	29.7%	107.7	101.9
VII.	Available-for-sale financial assets	4,245	4,972	3,960	0.2%	93.3	79.6
B.	**Current assets**	**363,107**	**319,721**	**365,504**	**18.1%**	**100.7**	**114.3**
I.	Inventories	177,637	178,091	145,932	7.2%	82.2	81.9
II.	Trade and other receivables	182,143	135,465	207,802	10.3%	114.1	153.4
III.	Current tax assets	905	2,028	2,449	0.1%	270.5	120.8
IV.	Loans	2,421	943	6,428	0.3%	265.6	681.9
V.	Derivative financial instruments	0	737	216	0.0%	-	29.3
VI.	Cash and cash equivalents	0	2,457	2,677	0.1%	-	108.9
VI.	**Total assets**	**1,967,104**	**1,947,271**	**2,015,955**	**100.0%**	**102.5**	**103.5**
A.	**EQUITY**	**789,458**	**786,088**	**823,961**	**40.9%**	**104.4**	**104.8**
I.	Ordinary shares	157,129	157,129	157,129	7.8%	100.0	100.0
II.	Share premium	198,848	198,872	198,872	9.9%	100.0	100.0
III.	Treasury shares	-3,250	-3,235	-3,235	-0.2%	99.5	100.0
IV.	Revenue reserves	235,460	238,013	238,013	11.8%	101.1	100.0
V.	Fair value reserve	166,147	168,156	179,117	8.9%	107.8	106.5
VI.	Retained earnings	26,011	7,872	28,952	1.4%	111.3	367.8
VII.	Profit for the period	9,114	19,281	25,113	1.2%	275.5	130.2
	LIABILITIES						
B.	**Non-current liabilities**	**446,780**	**520,154**	**465,165**	**23.1%**	**104.1**	**89.4**
I.	Trade and other payables	1,981	2,872	2,872	0.1%	145.0	100.0
II.	Financial liabilities	378,601	447,100	392,458	19.5%	103.7	87.8
III.	Deferred tax liabilities	39,685	38,051	40,934	2.0%	103.1	107.6
IV.	Provisions	26,513	32,131	28,901	1.4%	109.0	89.9
C.	**Current liabilities**	**730,866**	**641,029**	**726,829**	**36.1%**	**99.4**	**113.4**
I.	Trade and other payables	315,304	355,811	310,401	15.4%	98.4	87.2
II.	Current tax liabilities	0	0	6,204	0.3%	-	-
III.	Financial liabilities	409,388	280,273	404,914	20.1%	98.9	144.5
IV.	Derivative financial instruments	6,173	4,945	5,310	0.3%	86.0	107.4
	Total liabilities	**1,177,646**	**1,161,183**	**1,191,994**	**59.1%**	**101.2**	**102.7**
	Total equity and liabilities	**1,967,104**	**1,947,271**	**2,015,955**	**100.0%**	**102.5**	**103.5**
	Number of employees as at the end of the period	12,630	12,297	11,148	-	88.3	90.7

Condensed income statement

EUR thousand

	Type of revenue / expense / cost	1-6 2009	1-6 2010	Index
1	2	3	4	5=4/3
A.	**Revenue**	**865,090**	**840,257**	**97.1**
B.	**Cost of sales**	**-801,930**	**-758,559**	**94.6**
C.	**Gross profit**	**63,161**	**81,699**	**129.4**
D.	Administrative expenses	-33,214	-34,197	103.0
E.	Other income	3,369	7,570	224.7
F.	**Results from operating acitvities**	**33,316**	**55,071**	**165.3**
G.	Finance income	3,542	1,711	48.3
H.	Finance expenses	-25,351	-25,489	100.5
I.	**Profit before income tax**	**11,507**	**31,294**	**272.0**
J.	Income tax expense	-2,202	-6,204	281.7
K.	Deferred income tax	-191	23	-
L.	**Profit for the financial period**	**9,114**	**25,113**	**275.5**
M.	Number of employees based on hours worked	11,853	10,699	90.3

Condensed statement of comprehensive income

EUR thousand

	1-6 2009	1-6 2010
Profit for the financial period	**9,114**	**25,113**
Other comprehensive income		
Change in fair value of available-for-sale financial assets	0	-1,012
Disposal of available-for-sale financial assets	0	0
Change in fair value of cash flow hedges	-2,575	-887
Revaluation of property	0	17,850
Deferred tax	541	-3,190
Other changes	1,337	0
Other comprehensive income for the financial period	**-698**	**12,760**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	**8,417**	**37,873**

Condensed statement of changes in equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Total equity
Balance at 1 January 2009	**157,129**	**198,848**	**-3,250**	**235,459**	**173,341**	**3,444**	**16,070**	**781,041**
Total comprehensive income for the financial period								
Profit for the period							9,114	**9,114**
Other comprehensive income					-7,194	6,497		**-697**
Total comprehensive income for the financial period	**0**	**0**	**0**	**0**	**-7,194**	**6,497**	**9,114**	**8,417**
Transactions with owners, recorded directly in equity								
Transfer of profit for the period to retained earnings						16,070	-16,070	**0**
Allocation of disposable income following the management / supervisory board resolution					-3,744	3,744		**0**
Total contributions by and distributions to owners	**0**	**0**	**0**	**0**	**-3,744**	**19,814**	**-16,070**	**0**
Total transactions with owners	**0**	**0**	**0**	**0**	**-3,744**	**19,814**	**-16,070**	**0**
Balance at 30 June 2009	**157,129**	**198,848**	**-3,250**	**235,459**	**162,403**	**29,755**	**9,114**	**789,458**

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Total equity
Balance at 1 January 2010	**157,129**	**198,872**	**-3,235**	**238,013**	**168,156**	**7,872**	**19,281**	**786,088**
Total comprehensive income for the financial period								
Profit for the period							25,113	**25,113**
Other comprehensive income					10,961	1,799		**12,760**
Total comprehensive income for the financial period	**0**	**0**	**0**	**0**	**10,961**	**1,799**	**25,113**	**37,873**
Transactions with owners, recorded directly in equity								
Transfer of profit for the period to retained earnings						19,281	-19,281	**0**
Total contributions by and distributions to owners	**0**	**0**	**0**	**0**	**0**	**19,281**	**-19,281**	**0**
Total transactions with owners	**0**	**0**	**0**	**0**	**0**	**19,281**	**-19,281**	**0**
Balance at 30 June 2010	**157,129**	**198,872**	**-3,235**	**238,013**	**179,117**	**28,952**	**25,113**	**823,961**

Condensed statement of cash flows

EUR thousand

Cash flows	1-6 2009	1-6 2010
Cash flows from operating activities		
Gross cash flow from operating activities	**56,259**	**69,105**
Change in trade and other receivables	49,730	-72,759
Change in inventories	3,181	32,158
Change in trade and other payables	-107,104	-40,552
Gross cash from operating activities	**-54,192**	**-81,153**
Net foreign exchange loss from borrowings	0	0
Interest paid	-23,560	-23,229
Income tax paid	-2,202	-6,204
Net cash from operating activities	**-23,695**	**-41,481**
Cash flows from investing activities		
Acquisition of subsidiaries	-9,610	-11,103
Acquisition of property, plant and equipment	-24,394	-16,793
Acquisition of intangible assets	-926	-416
Deposits made	0	-60,752
Proceeds from sale of subsidiaries	0	0
Proceeds from sale of property, plant and equipment	4,451	4,043
Proceeds from sale of intangible assets	0	1
Proceeds from sale of available-for-sale financial assets	0	0
Interest received	3,256	1,421
Dividends received	0	0
Deposits repayments received (deposits made)	15,702	55,301
Net cash used in investing activities	**-11,522**	**-28,298**
Cash flows from financing activities		
Prodeeds from issue of share capital	0	0
Proceeds (repayments) of borrowings	35,322	69,999
Dividends paid to company shareholders	-105	0
Net cash from financing acitvities	**35,217**	**69,999**
Net increase in cash and cash equivalents	**0**	**220**
Cash and cash equivalents at the beginning of the period	0	2,457
Cash and cash equivalents at the end of the year	**0**	**2,677**

Notes to condensed semiannual financial statements

1. Reporting company

Poslovni sistem Mercator, d.d., (hereinafter referred to as Mercator, d.d.) is a company headquartered in Slovenia. The address of the company's registered office is Ljubljana, Dunajska cesta 107. The company's predominant activity is retail and wholesale of fast-moving consumer goods.

The company Poslovni sistem Mercator, d.d., has a double role in the Mercator Group: it is the parent company that holds all ownership shares in the Group's subsidiaries; simultaneously, it is an 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 is more sensible to apply only the consolidated financial statements that represent the performance of the Mercator Group as a uniform business entity.

Due to the transfer of a part of operating activities to the companies Intersport ISI, d.o.o., and Modiana, d.o.o., in 2010, the financial statements of the company Poslovni sistem Mercator, d.d., are not comparable between different periods.

The company's financial statements for the year 2009 are available upon request at the headquarters of the company Poslovni sistem Mercator, d.d., in Ljubljana, at Dunajska cesta 107, or on the company website at www.mercator.si.

2. Statement of compliance

The condensed semiannual financial statements are compiled in compliance with the IAS 34 *Interim Financial Reporting* as adopted by the EU. The statements do not include all information required in the annual financial statements and should be read in conjunction with the company's financial statements for the year 2009.

The company Management Board confirmed the condensed interim financial statements on August 16th 2010.

3. Key accounting policies

Unless noted otherwise below, the accounting policies applied by the Group for these condensed consolidated interim financial statements are the same as those applied for the consolidated financial statements for the year 2009.

As a result of the transfer of a part of activities to the companies Intersport ISI, d.o.o., and Modiana, d.o.o., in 2010, financial statements of the company Poslovni sistem Mercator, d.d., for this period are not comparable to the statements from earlier periods.

(a) Changes in accounting policies

(i) Accounting of business combinations
As of January 1st 2010, the company applies IFRS 3 Business Combinations (2008) for accounting of business combinations. The change in the accounting policy has been effective as of the day it was adopted and it had no effect on the earnings per share in the current year.

For acquisitions on or after January 1st 2010, the goodwill has been measured by the Group as the fair value of the cost of acquisition (including the fair value of all existing interests in the acquiree, i.e. the company being acquired) and the value of non-controlling interests in the acquiree, minus the value of assets and liabilities take over all values referring to the day of the acquisition. If the difference is negative, the profit shall be recognized directly and immediately in the income statement.

(ii) Accounting for acquisitions of non-controlling interests
As of January 1st 2010, the company has applied the IAS 27, *Consolidated and Separate Financial Statements (2008)* to account for the acquisitions of non-controlling interests. In case of changes in interests (shareholdings) that do not result in a change of the control over the company, any excess of the costs of additional investment over the book value of assets shall be recognized in equity.

4. Revaluation of real estate and assessment of useful life

Reorganization of the Mercator Group effective as of January 1st 2010 also included the business segment of Real Estate. The activities to prepare the analysis of possible monetization of Mercator Group real estate also comprised an appraisal of fair value of real estate and useful life thereof by independent certified appraisers.
During the sale of outdated equipment in 2010, the internal committee for appraisal of property, plant, and equipment found evidence pointing to the need to reevaluate the useful life of equipment. In recent years, Mercator carried out numerous activities that positively affected the actual useful life of equipment. The evaluation of useful life as at January 1st 2010 was carried out by an independent certified appraiser for machinery and equipment.

a) Determination of fair value of real estate

In compliance with the Rules and Regulations of Accounting, the company periodically, in intervals not longer than three years, reevaluates the fair value of its real estate. Appraisal of real estate was carried out as at January 1st 2010 by a certified appraiser for real estate, in compliance with the mandatory methodology. The basis for evaluating the value of real estate was provided by plans, measurements, land register records, title plans, purchase agreements, data on planned income and expenditures for cash-generating units, and other expert documentation and literature.
As early as in 2005, the company defined its cash-generating units in compliance with the International Accounting Standards for the purpose of determining the fair value of real estate. These include all real estate located at the same location – address.

The revaluation effect in 2010 amounts to a combined increase in value by EUR 17,850 thousand; due to revaluation of real estate, the cost of depreciation in the period 1-6 2010 was increased by EUR 1,098 thousand.

EUR thousand	Land	Buildings	Total
Revaluation surplus	6,387	11,463	17,850
Reversal of impairment loss	-	-	-
Total	**6,387**	**11,463**	**17,850**

b) Determination of useful life of real estate and equipment

At the company, depreciation of property, plant, and equipment is calculated on a straight-line basis, applying the depreciation rates that reflect the estimated useful life of particular assets. Useful lives and residual value of property, plant, and equipment shall be evaluated each year by an internal panel of experts or by external independent appraisers based on any events that may indicate a need for revaluation of a particular asset.

The estimation of useful lives of property, plant, and equipment as at January 1st 2010 was performed by external independent appraisers in compliance with mandatory methodology.

Numerous measures introduced by Mercator in recent years to optimize its operations included direct or indirect effect on the useful life of property, plant, and equipment, as follows:

- **high investment into current and investment maintenance**

In the last three years, the company allocated just under EUR 40 million for investment and current / regular maintenance. It should be noted that this amount only includes the costs of material and services of maintaining real estate and equipment by external partners or service providers, and that it does not include the costs of material and hours worked by internal maintenance technicians. Hence, regular investment into maintenance contributed notably to the increase in useful life of equipment.
Moreover, the company reorganized its own maintenance service which is now organized by regions and available virtually 24 hours a day. The maintenance service coordinates in a centralized manner the work of external partners and service providers who are experts in their respective fields, thus additionally improving quality and timely servicing, repair, and maintenance of real estate and equipment.

- **comprehensive standardization of store formats**

In recent years, the company has standardized its store formats. Thus, it increased the throughput of its stores, adjusted the shopping path to the needs and habits of the consumers, and consequently enabled safe and efficient use of store equipment. Widening the shopping path, or aisles, at appropriate locations, resulted in lower probability of damage to the store equipment. Furthermore, organization of real estate within a new division allowed more efficient real estate management.

- **technological standardization of equipment**

In addition to standardization of store formats, the company also developed and upgraded in recent years very accurate standards for the purchase of quality equipment in retail, by particular store formats. Furthermore, standards have been introduced dealing with the purchase of IT equipment and equipment in other fields of operation. In this regard, the ratio between quality, price, and useful value of a particular piece of equipment is particularly important. Procurement of equipment is now organized as a part of a special Sector for Procurement of Non-Traded Goods. An expert in the use of particular type of equipment takes part in the procurement of such equipment, working with the purchasing manager who selects the appropriate supplier.

- **implementation of the category management concept**

One of the positive effects of the category management project introduced in 2009 and reorganization of logistics is lower frequency of deliveries to retail units, which has resulted in more rational use of store equipment, cargo vehicles, and other logistics equipment. Based on experience, the company also adapted in recent years the work processes and procedures in order to make the use of equipment safer and more efficient. These process changes also included cooperation by trade goods suppliers who agreed to prepare and pack the goods in a way that improves the efficiency of the use of equipment.

- **standardization of computer equipment**

In addition to the standards for procurement of computer equipment, the IT service also provided accurate instructions on equipment handling. Any relocations or changes to the computer equipment may only be carried out by appropriately skilled experts.

- **active internal education and training**

In recent years, the company has established an in-house coaching and mentorship network to organize and carry out daily training and education on correct, economic, and safe use of machinery and equipment.

- **property insurance**

In recent years, the company has set up and defined a system for reporting and claiming loss events, by producing highly accurate instructions and defining the procedures for reporting such events. A separate department was organized to be in charge or preparing instructions, procedures, forms, as well as education on reporting loss events, and to monitor the relevant results and constantly improve them. Each loss event should be reported in no more than 24 hours, which also affects fast and efficient elimination of the damage and return of the equipment to a useful condition.

- **measures to improve energy efficiency**

The company has been carrying out numerous activities in order to reduce power consumption and cut the costs related thereto. Activities such as organizational measures (handbooks on efficient energy use, setting the temperature in a building, setting the lighting regime, instructions for correct use of refrigeration equipment, etc.) and consistent compliance with all standards guarantee appropriate quality of the products, provide pleasant conditions in Mercator buildings, and reduce the load on various systems ad technologies to prolong their useful life. Activities such as investment measures (closing the refrigeration chests, cabinets, and counters with covers and doors, replacement of existing lighting equipment with LED lighting panels / lamps, installation of lighting sensors, etc.) have led to a decrease in total power consumption and in average power, thus reducing the load on some systems and devices to prolong their useful life.

Evaluation of useful life of real estate and equipment was carried out by a certified appraiser for real estate and a certified appraiser for machinery and equipment. In evaluating the useful life of real estate and equipment, the certified appraisers relied on the information on the value and chronological age of the property and equipment, empirical information on the frequency of real estate refurbishment and equipment replacement at the company, and information from literature, catalogues, and own databases used by appraisers to define the useful life of a particular type of assets. Additionally, changes in the evaluation of useful life were supported by information on regular and investment maintenance of buildings and equipment and by the comprehensive property insurance system at the company.
Serving as the basis for evaluation of useful life of real estate and equipment were the International Financial Reporting Standards in conjunction with the International Valuation Standards and other effective and adopted standards and information including physical, economic, market, and ecological information related to the subject of the appraisal or valuation.

5. Financial risk management

The goals and policies of financial risk management are consistent with the disclosures in the 2009 Annual Report of the company Mercator.

6. Acquisitions of subsidiaries

Founding of new companies

On January 4th 2010, the company Poslovni sistem Mercator, d.d., founded the company Modiana, d.o.o., by paying up share capital in the amount of EUR 10.000 thousand.

7. Inventory write-downs

In the first half of 2010, the company Mercator, d.d., recognized a write-down of trade goods inventories in the amount of EUR 3,842 thousand (1-6 2009: EUR 4,305 thousand). The write-down is included in the selling and marketing costs in the condensed income statement.

8. Income tax expense

Income tax liability recognized in the company's profit or loss amounts to EUR 6,204 thousand for the period 1-6 2010 (1-6 2009: EUR 2,202 thousand). Effective tax rate in the first half of 2010 amounted to 19.8 percent.

According to IAS 12, current tax and deferred tax are recognized as revenue or expense and are included in profit or loss. If tax relates to items recognized in equity, deferred tax is also recognized directly in equity, as debit or credit.

Deferred taxes are calculated based on temporary differences applying the balance sheet method, and considering the effective tax rate of 20 percent. In the period 1-6 2010, the company recognized both payables and receivables for deferred taxes. Deferred tax receivables and payables are not reconciled in the balance sheet.

9. Property, plant, and equipment

Tangible fixed assets (property, plant, and equipment) are carried according to the model of fair value.

Investments and disposals

In the first half of 2010, the company Mercator, d.d., made additions to the property, plant, and equipment in the amount of EUR 16,793 thousand (1-6 2009: EUR 39,906 thousand). Major investments include the newly constructed Mercator Center Velenje in the amount of EUR 9,600 thousand; newly constructed supermarket in Preddvor in the amount of EUR 962 thousand; refurbishment of the Maximarket department store in the amount of EUR 287 thousand; and newly constructed hardware and electronics and Hura! discount store in Jesenice in the amount of EUR 120 thousand.

Commitments related to investments

The value of commitments, i.e. contractually agreed investments into property, plant, and equipment not yet recognized as at the balance sheet date, amounts to EUR 19,804 thousand.

10. Intangible assets

in EUR thousand	Goodwill	Trademarks, rights and licenses	Total
At 1 January, 2009			
Cost	-	19,277	19,277
Amortisation and impairment losses	-	(8,118)	(8,118)
Carrying amount	**-**	**11,159**	**11,159**
Year ended 31 December, 2009			
Opening carrying amount	**-**	**11,159**	**11,159**
Acquisition through business combinations	691	381	1,072
Additions	-	3,248	3,248
Disposals	-	(26)	(26)
Transfers	-	(1,563)	(1,563)
Amortisation charge	-	(3,020)	(3,020)
Closing carrying amount	**691**	**10,179**	**10,870**
At 31 December, 2009			
Cost	691	21,587	22,278
Amortisation and impairment losses	-	(11,408)	(11,408)
Carrying amount	**691**	**10,179**	**10,870**
Year ended 30 June, 2010			
Opening carrying amount	**691**	**10,179**	**10,870**
Additions	-	416	416
Transfers	-	(18)	(18)
Disposals	-	(1)	(1)
Amortisation charge	-	(1,685)	(1,685)
Closing carrying amount	**691**	**8,891**	**9,582**
At 30 June, 2010			
Cost	691	21,952	22,643
Amortisation and impairment losses	-	(13,061)	(13,061)
Carrying amount	**691**	**8,891**	**9,582**

Goodwill is tested for impairment once per year, during compilation of annual consolidated financial statements.

11. Trade and other receivables

Current trade and other receivables as at June 30th 2010 are 57.1 percent higher than as at the end of 2009. Increase in receivables is mostly related to the disposal of inventories and equipment, and lease receivables from Intersport ISI, d.o.o., and Modiana, d.o.o., in the amount of EUR 35,166 thousand. Compared to the balance as at December 31st 2009, the amount of receivables, in addition to other changes, includes a positive amount of EUR 17,951 thousand for value-added tax, as the Group does not reconcile these receivables with the value-added tax payables during the year.

12. Equity

Dividends

The company Mercator, d.d., did not pay out any dividends in the first half of 2010, nor did it do so in the first half of 2009.

The Shareholders Assembly adopted a resolution to pay out dividends in total amount of EUR 27,111 thousand (2009: EUR 16,944 thousand), or 7.2 EUR gross per share (2009: EUR 4.5 gross per share) in 2010. Since the company Mercator, d.d., did not dispose of any treasury shares accounted for in the calculation of required sum for dividend payment, the amount of EUR 304 thousand was allocated back to net income carried forward. Thus, distributable net income for dividend payment was actually decreased by EUR 26,807 thousand (2009: EUR 16,754 thousand).

13. Financial liabilities

As at June 30th 2010, financial liabilities of the company amount to EUR 797,372 thousand. In the period 1-6 2010, the company obtained new borrowings in the amount of EUR 514,016 thousand, while repaying borrowings in the total amount of EUR 444,017 thousand.

14. Provisions

EUR thousand	Restitution claims	Restructuring provisions	Legal claims	Retirement benefits and jubilee premiums provisions	Other provisions	Total
At 1 January, 2010	**3,272**	**488**	**9,950**	**18,421**	**-**	**32,131**
Increase	-	-	2,866	-	455	3,398
Reversal	-	-	(3,980)	-	-	(3,980)
Utilisation	(147)	(247)	(1,323)	(399)	(455)	(2,648)
At 30 June, 2010	**3,125**	**241**	**7,513**	**18,022**	**-**	**28,901**

Provisions for restitution claims
As at June 30th 2010, provisions for restitution claims amount to EUR 3,125 thousand. Compared to the end of 2009, liabilities are lower by EUR 147 thousand.

Provisions for restructuring costs
As at June 30th 2010, provisions for restructuring costs amount to EUR 241 thousand. Compared to the end of 2009, the liability is lower by EUR 247 thousand.

Legal claims
Provisions for legal claims in the first half of 2010 were reversed by an amount of EUR 3,980 thousand based on final (res judicata) court decisions or judgments. In the first half of 2010, new legal claims in the amount of EUR of EUR 1,323 were recorded to the debit of legal claim provisions, with regard to which the company continues to protect its interests. Based on the existing legal claim and opinion by legal experts, the Group recognized additional provisions in the total amount of EUR 2,866 thousand in the first half of 2010.

Newly recognized provisions in the amount of EUR 2,866 thousand (1-6 2009: - EUR) are classified as administrative expenses.

Retirement benefits and jubilee premiums provisions
As at June 30th 2010, provisions for retirement benefits and jubilee premiums amount to EUR 18,022 thousand. Compared to last year, provisions are lower by EUR 399 thousand. In the first half of 2010, retirement benefits and jubilee premiums in the total amount of EUR 399 thousand were paid out to the debit of retirement benefits and jubilee premiums provisions.

Other provisions
Other provisions represent provisions for improvement of work conditions of persons with disabilities. In the first half of 2010, they were increased by EUR 455 thousand, an amount that was drawn down (reversed) completely due to increased costs of sick leaves among persons with disabilities.

15. Contingencies

EUR thousand	**30 June, 2010**	**31 December, 2009**
Coupons	8,681	6,316
Merchandise in consignation	3,079	5,582
Guarantees	330,872	334,424
Other	3,992	3,992
Total	**346,624**	**350,314**

As at June 30th 2010, the company did not have any mortgages or pledged property.

Guarantees are mostly related to warranties to subsidiaries.

16. Events following the end of period at hand

Events following the statement of financial position date are the same as for the Mercator Group, listed on page 66.

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

The company Management Board declares that the condensed semiannual financial statements of the company Poslovni sistem Mercator, d.d., and the Mercator Group are, to its best knowledge, compiled in compliance with the relevant framework of financial reporting and represent a true and fair account of the assets and liabilities, financial position, and income of the company Poslovni sistem Mercator, d.d., and other companies included in the consolidation. The semiannual condensed financial information of the Mercator Group presented herein was reviewed in compliance with the "International Standard on Review Engagements 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity"; the review was conducted by the auditing company KPMG Slovenia, podjetje za revidiranje, d.o.o.

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, August 24th 2010

PERFORMANCE ESTIMATE FOR 2010

In order to account for considerable deviations of actual economic conditions from the anticipated ones, strategic alliances and changes in planned investment activities, as well as activities related to real estate and other assets, Mercator Group has amended its performance estimate for the entire fiscal year 2010. The revised estimate is based on the current expectations with regard to the development of economic conditions and relevant business aspects in the second half of 2010.

Major changes in economic conditions in 2010
Following are the major changes in economic conditions that affect Mercator's operations in 2010:

- Economic activity in all major markets is notably slower than expected and accounted for in the 2010 Business Plan. Along with several other aspects, this has negatively affecetd the consumption. The table below shows economic growth expected at the time of compilation of the 2010 Business Plan, and the current expectations for the year. The effect of these changes on the Group's revenues and performance, relative to the adopted Business Plan, is negative.

Expected GDP growth for 2010	Slovenia	Serbia	Croatia	Bosnia and Herzegovina
Forecast at the time of compilation of Business Plan	0.0 %	1.5 %	0.0 %	0.0 %
Current forecasts based on the period 1-6 2010	-1.2 %	0.6 %	-2.5 %	-3.2 %

- At the time of compilation of the Business Plan, the Group expected the extensive depreciation of Serbian dinar during the year 2009 to stop in 2010 and the dinar exchange rate to stabilize. However, the depreciation of Serbian dinar continues further in this year, leading to a revised estimate of the final exchange rate at 110.0 dinar per EUR (which is 15.8 percent more than at the beginning of 2010); and increase in the average exchange rate in 2010 by 13.4 percent. The effect of these changes on the Group's revenues and performance, relative to the adopted Business Plan, is negative.
- In 2010, the Group revised its composition of investments as it carried out three previously unplanned strategic combinations (Getro in Croatia, Pantomarket in Montenegro, and Coka in Serbia, which is still pending as the Serbian competition protection authorities have not yet issued their approval). The effect of these changes on the revenues is positive relative to the adopted Business Plan, however, it is not expected to positively affect the overall performance in 2010 due to integration costs. Positive effects are expected as of the start of the following year.
- In the first quarter of 2010, the company Mercator, d.d., revised the entire salary system to comply with the new legislation on minimum wage, which was not accounted for in the Business Plan. The effect of these changes on the Group's performance, relative to the adopted Business Plan, is negative.
- As at January 1st 2010, the Group's activities of preparation for potential monetization of its real estate portfolio included appraisal of its real estate and assessment of the useful life of major categories of property, plant, and equipment. The effects of these changes on performance, relative to the adopted Business Plan, are positive.

At the end of the third quarter, the Management Board shall again reevaluate the plausibility of assumptions considered in the current estimates and viability thereof. Any further changes will be reported in the following interim report.

Highlights from performance estimate for 2010

In 2010, the key figures of Mercator Group's performance are expected as follows:

- Assuming constant exchange rates, revenues are expected to rise by 7.1 percent compared to 2009; accounting for actual exchange rates, the increase is expected at 5.2 percent. In Slovenia, this figure is expected to drop by 2.5 percent, while abroad, it is expected to rise by 25.7 percent assuming constant exchange rates, or by 20.1 percent when accounting for actual exchange rates.
- In 2010, Mercator Group is expected to generate EUR 203,290 thousand of gross cash flow from operating activities before rents (EBITDAR), which is 6.6 percent more than in the corresponding period last year; assuming constant exchange rates, the growth amounts to 9.0 percent. In 2010, Mercator Group's gross cash flow from operating activities (EBITDA) shall amount to EUR 170,243 thousand, which is an increase of 1.8 percent compared to the corresponding period last year; assuming constant exchange rates, the increase amounts to 3.7 percent.
- Mercator Group's investments into property, plant, and equipment in 2010 shall amount to approximately EUR 120 million, as planned in the 2010 Business Plan. Net financial debt of the Group as at December 31st 2010 is estimated to amount to EUR 998,726 thousand.
- In 2010, Mercator Group is expected to generate a net income of EUR 30,160 thousand.
- Number of employees as at December 31st 2010 is estimated to amount to 22,944.

Particular categories are presented in more detail in the planned financial statements attached herewith.

Planned condensed consolidated income statement for the year 2010

EUR thousand

	Type of revenue / expense / cost	2009	Estimation 2010	Index Estimation 2010/ 2009
A.	**Revenue**	**2,643,315**	**2,780,000**	**105.2**
B.	**Cost of sales**	**-2,474,106**	**-2,590,291**	**104.7**
C.	**Gross profit**	**169,209**	**189,709**	**112.1**
D.	Administrative expenses	-109,955	-105,898	96.3
E.	Other income	12,588	13,956	110.9
F.	**Results from operating acitvities**	**71,842**	**97,767**	**136.1**
G.	Finance income	18,969	13,966	73.6
H.	Finance expenses	-65,616	-69,726	106.3
I.	**Profit before income tax**	**25,195**	**42,007**	**166.7**
J.	Income tax expense	-4,843	-11,614	239.8
K.	Deferred income tax	767	-233	-30.4
L.	**Profit for the financial period**	**21,119**	**30,160**	**142.8**
M.	Number of employees based on hours worked	20,266	21,327	105.2
N.	**Gross cash flow from operating activities**	**167,298**	**170,243**	**101.8**
O.	**Gross cash flow from operating activities before rental expenses**	**190,621**	**203,290**	**106.6**

Estimates for some financial highlights for the year 2010, assuming constant exchange rates

EUR thousand

	2009	Estimation 2010 (constant exchange rates)	Index Estimation 2010 (constant exchange rates)/ 2009
Revenue	2,643,315	2,830,000	107.1
Gross cash flow from operating activities	167,298	173,473	103.7
Gross cash flow from operating activities before rental expense	190,621	207,709	109.0

Planned condensed consolidated statement of financial position for the year 2010

EUR thousand

	Type of assets / liabilities	30.6.2009	31.12.2009	30.6.2010	ESTIMATION 31.12.2010
	ASSETS				
A.	**NON-CURRENT ASSETS**	**1,898,346**	**1,947,842**	**1,999,123**	**2,025,925**
I.	Property, plant and equipment	1,794,551	1,863,291	1,873,157	1,899,959
II.	Investment property	9,486	4,127	4,033	4,033
III.	Intangible assets	70,018	51,995	50,818	50,818
IV.	Deferred tax assets	8,837	8,086	8,313	8,313
V.	Loans	10,626	14,870	58,404	58,404
VI.	Available-for-sale financial assets	4,828	5,473	4,398	4,398
B.	**CURRENT ASSETS**	**565,569**	**528,506**	**571,742**	**528,005**
I.	Inventories	269,118	292,050	277,986	290,456
II.	Trade and other receivables	241,458	193,521	258,048	201,840
III.	Current tax assets	3,954	2,639	5,340	5,340
IV.	Loans	22,123	22,715	14,705	14,705
V.	Derivative financial instruments	0	737	216	216
VI.	Cash and cash equivalents	28,916	16,844	15,449	15,449
	TOTAL ASSETS	**2,463,915**	**2,476,348**	**2,570,866**	**2,553,930**
A.	**EQUITY**	**812,140**	**805,390**	**823,898**	**782,393**
	Total equity attributable to equity holders of the Company	**810,223**	**805,136**	**823,644**	**782,139**
I.	Ordinary shares	157,129	157,129	157,129	157,129
II.	Share premium	198,848	198,872	198,872	198,872
III.	Treasury shares	-3,250	-3,235	-3,235	-3,235
IV.	Revenue reserves	267,640	270,194	270,194	270,194
V.	Fair value reserve	183,909	186,029	198,416	198,416
VI.	Retained earnings	27,146	8,697	31,893	4,893
VII.	Profit for the year	11,362	21,232	17,663	30,160
VIII.	Currency translation reserve	-32,561	-33,782	-47,288	-74,288
	Minority interest	**1,917**	**254**	**254**	**254**
	LIABILITIES				
B.	**NON-CURRENT LIABILITIES**	**678,546**	**772,933**	**714,335**	**801,356**
I.	Trade and other payables	1,981	2,872	2,872	2,872
II.	Financial liabilities	594,322	683,547	625,094	712,318
III.	Deferred tax liabilities	51,509	49,326	52,340	52,137
IV.	Provisions	30,734	37,188	34,030	34,030
C.	**CURRENT LIABILITIES**	**973,229**	**898,025**	**1,032,632**	**970,181**
I.	Trade and other payables	452,007	525,062	558,634	575,509
II.	Current tax liabilities	4,869	164	6,525	6,525
III.	Financial liabilities	510,180	367,854	462,164	383,337
IV.	Derivative financial instruments	6,173	4,945	5,310	4,810
	TOTAL LIABILITIES	**1,651,775**	**1,670,958**	**1,746,967**	**1,771,537**
	TOTAL EQUITY AND LIABILITIES	**2,463,915**	**2,476,348**	**2,570,866**	**2,553,930**
	Number of employees as at the end of the period	21,258	21,636	22,407	22,944