



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



Poslovni sistem Mercator, d.d.
Management Board

May 2010

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SUMMARY

In the first quarter of 2010, Mercator Group sees stable business operations in compliance with relevant plans

Economic conditions related to the global financial crisis remained strenuous and unpredictable in the first quarter of 2010. In addition to the change in the composition and value of consumption, operations are troubled by increased risk of payment defaults which forces the companies to reduce sales with deferred payment, and by increased foreign exchange risk which is particularly acute in Serbia.

Despite these problems, Mercator Group generated EUR 637 million of revenues in the first quarter of 2010, which is 3.2 percent more than in the same period last year. Assuming constant exchange rates, Mercator Group revenues rose by 3.9 percent compared to the same period last year. The Group generated 36 percent of its total revenues in foreign markets, which is three percentage points more than in the first quarter of last year. Revenue growth at the Group level was positively affected by the acquisition of trade activities of the company Getro, d.d., in Croatia, and investments into retail network commenced in previous years. On the other hand, a negative effect on revenue growth arose as a result of decrease in wholesale activities due to increased risk of payment defaults on the part of our customers, adverse trends in sales of hardware and electronics, and textile program, and changes in the Serbian dinar exchange rates.

In the period at hand, Mercator invested a total of EUR 32.8 million, predominantly into development of the retail network, as laid out in the Annual Plan.

In the first quarter of 2010, the company generated EUR 6.65 million of net profit, which is 3.1 percent more than in the same period of 2009. The performance and operating results in the first quarter were positively affected by the intensive implementation of measures adopted for adjusting the offer for the consumers, and business rationalization measures. At the same time, additional costs were incurred due to the integration of trade activity of the company Getro, d.d.; coupled with strong investment into affordable pricing, these costs caused a negative impact on the Group performance. The Management Board finds such results favorable, particularly given the harsh economic conditions in all markets.

Highly stringent conditions in all markets

Results of the global financial crisis and its effects on the real economy are still felt and they are considerably reflected in the changes in the value and composition of consumer demand. The macroeconomic position of many countries of the Western Balkans is difficult and the payment indiscipline, resulting from restricted availability of credit and loans to companies and households still represents a major risk and forces the companies to cut back on deferred payment sales. The decrease in real consumer purchasing power and the fluctuations in exchange rates had a significant impact on Mercator's performance in the markets outside Slovenia.

Exchange rates have a major effect on revenues abroad

In addition to the general economic conditions, changes in exchange rates, particularly the Serbian dinar, have also had a negative effect on foreign operations. Dinar's average per-euro exchange rate rose by 5.9 percent in the first quarter of 2010 compared to the same period last year, which was not provided for in the 2010 Annual Plan.

Despite the harsh circumstances, Mercator Group carried on its development activities in foreign markets, reaching 12.4 percent revenue growth in markets outside Slovenia in the

first quarter of the year; assuming constant exchange rates, the rise would have amounted to 14.7 percent.

As at March 31st 2010, Mercator Group had 9,776 employees working at companies outside Slovenia.

First quarter's net profit amounts to EUR 6,652 thousand

In the period 1-3 2010, Mercator Group further pursued its planned activities for mitigating the effects of adverse economic conditions. These activities are grouped into three sets: measures for adjusting our offer to the changed circumstances, business rationalization measures, and measures for improving our operating flexibility. Mercator Group's net profit amounted to EUR 6,652 thousand, which is 3.1 percent more than in the same period last year. Net profit achieved at Mercator Group level is consistent with the year-on-year dynamics and the Annual Plan.

Stable cash flows and unrestricted investment and financial operations

In the first quarter of 2010, Mercator Group generated EUR 51,948 thousand of gross cash flow from operating activities before rents (EBITDAR), representing a 1.7 percent growth compared to the same period of 2009, or 2.7 percent growth assuming constant exchange rates. In the period 1-3 2010, Mercator Group generated 25.6 percent of the planned annual figure for EBITDAR. Stable generation of cash flow from operating activities points to high financial power, competitiveness, and business efficiency of the entire Group.

In the first quarter of 2010, the Group pursued its development and investment activities as planned. During this period, Mercator Group activated a total of 122,712 square meters of gross trade area in all markets combined, by renting and own investment. Investments totaled at EUR 32,806 thousand, of which EUR 23,315 thousand was invested abroad. Major part of investment was allocated for construction, purchase, completion, and equipping of shopping centres and individual stores. The rest was invested into refurbishment, distribution centres, and IT.

MAJOR EVENTS IN THE PERIOD 1-3 2010

Retail network development

▶ Serbia

- ▶ On January 15th 2010, we opened a supermarket in Belgrade and a superette in Novi Sad.

▶ Croatia

- ▶ On January 28th 2010, we opened a superette in Zagreb.
- ▶ On February 8th 2010, we opened a supermarket in Biograd.
- ▶ On February 17th 2010, we took over the operations of 16 Getro Cash & Carry stores based on a long-term lease agreement. Of these, four are located in Zagreb (Vrbani, Novi Zagreb, Sesvete, and Črnomerec), and one is located, respectively, in Bjelovar, Karlovac, Umag, Split, Dubrovnik, Sinj, Slavonski Brod, Rijeka, Varaždin, Zadar, Pula, and Sisak.
- ▶ On February 17th 2010, we took over the operations of the Getro distribution center in Zagreb.

Organizational changes at the Mercator Group

- ▶ As of January 1st 2010, the new macro-organizational structure of 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, improved operating efficiency, adjustment of the organizational complexity of international operations, and preparation for the option to dispose of and thus monetize our trade 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., in December 2009 founded the company Intersport ISI, d.o.o., and on January 4th 2010 the company Modiana, d.o.o. The activities of Intersport stores, as well as 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., to which all Intersport's operating activities in Croatia were transferred on April 1st 2010. On March 18th 2010, the company Modiana, d.o.o., Slovenia, founded the company Modiana, d.o.o., Croatia, to which the activities of textile and beauty program in the Croatian market are to be transferred.

Corporate governance

- ▶ The Supervisory Board of the company Poslovni sistem Mercator, d.d., met three times in the period 1-3 2010. It adopted the audited Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2009, the proposals of the Audit Committee, the Supervisory Board Report on Revision of the Annual Report, and the opinion on allocation of distributable profit for 2009.
- ▶ 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, President of the Management Board;
 - ▶ 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 Organisation 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 the 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 Mr. Stanislav Brodnjak, 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 held 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 March 31st 2010, the average price per share of the company Poslovni sistem Mercator, d.d., as regularly traded on the official market of the Ljubljana Stock Exchange, d.d., with the code MELR, amounted to EUR 157.72.

Share book value, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at March 31st 2010, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 213.47.

Basic net earnings per ordinary share, calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares, amounts to EUR 2.7.

MAJOR EVENTS FOLLOWING THE BALANCE SHEET DATE

Changes in Mercator Group composition

- ▶ On April 1st 2010, relevant activities were transferred to the company Modiana, d.o.o., Croatia.
- ▶ On April 1st 2010, relevant activities were transferred to the company Intersport H, d.o.o., Croatia.
- ▶ On April 15th 2010, the company Mercator - Emba, d.d., opened a new food production facility in the Zapolje Industrial Zone in Logatec.

Key information for the shareholders

On April 22nd 2010, the Supervisory Board of the company Poslovni sistem Mercator, d.d., met at its 6th meeting and adopted the proposal according to which the Management and Supervisory Board would propose to the Shareholders Assembly a dividend payment in the gross amount of EUR 7.2 per ordinary share.

In order to stabilize the ownership composition in the medium run, the company reached an agreement with a group of banks whose combined shareholdings in Mercator amount to 18.7 percent (NLB, NKBM, and Abanka), according to which these commercial banks would not dispose of their Mercator shares by September 30th 2012, provided the company pays the following dividends in gross amount of:

- EUR 7.20 in 2010,
- EUR 8.00 in 2011,
- EUR 8.80 in 2012.

FINANCIAL HIGHLIGHTS FOR THE PERIOD 1-3 2010

Financial highlights

	Mercator Group				
	1-3 2009	Plan 2010	1-3 2010	Index 1-3 2010 / 1-3 2009	Index 1-3 2010 / Plan 2010
Revenue (EUR thousand)	617,656	2,750,263	637,168	103.2	23.2
Results from operating activities (EUR thousand)	24,632	83,698	22,668	92.0	27.1
Profit before income tax (EUR thousand)	8,450	27,184	9,418	111.5	34.6
Profit for the financial period (EUR thousand)	6,449	21,856	6,652	103.1	30.4
Gross cash flow from operating activities (EUR thousand)	44,738	174,588	43,718	97.7	25.0
Gross cash flow from operating activities before rental expenses (EUR thousand)	51,062	202,571	51,948	101.7	25.6
Capital expenditure (EUR thousand)	34,368	120,000	32,806	95.5	27.3
Return on equity*	3.5%	2.7%	3.7%	103.6	133.8
Return on sales	1.0%	0.8%	1.0%	100.0	131.4
Gross cash flow from operating activities / net sales revenues	7.2%	6.3%	6.9%	94.7	108.1
Gross cash flow from operating activities before rental expenses / net sales revenues	8.3%	7.4%	8.2%	98.6	110.7
Number of employees based on hours worked	20,414	20,747	21,294	104.3	102.6
Number of employees as at the end of the period	21,548	22,167	22,446	104.2	101.3

* The indicator is adjusted to the annual level.

Selected financial highlights assuming constant exchange rates

	Mercator Group				
	1-3 2009	Plan 2010	1-3 2010	Index 1-3 2010 / 1-3 2009	Index 1-3 2010 / Plan 2010
Revenue (EUR thousand)	617,656	2,750,263	641,980	103.9	23.3
Gross cash flow from operating activities (EUR thousand)	44,738	174,588	44,065	98.5	25.2
Gross cash flow from operating activities before rental expenses (EUR thousand)	51,062	202,571	52,423	102.7	25.9

Due to the considerable impact of currency translation differences with Serbian Dinar (RSD) and Croatian Kuna (HRK), some financial highlights are also listed as comparable figures calculated through a simulation in which the average RSD and HRK exchange rates in the period at hand are the same as in 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 1 st 1990
Company share capital as at March 31 th 2010	EUR 157,128,514.53
Number of shares issued and paid-up as at March 31 th 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 31 st 2009	March 31 st 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 - 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., Macedonia (100.0 %)**	Investment International, d.o.o., 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 %)*
-	Modiana, d.o.o., Slovenia (100.0 %)
-	• Modiana, d.o.o., Croatia (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 home products.

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.

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD 1-3 2010

Although individual European countries, including Slovenia, have seen positive rates of economic growth as early as in the last quarter of 2009, the consequences of the global economic crisis can still be felt. Low value of consumer confidence indices point out that there is still a lot of uncertainty among the consumers, which is reflected in the changed composition and volume of consumption. Reference interest rates, remain at historical lows in the first quarter of the year as well, while interest rate margins on loans are very high, keeping the total financing costs at considerably high level.

The macroeconomic position of many countries of the Western Balkans is difficult with economic growth rates still below zero, and there is still a major risk of payment defaults, or "payment indiscipline", resulting from restricted availability of credit and loans to companies and households, which forces the companies to cut back on deferred payment wholesales unless solid insurance is provided. The decrease in real consumer purchasing power and exchange rates fluctuations had a significant impact on Mercator's performance in the markets outside Slovenia. In addition, Republic of Serbia has seen substantial depreciation of its local currency whose average per-eur rate has increased by 5.9 percent in the first quarter of this year, compared to the same period last year.

Exchange rate RSD/EUR	1-3 2009	1-12 2009	1-3 2010	Change 1-3 2010 / 1-3 2009
Average exchange rate of the period	92.74	93.79	98.18	105.9
Exchange rate at the end of the period	93.83	95.03	99.66	106.2

DEVELOPMENT AND INVESTMENT

In the period 1-3 2009, Mercator Group's investment into property, plant, and equipment amounted to EUR 32,806 thousand, of which EUR 23,315 thousand (71.1 percent) was invested abroad. The most funds, EUR 28,311 thousand, or 86.3 percent, were allocated for construction, purchase, completion, and equipping of shopping centres and individual stores, while the rest was invested into refurbishments, distribution centres, and IT.

Investment summary

Country	Capital expenditure 1-3 2010 (in EUR 000)	Structure in %
Slovenia	9,491	28.9%
Serbia	2,940	9.0%
Croatia	19,096	58.2%
Bosnia and Herzegovina	855	2.6%
Montenegro	63	0.2%
Bulgaria	73	0.2%
Albania	288	0.9%
TOTAL	32,806	100.0 %

In the period at hand, the greatest addition to Mercator's facilities is the long-term lease of 16 Getro Cash & Carry stores and one Getro distribution center in Croatia, including a

purchase of equipment. Consistently with the investment plan, no other major openings of trade facilities were scheduled.

Openings in the period at hand

▶ Serbia

▶ On January 15th 2010, we opened a supermarket in Belgrade and a superette in Novi Sad. Both stores are held based on an operating lease.

▶ Croatia

▶ On January 28th 2010, we opened a superette in Zagreb.

▶ On February 8th 2010, we opened a leased supermarket in Biograd.

▶ On February 17th 2010, we took over the operations of 16 Getro Cash & Carry stores based on a long-term operating lease agreement. Of these, four are located in Zagreb (Vrbani, Novi Zagreb, Sesvete, and Črnomerec), and one is located, respectively, in Bjelovar, Karlovac, Umag, Split, Dubrovnik, Sinj, Slavonski Brod, Rijeka, Varaždin, Zadar, Pula, and Sisak. The total area of all facilities combined amounts to 106,528 square meters.

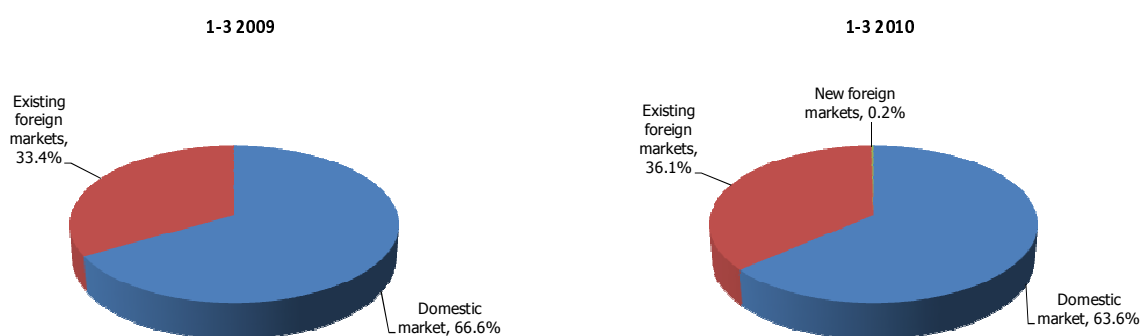
▶ On February 17th 2010, we took over the operations of the Getro distribution center in Zagreb. The facility with a total area of 13,214 square meters is leased.

SALES AND MARKETING

Sales

In the period 1-3 2010, Mercator Group generated a total of EUR 637 million of revenues from sales, which is 3.2 percent more than in the same period of 2009. Assuming constant exchange rates, net revenues from sales would have amounted to EUR 642 million, topping the 2009 figure by 3.9 percent.

Mercator Group net revenues from sales by geographical segments:



In Slovenia, Mercator Group net sales revenues amounted to EUR 405 million in the period 1-3 2010, which is 1.5 percent less than in the same period in 2009. In foreign markets, EUR 232 million of sales revenues was generated in the first quarter of 2010, which is 12.4 percent more than in the same period of 2009. Assuming constant exchange rates, revenues abroad would have amounted to EUR 236 million, exceeding the 2009 figure by 14.7 percent.

Category Management

In 2010, we continue to regularly update the planograms for most categories in all hypermarkets in Slovenia. Moreover, we have launched the implementation of planograms at 22 supermarkets. For some categories, planograms are being prepared for all stores of the market format.

In recent weeks, activities were also commenced in the hardware and electronics program, particularly in establishing a single and unified reporting system and in defining a common methodology for assortment management and planogram drawing.

In Croatia, we have established a standardized reporting system and implemented the fact-based negotiation tools. By the end of the first quarter, we have implemented the first planograms for some major categories at all hypermarkets.

Marketing Strategy

By offering added value for the customer and providing a pleasant modern shopping experience, we wish to elevate Mercator to the position of the most competitive retailer in the market.

- ▶ Our customers will be offered services and products fitting today's modern way of life;
- ▶ We shall promote environmental responsibility and health awareness;
- ▶ We shall have an innovative offer of products and services;

Changes in the social and economic conditions provided the guideline for our marketing and purchasing activities, as well as for defining our priorities, which include the following:

- ▶ Customer care and adjustment to the new market conditions: intensive adjustment of prices of the most commonly sold products;
- ▶ Upgrade of the Mercator Pika card customer loyalty system;
- ▶ Development of private label line products;
- ▶ Adjustment of the sales assortment and sales area;
- ▶ Rationalization of marketing activities, but not at the expense of the customer benefits;
- ▶ High level of service;
- ▶ Social accountability.

Customer Relations Management

Mercator Pika card Customer Loyalty System

As at the end of the period 1-3 2010, there was a total of **1,467,799 Mercator Pika card holders**. In the period at hand, the number of card holders **rose by 33,665**.

Mercator Pika card holders	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Total
as at December 31 st 2009	917,499	154,915	243,329	118,056	1,433,799
as at March 31st 2010	932,155	162,148	250,157	123,004	1,467,464
new holders in 1-3 2010	14,656	7,233	6,828	4,948	33,665

In Slovenia, the share of total retail revenues generated by Mercator Pika card purchases amounted to **55.9 percent** in the period 1-3 2010 (54.6 percent in 2009). In all markets of Mercator operations combined, this share amounted to **43.1 percent** (44.1 percent in 2009).

In Slovenia, monthly **Special Pika Discount** campaigns are a regular activity promoted for Mercator Pika card holders, involving an offer of a wide range of affordably priced products and services, prepared in cooperation with our partners in the Mercator Pika card system. In the period 1-3 2010, three corporate campaigns **Double points** were carried out, as well as a **Triple points** campaign in March, in M Tehnika, Gradnja and Pohištvo stores (hardware and electronics, construction, and furniture). Upon the completion of the 22nd bonus collection period, a Mercator Pika card prize drawing competition was held during the **Pika Day**.



Healthy Lifestyle Club

In the first three months of 2010, members of the Healthy Lifestyle Club received via direct mail the new issue of the Healthy Lifestyle magazine and three e-monthlies with current and relevant news. Club experts answered the questions submitted at the club's revamped website. Each month, numerous discounts on selected products are prepared for the club members, as well as various workshops. As at the end of March 2010, club membership totaled at 66 thousand.



Lumpi Club

In the first three months of 2010, Lumpi Club members received via direct mail a flyer and the National Geographic Mini Lumpi magazine. At the end of March, there were 17 thousand Lumpi Club members.



Maxi Club

The purpose of the Maxi Club is to provide a link between people who like shopping in the tranquil environment of the Maxi department store and who value the high quality of offer and expert service. At the end of March 2010, Maxi club had a membership of 11,500.

M Mobil

By launching the M Mobil service in 2006, Mercator became the first retailer in Slovenia to enter the mobile telephony market. Club members, also Mercator Pika card holders, are included in the M Mobil benefit and bonus system. At the end of March 2010, M Mobil Club had a membership of 1,453.

M Holidays

M Holidays operates independently in the market, with eleven offices across Slovenia. Each month, travel arrangements are offered and presented on Mercator flyers, Pika flyer, Travel Companion, "Merry-Go-Round of Events" flyer, and Cash & Carry flyers, as well as on the website at www.mholidays.si. In the beginning of March, we issued a new catalogue M Holidays Spring / Summer 2010, which includes a varied and comprehensive offer for May First and summer holidays, daytrips, travels, and cruises.



Printed media at Mercator

In the first three months of 2010, we published 3 issues of the Shopping Companion to communicate the offer at Mercator Centres and stores in Ljubljana; in February, we resumed the circulation the flyer called "Merry-go-Round of Events" which informs our consumers about the events at Mercator Centres across Slovenia.

Mercator Call Center

In the beginning of 2010, Mercator Call Center service and Customer Relations Management service were merged into 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.

Mercator web store

In the first three months of 2010, our web store saw a 12 percent growth compared to the same period last year, both in terms of the number of shopping sessions and the overall turnover.

Mercator web portal

In the period 1-3 2010, we carried out various activities to set up a revamped central web portal at www.mercator.si, in order to offer our visitors a more extensive range of information in a user-friendly manner.

Mercator at social networking sites

In 2010, Mercator's appearance at social networking sites Facebook, Twitter, and YouTube was further upgraded with the Lumpi brand and the prize collection application "Zberi in izberi" ("Collect and Choose"). Our activities were also presented at two round tables.

Customer Satisfaction Survey

Each year, we conduct a customer satisfaction survey in each market of our operations; the surveys include customers at all store formats. The rating for our market program in the first quarter of this year in all markets was **4.2** (on a scale from 1 to 5), which is the same as in 2009.

Perception of Quality and Pricing

Mercator is regularly monitoring the perception of quality and pricing among its customers. In the first quarter of 2010, Mercator retained the reputation of the retailer offering the highest quality of products, as well as a trustworthy retailer offering customers the best quality for the price paid.

Development of Private Label Lines and Exclusive Brands

In the first quarter of 2010, we continued pursuing our goals in the field of private label line and exclusive brand development. These goals include the following:

- ▶ preparing the strategies for development and future upgrade of Mercator private label lines;
- ▶ improving the reputation and distinctiveness of the private label lines;

- ▶ motivating purchases of various target groups of consumers through sales promotion activities and innovative communication, following current market trends;
- ▶ growth of the share of private label products in total sales revenues;
- ▶ developing new products by emphasizing safety and quality of products of all private label lines (in-house product testing and external testing at the Faculty of Biotechnology and the Institute of Public Health Kranj);
- ▶ intensified development of new products and redesign of product packaging;
- ▶ new development concept for the cosmetics and body care products within the exclusive Trebnik Mansion ("Dvorec Trebnik") line.

Private label and exclusive brands include the following product lines:

- ▶ **Mercator Line** includes alimentary products, households products, and products of the textile, and hardware and electronics program. It aims at offering the best price to quality ratio. As at the end of March 2010, the line included 1,011 products, of which 880 featured the redesigned packaging.



- ▶ **Generic Line** includes FMCG products, whose target consumer group are the most price sensitive, or price-aware, customers; sales of these products saw the steepest rise in the first quarter of 2010. Products of the generic line warrant the lower price at Mercator. As at the end of March 2010, the line included 111 products.



- ▶ **Lumpi** includes food, cosmetics, and apparel for children aged up to 10 years, 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. As at the end of March 2010, the line included 481 products, of which 90 featured the redesigned packaging.

- ▶ **Trebnik Mansion** ("Dvorec Trebnik") is a new exclusive line of high-quality 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 market trends. As at the end of March 2010, the line included 27 products.



- ▶ **The Wishing Table** includes products that allow simple and rapid preparation of a hearty meal. As at the end of March 2010, the line included 111 products.

- ▶ **Healthy Living** includes products that contribute to the improvement of our customers' diets. As at the end of March 2010, the line included 88 products; also 25 organically grown products were added to the line.

- ▶ **Premium Line** is intended for the customers with refined taste. These high-quality products are made of the best ingredients, with less artificial additives; they are mostly of Slovenian origin. As at the end of March, the line included 15 products.

- ▶ **Grosuplje Bakery** line includes premium bread and pastry. As at the end of March, Mercator private label included 118 products from the Grosuplje Bakery.

► **Ambient Line** includes high-quality products for interior decoration and daily household use. It is an upgrade to the M-line which also includes home products. As at the end of March, the line included 150 products (while the M-line included 117 products).



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

As at March 31st 2010, total number of products in the Mercator private label lines in **Slovenia** amounts to 2,254.

Presence of individual private label lines and exclusive brands in foreign markets:

	Mercator Line	Generic Line	Healthy Living	The Wishing Table	Lumpi	Grosuplje Bakery	Total Body Care	Ambient	Premium	Trebnik Mansion	TOTAL NR. OF LINES
Slovenia	x	x	x	x	x	x	x	x	x	x	10
Serbia	x	x	x	x	x		x	x			7
Croatia	x	x	x	x	x		x	x		x	8
Bosnia and Herzegovina	x	x	x	x	x		x	x			7
Montenegro	x	x			x			x			4
Bulgaria	x							x			2
Albania	x				x						2

In **Serbia**, we worked with the local manufacturers to develop new products in the Mercator Line and the Generic Line in the first quarter of 2010. The number of private label products in both formats currently amounts to 1,261.

In **Albania**, two private label lines were introduced in the period 1-3 2010: Mercator line and Lumpi. Furthermore, we carried out an advertising campaign for the "Five Per Day" products. Currently, there are 230 private label products in this market.

In **Croatia**, we carried on our strategy of development and upgrade of the private labels, improvement of private label reputation, preparation of various activities to reach target groups of consumers, increasing the number of private label line products, promotional activities and innovation in communication, as well as monitoring and managing product safety and quality. Currently, there are 49 P SUPER private label products and 1,373 Mercator line products.

In **Bosnia and Herzegovina**, there are currently 1,937 private label products. In the period 1-3 2010, we have worked to improve the distinctiveness of our private label line.

In **Montenegro**, 327 private label products were offered as at the end of March 2010.

In **Bulgaria**, private label products were introduced and presented. As at the end of March 2010, the offer included 82 private label products.

Sales Promotion Projects

Our efforts are constantly aimed at offering our customers a wide range of competitively priced high quality products and services. Our numerous long-term and short-term sales promotion projects are a vehicle employed to pursue this goal.

Long-term projects include "National Basket", "Every Day Low Price", "Slovenian Basket", "YES! Coupon", "Thursday's Retiree Discount", "Super Price", "Price of the Day", and the "Collect and Choose" customer loyalty programs.

Short-term sales promotion projects include distributing regular special offer campaign flyers, category, brand and private label discounts, double and triple Pika points, and special weekend offers.

Sales promotion projects were also conducted in specialized sales programs.

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

STORE FORMATS

One characteristic feature of Mercator Group trade operations is the diversity of its retail network with various store formats both in the market program and in specialized stores of hardware and electronics, apparel and beauty, and sports equipment program.

Mercator Centres and Shopping Centres

Mercator centres are shopping centres with a wide offer of all Mercator programs, as well as offer of other attractive service providers operating in leased outlets, and offer of complementary services. Hence, our customers are offered everything at one place. These facilities are located in major urban centres.

Roda centres are a format of modern shopping centres 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 centres where people not only do their major weekly shopping, but also socialize and spend their leisure time.

Mercator supermarkets and neighbour 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 time saving and comfortable shopping without leaving your home.

Mercator Cash & Carry are conventional Cash & Carry stores selling only to legal persons, or only offering wholesale services. The 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 centres, 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, meaning it serves both legal persons and individuals (natural persons). Its assortment and sales area are adapted accordingly. Open type Cash & Carry stores are located outside city centres, 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 persons and individuals. In the Croatian market, Getro has a total of 16 Cash & Carry centres; each has an average sales area of approximately 4,000 square meters.

At our discount stores, customers are offered rational shopping for basic FMCG, under the Hura! brand. The offer is based on the best ratio between price and quality, while providing the most competitive products in the market.

Roda megamarkets are larger stores offering affordably priced products, mostly to customers doing their major weekly or monthly shopping. They are located in Roda centres 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.

Specialized Store Formats

Specialized store formats are developed as activities that supplement our core activity or FMCG retail.

Hardware and electronics includes construction centres, independent combined hardware and electronics stores, and interior design and home appliances stores.

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

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 Centres as well as independently, i.e. as City Shops located in the centres of major cities. In tourist resorts, we are developing the so-called Ski & Resort stores.

New store formats

Currently, Mercator is either already present or in the process of entering markets, which on one hand offer market opportunities, but on the other reside at very different levels of economic development and efficiency. Some markets of the South-eastern Europe are economically underdeveloped, with lower purchasing power and gross domestic product per capita. Thus far, Mercator entered all of these markets with its standardized sales formats offering either "premium" or "value" products, i.e. with a certain level of offer and services and a particular commitment to the customer regarding the overall shopping experience. In less developed economies, where purchasing power is lower and where price is the ultimate criterion for any shopping decision, existing standardized store formats may prove less adjusted to the actual given requirements.

Hence, Mercator is planning to develop the "**economy**" store format in 2010, combining rationality of the offer and minimalism in terms of service and ambiance on one hand, and simplification of work and shopping processes on the other. It is a cost-effective store format perceived by the customers as a place for affordable shopping. "Economy" format targets the large segment of rational shoppers and consumers with lower purchasing power as it provides savings by offering affordable and cost-effective array of products and services, reduces shopping complexity (simplified store appearance visually emphasizing the goods and special offers), allows profitable operation by minimizing labor costs and the value of the initial investment, while still delivering value added for the customers and offering a pleasant shopping experience.

Composition of Retail Units

Breakdown of the composition of Mercator Group retail units by types of stores, particular programs, and particular markets as at March 31st 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	266,074	174,875
Supermarkets	131	24	30	12	4	-	-	201	229,371	147,553
Superettes	278	26	43	2	4	-	-	353	149,896	84,412
Neighbour stores	64	3	15	2	1	-	-	85	13,863	7,492
Cash & Carry	12	2	16	-	-	-	-	30	131,800	93,845
Hard discount stores	16	-	-	-	-	-	-	16	12,551	8,850
TOTAL FMCG program	521	67	118	22	10	1	1	740	803,556	517,026
Technical program	96	8	14	-	-	-	-	118	157,876	91,206
Technical program	64	6	14	-	-	-	-	84	124,599	66,348
Furniture program	32	2	-	-	-	-	-	34	33,277	24,859
Clothing program and drugstores	96	19	30	13	-	-	-	158	69,005	57,747
Clothing program	77	10	30	9	-	-	-	126	65,233	54,769
Drugstores and perfumeries	19	9	-	4	-	-	-	32	3,771	2,978
Intersport	30	10	25	8	1	1	-	75	44,294	34,161
Restaurants	18	6	-	12	-	-	-	36	12,660	7,343
Other	11	-	-	-	-	-	-	11	197	189
TOTAL specialised programs	251	43	69	33	1	1	-	398	284,032	190,646
TOTAL	772	110	187	55	11	2	1	1,138	1,087,588	707,672
Franchise stores	221	-	66	-	-	-	-	287	52,200	33,873
TOTAL with franchise stores	993	110	253	55	11	2	1	1,425	1,139,788	741,545

Development of New Technologies and Services

In 2010, rollout of new technologies in our stores continues. In this year, **self-service checkout cashiers** were introduced in the Serbian market. Tik Tak self-checkout cashiers are thus in operation in 30 Mercator hypermarkets and at two supermarkets. In Slovenia, Croatia and Serbia combined, a total of 148 self-checkout cashiers are in operation, accounting for nearly 30 percent of all purchases.

In order to determine whether additional savings in power and fuel could be made at Mercator stores, the test of **closed 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 compilation of standards for larger store formats, i.e. hypermarkets and major specialized hardware and electronics stores.

SUPPLIER RELATIONS AND LOGISTICS

Purchasing of Trade Goods and Supplier Relations

Procurement contracts with suppliers of fast-moving consumer goods for 2010 were signed at the end of 2009. Due to seasonal effects, supplier contracts for hardware and electronics program were only signed in early February.

In the first quarter, we carried on our envisaged search of favourable procurement sources in various quality and price segments, for all programs. In our operations, particular care is devoted to cost rationalization; therefore, numerous operation analyses were conducted in the first quarter of 2010, examining possibilities of redirecting the supply in order to cut logistics costs.

Attention is 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 with all commitments adopted and accepted last year by the Slovenian Competition Protection Office.

Logistics

In the first quarter 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 competitiveness improvement were focused on further progress of the logistics infrastructure optimization project, with the following activities being at the forefront in the period:

- ▶ We have completed the second stage of implementing paperless operation and pursued the revision of fruit and vegetables distribution processes.
- ▶ Integration of the facility Mercator – Emba was launched, including establishment and activation of external connections, which will integrate the Slovenčeva Street location into a single and comprehensive warehouse-distribution complex.
- ▶ Preparations are under way for integrating the Hura! warehouse into the market program distribution centres at Slovenčeva Street and in Ptuj.

ORGANIZATION AND QUALITY OF OPERATIONS

Organizational Management

On January 1st 2010, the company Mercator, d.d., was reorganized. Two new companies to accommodate the reorganization were formed within the Mercator Group: Intersport ISI, d.o.o., and Modiana, d.o.o. Consistently with the plan, preparations are under way for reorganization of the activities conducted by these two companies in foreign markets. In February, the company Mercator - H, d.o.o., took over the trade activity of the company Getro in the market of the Republic of Croatia.

Quality standards

We have compiled the Rules of Procedure for Integrated Management System at Mercator Group, defining the responsibilities and powers of the management systems within Mercator Group. Consistently with the approved document, persons in charge of management systems at Mercator Group were appointed. Management Systems Council was also founded to operate at the Mercator Group level.

Mercator, d.d. was awarded the ISO 22000 certificate for food safety management system; and HACCP certificate for food safety management was awarded to Mercator - S, d.o.o. Reorganization and founding of new companies (Intersport ISI, d.o.o., and Modiana, d.o.o.) also introduced some changes in certificate ownership.

Internal Controls at Our Stores and Food Safety Management System

We closely followed the legislative changes in the processes of goods and services flow in the trade industry, we notified the users on the requirements, provided advice to them, and introduced these changes to our internal standards. At Mercator, d.d., we carried out 138 regular and 13 unexpected internal controls at our sales units, and kept track of the findings of inspections. We monitored withdrawals of goods and analyzed them by cause, area, and initiator.

Mercator, d.d., is the only trade company in Slovenia, engaging in retail and wholesale of food products and products in contact with food, to hold the ISO 22000:2005 certificate; it is also the second trade company in the European Union to hold such certificate.

Seven training sessions were held for persons in charge of the HACCP system, including 73 employees, as well as four Mercator Management Academy training sessions for store managers and their deputies, involving 92 employees. At the store management meeting attended by 589 persons in charge of internal control, we conducted additional specialized education on the changes in legislation and internal standards.

Business Process Optimization and Standardization Projects

Standardization of key processes, distribution and implementation of best practices as well as well-thought of and appropriately structured processes at the Mercator Group are of key importance for providing an efficient organization of operations deliberated.

In the period 1-3 2010, we carried out activities within the project of revision and IT support implementation to the process of brand life cycle management, which included defining and documenting user requirements arising in part from the changes in the organization of the Mercator Group. The process outlined clearly defines the activities of the Group and individual companies, provides central management of brand lifecycle and simple operative and communicational flows between the participants or entities in the process and among trade companies of the Mercator Group, and also allows faster adjustment to the changes in shopping behaviour.

We have joined the Pan-Slovenian pilot project of implementation of electronic trade goods catalogue for Slovenia, kept and managed by the organization GS1 Slovenia. This organization is in charge of disseminating global standards in labeling and document exchange in goods trade. In the period at hand, functionality of the application-level solution "Electronic Product Catalogue" was examined by the supplier and customers, who also performed a coordinated test of this solution.

IT AND TELECOMMUNICATION

Consistently with the **strategic project of IT system revision**, the following activities were carried out in the period 1-3 2010:

- ▶ As a 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 established the basic SAP modules at companies Intersport ISI, d.o.o., and Modiana, d.o.o.

- ▶ 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 out the following:
 - We have carried on the upgrade to the G.O.L.D. CENTRAL module intended for editing and maintaining master data, managing procurement processes, and managing promotion activities; and
 - carried on the connection of market format stores in Slovenia to the G.O.L.D. SHOP module (background operations at the store) by integrating the new POS trade system.

The following activities were carried out in other fields:

- ▶ We continued to upgrade the **Mercator Pika card customer loyalty system**.
- ▶ With regard to IT **support to general operations optimization projects at the Mercator Group** we carried on the project of goods receipt at the Fruit & Vegetables warehouse, and continued to upgrade and expand the automatic ordering and reporting systems.
- ▶ **IT support to management and decision-making** included further activities within the program of category management, customer relations management project, and the project of Integral Material Operation Data Warehouse (inclusion of data from new markets and inclusion of units that have introduced G.O.L.D.).
- ▶ **IT support to retail, manufacturing, and hospitality services** included further qualitative upgrade of the POS trade systems, unification of IT support, and extension of the self-check-out cashiers in Slovenia, Croatia, and Serbia.
- ▶ In the field of **infrastructure, telecommunication, and security**, we provided smooth operation, replacement and upgrade to infrastructural environments (G.O.L.D. and other systems), adjusted the infrastructural environment for the separation of the companies Modiana, d.o.o., and Intersport ISI, d.o.o., completed the implementation of the risk management system in the field of SAP authorizations (security), and completed the implementation of the revised communication network.
- ▶ With regard to the field of **information production support**, we set up a User Help Center, available during the progress of business processes, for the entire region.

In foreign markets, we carried on the unification of the infrastructure and the IT support to retail and wholesale in compliance with the standards of support to the companies of the Mercator Group. 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

As at March 31st 2010, net financial liabilities of the Mercator Group amount to EUR 1,158 thousand, which is 15.8 percent more than as at the end of 2009. This is the result of the following:

- year-on-year trade operations dynamics;
- premature payment of trade payables that result in beneficial financial discounts, and
- takeover of operations of the company Getro, d.d.

We expect the Group financial liabilities at the end of 2010 to be consistent with the Annual Plan.

As at March 31st 2010, the debt-to-equity ratio (capitalization ratio) of the Mercator Group amounted to 1:1.42. This is the ratio between equity (comprising disclosed equity plus provisions for liabilities and charges) and debt capital (comprising non-current and current financial liabilities and non-current financial lease liabilities).

In the period 1-3 2010, Mercator mostly signed agreements on bilateral short-term loans for refinancing the existing sources, but also obtained some other long-term sources. Despite harsh conditions in the financial markets, we have managed to completely refinance all due borrowings in the period at hand.

MERCATOR SHARE AND OWNERSHIP STRUCTURE

Mercator Share

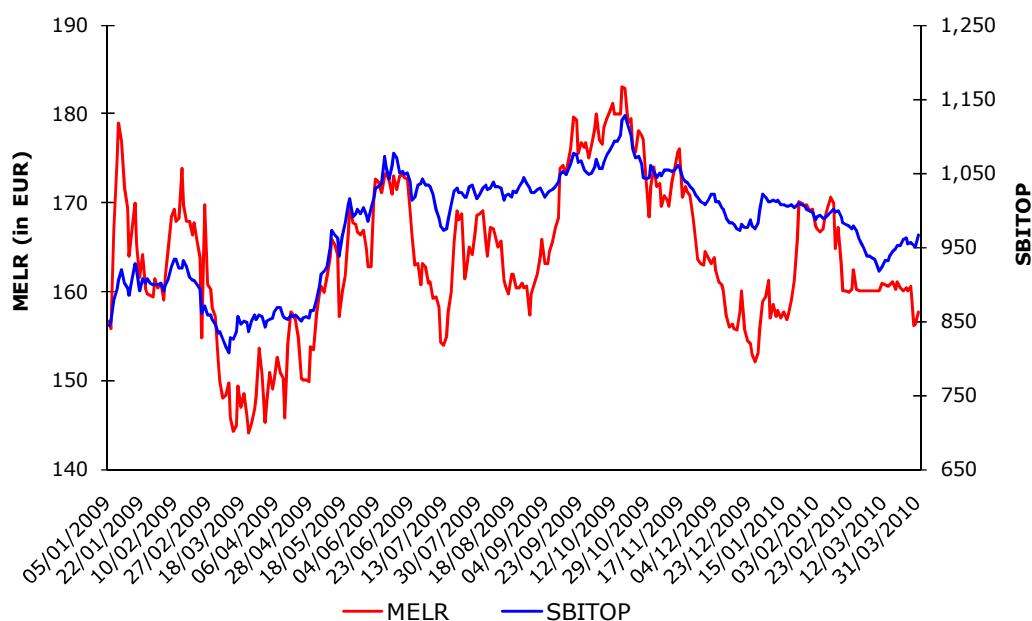
As at March 31st 2010, **share capital of the company Poslovni sistem Mercator, d.d.**, was divided into 3,765,361 shares. Nominal value per share amounts to EUR 41.73.

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**.

At its meeting held on September 21st 2009, the Management Board of the company Poslovni sistem Mercator, d.d., adopted a resolution to launch preliminary preparation proceedings for the **issuance of up to 20 percent of new company share capital**, based on approved share capital, in order to secure in a timely manner additional financial funds to fuel any strategic combinations and alliances in the field of trade, real estate, or other activities.

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



Key information for the shareholders

	March 31st 2010
Number of shares registered in Court Register	3,765,361
Number of treasury shares	42,192
Market capitalization (in EUR)	593,872,737
Market value of share (in EUR)	157.72
Book value per share (in EUR)	213.47
Annual low (in EUR)	155.59
Annual high (in EUR)	170.69
Weighted average market price, excluding block and cross trades (in EUR)	164.83
Earnings per share (in EUR)	2.7

Equity market capitalization is calculated as the product of the number of shares entered into Court Register as at March 31st, and the market price per share as at March 31st.

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 March 31st, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Dividend policy

At their 6th meeting, the Supervisory Board of the company Poslovni sistem Mercator, d.d., adopted the proposal according to which the Management and Supervisory Board of Mercator, d.d., would submit for approval to the Shareholders Assembly a proposal to pay out a gross dividend of EUR 7.20 per ordinary share in this year, which is 60 percent more than in 2009. In defining the dividend policy for this year, the company took into account the expectations of the shareholders, major and small, as well as other business circumstances. To secure the funds required to pay out the dividends in this year, Mercator will disinvest commercially unviable assets and implement the measures for efficient working capital management; thus, higher dividend payment will not affect the development plans and the company's financial stability.

Recently, groups of major shareholders have, on several occasions, disposed of substantial blocks of Mercator, d.d., shares; in fact, one such disposal is currently still in progress. As a result, the ownership composition of the company Mercator, d.d., was perceived by external stakeholders as being very unstable. During the economic crisis, each element of instability perceived by major stakeholders can, to a considerable extent, negatively affect the company's capacity to successfully pursue its business goals. It is in the best interest of the company Mercator, d.d., and the Mercator Group to stabilize the ownership composition in the medium run, as this will allow Mercator to unobstructedly continue the pursuit of its strategic policies and to seize development opportunities in the South-Eastern European region. In addition, a general economic recovery can be expected in the following few years, which will favorably affect the capital markets and thereby also the stock prices.

In order to stabilize the ownership structure in the medium term, the company reached an agreement with the banks NLB, NKBM, and Abanka, whose total combined Mercator shareholdings amount to 18.7 percent. According to this agreement, these commercial banks shall not dispose of their Mercator shares until September 30th 2012, provided that the

company pays dividends in the amount of EUR 7.20 in 2010, EUR 8.00 in 2011, and EUR 8.80 in 2012. The agreement is not legally binding and rather expresses an intent and effort to stabilize the company's shareholder composition in the following medium term, which is in the best interest of the company.

Ownership Structure

As at March 31st 2010, the Share Register of the company Poslovni sistem Mercator, d.d., indicated **16,945 shareholders** or 134 less compared to the situation as at December 31st 2009.

Major Shareholders

As at March 31st 2010, the following ten largest shareholders combined owned **60.51 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 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
6 Banka Celje, d.d.	Slovenia	165,270	4.39%
7 Gorenjska banka, d.d.	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		2,278,427	60.51%

Foreign shareholders

As at March 31st 2010, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **12.95 percent**, which is 0.47 percentage points more than at the end of 2009.

Shares held by Management Board members as at March 31st 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 March 31st 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 Župetič	0	0.0000%
Total	2,036	0.0541%

Treasury shares

As at March 31st 2010, the company Poslovni sistem Mercator, d.d., held 42,192 treasury shares. In the period 1-3 2010, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

RISK MANAGEMENT

The depreciation of the Serbian currency, dinar, had the most acute negative effect on performance, as the average per-euro exchange rate rose by 5.9 percent in the period 1-3 2010, compared to the relevant period last year. Despite this development, total exposure of Mercator Group to key business, financial, and operational risks as at March 31st 2010 has not changed considerably compared to the end of 2009 and it remains moderate.

CORPORATE SOCIAL RESPONSIBILITY AND CARE FOR THE 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 throughout the year 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.

Care for the environment

At Mercator Group, we are aware that sustainability and competitiveness are two closely intertwined notions. Therefore, environmentally sustainable operations have been a part of the Group's strategy for a while. 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 a desirable 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.

EMPLOYEE DEVELOPMENT

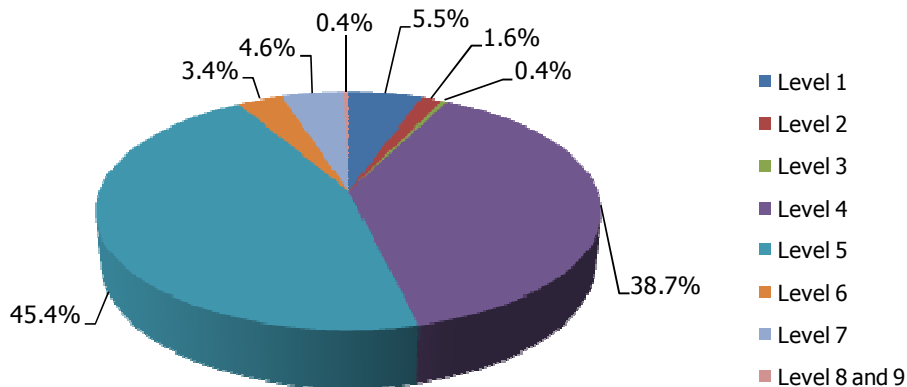
Number of employees

As at March 31st 2010, Mercator Group had 22,446 employees, of which 11,397 were employed at Mercator Operations Slovenia, 9,776 were employed at Mercator Operations SE Europe, 19 were employed at real estate management, and 1,254 were employed at other companies of the Mercator Group. A total of 43.6 percent of all Mercator workers were employed in markets outside Slovenia.

Number of employees:

	Number of employees as at December 31st 2009	Number of employees as at March 31st 2010	Index Number of employees March 31st 2010/ December 31st 2009	Number of employees based on hours worked in period 1-3 2010
Poslovni sistem Mercator, d.d.	12,297	11,198	91.1	10,997
Mercator IP, d.o.o.	200	199	99.5	164
Operations Slovenia	12,497	11,397	91.2	11,161
Mercator - S, d.o.o.	3,714	3,716	100.1	3,919
Mercator - H, d.o.o.	3,023	4,254	140.7	3,821
Mercator - BH, d.o.o.	1,024	1,017	99.3	984
M - BL, d.o.o.	241	243	100.8	215
Mercator - Mex, d.o.o.	368	352	95.7	325
Mercator - B, e.o.o.d.	76	75	98.7	68
Mercator - A, sh.p.k.	131	119	90.8	121
Operations SE Europe	8,577	9,776	114.0	9,453
Mercator - Optima, d.o.o.	21	19	90.5	18
Real estate	21	19	90.5	18
Intersport ISI, d.o.o.	0	295	-	294
Modiana, d.o.o., Slovenia	-	648	-	604
Eta, d.d.	198	197	99.5	185
Mercator - Emba, d.d.	111	114	102.7	117
Other	309	1,254	405.8	1,200
MERCATOR GROUP	21,404	22,446	104.9	21,831

Breakdown by level of education



Compared to the same period in 2009, employee composition by education has improved.

Employee Relations

▶ Talent development and career planning

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



▶ The **Third International Mercator Business Academy** is currently in progress.

▶ Preparations are under way for **management and communication workshops** for the members of the Mercator Management Board Council, assistants to the Management Board members, and executive directors.

▶ We organized seminars on **Management by Objectives** for employees conducting annual performance appraisal interviews with key employees in Slovenia, Serbia, and Banja Luka.

▶ Preparations are under way for the establishment of the **Mercator Alumni Club**, an association of the participants of the Mercator International Business Academy.

▶ Transfer of knowledge and experience

▶ We have carried on the development of our coaching and mentorship network. In the first three months of 2010, we held meetings with all Competence Centres that provide expert support to workplace training in retail. In Banja Luka, we commenced the activities of the coaching and mentorship network. We have trained new coaches and mentors for Mercator - Mex, d.o.o.

▶ We have carried out numerous forms of mandatory education in all markets, including occupational safety and health, fire safety, forklift truck operator training, HACCP training, first aid training, etc.

▶ We organized seminars on the use of IT tools: GOLD, AOP, Savica, SAP, and MAOP.

▶ **Staffing and recruitment**

▶ The majority of staffing activities took place in Serbia due to opening of new facilities and formation of a new field Mercator SE Europe.

▶ In Croatia, we carried out all required HRM activities related to the takeover of the activities of the company **Getro, d.d.**, including its 1,241 employees.

▶ We have revised our Standard of Recruitment, Training, and Temporary Employment of workers assigned to posts abroad.

▶ We have revised the Manual for new employees.



▶ **Employee motivation and compensation**

▶ In Slovenia, we responded to the increase in the mandatory minimum wage by signing an agreement on **adjustment of the salary system** with the social partners. The salary system was adjusted in such way that the IV qualification grade which includes the largest share of our employees, saw the highest salary increase. These changes were implemented as of February 1st 2010, i.e. one month before the new Minimum Wage Act came into force.

▶ In Bosnia and Herzegovina, we employed the template from Mercator - S, d.o.o., for compiling the documentation on the change of the salary system.

▶ At Mercator - BH, d.o.o., and M - BL, d.o.o., the "**Best Boss**" titles were awarded.

▶ **Dialogue with the employees**

▶ We issued **internal magazines** in Slovenia, Serbia, Croatia, and Bosnia and Herzegovina.

▶ We prepared everything required to commence the **annual interviews**. In 2010, these will be conducted with key employees in Slovenia and Croatia, while in other markets they will be conducted with all employees. We have drafted a standard on conducting annual performance appraisal interviews for the Mercator Group.

▶ Retail and HRM management has paid visits to hypermarkets and supermarkets in order to conduct open and relaxed conversations with the employees.

▶ 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.

▶ Corporate culture

▶ The Mercator Group Management Board Council has confirmed and adopted the **revised corporate values**. They have been defined in cooperation with nearly 300 employees in all markets of the Mercator Group. The new values are the following: **responsibility, integrity, trust, teamwork, learning and responsiveness**.

▶ We plan to obtain the full **Family-Friendly Company Certificate**. We have also carried out two workshops of the task force to prepare a proposal on additional measures for improving the work-life balance.

▶ Occupational safety and health

In Slovenia, the "**Promoting Health at Mercator**" project has been carried on, involving numerous activities: exercise at the Ljubljana sports and recreation center, yoga classes in major cities, football in Hrastnik, seminars on breast cancer and osteoporosis, etc.



▶ In the period 1-3 2010, the **humanitarian aid** allocation committee at the Mercator Humanitarian Foundation met twice and discussed 30 applications. Humanitarian aid was paid out to 22 employees, in a total amount of **EUR 14,617**.

▶ Social enterprise

▶ At March 31st 2010, Mercator social enterprise had a total of 199 employees, of which 92 were persons with disabilities, which is 46.2 percent of all employees. Consistently with the Business Plan of expansion and transfer of some service activities from the parent company to the social enterprise, employees of the latter now perform services of archiving, occupational safety and health and fire safety tasks, and decoration and flower arrangement services, mostly commissioned by the parent company.

▶ In the field of manufacturing, activity of the social enterprise includes development of cosmetics products and a line of interior decoration textile products under the brand Dvorec Trebnik (The Trebnik Mansion). As a result of the transfer of manufacturing activities, employees of the social enterprise also prepare and pack fresh and dried fruit and vegetables. Their products are marketed mostly for the requirements of the parent company.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-3 2010 were compiled in compliance with the International Financial Reporting Standards, and they are unaudited.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated financial statements of the Mercator Group include the company Poslovni sistem Mercator, d.d., and 25 subsidiaries, in which the controlling company directly or indirectly holds a majority interest. These subsidiaries are the following:

- ▶ **in Slovenia:** Eta, d.d., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Mercator IP, d.o.o., M.COM, d.o.o., and M - nepremičnine, d.o.o., Intersport ISI, d.o.o., Modiana, d.o.o.;
- ▶ **abroad:** Mercator - S, d.o.o., Serbia, Mercator - H, d.o.o., Croatia, Mercator - BH, d.o.o., Bosnia and Herzegovina, M - BL, d.o.o., Bosnia and Herzegovina, Mercator - Mex, d.o.o., Montenegro, Mercator - B, e.o.o.d., Bulgaria, Mercator - A, sh. p. k., Albania, Mercator - K, d.o.o., Republic of Kosovo, Mercator Macedonia, d.o.o.e.l., Macedonia, Investment International, d.o.o., Macedonia, Tomkon, d.o.o., Serbia, Tomveloping, d.o.o., Serbia, Tomsales, d.o.o., Serbia, Sitireks, d.o.o., Serbia, Magnoreks, d.o.o., Serbia, Intersport H, d.o.o., Croatia, Modiana, d.o.o., Croatia.

Consolidated Income Statement

EUR thousand

	Type of revenue / expense / cost	1-3 2009	Plan 2010	1-3 2010	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Revenue	617,656	2,750,263	637,168	103.2	23.2
1.	Net sales of goods, materials and products	562,214	2,524,802	579,467	103.1	23.0
2.	Revenue from services sold	56,952	230,539	59,051	103.7	25.6
3.	Expenses for given discounts	-1,510	-5,078	-1,350	89.4	26.6
B.	Cost of sales	-571,482	-2,587,892	-595,420	104.2	23.0
1.	Production costs	-452,267	-2,071,163	-467,936	103.5	22.6
2.	Other expenses	-1,101	-2,681	-592	53.8	22.1
3.	Selling and marketing costs	-118,114	-514,048	-126,892	107.4	24.7
C.	Gross profit	46,174	162,371	41,748	90.4	25.7
D.	Administrative expenses	-23,820	-85,703	-24,315	102.1	28.4
E.	Other income	2,278	7,030	5,235	229.8	74.5
F.	Results from operating activities	24,632	83,698	22,668	92.0	27.1
G.	Finance income	6,072	5,347	2,195	36.1	41.1
H.	Finance expenses	-22,254	-61,861	-15,445	69.4	25.0
I.	Profit before income tax	8,450	27,184	9,418	111.5	34.6
J.	Income tax expense	-1,732	-5,653	-2,394	138.2	42.3
K.	Deferred income tax	-269	325	-372	138.3	-
L.	Profit for the financial period	6,449	21,856	6,652	103.1	30.4
M.	Attributable to equity holders of the Company	6,524	22,123	6,658	102.1	30.1
N.	Attributable to minority interest	-75	-267	-6	8.0	2.2
O.	Number of employees based on hours worked	20,414	20,747	21,294	104.3	102.6
P.	Gross cash flow from operating activities	44,738	174,588	43,718	97.7	25.0
R.	Gross cash flow from operating activities before rental expenses	51,062	202,571	51,948	101.7	25.6

Consolidated Statement of Comprehensive Income

EUR thousand

	1-3 2009	Plan 2010	1-3 2010
1	2	3	4
Profit for the financial period	6,449	21,856	6,652
Other comprehensive income			
Foreign currency translation differences for foreign operations	-14,859	-3,000	-9,223
Change in fair value of cash flow hedges	-4,265	0	-1,488
Other comprehensive income for the financial period	-19,124	-3,000	-10,711
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	-12,675	18,856	-4,059
Attributable to equity holders of the Company	-12,594	19,123	-4,056
Attributable to minority interest	-81	-267	-3

Consolidated Statement of Financial Position

EUR thousand

Type of assets / liabilities	31.3.2009	31.12.2009	Plan 31.12.2010	31.3.2010	Structure 31.3.2010	Index
ASSETS						
A. NON-CURRENT ASSETS	1,873,771	1,933,331	1,939,929	1,977,877	77.2%	102.3
I. Property, plant and equipment	1,776,612	1,863,291	1,859,341	1,856,262	72.5%	99.6
II. Investment property	10,442	4,127	3,910	4,066	0.2%	98.5
III. Intangible assets	73,217	51,995	62,204	53,134	2.1%	102.2
IV. Deferred tax assets	8,380	8,086	9,386	8,109	0.3%	100.3
V. Trade and other receivables	310	359	409	50,832	2.0%	14,159.3
VI. Available-for-sale financial assets	4,810	5,473	4,679	5,474	0.2%	100.0
B. CURRENT ASSETS	606,881	543,017	578,650	583,910	22.8%	107.5
I. Inventories	282,483	292,050	278,237	281,682	11.0%	96.4
II. Trade and other receivables	291,816	230,747	292,586	285,527	11.1%	123.7
III. Current tax assets	2,607	2,639	1,748	6,847	0.3%	259.5
IV. Derivative financial instruments	0	737	1,500	310	0.0%	42.1
V. Cash and cash equivalents	29,975	16,844	4,579	9,544	0.4%	56.7
TOTAL ASSETS	2,480,652	2,476,348	2,518,579	2,561,787	100.0%	103.5
A. EQUITY	801,425	805,390	814,841	801,331	31.3%	99.5
Total equity attributable to equity holders of the company	799,498	805,136	814,173	801,080	31.3%	99.5
I. Ordinary shares	157,129	157,129	157,129	157,129	6.1%	100.0
II. Share premium	198,848	198,872	198,872	198,872	7.8%	100.0
III. Treasury shares	-3,250	-3,235	-3,236	-3,235	-0.1%	100.0
IV. Revenue reserves	267,640	270,195	267,042	270,195	10.5%	100.0
V. Fair value reserve	184,486	186,029	180,366	184,541	7.2%	99.2
VI. Retained earnings	24,682	8,696	25,585	29,928	1.2%	344.2
VII. Profit for the financial period	6,524	21,232	22,123	6,658	0.3%	31.4
VIII. Currency translation reserve	-36,561	-33,782	-33,708	-43,008	-1.7%	127.3
Minority interest	1,927	254	668	251	0.0%	98.8
LIABILITIES						
B. NON-CURRENT LIABILITIES	704,105	772,933	752,118	738,744	28.8%	95.6
I. Trade and other payables	1,981	2,872	2,468	2,872	0.1%	100.0
II. Financial liabilities	618,128	683,547	665,740	652,002	25.5%	95.4
III. Deferred tax liabilities	52,465	49,326	51,161	49,229	1.9%	99.8
IV. Provisions	31,531	37,188	32,749	34,641	1.4%	93.2
C. Current liabilities	975,122	898,025	951,620	1,021,712	39.9%	113.8
I. Trade and other payables	503,168	525,062	618,542	478,310	18.7%	91.1
II. Current tax liabilities	657	164	278	2,913	0.1%	1,776.2
III. Financial liabilities	463,434	367,854	330,712	534,484	20.9%	145.3
IV. Derivative financial instruments	7,863	4,945	2,088	6,005	0.2%	121.4
TOTAL LIABILITIES	1,679,227	1,670,958	1,703,738	1,760,456	68.7%	105.4
TOTAL EQUITY AND LIABILITIES	2,480,652	2,476,348	2,518,579	2,561,787	100.0%	103.5
Number of employees as at the end of the period	21,548	21,636	22,167	22,446	-	103.7

Consolidated Statement of Cash Flows

EUR thousand

Cash flows	1-3 2009	1-3 2010
Cash flows from operating activities		
Gross cash flow from operating activities	44,738	43,718
Change in trade and other receivables	34,758	-109,695
Change in inventories	-10,092	10,368
Change in trade and other payables	-97,123	-43,926
Changes in working capital	-72,457	-143,253
Interest paid	-18,577	-10,756
Income tax paid	-1,732	-2,394
Net cash from operating activities	-48,028	-112,685
Cash flows from investing activities		
Acquisition of property, plant and equipment	-34,014	-26,798
Acquisition of intangible assets	-354	-4,670
Deposits made	0	-4,081
Proceeds from sale of property, plant and equipment	1,004	1,930
Interest received	5,357	607
Deposits repayments received	14,796	7,358
Net cash used in investing activities	-13,211	-25,654
Cash flows from financing activities		
Proceeds (repayments) of borrowings	45,978	131,510
Net cash from financing activities	45,978	131,510
Net increase in cash and cash equivalents	-15,261	-6,828
Cash and cash equivalents at the beginning of the period	45,870	16,844
Currency translation differences	-634	-472
Cash and cash equivalents at the end of financial period	29,975	9,544

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 financial period	0	0	0	0	-4,265	0	6,524	-14,853	-12,594	-81	-12,675
Transfer of profit for the year in retained earnings	0	0	0	0	0	24,682	-24,682	0	0	0	0
Balance at 31 March 2009	157,129	198,848	-3,250	267,640	184,486	24,682	6,524	-36,561	799,498	1,927	801,425

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	270,195	186,029	8,696	21,232	-33,782	805,136	254	805,390
Total comprehensive income for the financial period	0	0	0	0	-1,488	0	6,658	-9,226	-4,056	-3	-4,059
Transfer of profit for the year in retained earnings	0	0	0	0	0	21,232	-21,232	0	0	0	0
Balance at 31 March 2010	157,129	198,872	-3,235	270,195	184,541	29,928	6,658	-43,008	801,080	251	801,331

Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED INCOME STATEMENT

► Revenues

Mercator Group Revenues in the period 1-3 2010 amount to EUR 637,168 thousand, which is 3.2 percent more than in the same period last year. Assuming constant exchange rates, Mercator Group revenues would have amounted to EUR 641,980 thousand, a 3.9 percent increase over the same period last year.

in EUR 000	1-3 2009	Plan 2010	1-3 2010	Index 1-3 2010 / 1-3 2009	Index 1-3 2010 / Plan 2010
Slovenia	411,585	1,760,634	405,550	98.5	23.0
Foreign markets	206,071	989,629	231,618	112.4	23.4
Mercator Group	617,656	2,750,263	637,168	103.2	23.2

Assuming constant exchange rates:

in EUR 000	1-3 2009	Plan 2010	1-3 2010	Index 1-3 2010 / 1-3 2009	Index 1-3 2010 / Plan 2010
Slovenia	411,585	1,760,634	405,550	98.5	23.0
Foreign markets	206,071	989,629	236,430	114.7	23.9
Mercator Group	617,656	2,750,263	641,980	103.9	23.3

Mercator Group's sales revenues in the period 1-3 2010 arrived at 23.2 percent of the planned annual revenues, which is consistent with the annual dynamics in the trade industry.

► Cost of sales

Costs of sales including production costs, other expenses, and selling and marketing costs, amounted to EUR 595,420 thousand in the period at hand, exceeding the figure for the same period last year by 4.2 percent. The increase in costs is a result of the integration of activities of the company Getro, d.d., additional leasing costs for newly opened or extended trade facilities, and other costs pertaining to the expansion of the Group's operations.

► Gross profit

Gross profit for the period 1-3 2010 amounted to EUR 41,748 thousand, which is a 9.6 percent decrease compared to the period 1-3 2009, and 25.7 percent of the gross profit planned for 2010.

The share of gross profit in sales revenues amounted to 6.6 percent, which is 0.9 percentage points less than in the same period last year.

► Selling and marketing costs, administrative expenses and production costs

Selling and marketing costs, administrative expenses and production costs amounted to EUR 158,826 thousand, which is 6.7 percent more than in the same period last year.

The share of selling and marketing costs, administrative expenses and production costs, excluding depreciation and revaluation adjustments, in total revenues amounts to 21.1 percent, which is 0.8 percent more than in the same period last year. The difference is mostly the result of the merger of Getro, d.d.

▶ **Other income**

Other income in the period 1-3 2010 amounted to EUR 5,235 thousand, which is EUR 2,957 thousand more than in the same period last year. This income includes proceeds from disposal of property, plant, and equipment, and reversal of non-current provisions to income.

▶ **Results from operating activities**

Results from operating activities for the period 1-3 2010 amounted to EUR 22,668 thousand, which is EUR 1,964 thousand, or 8.0 % less than the same figure for the period 1-3 2009, representing 27.1 percent of the annual plan for 2010.

▶ **Finance income and expenses**

Finance income amounted to EUR 2,195 thousand, which is 63.9 percent less than in the period 1-3 2009. Finance revenues were mostly generated by regular interest received from financing, and revenues from default interest.

Finance expenses for the relevant period amount to EUR 15,445 thousand, of which a major portion relates to expenses from interest paid to commercial banks, negative currency translation differences, and impairment of receivables. Compared to the same period last year, they represent a 30.6 percent decrease, mostly resulting from the decrease in currency translation differences and in impairment of receivables.

▶ **Profit before income tax**

In the period 1-3 2010, the Mercator Group generated EUR 9,418 thousand of profit before income tax, which is 11.5 percent more than in the period 1-3 2009.

▶ **Profit for the financial period**

In the period 1-3 2010, the Mercator Group generated EUR 6,652 thousand of net profit, which is 3.1 percent more than in the same period last year and 30.4 percent of the 2010 annual plan.

▶ **Gross cash flow from operating activities before rental expenses (EBITDAR)**

Gross cash flow from operating activities before rental expenses (EBITDAR) for the period 1-3 2010 amounted to EUR 51,948 thousand, which is 1.7 percent more than in the same period last year. Simulating for constant exchange rates, EBITDAR in the period 1-3 2010 would have amounted to EUR 52,423 thousand, which would have been a 2.7 percent growth over the same period last year. The EBITDAR attained by the Mercator Group in the period 1-3 2010 amounts to 25.6 percent of the planned annual EBITDAR.

▶ **Gross cash flow from operating activities (EBITDA)**

Mercator Group's gross cash flow from operating activities (EBITDA) for the period 1-3 2010 amounted to EUR 43,718 thousand, which is 2.3 percent less than in the period 1-3 2009.

Simulating for constant exchange rates, EBITDA in the period 1-3 2010 would have amounted to EUR 44,065 thousand, which would have been only 1.5 percent less than in the first quarter last year.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

As at March 31st 2010, the value of property, plant, and equipment, investment property, and intangible assets amounts to EUR 1,913,462 thousand, which is EUR 5,951 thousand less than at the beginning of the year; these assets represent 74.4 % of total assets. Changes in the period 1-3 2010 are related to investments, depreciation, disposal of commercially unviable property, plant, and equipment, and currency translation differences.

▶ **Available-for-sale financial assets**

As at March 31st 2010, available-for-sale financial assets amount to EUR 5,474 thousand, which is the same as at December 31st 2009.

▶ **Inventories**

Inventories of merchandise, raw materials, and material as at March 31st 2010 amount to EUR 281,682 thousand, and represent 48.2 % of the total current assets. Compared to the beginning of the year, the value of inventories fell by EUR 10,368 thousand, or 3.6 percent.

▶ **Trade and other receivables**

As at March 31st 2010, trade and other receivables amounted to EUR 336,359 thousand, which is EUR 105,253 thousand more than at the beginning of the year. The increase is mostly the result of the integration of operations of company Getro, d.d.

▶ **Bank deposits**

As at March 31st 2010, bank deposits amount to EUR 5,471 thousand.

▶ **Equity**

In the period 1-3 2010, the equity of the Group decreased by EUR 4,059 thousand. Following are the major changes:

- increase by the net profit of the majority interest holder attained in the period 1-3 2010, in the amount of EUR 6,658 thousand;
- decrease in equity for the change in fair value of derivative financial instruments in the amount of EUR 1,488 thousand;
- decrease in equity due to currency translation differences at the translation of financial statements of foreign companies into the reporting currency, in the amount of EUR 9,226 thousand;
- decrease in minority capital in the amount of EUR 3 thousand.

Return on equity, calculated as the ratio between net profit and average equity in the period at hand, amounts to 3.7 %.

▶ **Trade and other payables**

Trade and other payables as at March 31st 2010 amounted to EUR 481,182 thousand, which is EUR 46,752 thousand less than at the end of 2009. The decrease is mostly the result of early payment of payables to suppliers and the resulting discounts granted.

▶ **Financial liabilities**

Non-current financial liabilities as at March 31st 2010 amount to EUR 652,002 thousand, and have decreased by EUR 31,545 thousand compared to the beginning of the year.

Current financial liabilities as at March 31st 2010 amount to EUR 534,484 thousand, and have increased by EUR 166,630 thousand compared to the beginning of the year.

Total financial liabilities as at March 31st 2010 amount to EUR 1,186,486 thousand, which is EUR 135,085 thousand more than at the end of 2009. The increase in current financial liabilities is mostly the result of intra-year dynamics in the trade industry, takeover of the trade operations of Getro, d.d., in Croatia, and intensive utilization of financial discounts on early payments to suppliers. In the first quarter of 2010, Mercator Group fully refinanced its due financial liabilities.

▶ **Provisions**

As at March 31st 2010, provisions amounted to EUR 34,461 thousand. Compared to the beginning of the year, provisions have decreased by EUR 2,547 thousand.

▶ **Derivative financial instruments**

As at March 31st 2010, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounted to EUR 6,005 thousand, which is EUR 1,060 thousand more than at the end of 2009.

▶ **Deferred tax liabilities**

As at March 31st 2010, the net deferred tax liabilities totaled at EUR 41,120 thousand.

Financial indicators

	Mercator Group		
	1-3 2009	Plan 2010	1-3 2010
Indicators of profitability			
Return on equity*	3.5%	2.7%	3.7%
Return on sales	1.0%	0.8%	1.0%
Gross profit / revenue	7.5%	5.9%	6.6%
Indicators of financial structure			
Financial liabilities / equity	1.3	1.2	1.5
Equity and provisions to total equity and liabilities	33.6%	33.7%	32.6%
Financial liabilities to total equity and liabilities	43.6%	39.6%	46.3%
Trade and other payables to total equity and liabilities	20.4%	24.7%	18.8%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (EUR thousand)*	13.4	13.5	12.9
Revenue / labour costs	9.0	9.8	9.3
Revenue per employee per hours worked (EUR thousand)*	133.1	132.6	131.7
Value added per employee per hours worked (EUR thousand)*	24.4	22.0	23.3
Business costs / sales	23.2%	21.7%	23.4%
Gross cash flows from operating activities / revenue	7.2%	6.3%	6.9%
Gross cash flows from operating activities before rental expenses / revenue	8.3%	7.4%	8.2%
Invested capital (EUR)	1,937,917	1,909,716	1,948,414
Gross cash flows from operating activities / invested capital*	10.2%	9.1%	9.9%

* The indicator is adjusted to the annual level.

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

The company Poslovni sistem Mercator, d.d., has a double role in the Mercator Group: it is the parent company that 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.

Income Statement

EUR thousand

	Type of revenue / expense / cost	1-3 2009	Plan 2010	1-3 2010	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Revenue	412,531	1,760,568	426,359	103.4	24.2
1.	Net sales of goods, materials and products	377,450	1,618,895	390,721	103.5	24.1
2.	Revenue from services sold	36,335	145,577	36,653	100.9	25.2
3.	Expenses for given discounts	-1,254	-3,904	-1,015	81.0	26.0
B.	Cost of sales	-378,246	-1,629,140	-391,217	103.4	24.0
1.	Purchase value of goods and material sold, production costs, received discounts	-299,454	-1,300,265	-312,612	104.4	24.0
2.	Other expenses	-1,050	-2,357	-97	9.2	4.1
3.	Selling and marketing costs	-77,742	-326,519	-78,508	101.0	24.0
C.	Gross profit	34,285	131,428	35,142	102.5	26.7
D.	Administrative expenses	-16,759	-62,519	-14,968	89.3	23.9
E.	Other income	1,553	4,593	4,515	290.8	98.3
F.	Results from operating activities	19,079	73,502	24,689	129.4	33.6
G.	Finance income	2,382	3,420	1,003	42.1	29.3
H.	Finance expenses	-13,320	-50,532	-13,351	100.2	26.4
I.	Profit before income tax	8,141	26,390	12,341	151.6	46.8
J.	Income tax expense	-1,588	-5,455	-2,092	131.7	38.3
K.	Deferred income tax	-292	213	-253	86.6	-
L.	Profit for the financial period	6,261	21,147	9,996	159.7	47.3
M.	Number of employees based on hours worked	11,880	11,739	10,997	92.6	93.7

Statement of Comprehensive Income

EUR thousand

	1-3 2009	1-3 2010
1	2	3
Profit for the financial period	6,261	9,996
Other comprehensive income		
Change in fair value of cash flow hedges	-4,265	-1,488
Other comprehensive income for the financial period	-4,265	-1,488
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	1,995	8,509

Statement of Financial Position

EUR thousand

1	Type of assets / liabilities	31.3.2009	31.12.2009	Plan 31.12.2010	31.3.2010	Structure 31.3.2010	Index
1	2	3	4	5	6	7	8=6/4
	ASSETS						
A.	Non-current assets	1,600,967	1,627,548	1,602,234	1,632,184	81.0%	100.3
I.	Property, plant and equipment	1,000,945	1,011,915	1,015,810	1,006,089	49.9%	99.4
II.	Investment property	10,490	4,127	3,910	4,077	0.2%	98.8
III.	Intangible assets	10,770	10,870	10,920	10,282	0.5%	94.6
IV.	Deferred tax assets	8,430	8,172	9,342	8,172	0.4%	100.0
V.	Trade and other receivables	299	315	368	311	0.0%	98.8
VI.	Participation in equity of group companies	565,819	587,177	557,636	598,280	29.7%	101.9
VII.	Available-for-sale financial assets	4,213	4,972	4,247	4,972	0.2%	100.0
B.	Current assets	380,191	319,720	376,545	383,607	19.0%	120.0
I.	Inventories	181,195	178,090	175,219	142,460	7.1%	80.0
II.	Trade and other receivables	197,773	136,408	198,512	236,709	11.7%	173.5
III.	Current tax assets	1,223	2,028	1,315	3,995	0.2%	197.0
IV.	Derivative financial instruments	0	737	1,500	310	0.0%	42.0
V.	Cash and cash equivalents	0	2,457	0	133	0.0%	5.4
VI.	Total assets	1,981,158	1,947,268	1,978,779	2,015,792	100.0%	103.5
A.	EQUITY	783,036	786,088	794,983	794,597	39.4%	101.1
I.	Ordinary shares	157,129	157,129	157,129	157,129	7.8%	100.0
II.	Share premium	198,848	198,872	198,872	198,872	9.9%	100.0
III.	Treasury shares	-3,250	-3,235	-3,235	-3,235	-0.2%	100.0
IV.	Revenue reserves	235,460	238,015	238,015	238,015	11.8%	100.0
V.	Fair value reserve	169,075	168,155	162,735	166,667	8.3%	99.1
VI.	Retained earnings	19,513	7,872	20,321	27,153	1.3%	344.9
VII.	Profit for the financial period	6,261	19,281	21,147	9,996	0.5%	51.8
	LIABILITIES						
B.	Non-current liabilities	469,482	520,151	536,454	477,063	23.7%	91.7
I.	Trade and other payables	1,981	2,872	3,660	2,872	0.1%	100.0
II.	Financial liabilities	401,012	447,100	465,454	406,530	20.2%	90.9
III.	Deferred tax liabilities	39,347	38,049	39,672	38,049	1.9%	100.0
IV.	Provisions	27,143	32,131	27,669	29,612	1.5%	92.2
C.	Current liabilities	728,640	641,029	647,342	744,132	36.9%	116.1
I.	Trade and other payables	328,890	355,811	394,625	296,138	14.7%	83.2
II.	Current tax liabilities	0	0	0	2,392	0.1%	-
III.	Financial liabilities	391,887	280,273	250,629	439,597	21.8%	156.8
IV.	Derivative financial instruments	7,863	4,945	2,088	6,005	0.3%	121.4
	Total liabilities	1,198,122	1,161,180	1,183,796	1,221,194	60.6%	105.2
	Total equity and liabilities	1,981,158	1,947,268	1,978,779	2,015,792	100.0%	103.5
		12,693	12,297	12,357	11,198	-	91.1

Statement of Cash Flows

EUR thousand

Cash flows	1-3 2009	1-3 2010
Cash flows from operating activities		
Gross cash flow from operating activities	29,616	34,314
Change in trade and other receivables	36,185	-66,759
Change in inventories	-376	35,630
Change in trade and other payables	-94,670	-57,312
Gross cash from operating activities	-58,861	-88,441
Interest paid	-12,108	-13,259
Income tax paid	-1,588	-2,092
Net cash from operating activities	-42,942	-69,478
Cash flows from investing activities		
Acquisition of subsidiaries	-1,800	-11,103
Acquisition of property, plant and equipment	-11,163	-7,313
Acquisition of intangible assets	-262	-243
Deposits made	0	-45,889
Proceeds from sale of subsidiaries	0	1,908
Proceeds from sale of property, plant and equipment	971	0
Interest received	2,261	656
Deposits repayments received (deposits made)	15,703	10,382
Net cash used in investing activities	5,710	-51,601
Cash flows from financing activities		
Proceeds (repayments) of borrowings	37,232	118,755
Net cash from financing activities	37,232	118,755
Net increase in cash and cash equivalents	0	-2,324
Cash and cash equivalents at the beginning of the period	0	2,457
Cash and cash equivalents at the end of financial period	0	133

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	235,460	173,341	3,444	16,070	781,041
Total comprehensive income for the financial period	0	0	0	0	-4,265	0	6,261	1,995
Transfer of profit for the year in retained earnings	0	0	0	0	0	16,070	-16,070	0
Balance at 31 March 2009	157,129	198,848	-3,250	235,460	169,075	19,513	6,261	783,036

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	238,015	168,155	7,872	19,281	786,088
Total comprehensive income for the financial period	0	0	0	0	-1,488	0	9,996	8,509
Transfer of profit for the year in retained earnings	0	0	0	0	0	19,281	-19,281	0
Balance at 31 March 2010	157,129	198,872	-3,235	238,015	166,667	27,153	9,996	794,597

Notes to the Financial Statements

NOTES TO THE INCOME STATEMENT

▶ **Revenue**

Revenue for the period 1-3 2010 amounted to EUR 426,359 thousand, which is an increase of 3.4 % over the comparable period last year.

Revenues resulting from the sales of goods, materials, and products amounted to EUR 390,721 thousand, which is 3.5 % more compared to the same period last year. The increase is mostly the result of the sales of inventories to the companies Intersport ISI, d.o.o., and Modiana, d.o.o., which were launched as individual companies in the first quarter of the year.

Revenues from sales of services amounted to EUR 36,653 thousand, which is a 0.9 percent increase compared to the same period last year.

▶ **Cost of sales**

Cost of sales, including purchase value of goods and material sold, production costs, received discounts, other expenses, and selling and marketing costs in the relevant period, amounted to EUR 391,217 thousand, and exceeded the figure for the same period last year by 3.4 percent.

▶ **Gross profit**

Gross profit for the period 1-3 2010 amounted to EUR 35,142 thousand, which is 2.5 more compared to the period 1-3 2009.

The share of gross profit in revenues from sales in the period 1-3 2010 amounted to 8.2 percent, which is 0.1 percentage point less than in the same period last year. The decrease is a result of highly committed marketing activities and investment into price affordability.

▶ **Selling and marketing costs, administrative expenses and production costs**

Selling and marketing costs, administrative expenses and production costs amounted to EUR 93,476 thousand, which is 1.1 percent less than in the same period last year.

The share of selling and marketing costs, administrative expenses and production costs, excluding depreciation and revaluation adjustments, in total revenues, amounts to 18.8 percent, which is 1.1 percentage points less than in the same period last year. The increase in cost efficiency is a result of highly committed implementation of strategic projects for business process optimization, optimization of logistics infrastructure, and implementation of cost rationalization measures at the company.

▶ **Other income**

Other income in the period 1-3 2010 amounts to EUR 4,515 thousand. It comprises proceeds from disposal of property, plant, and equipment and reversal of provisions to income.

▶ **Results from operating activities**

Results from operating activities in the period 1-3 2010 amount to EUR 24,689 thousand, which is 29.4 percent more than in the period 1-3 2009 and represents 33.6 percent of the 2010 annual plan.

▶ **Finance income and expenses**

Finance income in the period 1-3 2010 amounted to EUR 1,003 thousand, which is 57.9 percent less in the period 1-3 2009. Finance income relates predominantly to interest received.

Finance expenses in the period 1-3 2010 amount to EUR 13,351 thousand, which is 0.2 percent more than in the same period last year. The majority of this figure relates to finance expenses from interest paid to commercial banks.

▶ **Profit for the financial period**

Company net profit for the period 1-3 2010 amounted to EUR 9,996 thousand, which is 59.7 percent more than in the same period of the last year and 47.3 percent of the annual figure planned for 2010. Higher profit is partly a result of proceeds from disposal of property, plant, and equipment and reversal of provisions to income.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

As at March 31st 2010, the value of property, plant, and equipment, investment property, and intangible assets amounts to EUR 1,020,448 thousand, which is EUR 6,463 thousand less than at the beginning of the year. These assets represent 50.6 % of total assets. The change in this ratio is a result of investment, amortization and depreciation, and disposal of commercially unviable assets.

▶ **Participation in equity of group companies**

As at March 31st 2010, participation in equity of group companies amounted to EUR 598,280 thousand; in the period 1-3 2010, the figure rose by EUR 11,103 thousand, which is the amount of initial equity in the company Modiana, d.o.o.

▶ **Available-for-sale financial assets**

Available-for-sale financial assets as at March 31st 2010 amounted to EUR 4,972 thousand, which is the same as at the beginning of the year.

▶ **Inventories**

Inventories of raw materials, material, and merchandise as at March 31st 2010 amount to EUR 142,460 thousand, and represent 37.1 % of total current assets. Compared to the beginning of the year, the value of inventories fell by EUR 35,630 thousand, or 20 percent, due to the sale of these inventories to the newly founded companies Intersport ISI, d.o.o., and Modiana, d.o.o., which started operating as individual companies in the first quarter of 2010.

▶ **Current trade and other receivables**

As at March 31st 2010, trade and other receivables amounted to EUR 236,709 thousand, which is EUR 100,302 thousand more than at the beginning of the year. The increase in receivables is a result of the sale of inventory to the companies Intersport ISI, d.o.o., and

Modiana, d.o.o., which started operating as individual companies in the first quarter of 2010, and a short-term loan to the company Mercator - H, d.o.o.

▶ **Equity**

In the period 1-3 2010, company equity increased by EUR 8,509 thousand. The major changes are related to the following:

- Increase by the net profit generated in the period 1-3 2010, in the amount of EUR 9,996 thousand; and
- decrease in the fair value reserve in the amount of EUR 1,487 thousand.

Return on equity calculated as the ratio between net profit and average equity in the period at hand amounts to 5.6 %.

▶ **Trade and other payables**

Trade and other payables as at March 31st 2010 amounted to EUR 299,009 thousand, which is EUR 59,673 thousand less than at the end of 2009. This is mostly the result of early settlement of payables to suppliers, resulting in early payment discounts granted.

▶ **Financial liabilities**

Non-current financial liabilities as at March 31st 2010 amount to EUR 406,530 thousand, and have decreased by EUR 40,570 thousand compared to the beginning of the year.

Current financial liabilities as at March 31st 2010 amount to EUR 439,597 thousand, and have increased by EUR 159,324 thousand compared to the beginning of the year. The increase is partly the result of intra-year dynamics in the trade industry, and early settlement of payables to suppliers, resulting in early payment discounts granted.

Total financial liabilities as at March 31st 2010 amount to EUR 846,127 thousand, which is EUR 118,755 thousand more than at the end of 2009.

▶ **Provisions**

As at March 31st 2010, the provisions amounted to EUR 29,612 thousand. Compared to the beginning of the year, the figure has decreased by EUR 2,519 thousand.

▶ **Derivative financial instruments**

As at March 31st 2010, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 6,005 thousand, which is EUR 1,060 thousand more than at the end of 2009.

▶ **Deferred tax liabilities**

As at March 31st 2010, the net deferred tax liabilities totaled at EUR 29,877 thousand.

TRANSACTIONS WITH RELATED PARTIES

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

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

Financial Indicators

	POSLOVNI SISTEM MERCATOR, D.D.		
	1-3 2009	Plan 2010	1-3 2010
Indicators of profitability			
Return on equity*	3.5%	2.7%	5.6%
Return on sales	1.5%	1.2%	2.3%
Gross profit / revenue	8.3%	7.5%	8.2%
Indicators of financial structure			
Financial liabilities / equity	1.01	0.90	1.06
Equity and provisions to total equity and liabilities	40.9%	41.6%	40.9%
Financial liabilities to total equity and liabilities	40.0%	36.2%	42.0%
Trade and other payables to total equity and liabilities	16.7%	20.1%	14.8%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (EUR thousand)*	16.8	17.0	17.0
Revenue / labour costs	8.3	8.8	9.1
Revenue per employee per hours worked (EUR thousand)*	152.8	150.0	170.6
Business costs / sales	23.0%	21.9%	21.7%

* The indicator is adjusted to the annual level.

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

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

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, May 4th 2010

FEASIBILITY ASSESSMENT OF THE BUSINESS PLAN FOR THE YEAR 2010

In the first quarter of 2010, Mercator Group performed consistently with expectations and the figures laid out in the Business Plan for the year.

The 2010 Business Plan for the Mercator Group does not include the effect of some events and macroeconomic aspects that have occurred or were perceived in the first quarter of 2010, and are expected to bear a notable effect on the operations of the Mercator Group. These include, most notably, the following:

- ▶ Changes in exchange rates. In the first quarter of 2010, Serbian dinar depreciated by as much as 4.9 percent compared to the rate as at December 31st 2009. Consistently with the macroeconomic situation prevalent at the time, such change in the exchange rates was not planned and accounted for in the 2010 Business Plan.
- ▶ Payment indiscipline. In all markets where Mercator Group is engaged in wholesale operations, payment defaults by wholesale customers resulted in lower sales revenues in the first quarter of the year. Mercator's financial risk management policy requires payment for the goods sold within agreed deadlines, as well as appropriate insurance for its receivables. Otherwise, sale of goods with deferred payment is not possible.
- ▶ Integration of the trade operations of the company Getro, d.d., in Croatia. Takeover of trade activities was completed at the end of February 2010, which means that intensive activities related to the integration and consolidation of operations have been under way in March and April. Given the current economic conditions, appropriate credit risk management policy was applied as a part of the revenues is generated in wholesale.

At the end of the first quarter, the company attempted an evaluation of the effect that the occurrences listed above have had and would have on Mercator Group operations by the end of 2010. We have found that giving a comprehensive and realistic estimate is currently very difficult as there are too many unknowns with regard to the monetary policy in Serbia and the resulting changes in the Serbian dinar per-euro exchange rate by the end of the year. Furthermore, it is not known when the credit crunch would be eased to improve the liquidity of our wholesale customers and, as a result, decrease the number of payment defaults. As a result of the restrictions in wholesale operations, resulting from exposure to credit risk, it is also difficult to give a reliable estimate of the annual amount of revenues generated by the Mercator Group as a result of the takeover of trade operations of the company Getro, d.d.

The effect of the said events and occurrences on the operations of the Mercator Group in 2010, and feasibility of the 2010 Business Plan will be reevaluated by the Management Board in the Semiannual Report, as they believe that at the time, more facts will have been known, allowing a reliable and realistic evaluation and estimate of Mercator Group's performance for the rest of the year.