



Mercator

we care



Summary of the Annual Report for the year 2010

thinking about the future

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MERCATOR GROUP PROFILE AND ORGANIZATION

Mercator Group profile














Slovenia

Current foreign markets



New foreign markets



Markets of operation in 2010	Slovenia	Serbia, Croatia, Bosnia and Herzegovina, Montenegro	Bulgaria, Albania
Share of sales revenues	60.9 %	38.8 %	0.3 %
Competitive environment	<ul style="list-style-type: none"> Relatively stable and consolidated trade, the role of discount stores and drug stores is increasing. The competition is highly stringent since discount stores are presenting a serious challenge to the conventional retailers and making their presence felt. 	<ul style="list-style-type: none"> Trade is relatively less consolidated, but highly competitive. Many international retailers are present in addition to the regional and local players. 	<ul style="list-style-type: none"> Market is relatively underdeveloped, highly fragmented and traditionalist. Several local and international retail chains are present. In Bulgaria, international retailers make the competition highly stringent.
Sales program	<ul style="list-style-type: none"> Fast-moving consumer goods Home products Intersport Modiana 	<ul style="list-style-type: none"> Fast-moving consumer goods Home products Intersport Modiana 	<ul style="list-style-type: none"> Fast-moving consumer goods Intersport
Number of stores	985	489	9
Store brands	  	    	  
Growth strategy	Development and modernization of retail network; adapting store formats to the local environment; high-quality, wide, competitive, and innovative offer; superior level of service; pleasant shopping experience; sustainable development; targeted promotional activities for loyal customers.	Expansion of retail network; adapting store formats to the local environment; high-quality, wide, competitive, and innovative offer; superior level of service; pleasant shopping experience; sustainable development; targeted promotional activities for loyal customers.	Expansion of retail network; entry to the new markets (Macedonia and Kosovo); adapting store formats to the local environment; high-quality, wide, competitive, and innovative offer; superior level of service; pleasant shopping experience; sustainable development; targeted promotional activities for loyal customers.
Market share (fast-moving consumer goods)	Slovenia 33 – 34%	Serbia, Croatia 8 – 9% Bosnia and Herzegovina: 4–5% Montenegro: 18 – 19%	Albania: 1 % Bulgaria: < 0.5%

Mercator Group activities

The most important and extensive activity of the Mercator Group is retail and wholesale of fast-moving consumer goods. The Group also offers many complementary services in order to round off the offer and meet the needs, desires, and expectations of every customer.

Fast-moving consumer goods

Mercator Group has developed a dense and extensive retail network throughout Slovenia and other countries, providing high-quality offer to meet every customer's desires, tastes, and needs. We are working to bring our shopping centers, hypermarkets, supermarkets, smaller neighbourhood stores, Hura! discount stores, and web store as close as possible to the users and to provide a pleasant shopping experience.



Home products



Mercator Group is offering home products in stores called M Tehnika (appliances and electronics), M Gradnja (construction), and M Pohištvo (furniture); in addition to the products, very favourable terms of payment are offered as well. The offer includes high-quality and reliable construction materials, modern furniture and equipment for every room in the home and office, modern home appliances and major appliances, and consumer electronics by globally renowned

manufacturers.

Mercator real estate

Due to the extent of its own real estate portfolio, real estate management is organized as a separate business field at the Mercator Group. The fundamental tasks of the real estate field include optimum management of real estate, development of retail network, and improving the attractiveness of shopping centers. Real estate field is also in charge of activities of monetizing a part of the real estate portfolio.



Other operating activities

Mercator Group is developing its additional business activities in order to round off its offer for the customers. These activities include offering sportswear and textile products. Mercator Group also includes two manufacturing companies, Eta, d.d., and Mercator-Emba, d.d.



Organization and composition of the Mercator Group

Mercator Group is currently active in seven markets of Southeastern Europe. Only a suitable and fitting organization can provide the conditions for fast and effective decision-making and adaptation to diverse business circumstances in individual markets. To this end, the Group divided its functions as of January 1st 2010 into **strategic** and **operational**. Strategic functions involve devising strategies, standards, and rules applicable to the entire Group; operational fields, on the other hand, are responsible for the best possible performance of particular units within these strategies.

Mercator Group
Poslovni sistem Mercator, d.d.
Žiga Debeljak
President of the Management Board

Strategic business fields

**STRATEGIC MARKETING
AND GLOBAL SUPPLY
MANAGEMENT**
Mateja Jesenek
Senior Vice President

STRATEGIC FINANCE AND IT
Melita Kolbezen
Senior Vice President (as of January
1st 2011)

**STRATEGIC HUMAN
RESOURCES AND
ORGANIZATION
DEVELOPMENT**
Vera Aljančič Falež
Senior Vice President

Operational business fields

**MERCATOR OPERATIONS
SLOVENIA**
Peter Zavrl
Senior Vice President

**MERCATOR OPERATIONS
SOUTHEASTERN EUROPE**
Stanka Čurović
Senior Vice President (as of
January 1st 2011)

**MERCATOR
REAL ESTATE**
Aleš Resnik
Senior Vice President (as of
January 1st 2011)

The main reasons for reorganization include the necessity to improve local responsiveness in all markets, better adjustment to consumer needs, improved efficiency of our operations, the need to adapt the organization to the complexity of the international operations, and preparation for the option to monetize trade facilities currently owned, in order to accelerate our development cycle in the future.

As at December 31st 2010, Mercator Group included the following companies:

MERCATOR GROUP	
MERCATOR OPERATIONS SLOVENIA	
Poslovni sistem Mercator, d.d., Slovenia	
Mercator IP, d.o.o., Slovenia (100.0%)	M.COM, d.o.o., Slovenia (100.0%)*
MERCATOR OPERATIONS SOUTHEASTERN EUROPE	
Mercator - S, d.o.o., Serbia (100.0%)	Mercator - H, d.o.o., Croatia (99.9%)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0%)	M - BL, d.o.o., Bosnia and Herzegovina (100.0%)
Mercator - Mex, d.o.o., Montenegro (100.0%)	Mercator - B, e.o.o.d., Bulgaria (100.0%)
Mercator - CG, d.o.o., Montenegro (100.0%)	Mercator - A, sh.p.k., Albania (100.0%)
Mercator Makedonija, d.o.o.e.l., Macedonia (100.0%)	Mercator - K, l.l.c., Kosovo (100.0%)*
MERCATOR REAL ESTATE	
M - nepremičnine, d.o.o., Slovenia (100.0%)	Investment International, d.o.o.e.l., Macedonia (100.0%)**
Mercator – Optima, d.o.o., Slovenia (100.0%)	
OTHER OPERATING ACTIVITIES	
Eta, d.d., Slovenia (100.0%)	Mercator - Emba, d.d., Slovenia (100.0%)
Intersport ISI, d.o.o., Slovenia (100.0%)	Modiana, d.o.o., Slovenia (100.0%)
· Intersport S-ISI, d.o.o., Serbia (100.0%)	· Modiana, d.o.o., Serbia (100.0%)
· Intersport H, d.o.o., Croatia (100.0%)	· Modiana, d.o.o., Croatia (100.0%)
· Intersport BH, d.o.o., Bosnia and Herzegovina (100.0%)	· Modiana, d.o.o., Bosnia and Herzegovina (100.0%)

*The company has not yet commenced its business operations.

** Project-based real estate company which has not launched its activities yet.

Branch offices

As at December 31st 2010, Mercator Group companies did not have any branch offices.

Other organizations

The company Poslovni sistem Mercator, d.d., is the founder of the Mercator Humanitarian Foundation whose purpose is provision of humanitarian aid to Mercator employees.

Company Profile

The company Poslovni sistem Mercator, d.d., is the controlling company of a group of associated companies (the Mercator Group), one of the largest corporate groups in Slovenia and the entire region of Southeastern Europe.

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 47.110 Retail in non-specialized food retail outlets
Registration number	5300231
VAT tax code	45884595
Court registry date	January 1 st 1990
Company share capital as at December 31 st 2010	EUR 157,128,514.53
Number of shares issued and paid-up as at December 31 st 2010	3,765,361
Share listing	Ljubljana Stock Exchange, d.d., official market, prime market, code/symbol MELR
President of the Management Board	Žiga Debeljak
Senior Vice Presidents	Mateja Jesenek, Melita Kolbezen, Vera Aljančič Falež, Peter Zavrl, Stanka Čurović
Supervisory Board Chairman	Robert Šega
Deputy Supervisory Board Chairwoman	Jadranka Dakič

MERCATOR GROUP BUSINESS STRATEGY

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 and home products.
- 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

Each employee is responsible for their work.

Integrity

We work honestly and fairly.

Respect

Each individual matters and deserves respect.

Cooperation

What one person cannot do, we can accomplish together.

Learning

We build on our knowledge and experience.

Responsiveness

Prompt response is our advantage.

Strategic objectives

Following are Mercator Group's fundamental strategic goals:

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

SWOT analysis

Slovenia	Current foreign markets (Serbia, Croatia, Bosnia and Herzegovina, Montenegro)	New foreign markets (Bulgaria, Albania, Macedonia, Kosovo)
STRENGTHS	STRENGTHS	STRENGTHS
<ul style="list-style-type: none"> • Leading retailer in the Slovenian market with a highly established and reputable brand • Development retail network with several programs and store formats • Developed marketing mix (customer loyalty card, clubs, private label, etc.) • Existence of supplementary services (M Holidays, etc.) 	<ul style="list-style-type: none"> • Among the leading retailers in all markets (leaders in Montenegro, second in Serbia and Croatia, third in Bosnia and Herzegovina, etc.) • Relatively developed retail network of major shopping centers in most markets, with both programs • Presence with two complementary brands in all markets (Mercator and Roda/Getro) • Relatively developed marketing mix (customer loyalty card, private label, etc.) 	<ul style="list-style-type: none"> • Retail units already present in two markets (Bulgaria, Albania); in others, business infrastructure has already been established • In the middle run, Mercator could reap the economies of scale and competitive advantages as a regionally strong player • In some markets, Mercator brand is already distinctive
WEAKNESSES	WEAKNESSES	WEAKNESSES
<ul style="list-style-type: none"> • Suboptimal logistics system • Suboptimal retail network, particularly smaller older stores • Poorer perception of price competitiveness 	<ul style="list-style-type: none"> • Still underdeveloped retail network in most markets, particularly in the segment of neighbourhood stores and supermarkets, and particular voids in geographic coverage • IN some markets, volume of operations is still insufficient to allow reaping the economies of scale for long-term competitiveness • Poorer pricing perception related to the Mercator brand • Suboptimal logistics infrastructure 	<ul style="list-style-type: none"> • Relatively weaker investment capacity compared to large trade chains (of key importance particularly in Bulgaria) • Retail network underdeveloped or in the beginning stages; underdeveloped logistics operations • Cultural differences compared to our current markets • Volume of operations still insufficient to allow reaping the economies of scale • Macroeconomic and political risks relatively high

Slovenia	Current foreign markets (Serbia, Croatia, Bosnia and Herzegovina, Montenegro)	New foreign markets (Bulgaria, Albania, Macedonia, Kosovo)
OPPORTUNITIES	OPPORTUNITIES	OPPORTUNITIES
<ul style="list-style-type: none"> • Adjustment of the network of smaller stores to the characteristics of the micro environment • Further development of the marketing mix (customer relationship management, private label, clubs, etc.) • Development of new store formats (convenience stores), expansion of hardware and electronic centers) • Development of supplementary services: insurance, finance, telecommunications, energy management, etc. • Inclusion into a strong global procurement association for appliances and electronics ("technical products") • Upgrade and expansion of fast-moving consumer goods web store 	<ul style="list-style-type: none"> • Expansion of operating segments through two-tier branding system (Mercator and Roda/Getro) • Further expansion and positioning in the regions where we are not yet present • Setting up a franchise system and development of wholesale activities • Further development of the marketing mix (upgrade of the customer loyalty card, regional brand management, etc.) • Accession of these countries to the EU and resulting macroeconomic and political stabilization • Reaping synergies in procurement and logistics at the regional level 	<ul style="list-style-type: none"> • Opportunities to grow and assert and important role in the market • Possibility of growth through strategic business combination in some markets • Young demographics • Relatively and absolutely, Southern Balkans are increasingly economically integrated into the European streams – potential for the future • Some countries less affected by the current economic crisis • Experience with entering new countries in the region • Reaping regional synergies
THREATS	THREATS	THREATS
<ul style="list-style-type: none"> • Further expansion of retail facilities in an already saturated market • Slump or stagnation of consumption as a result of the country's macroeconomic problems • Entry of an international home product retailer 	<ul style="list-style-type: none"> • Very strong competition by both multinational and local retailers in some markets (particularly Croatia) • Entry of new international players, particularly discount retailers • Economically less stable markets, greater political risks in some of them • In some regions, purchasing power is exceptionally low and modern stores are undeveloped • Potential foreign exchange and other macroeconomic risks 	<ul style="list-style-type: none"> • Macroeconomic and political instability as a result of transition (unemployment, bureaucracy, unstable financial systems, considerable share of grey and black market, corruption, etc.) • Low market potential outside major cities, and low purchasing power of local population • Low GDP per capita in absolute terms (Bulgaria is partly an exception) • Substantial share of so-called traditional trade

MAJOR EVENTS IN 2010

RETAIL NETWORK DEVELOPMENT

In 2010, **EUR 116,394 thousand was invested** in retail network development to acquire 155 new units in all markets of our operations combined, spanning a total of 205,381 m²; the figure includes both own real estate and operating lease.

CHANGES IN THE COMPOSITION OF MERCATOR GROUP

As of January 1st 2010, the **new macro-organizational structure** for the Mercator Group has been in effect. The key reasons for the reorganization include the need for improved local responsiveness in all markets, better adjustment to consumer needs, improved operating efficiency, adjustment of the organization to the complexity of international operations, and preparation for the possibility of monetizing our commercial property and facilities in order to accelerate our development cycle.

Consistently with the new organizational structure, Intersport and Modiana are now incorporated as independent legal entities both in Slovenia and in the markets of Croatia, Serbia, and Bosnia and Herzegovina. Retail of sportswear and clothing, and drugstores were transferred to the newly established companies.

On June 23rd 2010, Mercator Group founded the company **Mercator-CG, d.o.o., Montenegro**, which took over the trade operations of the companies Pantomarket, d.o.o., in Plus Commerce, d.o.o., assuming responsibility for future development of trade activities in the Montenegrin market.

STRATEGIC BUSINESS COMBINATIONS

Croatia

On February 17th 2010, the companies **Getro, d.d.**, and Mercator-H, d.o.o., completed their strategic combination based on the agreement on the acquisition of the trade activities of the Croatian trade company Getro, d.d., signed by the partners involved on December 18th 2009. The strategic combination includes the purchase of the "Getro" brand and long-term operating lease of 16 Getro trade centers and other business facilities spanning a total area of nearly 120 thousand square meters.

Montenegro

The companies **Pantomarket, d.o.o.**, and the Mercator Group signed on June 30th 2010 an agreement on strategic alliance based on which the company Mercator-CG, d.o.o., Montenegro, took over the trade operations and employees, and the long term operating lease of 77 trade facilities owned by the companies Pantomarket, d.o.o., and Plus Commerce, d.o.o., in the market of Montenegro, with a total gross sales area over 31 thousand square meters.

Serbia

On August 4th 2010, the companies Mercator-S, d.o.o., and **Coka, d.o.o.**, signed a strategic alliance agreement based on which the company Mercator-S, d.o.o., Serbia, took over the operating lease and sublease of 22 trade facilities of the Coka Group in the Danube region ("Podunavlje"), with a total sales area of over 12 thousand square meters. The strategic

alliance also includes the purchase of inventory and equipment, as well as employing all employees of the companies in the Coka Group.

CORPORATE GOVERNANCE

At its meeting held on March 30th 2010, the Supervisory Board appointed a **six-member Management Board** for the term 2011-2015 and confirmed the Mercator Group strategic policies for the same period. As of January 1st 2011, the Management Board comprise the following members:

- Mr. Žiga Debeljak, MScBA, Management Board President;
- Mrs. Mateja Jesenek, MBA, Strategic Marketing and Global Supply Management, Senior Vice President;
- Mrs. Melita Kolbezen, MScBA, Strategic Finance and IT, Senior Vice President;
- Mrs. Vera Aljančič Falež, LL.M., Strategic Human Resources and Organization Development, Senior Vice President;
- Mr. Peter Zavrl, BA Economics, Senior Vice President for Mercator Operations Slovenia; and
- Mrs. Stanka Čurović, MSc, Senior Vice President for Mercator Operations SE Europe.

Real estate management is the direct responsibility of the President of the Management Board and Mr. Aleš Resnik, Senior Vice President in charge of the operational field Mercator Real Estate.

At the 16th regular Shareholders Assembly held on July 13th 2010, the shareholders of the company Poslovni sistem Mercator, d.d., adopted the following resolutions:

- The number of Supervisory Board members shall be increased by four, to a total of twelve members. Mr. Matjaž Kovačič and Mr. Miro Medvešek were appointed new Supervisory Board members representing the interest of the shareholders, for a term of four years.
- The Shareholders Assembly confirmed the proposal on the payment of dividends in gross amount of EUR 7.20 per ordinary share, and granted discharge to the company management and Supervisory Board.
- The company Shareholders Assembly granted the Management Board the authorization to acquire and dispose of treasury shares up to an amount of 10 percent of the company share capital for a period of 36 months from the day the authorization is issued.
- The Shareholders Assembly confirmed the changes to the company Articles of Association which were amended to comply with the amended Companies Act ZGD-1C and the standard classification of activities, and appointed the certified auditing company for the year 2010.

CORPORATE ACTIVITIES

In February 2010, we held the **11th Marketing Days** which were attended by 523 partners, the most thus far.

In March 2010, we held the **10th Mercator Financial Partners Meeting**. The event hosted over 50 representatives of commercial banks, leasing companies, and other financial institutions.

In September 2010, we held the **4th Human Resource Management Days**. The topic addressed "The employees are ageing; are we ready?", drew interest of over 100 attendants which included government officials, employers, and economics and medicine experts.

As every year, we carried out our **central humanitarian campaign**. This year's campaign was titled "Future for all" and it included donating aid to 50 talented children from families experiencing severe economic hardship, allowing them to complete the year or their education degree.

In 2010, we supported a total of 1,150 **humanitarian projects**, training in 80 projects, took part in 200 cultural events, and sponsored 400 sports clubs, societies, and events.

In September 2010, the company Poslovni sistem Mercator, d.d., held the **1st Conference of Investors and Financial Analysts** attended by representatives of over 30 financial companies including financial analysts and many existing and potential investors. The company presented the details of Mercator Group operations in the first half of 2010.

Responding to an initiative by the Pan-Slovenian Shareholders Association, Mercator was the first company in the Republic of Slovenia to announce the convocation of the Shareholders Assembly and proxy form in the **EuroVote** system. EuroVote employs the Euroshareholders web platform, an association of 29 national members with approximately 500,000 private European investors, to allow the investors to lodge via this international association a proxy to represent the interests of individual shareholders in the country or at a particular Shareholders Assembly.



The company Poslovni sistem Mercator, d.d., joined the pilot project by the Tax Administration of the Republic of Slovenia called **Horizontal Monitoring**. Planned to last two years, the project is aimed at achieving an improvement in the quality of relations between the Tax Administration of the Republic of Slovenia and the persons liable for taxation. Within the project, the latter shall cooperate with the Tax Administration of the Republic of Slovenia as equal partners, in a transparent manner, based on mutual trust and understanding of the business events.

AWARDS RECEIVED

In the competition for the European Business Award, Mercator Group received for its contribution to sustainable development in the region the **Ruban d'Honneur** - the Ribbon of Honour. This European award, or commendation, is intended to promote excellence, best practices, and innovation in the European business community. The companies are rated by an independent jury comprising eminent economists, scholars, businesspeople, politicians, and media representatives.



In December 2010, the company Poslovni sistem Mercator, d.d., received a **special award by the Ljubljana Stock Exchange for the most improved investor relations in 2010**. Our active approach to investors and quality up-to-date information witness how seriously investor relations are managed at Mercator.

In 2010, Albanian Chamber of Commerce and Industry presented Mercator with the **Trade Company of the Year Award for long-term investments in Albania** which include establishing a retail chain providing high-quality products at reasonable prices, for creating

employment opportunities which will only grow as the retail network expands, and for high standards of business ethics and corporate social responsibility.

European Supermarket Magazine selected twenty most successful women managers in the European trade industry to receive the '**Business woman of the year in trade**'. Recipients included two Mercator Senior Vice Presidents, Mrs. Mateja Jesenek and Mrs. Vera Aljančič Falež.

In 2010, Mercator was also awarded the **Trusted Brand** certificate as selected by the Reader's Digest.



In 2010, Mercator Group received six new certificates:

- Certificate **ISO 22000** for food safety management system at the company Poslovni sistem Mercator, d.d.
- **HACCP** certificate for food safety management at the companies Mercator-S, d.o.o., and Mercator-H, d.o.o.
- Full **Family-Friendly Company** certificate at companies Poslovni sistem Mercator, d.d., Mercator IP, d.o.o., and Modiana, d.o.o.



CORPORATE GOVERNANCE STATEMENT

Pursuant to Article 70, Paragraph 5 of the Companies Act, Business Report of the company Poslovni sistem Mercator, d.d., also includes a Corporate Governance Statement.

Reference to the Corporate Governance Code

The governance of the company Poslovni sistem Mercator, d.d., is based on legal provisions, sound business practice, and the principles of the Corporate Governance Code. Corporate Governance Code (Official Journal of the Republic of Slovenia, No. 118/2005, dated December 17th 2005, amended on February 5th 2007, revised and adopted on December 8th 2009, hereinafter referred to as "the Code") is available on the Ljubljana Stock Exchange website at www.ljse.si, in Slovenian and English language. The company decided to commit to the provisions of the Code voluntarily, although such commitment is not mandatory.

Management and Supervisory Board of the company Poslovni sistem Mercator, d.d., hereby submit this statement of compliance with the Code, which is also a constituent part of the 2010 Annual Report. It is available at company website at www.mercator.si.

Deviation from the Code

Management Board and Supervisory Board of the company Poslovni sistem Mercator, d.d., have reviewed the corporate governance at the company Poslovni sistem Mercator, d.d., and the Mercator Group, and the compliance thereof with the Code, and prepared a new statement which reflects the actual situation of corporate governance at the company Poslovni sistem Mercator, d.d., and the Mercator Group.

It was found that corporate governance at the company Poslovni sistem Mercator, d.d., and the Mercator Group complies with the provisions of the Corporate Governance Code, with particular deviations explained below.

Relations with shareholders

Recommendation 4.2: Given the fact that major shareholders communicate their investment plans on own initiative, the company did not invite them separately to publicly disclose their management policies with regard to their investment in this publicly traded stock corporation.

Recommendation 5.2: The company publicly announced on its website all information about lodging proxies for voting at particular Shareholders Assemblies; in addition, each shareholder was informed individually in this regard. However, the company did not announce on its website the information on the cost of organized lodging of voting proxies at particular Shareholders assemblies, although it did make sure the most competitive provider of this services was hired.

Recommendation 5.6: Shareholders Assembly did not vote on the Supervisory Board members individually.

Supervisory Board

Recommendation 7.1: Some Supervisory Board members have not produced documentation to prove their specialized professional or expert competencies for Supervisory Board membership. Despite that, their professional competencies or experience qualifies them for such engagement.

Recommendation 8: All Supervisory Board members have signed a special statement specifying their position on meeting each of the independence criteria. However, the company did not announce the signed statements on its website; the statements are deposited at the company headquarters.

Mercator shall continue to observe the recommendations of the Code in the future, looking to implement as far as possible the non-binding recommendations and this to improve its corporate governance system.

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

In order to provide the financial information compliant with the criteria of the International Financial Reporting Standards, internal controls are established at the Mercator Group in order to mitigate and manage the risk related to financial reporting.

Financial controls are intended to manage the risk related to the following:

- **Validity of financial information:**
financial/bookkeeping documents are of key importance as they are the evidence on the existence of business events, explaining clearly and unambiguously the contents of the information.
- **Accuracy of financial information:**
accuracy is provided by checking and verifying the data in the IT system against the data in bookkeeping documents, as well as comparing them to the data disclosed by our business partners.
- **Completeness of financial information:**
completeness is provided by clearly defined processes of recording defined in the Financial Rules and Regulations of the Mercator Group, and by controlling such procedures.
- **Defining responsibility and authorizations:**
it is important to accurately and consistently specify the tasks and responsibilities with regard to each business event.
- **Professional work:**
we provide regular professional and expert training of Mercator Group employees whose work contributes to the provision of quality, accurate, and timely financial information.

The central IT system SAP, appropriately integrated with other IT solutions at the Group, has an important role in providing quality financial information from the aspect of use of modern technology. Operation of the SAP system and the internal controls integrated therein are checked annually in cooperation with authorized third-party service providers.

Audit

In today's continuously changing environment, efficient and successful business operation requires accurate and prompt information. Whilst the management of the company is responsible for providing relevant financial information, the paramount task of internal and external audit is to minimize as far as possible the risks related to the preparation thereof.

At Mercator Group, this is achieved by:

- clear and concise accounting practices and their strict implementation;
- completely synchronized accounting policy throughout the entire Group;
- comprehensive and extensive disclosures and explanations;
- timely preparation, detailed treatment, and suitable data selection in statements relevant for financial reporting;
- preparation of financial statements in line with the International Financial Reporting Standards (IFRS);
- regular monitoring of the accounting and controlling process, as well as other business processes within the internal and external auditing procedures.

Internal auditing

The independent support function of internal audit has been introduced in the Mercator Group in the year 2000; since, it has been actively performed both within the parent company and at the Group level. Basic function of internal audit is perpetual development and monitoring of the internal control systems from the aspect of managing, or hedging, all sorts of operating and other risks to which the Mercator Group is exposed.

The aim of internal audit is to provide assistance to the top management and other levels of management in the improvement of Mercator Group asset management, enhancement of quality, economization and effective business operations within the scope of adopted strategies, business policies, and business and financial plans.

Internal audit includes regular and extraordinary auditing of particular areas of operations of the Mercator Group companies, as well as collaboration with external auditors.

In 2010, regular audits included reviewing the implemented measures and financial effects of the Mercator Group Operations Optimization Project. Furthermore, internal audit of the purchasing of non-trade goods and services in the field of investment and maintenance was conducted, as well as an internal audit of corporate income tax at the companies Mercator-H, d.o.o., and M-BL, d.o.o.; internal audit of value-added tax at companies Mercator-H, d.o.o., Mercator-S, d.o.o., Mercator-BH, d.o.o., and M-BL, d.o.o.; and internal audit of operations at the companies Mercator IP, d.o.o., and Mercator-Mex, d.o.o.

In addition to regular audits, we also carried out in 2010 an extraordinary audit of the commitments made to the Competition Protection Office, as adopted by the company Poslovni sistem Mercator, d.d.

External auditing

External auditing is carried out by a certified auditing company which, in addition to regular annual audit of the company financial statements, also provides expert consulting including warnings and proposals for the improvement of the internal control systems for successful management of all types of risks.

Pursuant to the resolution adopted at the 16th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o., was appointed as the external auditor for the year 2010.

In 2010, Mercator Group also compiled an extensive Semiannual Report including detailed disclosures and an auditor's opinion on the condensed financial statements of the Mercator Group. The opinion was issued by the auditing company KPMG Slovenija, podjetje za revidiranje, d.o.o.

Composition of major holders of company securities as at December 31st 2010

Major Shareholders	Country	Number of shares	Share
1 Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2 NLB, d.d.	Slovenia	404,832	10.75%
3 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 UniCredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5 Nova KBM, d.d.	Slovenia	197,274	5.24%
6 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
7 Gorenjska Banka d.d., Kranj	Slovenia	142,920	3.80%
8 Abanka Vipra, d.d.	Slovenia	103,400	2.75%
9 NFD 1 Delniški Investicijski Sklad, d.d.	Slovenia	97,743	2.60%
10 Radenska, d.d.	Slovenia	96,952	2.57%
Total		2,300,963	61.11%

Restriction of voting rights

In 2010, the decision by the Securities Market Agency restricting the companies Pivovarna Laško, d.d., Pivovarna Union, d.d., in Radenska, d.d., from exercising their voting rights, was in effect. The decision was a result of the finding that these companies are engaged in concerted action and that their combined shareholdings exceed the takeover threshold. With the decision dated September 23rd 2010, the Agency also prohibited exercising the voting rights derived from all shares of the target company Poslovni sistem Mercator, d.d., and MELR shares, to NLB, d.d., Banka Celje, Abanka Vipra, d.d., Gorenjska banka, d.d., Nova KBM, d.d., and Banka Koper, d.d., due to concerted action and exceeding the takeover threshold.

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

The company Poslovni sistem Mercator, d.d., is represented by the Management Board. The Management Board included four members prior to January 1st 2011; as of this day, the Board includes six members in order to carefully and responsibly attain the goals laid out, in compliance with the Corporate Governance Code. The number of Management Board members and their respective fields of work and responsibilities are defined as proposed by the president of the Management Board and confirmed by the Supervisory Board with the adoption of the Management Board Act. Pursuant to the Supervisory Board resolution adopted at the session held on March 30th 2010, President of the Management Board and Senior Vice Presidents of the company Poslovni sistem Mercator, d.d., were appointed for a five-year term beginning on January 1st 2011.

Pursuant to the Shareholders Assembly resolution dated July 13th 2010, the company Supervisory Board comprises twelve members; with the said resolution, the Assembly appointed two additional Supervisory Board members to represent the interests of the shareholders. The Workers Council has not yet exercised their right to appoint two additional members to represent the interests of the workers. One half of the Supervisory Board

members represent the interests of shareholders; they are appointed by the Shareholders Assembly. The other half represents the interests of the employees; pursuant to the Worker Participation in Management Act, they are appointed by the company Workers Council.

Changes to the Articles of Association are adopted by the Shareholders Assembly with a three-quarter majority of the represented share capital.

Authorization to the Management Board to issue or acquire treasury shares, and approved capital

At its 16th regular meeting held on July 13th 2010, the Shareholders Assembly issued to the company an authorization to acquire and dispose of treasury shares, as follows:

- in 36 months following the issue of the authorization;
- maximum number of treasury shares that may be acquired is 376,536; however, the total share of the shares acquired based on this authorization, combined with any other treasury shares previously held by the company, shall not exceed at any moment 10 percent of the company share capital;
- acquisition price shall not exceed the average daily share price of the company as traded at the Ljubljana Stock Exchange in the most recent full calendar month before the day of share acquisition, plus 10 percent; in addition, the share price shall not be lower than EUR 41.73, which is the amount each share represents in the company share capital;
- the company may only acquire treasury shares in the organized capital market;
- the price at which the company is to dispose of its treasury shares shall not be lower than the average daily price per company share as traded at the Ljubljana Stock Exchange in the last full calendar month before the day of disposal.

Subject to certain conditions, the company Mercator, d. d., has the option to issue approved capital in the amount of up to 20 percent of the current company share capital, by July 12th 2012.

Shareholders Assembly and shareholder rights

Shareholders Assembly is the superior body of governance through which the shareholders assert their rights with regard to the company affairs. The company Poslovni sistem Mercator, d.d., is committed to full compliance with the principle of equal treatment of shareholders, allowing them to exercise their legal or statutory rights. All shareholders shall have equal voting rights.

As a rule, Company Management Board shall convene the Shareholders Assembly of Poslovni sistem Mercator, d.d., once per year. The convocation shall be announced at least 30 days before the Assembly meeting. The convocation of the Assembly shall be announced in the Delo daily paper, and in the electronic information dissemination system of the Ljubljana Stock Exchange, d.d., called SEOnet, at least one month prior to the Assembly date.

In addition to the location and time of the Assembly, the convocation, or the announcement, shall define the conditions for taking part in the assembly and asserting the voting right, as well as the agenda and proposed resolutions. A shareholder or a proxy may assert the voting right at the Assembly by presenting a written authorization. Convocation of the Assembly, agenda, proposed resolutions with the relevant explanations, and the Assembly resolutions, are also announced on the official company website at www.mercator.si.

In 2010, 16th regular Shareholders Assembly took place with 56.25 percent of total shares with voting rights present. The Assembly included a presentation of the 2009 Annual Report and the Supervisory Board Report on the 2009 Annual Report Audit, as well as information on the compensation paid to members of managerial and supervisory bodies. The Assembly voted on the allocation of distributable profit for 2009 and dividend payment, and granted discharge to the Management Board and Supervisory Board. Furthermore, the Shareholders Assembly appointed the certified auditing company for 2010. Wording of the Articles of Association was changed in order to bring it into line with the new standard classification of activities and with the Act Amending the Companies Act (ZGD-1C, Official Journal of the RS, No. 42/2009) with regard to compensation to the Supervisory Board members, convocation of Shareholders Assembly, communication with shareholders, application and conditions for attendance at the Assembly, and to include some editing changes. Management Board Report on acquisition and disposal of treasury shares was also presented. Furthermore, the Assembly appointed two new Supervisory Board members.

For the 16th Shareholders Assembly, the company took part in the collection of proxy authorizations from minority shareholders; the proxy lodging and collection service was provided by the company Ixtlan Forum, d.o.o., Linhartova 8, Ljubljana. The company Poslovni sistem Mercator, d.d., was the first in the Republic of Slovenia to announce the convocation of its Shareholders Assembly in the EuroVote system.

Managerial and supervisory bodies and their committees

MANAGEMENT BOARD:

President of the Management Board

Žiga Debeljak, MScBA

Education:

- MScBA, BS Computer Engineering

Fields of responsibility:

- coordinating the Management Board of Poslovni sistem Mercator, d.d., and the Mercator Group, managing and coordinating operational real estate activities.



Strategic Marketing and Global Supply Management, Senior Vice President

Mrs. Mateja Jesenek, MBA

Education:

- MBA, BA Economics

Fields of responsibility:

- strategic marketing of products and services, strategic market research and development, global supply and supplier relations, public relations.



Strategic Finance and IT, Senior Vice President

Mrs. Melita Kolbezen, MScBA

Education:

- MScBA, BA Economics

Fields of responsibility:

- strategic finance, strategic controlling, Group accounting, taxes, internal audit, IT and telecommunication.



Strategic Human Resources and Organization Development, Senior Vice President

Mrs. Vera Aljančič Falež, LL.M.

Education:

- LL.M., LL.B.

Fields of responsibility:

- strategic human resource management, organization of the Group, corporate legal affairs.



Senior Vice President for Mercator Operations Slovenia

Peter Zavrl

Education:

- BA Economics

Fields of responsibility:

- management and coordination of operational trade activities and related activities in Slovenia.



Senior Vice President for Mercator Operations Southeastern Europe

Mrs. Stanka Čurović, MScBA

Education:

- MScBA, BA Economics

Fields of responsibility:

- management and coordination of operational trade activities and related activities beyond Slovenian borders.



SUPERVISORY BOARD MEMBERS:

Supervisory Board Members Representing Shareholders

Robert Šega – Supervisory Board Chairman

- Education: BS and MS Electrical Engineering and Electronics
- Employment: CFO at Pivovarna Laško, d.d.
- Membership in Supervisory or Management Boards of other companies: Supervisory Board member at Delo, d.d.

Jadranka Dakič, Deputy Chairwoman

- Education: BA Economics
- Employment: Deputy Mayor of Municipality of Ljubljana (non-professional); Director of the company Lanea, d.o.o., Ljubljana
- Membership in Supervisory or Management Boards of other companies: Supervisory Board Chairwoman at Javni holding Ljubljana, d.o.o. (Public Holding Ljubljana); Supervisory Board Chairwoman at Termoelektrarna toplarna Ljubljana, d.o.o. (coal power plant and district heating plant Ljubljana)

Stefan Vavti

- Education: MA Economics
- Employment: executive director for private banking in Central and Eastern European countries, UniCredit Bank Austria, AG

Kristjan Verbič

- Education: MA Sociology; professor of philosophy and sociology
- Employment: President of the Pan Slovenian Shareholders Association

Matjaž Kovačič

- Education: BA Economics
- Employment: President of the Management Board, Nova KBM, d.d.
- Membership in Supervisory or Management Boards of other companies: Supervisory Board Chairman at Zavarovalnica Maribor, d.d.; Supervisory Board Chairman at Adria bank, d.d.; Chairman of board of directors at Credi banka, a.d.; Deputy Supervisory Board Chairman at the Council of the Bank Association of Slovenia.

Miro Medvešek

- Education: BA Economics
- Employment: Director of the company Svetovanje M, d.o.o.
- Membership in Supervisory or Management Boards of other companies: Supervisory Board Chairman at the company Commerce, d.d.

Supervisory Board Members Representing Employees

Jože Cvetek

- Education: BA Economics
- Employment: retired.

Janez Strniša

- Education: BA Economics
- Employment: Head of section at Mercator, d.d.

Mateja Širec

- Education: BA Sociology
- Employment: Head of section at Mercator, d.d.

Ivica Župetić

- Education: BA Economics
- Employment: advisor to the Executive Director of international development; employed at Mercator - H, d.o.o.

Gross monthly payment for performing the tasks and responsibilities shall amount to EUR 2,500.00 for the Supervisory Board Chairperson, and EUR 1,500.00 for other members. In addition, Supervisory Board members shall receive attendance fees in the amount of EUR 350.00 net per session for the Chairperson, and EUR 200.00 net for other members, plus reimbursement for travel expenses.

All Supervisory Board members have signed a special statement specifying their position on meeting each of the independence criteria. All Supervisory Board members except Mr. Jože Cvetek, employee representative, declared themselves as independent members.

Information on activities and composition of the Audit Committee

The activities of the Audit Committee are aimed at further improvement of performance of the supervisory function in the company. The tasks of the Audit Committee include monitoring the process of financial reporting, monitoring the efficiency of internal control in the company, internal audit and risk management systems, monitoring the mandatory audit of annual and consolidated financial statements, reviewing and monitoring the independence of the auditor appointed to audit the company Annual Report, proposing to the Supervisory Board the candidate to be appointed as the company Annual Report auditor, verifying the validity of financial information submitted by the company, appraisal of the Annual Report contents and composition, including submitting a proposal to the Supervisory Board, taking part in defining of the key auditing areas, taking part in the preparation of an agreement / contract between the auditor and the company, performing other tasks defined either by Articles of Association and Bylaws or a Supervisory Board resolution, and working with the auditor during the company Annual Report audit.

In 2010, Audit Committee at the company Poslovni sistem Mercator, d.d., included the committee chairwoman Mrs. Jadranka Dakič (Supervisory Board member) and two members: Mr. Jože Cvetek (Supervisory Board member) and Mr. Peter Ribarič (independent expert on accounting and auditing).

The Audit Committee is performing its duties pursuant to the provisions of the Companies Act. Upon appointment of the Audit Committee, the Supervisory Board appointed the members and defined their respective compensations. For performing her duties, the president of the Audit Committee shall in addition receive a monthly compensation in the gross amount of EUR 1,250.00, while gross monthly compensation for the two members amounts to EUR 750.00 (each), which is equal to one half of the compensation of the chairman and members, respectively, of the company Supervisory Board. The Members of the Committee shall also receive an attendance fee of EUR 200.00 net per meeting, while the attendance fee for the president of the Audit Committee shall amount to EUR 350.00 net.

Management of subsidiaries

Mercator Group consists of the parent company Poslovni sistem Mercator, d.d., and its subsidiaries in which the parent company holds, directly or indirectly, the majority interest or the majority of voting rights. The parent company, with single management, controls the subsidiaries and pursues the principles of improving business performance in each subsidiary and the Group as a whole.

EFFECT OF ECONOMIC CONDITIONS AND COMPETITION ON MERCATOR GROUP OPERATIONS IN 2010

Economic conditions in Mercator Group target markets in 2010

Contrary to the anticipations of a positive turn of economic growth in 2010 compared to 2009 when most countries saw negative growth rate, expectations for 2010 were proven too ambitious. Southeastern European countries did see minor positive growth of economic activity in 2010; however, the rate was still lower than in the years before the crisis. In 2010, credit activity on the part of commercial banks continued to be sluggish.

In most countries, inflation was higher in 2010 than in the year before; however, it remained at a level that did not present any macroeconomic problems. Particularly in the second half of 2010, fuel prices were increased which will certainly affect inflation in 2011. As a result of low inflation rate in 2010, the European Central Bank kept its base interest rate at the level of one percent; accordingly, the variable interest rate Euribor was at historically low levels as the 6M Euribor fluctuated between 0.944 and 1.276 percent.

2010 saw further depreciation of some currencies. Mercator operations were notably affected by the depreciation of the Serbian dinar relative to the euro as the per-dinar exchange rate slumped by 9.6 percent in 2010 compared to the year before. Croatian kuna, too, depreciated in the last quarter of 2010.

Slovenia

Economic growth in 2010 is estimated at 0.9 percent. Compared to the year before when economic growth was at -7.3 percent, the growth rate crawled out of the red to return to a positive figure. Such economic growth was fuelled by a recovery in foreign demand, or exports. In Slovenia, annual inflation rate in 2010 was at 1.9 percent; it was stable and low.

Serbia

Gross domestic product in Serbia is estimated to have grown by 1.5 percent in 2010 while in 2009, the rate was negative at -2.9 percent. According to initial estimates, inflation in Serbia was at 11.5 percent in 2010. Relative to euro, Serbian dinar was depreciating most of the year; it saw some appreciation in 2010. As at December 31st 2010, the exchange rate for the Serbian dinar amounted to RSD 107.47 per 1 EUR, which is 13.1 percent more than as at December 31st 2009 (RSD 95.03 per 1 EUR). Average annual RSD exchange rate in 2010 amounted to RSD 102.76 per 1 EUR (in 2009: RSD 93.79 per 1 EUR).

Croatia

According to initial estimates, economic growth in Croatia was negative in 2010 at –1.5 percent, which is a result of further drop in investment and low consumption. Positive growth was seen in the third quarter of 2010, at 0.2 percent compared to the same period of 2009; however, the GDP drop in the first two quarters combined was bigger than the growth in the third quarter. Inflation is estimated at 1.9 percent for 2010. Average annual exchange rate for Croatian kuna in 2010 amounted to HRK 7.29 per 1 EUR (in 2009: HRK 7.34 per 1 EUR). Kuna exchange rate was relatively stable in 2010, with the exception of depreciation in December 2010. As at December 31st 2010, kuna exchange rate was at HRK 7.38 per 1 EUR (as at December 31st 2009: HRK 7.30 per 1 EUR).

Bosnia and Herzegovina

According to the estimates, economic growth in Bosnia and Herzegovina was positive in 2010, amounting to 0.5 percent. This is a sign of recovery in the country, following the recession. Inflation in Bosnia and Herzegovina is estimated at 2.4 percent in 2010. The exchange rate of the convertible mark is pegged to euro in the ratio of KM 1.95583 per 1 EUR.

Montenegro

Initial estimates put economic growth in Montenegro in 2010 at a positive figure of 0.5 percent. Inflation, too, is estimated at 0.5 percent for the year. Compared to last year's GDP development, Montenegro broke from the red figures to reach positive growth. This indicates that the Montenegrin economy is slowly recovering after the recession.

Bulgaria

According to the estimates, Bulgarian gross domestic product in 2010 was negative at –0.1 percent. Average annual inflation in 2010 is estimated at 2.1 percent. The exchange rate of Bulgarian lev is pegged to euro at a rate of BGN 1.95583 per 1 EUR.

Albania

In 2010, Albania is estimated to have seen economic growth of 2.6 percent. Annual inflation was at 3.4 percent in 2010. Average annual exchange rate for Albanian lek in 2010 amounted to ALL 137.98 per 1 EUR (in 2009: ALL 131.55 per 1 EUR).

Changes in consumer behaviour and effect of the market situation on consumption

2010 saw further aggravation of already harsh economic conditions which are manifest particularly in increasing number of unemployed people, higher propensity to save, and resulting stagnation in the purchasing power. Economic aspects and uncertainty certainly bear a notable contribution to the changes in consumer behaviour and markedly more rational approach to the choice of products and services on the part of the consumers. Some categories and services were more strongly affected by the negative development of economic conditions. On average, consumers tended to cut down on their holiday budgets, shopping for clothes and footwear, and on major purchases such as durables and investments (e.g. cars and homes). The same segments of consumers also started to approach their shopping for basic goods very cautiously, which has resulted in lower share of family budgets being used on food and beverages.

In Slovenia, the segment of consumers who are worse off and spend less on daily shopping rose somewhat in 2010. In the third quarter of 2010, expectations on personal income and financial status turned somewhat more optimistic as fewer people expected their pay or income in general to decrease.

Consumers responded differently to the harsh economic conditions in each major market of Mercator operations. In Serbia, a trend of decrease in the volume (quantity) of sales persisted in fast-moving consumer goods retail; the trend is more pronounced in the categories of food and beverages, while somewhat less in body care and home products. In addition, the number of shopping sessions continued to fall. Croatian consumers were quick to react to the increase in prices in 2008 by taking fewer trips to the stores. Recession and harsh conditions in households resulted mostly in the drop in the volume of consumption in 2010, which was then followed by a drop in the value of the average basket, resulting from both lower shopping volume and selecting products that are an alternative to the renowned brands in the market, a notion further corroborated by the increase in the share of private label sales. Unlike in Serbia and Croatia, frequency of shopping trips did not change in Bosnia and Herzegovina until the last quarter of 2009, pointing to a lag in consumer response. A marked decrease in shopping frequency was not seen until the first half of 2010. This could affect the consumers' choice of store formats in the future. In contrast to the other two markets, the households responded above all by changing the composition of their shopping baskets, revealing a lower degree of loyalty to brands. Hence, demand for products of lower price segments was on the rise.

Competition also varies considerably between individual markets of Mercator operations. Trade is a relatively stable and consolidated industry in Slovenia; however, the importance of discount stores and drug stores is increasing. Competition is highly stringent since discount stores are presenting a serious challenge to the conventional retailers and making their presence felt. In current foreign markets (Croatia, Serbia, Bosnia and Herzegovina, and Montenegro), trade is relatively less consolidated, but highly competitive. Many international retailers are present in addition to the regional and local players. In new foreign markets (Bulgaria, Albania, Macedonia, and Kosovo), the market is, in comparison, underdeveloped, highly segmented, and traditionalist. Several local players are also present, as well as some international retail chains. In Bulgaria, international retailers make the competition highly stringent.

We anticipate the mix of impulses from the environment to permanently affect shopping behaviour. Consumers plan their shopping more carefully, they are more rational and prudent, they distinguish between needs and desires. Their perception of the best offered value of a product or service is also adapted accordingly. There is a lag in any response in household consumption which tends to adjust to the current conditions in the environment. At the end of the year, unemployment in Slovenia rose notably to 110,000 unemployed persons. Paired with increased number of bankruptcies and receiverships of Slovenian companies, circumstances in 2011 can be expected to worsen. Unemployment rate in foreign markets of Mercator operations is rather high: In Serbia, unemployment rate in 2010 rose relative to the year before, reaching nearly 20 percent. The same development could be seen in Croatia. In Bosnia and Herzegovina, the unemployment rate, currently exceeding 40 percent, increased additionally in 2010.

Contrary to the forecasts by some analysts that weak signs of recovery would appear in 2011, conditions could in fact be aggravated in case of increase in basic inflation to which the consumers are usually quick to react. A hike in raw material prices in 2011 could lead to

supply shocks as the prices of food production and processing rise. This would result in stronger inflationary pressure and pressure on profit margins.

DEVELOPMENT AND REAL ESTATE MANAGEMENT

The fundamental goal of Mercator's real estate management activities is to provide the infrastructure required to develop the retail and logistics network. These activities pursue our policy of offering the visitors an attractive, pleasant, modern, and varied shopping environment and thus an all-around shopping experience. Our shopping centers are attuned to the notions of sustainable development, including the principles of environmentally friendly and energy-efficient buildings. The buildings feature appealing and lively architectural design and they are sensibly integrated into their respective environments, honouring the characteristics of the local landscapes. Shopping centers are developed in strict compliance with the modern construction guidelines and internal standards that are constantly upgraded to keep abreast with the development of the industry.

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



Investment summary

In 2010, investment into property, plant, and equipment (CAPEX) amounted to EUR 116,394 thousand. 36 percent this sum was invested in Slovenia; 57 percent was invested in current foreign markets (Serbia, Croatia, Bosnia and Herzegovina, and Montenegro); and 7 percent was invested in other markets (Albania and Bulgaria).

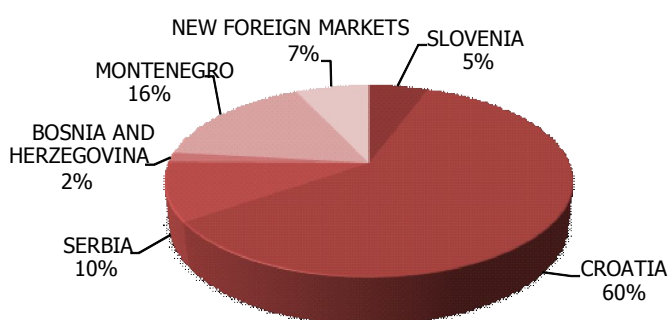
	CAPEX in the period 1–12 2010 (EUR thousand)	Composition in %
Slovenia	41,705	35.83%
Serbia	33,053	28.40%
Croatia	24,504	21.05%
Bosnia and Herzegovina	2,260	1.94%
Montenegro	7,236	6.22%
Bulgaria	6,302	5.41%
Albania	1,334	1.15%
TOTAL	116,394	100.00%

Investments in development of retail capacity (Mercator centers, trade centers, Roda centers, individual stores, and stores within other shopping centers) represent 75 percent of total investments; 12 percent was allocated for refurbishment of the existing facilities; and the remaining 13 percent was invested into logistics, IT, and non-trade activities.

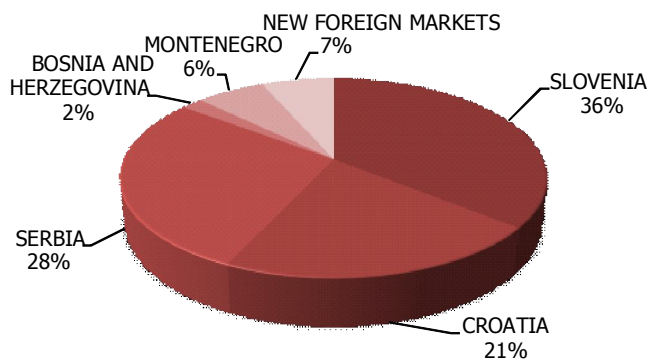
In 2010, the Group acquired 205,381 square meters of new gross facilities, which includes real estate owned by Mercator and operating leases. In 2010, 93 percent of all new facilities were acquired through operating lease; 7 percent was acquired through purchase or construction.

In 2010, Mercator Group disposed of EUR 16,844 thousand worth of property, plant and equipment.

Share of newly launched facilities by markets



Share of investments by markets



Summary of retail unit launches by markets

Slovenia

- Area of new facilities: 11,538 m²
- Number of new retail units: 13
- Major launches and openings: MC Velenje, Appliance & Electronics and Construction Center Gornja Radgona, Supermarket Štore, and outlets providing supplementary offer



Serbia

- Area of new facilities: 20,236 m²
- Number of new retail units: 22
- Major launches and openings: Cash & Carry Leskovac, Megamarket Bačka Topola, Supermarket Kaluđerica in Belgrade, Megamarket Smederevska Palanka



Croatia

- Area of new facilities: 122,677 m²
- Number of new retail units: 27
- Major launches and openings: Supermarket in Biograd, Supermarket Rebro in Zagreb, Intersport Arena Zagreb, Intersport Split 2, Intersport Supernova Karlovac.
- Taking over operations of 16 Getro Cash&Carry stores and Getro distribution center in Zagreb, hired on a long-term operating lease.



Bosnia and Herzegovina

- Area of new facilities: 3,442 m²
- Number of new retail units: 6
- Major launches and openings: Intersport in Bijeljina, Supermarket Alta in Sarajevo, Supermarket Zenica, Supermarket Vitez



Montenegro

- Area of new facilities: 33,099 m²
- Number of new retail units: 81
- Major launches and openings: Supermarket Amelino, Intersport in the shopping center Mall of Montenegro in Podgorica, Supermarket in Bar.
- Acquired operations of 75 stores and 2 catering facilities of Pantomarket and Plus Commerce on a long-term operating lease



Bulgaria

- Area of new facilities: 13,156 m²
- Number of new retail units: 3
- Major launches and openings: Hypermarket Vladimir Vazov Sofija, Hypermarket Galleria Stara Zagora, Hypermarket Varna Towers



Albania

- Area of new facilities: 1,233 m²
- Number of new retail units: 3
- Major launches and openings: Supermarket Flagship Durres, Intersport Flagship Durres



Summary of total gross retail area as at December 31st 2010

Gross retail area in m ²	Used for own operating activities	Leased out	Total as at Dec 31 st 2010
Mercator-owned retail area	826,439	181,815	1,008,254
Leased retail area	331,640	18,236	349,876
Total retail area	1,158,079	200,051	1,358,130
Mercator-owned warehouse capacity	151,815	0	151,815
Leased warehouse capacity	15,642	0	15,642
Total warehouse capacity	167,457	0	167,457
Mercator-owned commercial facilities	25,662	2,418	28,080
Leased commercial facilities	5,286	71	5,357
Total commercial facilities	30,949	2,489	33,438
GROSS AREA UNDER MANAGEMENT	1,356,484	202,540	1,559,025
- of which Mercator-owned	1,003,916	184,233	1,188,149
- of which leased	352,568	18,307	370,876

Retail network development in the future

In the future, we shall further pursue our strategy of retail network development in order to retain our current market share in Slovenia and to reach the target market shares in foreign markets. Acquiring new retail space and logistics facilities in compliance with the medium-term investment plan shall remain the key task. We shall proactively develop our relations with local and international investors. Priority will be given to leasing retail facilities as we shall deviate substantially from the previously observed principle of relying predominantly on own developments. This will allow us to improve the returns on invested capital and to accelerate Mercator Group's development in all markets.

Simultaneously with development activities, we shall also optimize the management of Mercator's property. We shall analyze the possibilities of upgrading the concept of Mercator shopping centers and focus on improving the mix offered there. Considerable efforts will also be invested in enhancing the appeal of the shopping centers through accurately targeted marketing activities.

Successful performance of the Mercator Group will also rely notably on tapping the potential of real estate for faster growth; this is one aspect where the most changes are expected in the upcoming medium-term period. In addition to activating idle land and disinvesting from unnecessary and non-viable property, the project of monetizing Mercator's real estate will also be relevant in the medium-term period at hand. In comparison to its European competitors, Mercator's balance sheet includes a huge amount of real estate or assets which could, were they monetized, be allocated for both acceleration of the development cycle and debt reduction.

SALES AND MARKETING

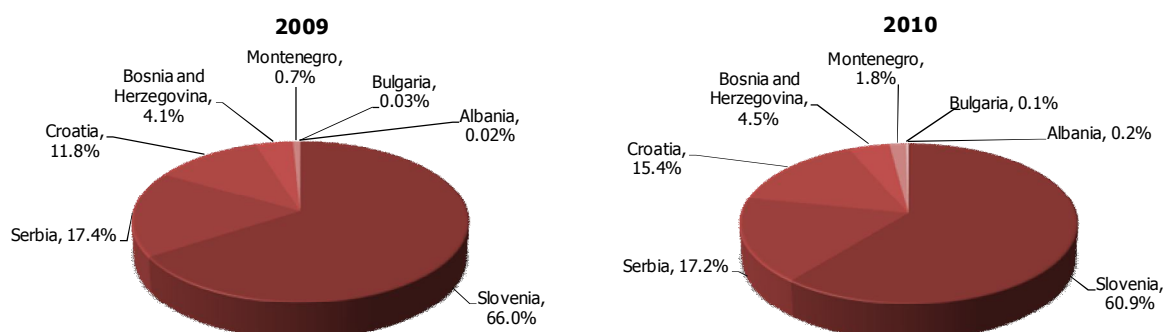
Sales

Despite harsh macroeconomic situation and a drop in purchasing power in all markets of our operations, reflected in the changes to the volume and composition of consumption, Mercator Group generated sales revenues in the amount of EUR 2,781,604 thousand in 2010, which is 5.2 percent more relative to 2009; assuming constant exchange rates (due to depreciation of the Serbian dinar – 9.6 percent higher average exchange rate in 2010 relative to 2009), the figure represents 6.9 percent growth.

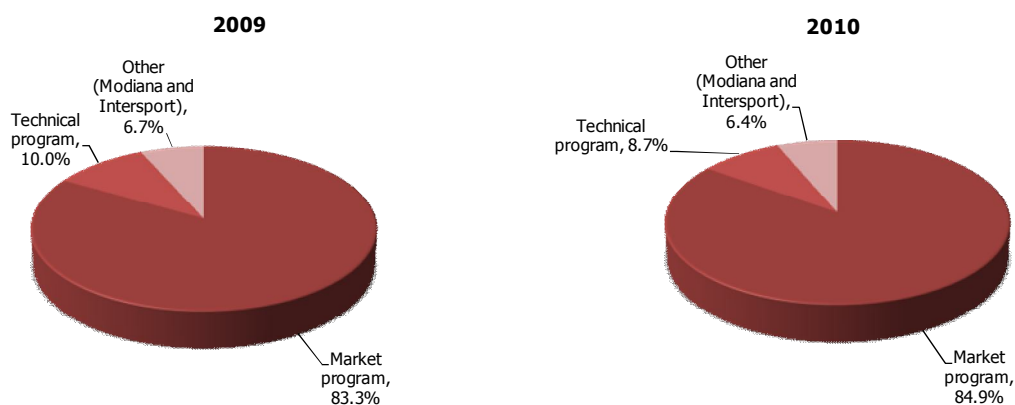
Sales revenues in Slovenia dropped by 2.9 percent. Of this drop, revenues from sales of goods, material, and products accounted for 1.4 percent, which is mostly a result of the general macroeconomic situation which has thus far been the most pronounced in sales of textile products and other non-alimentary goods.

Sales revenues in foreign markets were boosted by 21.0 percent, mostly resulting from the takeover of trade operations of the company Getro in Croatia and the companies Pantomarket and Plus Commerce in Montenegro.

Mercator Group net sales revenues by geographical segments:



Mercator Group revenues from trade operations by programs:



In 2010, the majority of Mercator Group trade revenues resulted from sales of fast-moving consumer goods as they accounted for 84.9 percent of total net sales revenues; revenues from other specialized programs amounted to 15.1 percent.

Mercator Group sales revenues by type of sale:



In 2010, Mercator Group generated 85.9 percent of net revenues from sales of goods and material in retail, while remaining 14.1 percent was generated in wholesale.

Marketing

Mercator Group's vision, mission, and operating strategies place the customers at the heart of our efforts. Particular attention is paid to relationship with the customers and building of trust by providing high-quality and wide offer of products of renowned brands and private labels, the best level of service, contemporary and pleasant shopping experience, and activities aimed at care for the environment and the people. Our marketing activities are focused on consistency between operations and communication with the customers in all markets of our operations.

Mercator Group has developed a dense and extensive retail network throughout Slovenia and other countries, providing high-quality offer to meet every customer's desires, tastes, and needs. We are looking to bring our retail units and web store as close as possible to the users.

In 2010, Mercator was again awarded the **Trusted Brand** certificate as selected by the Reader's Digest.



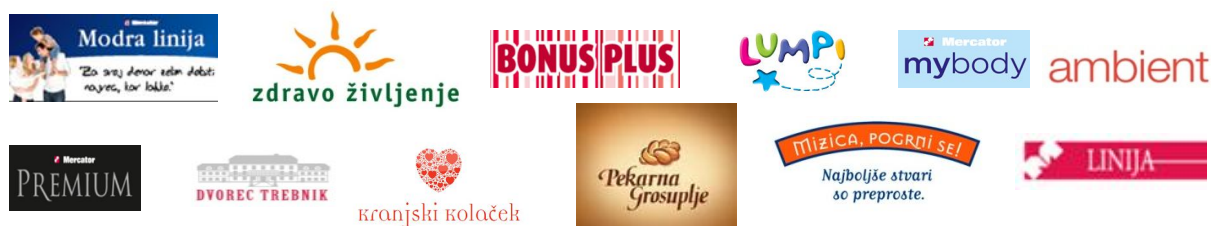
In marketing, we are pursuing the policies specified:

1. Mercator is the consumers' first choice when shopping for fast-moving consumer goods.

Mercator Group wants to be the first choice of consumers shopping for fast-moving consumer goods and thus become the leading and largest retail chain offering FMCG, appliances & consumer electronics. Our activities in 2010 were focused in all markets on provision of the broadest possible offer for the consumers. Various favourable offers of products and services are continuously prepared for our customers with emphasis on

seasonal or theme-oriented offer. Our offer is designed according to the needs of consumers in respective markets. Our special offers and campaigns include the widest possible selection of products in order to allow more favourable shopping for daily essentials. Pursuing the trends of convenience and modern shopping methods, we also paid particular attention to development of our web store.

In 2010, we continued to intensively develop the Mercator private labels, and to extend the private label lines with new products. Customers are offered **twelve private label lines** which include alimentary products, household products, apparel, appliances and consumer electronics, cosmetics, child care products, toys, ready-made food, pastry, and products for a healthy diet.



At the end of 2010, we launched a new line of cosmetics called MyBody which includes FMCG for facial and body care. The first twenty products were introduced to the aisles. Further development of the line will take the direction of developing several sub-lines, e.g. men's cosmetics, sun screens and tanning sprays and lotions.



Country	Number of lines	Number of products
Slovenia	12	2,630
Serbia	9	917
Croatia	8	2,077
Bosnia and Herzegovina	9	1,050
Montenegro	8	747
Bulgaria	6	756
Albania	3	218

Development of new products is focused on safety and quality of private label products. Our goal is to provide the consumers with products whose quality matches that of the leading brands in the market, yet whose price tag is considerably lower. To test the quality of alimentary products in private label lines and to test new products, we work with the Faculty of Biotechnology, Ljubljana Paediatric Clinic, and Kranj Institute of Public Health. Similar control is being introduced for non-alimentary fast-moving consumer goods under our private label. These products are tested and certified in cooperation with the Slovenian Institute of Quality and Metrology – SIQ.

2. Mercator is offering FMCG and home products to create the best value for the consumers.

In order to provide a varied and well-priced offer of products, we adjusted the temporal dynamics, or scheduling, of sales promotion campaigns in 2010 in Slovenia, moving from fortnight to weekly activities. In the future, other markets of our operations will follow suit. We have prepared new communication for consumers in all markets in order to stress the quality of our offer. The "consumers' anthem" was produced. The purpose of the campaign whose melody and different way of addressing the consumers have become highly distinctive, is to communicate to the customers that we are the best retailer. Modern consumers expect more from shopping than just reasonable prices. They expect a wide and fresh offer, attractive promotional campaigns, fully stocked aisles, high product quality, appealing shopping environment, and friendly service. We have been providing all that and more to our customers in an increasingly competitive environment for over 60 years.



We have prepared a series of new advertisements communicating to the consumers our offer of fresh products, inclusion of local products into the offer, reaching a favourable ratio between quality and price of private label products, the scope of choice in our stores, diverse offer of reasonably priced products in many sales campaigns, and activities for rewarding customer loyalty. In addition to favourably priced offer, the consumers are provided with quality products in our stores. This is witnessed by the recently acquired food safety certificate (ISO 22000:2005).



We are also generating value for the consumers with our **Mercator Pika customer loyalty card** which allows us to learn about the shopping behaviour of our customers and to prepare focused activities that promote their loyalty. In 2010, we launched the activities of adjusted offer for our loyal Mercator Pika card holders in Slovenia; in the future, these activities will be rolled out to other markets of our operations. We are also regularly compiling particularly favourable selections of products especially tailored for the card holders (special Pika discounts). Similar activities for the Mercator Pika card holders are prepared each month as we work with our 14 partners in the Mercator Pika card system. Card holders are invited to join four clubs (Healthy Living club, Lumpi club, Maxi club, M Mobil club) according to their interests and lifestyles. At the end of 2010, there was a total of 113,680 registered club members. Mercator Call Center is the key vehicle of our contact with the consumers. It combines direct communication with the consumers, with support for Mercator Pika card users.

Mercator Pika card holders	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Total
As at Dec 31 st 2009	917,499	154,915	243,329	118,056	1,433,799
As at Dec 31 st 2010	1,006,051	185,175	272,024	143,814	1,607,064
Newly issued cards in 2010	88,552	30,260	28,695	25,758	173,265

In Slovenia, the share of total retail revenues generated by purchases completed with Mercator Pika card amounted to **58 percent** in 2010 (54.6 percent in 2009). In all markets of Mercator operations combined, this share amounted to **45.7 percent** (44.1 percent in 2009).

3. Mercator offers consumers high-quality service and a pleasant shopping environment.

Mercator Group is committed to rendering high-quality services that allow the consumers a pleasant and convenient shopping experience. To this end, we are constantly introducing new technologies to our stores. In 2010, we introduced wine and oil vending machines which allow the consumers to test the local offer of high-quality products and reuse of packaging. In addition to regular offer of FMCG, customers are also offered photo and travel services. We are currently preparing for launch our services in insurance, energy management, and telecommunications.

4. Mercator's operations improve the quality of life in the Group's social and natural environment.

Mercator is the best neighbour for any social, natural, and cultural environment. Integration into the local environment through initiatives for local manufacturing, care for human health and care-free development of children, humanitarian activities, and sustainable development are the company's fundamental principles of operation. Thus, we show our awareness of the needs of the environment and adjust our operations to them.

To this end, we established in 2010 the Sustainable Development Council focused on looking for solutions that are friendly to the people and the environment. The Sustainable Development Council of the company Mercator shall play a very important role in the future as this is one field upon which all major European and global retailers are basing their activities for the customers through three key aspects:

- activities related to responsibility to the environment in the broad sense of the word (environmentally friendly supply chain and transport, marketing activities focused on local offer, responsibility towards the environment, nature);
- activities related to business responsibility (introduction of innovations in stores, establishing partnerships with suppliers, customer relations management);
- corporate social responsibility activities (accumulating employee capital, philanthropy).

Digital communication

Mercator is a powerful and reputable brand. Currently, it is active in digital communication with corporate websites in all markets, and Mercator brand websites, as well as profiles on major social networking sites, particularly for Slovenia. In addition, our presence is deliberately increasing in Croatia and Bosnia and Herzegovina as well. Analysis of Mercator

website attendance has revealed that information on special offers, campaigns, offer in general, and stores, are the most commonly sought information. Analysis has further shown that we are more active and successful than our competitors.

Social networking sites, including the totality of digital communications, are becoming increasingly important for marketing and overall company operations as popularity and influence of such communication and access to customers are growing every day. Information exchange is on the move from traditional channels to new media. This information is increasingly credible and valid since it is obtained first-hand, from direct users. Establishment of excellent user experience (excellent meaning convenient, inclusive, and connecting) is the very foundation of Mercator Group digital communication strategy. Use of digital communication is understood as an opportunity and motivation for a trip to both conventional and web stores and to launch the word of mouth – dissemination of information among friends and relatives. In order to approach digital information in a serious and systematic manner, Mercator Group founded at the end of 2010 the **Digital Communication Council**. As a part of its activities, the Council has already laid out the strategic policies of Mercator corporate brand activities as well as activities of other brands, particularly in the sense of establishing an interactive relationship with the customers.

Central guiding principle for digital communication activities

Customers, current and prospective, should first be offered a convenient, inclusive, and connecting web user experience. Then, they shall be brought to the stores (conventional and web stores) where accumulation of experience shall continue. The circle of communication is resumed when happy customers speak about their experience and help us win new friends (members, customers).

Key starting point of the digital communication strategy is **establishing trust between the Mercator Group and our stakeholders**. Their positive support will make it easier for us to work towards the planned business and communication goals. The next starting point springs from Mercator's philosophy of **being the best neighbour**. We shall always be available when we are needed, always ready to help, talk, or exchange opinion.

In order to better adapt to the new generation of consumers, to promote interactivity and to establish trust, we revised in 2010 the Mercator website in Slovenia; now, the revision is being rolled out to other markets.



Following are the purposes and plans for digital communication:

- To build and develop the reputation of Mercator brands in the local market and the markets of SE Europe;
- To improve relationships with the stakeholders, particularly customers and employees – offering an excellent user experience;
- To improve recognition and distinctiveness of our brands in target segments;

- To build customer loyalty;
- To improve customer support services and our knowledge of the customers;
- To improve our services and products (based on first-hand information);
- To develop a corporate culture of promoting transparent relationship with the customers;
- To expand our customer base, particularly among the young population;
- To promote sales.

The following major activities were completed regarding digital communication in 2010:

Websites and web stores:

- Revised website at www.mercator.si
- Personalized Mercator Gift Card
- Intranet – setting up a Mercator portal for the employees
- Intensive activities related to the launch of Mercator appliance and electronics ("technical") web store, scheduled for March 1st 2011.

Activities at social networking sites:

- Number of Mercator Facebook profile users: 11,021
- Number of Twitter followers: 500
- Number of hits at YouTube: 89,794
- Number of Lumpi profile users: 2,506
- Customer bonus and prize application Treats: 30,000 users
- number of users of Dvorec Trebnik (Trebnik Castle): 285
- The following profiles have been set up in SE European markets: Mercator, Roda, Getro

Mobile applications:

- Based on the concept, we defined the first three mobile applications to be launched in the beginning of 2011.

Monitoring Mercator presence in digital media:

- As of January 2011, a web clipping system is in place for regular monitoring of Mercator's presence on the web.

Legal aspect of digital communication:

- We defined the basic requirements and plans regarding the legal aspects of digital communication for the protection of customers, employees, and Mercator brand reputation.

Planned activities

Mercator appliance and electronics ("technical") web store

Appliance and electronics ("technical") web store adds a complementary format/channel that allows, among other things, improving the perception of the existence and the extent of non-alimentary offer at Mercator. In a developed electronic market for appliances and electronics with stringent competition, Mercator will build its position by offering reasonable prices, as well as by providing a broad offer, exclusive products, a brand that stands for quality of service, and above all, benefits made possible by the Mercator Pika card.



Mercator mobile applications

As one of the most successful retail chains in Southeastern Europe, Mercator Group is once again proving that it truly is the best neighbour as it offers its customers mobile applications that will make their shopping easier. In development of the Symbian applications, we worked with Nokia. Applications are also developed for use on all major platforms such as Android, iOS (iPhone), and RIM or Blackberry OS. First, we shall offer two applications that will keep our customers up to date with opening hours of Mercator stores closest to them. This will soon be followed by an application that will make writing shopping lists redundant as it will provide a fast and convenient shopping list writing solution for the mobile phone. Both applications will also include the option to monitor the status of bonus points and credit or balance on the Mercator Pika card.



Monitoring Mercator presence in third-party digital media through web clipping

Monitoring the relationship with key stakeholders of the company also includes keeping up to date with their response. As Mercator's digital activities and presence are expanding, monitoring web contents is becoming increasingly important, in addition to the conventional clipping service. Being aware of the importance of establishing an interactive digital relationship, Mercator has employed the web clipping service to embrace the opportunity to monitor our stakeholders' response, thus taking another step closer to them. Information exchange is on the move from traditional channels to new media.

Multi-channel communication – a strategic policy for digital communication

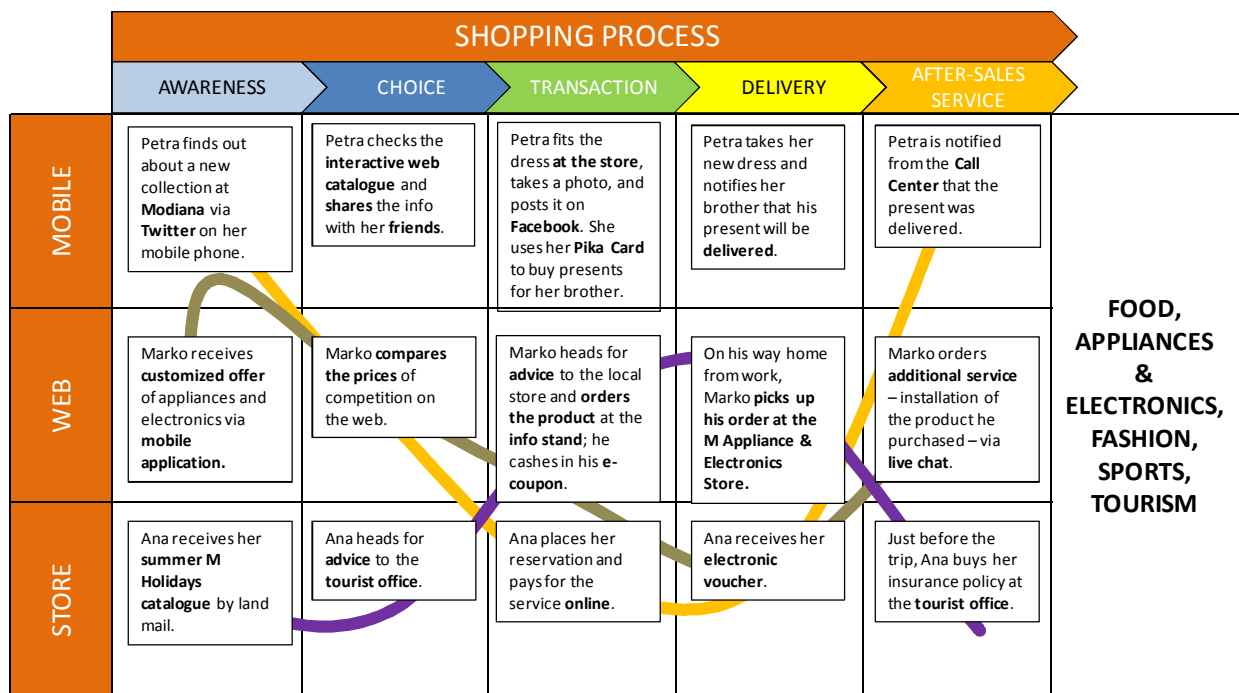
Multi-channel approach involves meeting customer expectations through various sales channels, with a certain level of integration between particular channels from the aspect of management, information, and services. In other words, it means a consistent and coordinated activity through all sales channels.

Mercator's operations include particular elements that are constituent parts of the multi-channel approach (two sales channels, customer loyalty program, customer relationship management, call center, modern technology in stores, etc.). However, true multi-channel approach necessarily requires integration. In 2011, Mercator Group will lay the foundations

for development of a multi-channel approach by gradually integrating the existing and the upcoming elements:

- Mercator FMCG web store,
- Mercator home product web store,
- web reservation system for M Holidays,
- Mercator Call Center,
- Pika card system,
- gift/prepaid card system,
- Mobile and newsletter communication, and
- means of digital communication provided in stores (info stands, wi-fi hotspots, etc.).

Multi-channelling as a comprehensive approach should be adopted at the level of all key business functions, not merely in marketing and sales. With such assumption, Mercator Group will be able to carry out the activities in the medium run, as presented in the diagram below.



Store formats

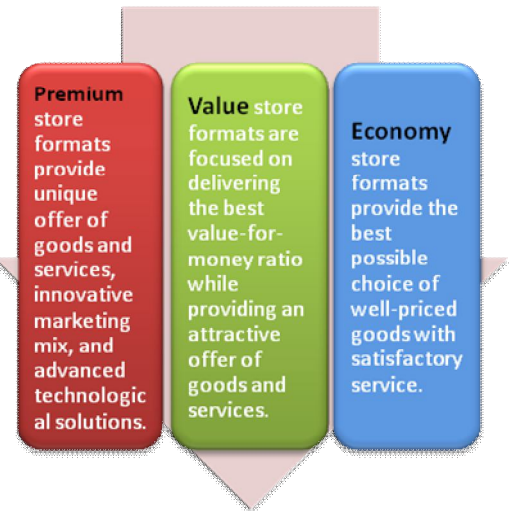
Multi-level brand strategy

By expanding its retail network to SE European countries, Mercator is entering markets of different economic maturity and efficiency.

In order to best adapt to the needs of the customers in all markets of our operations and to improve our responsiveness with regard to offer of high-quality goods and reasonable prices, a multi-level brand strategy was developed at Mercator:

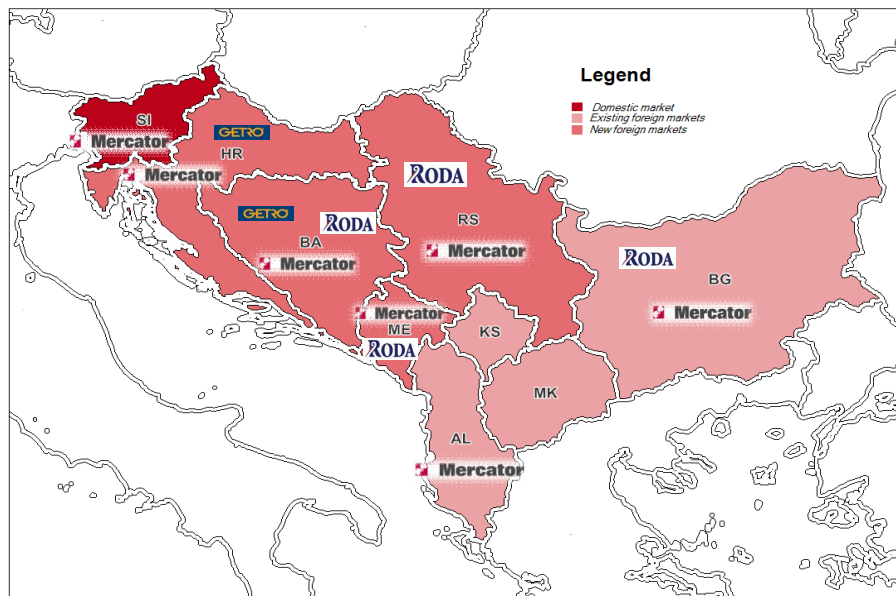
Mercator

- Premium (super-standard sales program) & value (emphasis on price-to-quality ratio) market position;
- Providing super-standard offer and high level of service;
- Innovative, modern retailer whose entire marketing mix offers the customers the best value for their money.



Roda, Getro

- Economy (well-priced and cost-efficient format) & value (emphasis on price-to-quality ratio) market position;
- Distinctive quality of goods paired with favourable prices.



Selling through different store formats allows Mercator to adapt as much as possible to the needs and desires of the customers in all markets of Mercator's operations as we manage our offer in pursuit of quality, safety, freshness, and local sourcing.

Multi-format strategy

In order to best adapt to the lifestyle and diverse needs and desires of our customers in individual and mutually differing micro locations, Mercator has developed a wide array of store formats. These are intended to cater major, previously planned shopping trips as well as minor, daily or occasional shopping for fast-moving consumer goods, but also for appliances and electronics, textile and cosmetics, and sportswear.

FMCG store formats

Mercator brand



Mercator

Mercator Centers and Shopping Centers

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



Hypermarkets

Mercator hypermarkets are located in larger shopping centers where people not only do their major weekly shopping, but also socialize and spend their leisure time. State-of-the-art hypermarkets feature a wide offer of both alimentary and non-alimentary products. The offer is complemented by superior service and cutting-edge store and information technology like the Tik Tak self-checkout cashiers, wine vending machines, and digital technology in stores, intended for the customer's information, education, and enjoyment.



Supermarkets and neighbourhood stores

Supermarkets and neighbourhood stores are Mercator's traditional store formats recognized by the slogan "The Best Neighbour". They are located in major residential and commercial areas and they are intended for minor daily shopping trips.



Comfort stores

Mercator comfort stores are located in central or, downtown areas of major cities. Their program mix is adapted to the requirements of contemporary urban customers who are constantly in a rush.



Web Store

Mercator web store enables saving time and comfortable shopping without leaving your armchair. Mercator web store is up and running in Slovenia and Croatia.



Cash&Carry

Mercator Cash & Carry are conventional Cash & Carry stores selling only to legal persons, or only offering wholesale services. Assortment and sales area are adapted accordingly. These stores are located outside city centers or at the outskirts of major cities.

Discount stores

At 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 prices in the market.

Roda brand



Roda centers

Roda centers are a format of modern shopping centers that combine the benefits of shopping at Roda megamarkets or supermarkets with the offer by many other attractive service providers, as well as some specialized Mercator programs.



Roda megamarkets

Roda megamarkets are larger stores offering affordably priced products, mostly to customers doing their major weekly or monthly shopping. They are located in Roda centers where the offer of various supplementary service providers and complementary services allows socializing and enjoying leisure time.



Roda supermarkets and markets

Roda supermarkets and markets are located in major residential and commercial areas. They are intended primarily for daily shopping.

Roda Cash&Carry

Roda Cash&Carry is an open-type cash&carry format serving both legal persons and individuals. Assortment and sales area are adapted accordingly. These stores are located outside city centers or at the outskirts of major cities.



Getro brand



Getro Cash&Carry

Getro Cash&Carry is an open-type cash&carry format serving both legal persons and individuals.



Getro Market

The stores are located in major and minor settlements with lower purchasing power. They are intended primarily for daily shopping. These stores provide the best possible choice of goods at favourable prices and satisfactory service.

Home product store formats

Construction and garden centers

Construction and garden centers are located at the outskirts of major cities as well as minor settlements (next to arterial roads) and in environments with highly intensive construction



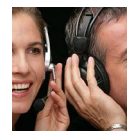
activity. The stores will offer everything the customers may need for major construction works, refurbishments, and basic landscaping.

Home interior stores

Home interior stores are intended for young people and young families decorating their homes. They operate as independent stores at Mercator Centers, or as departments within department stores in smaller towns.

Home improvement stores

Hardware stores offer everything a customer may need for home improvement or refurbishment. They operate as independent stores at Mercator Centers, or as independent stores in major cities and minor towns.



Other store formats

Clothing program and drugstores

Textile program includes apparel store formats adjusted in terms of size, scope, and level of the offer. Beauty program is presented under the Beautique label.



Intersport

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



Composition of retail units as at December 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	21	13	14	6	2	1	4	61	291,537	189,899
Supermarkets	129	14	21	12	5	-	-	181	215,362	138,649
Neighbour stores	335	57	66	7	72	2	-	539	208,257	120,089
Comfort stores	1	-	1	-	-	-	-	2	4,450	2,704
Cash & Carry	12	3	16	-	-	-	-	31	135,639	96,677
Hard discount stores	15	-	-	-	-	-	-	15	11,884	8,567
Restaurants	15	6	-	2	1	-	-	24	9,130	5,178
M Holidays	12	-	-	-	-	-	-	12	222	220
Franchise stores	223	-	34	-	-	-	-	257	51,350	33,620
TOTAL FMCG program	763	93	152	27	80	3	4	1,122	927,829	595,603
Technical program	62	7	14	-	3	-	-	86	126,754	68,114
Furniture program	32	2	-	-	1	-	-	35	34,869	26,344
Total home program	94	9	14	-	4	-	-	121	161,623	94,458
Clothing program and drugstores	96	19	30	13	1	-	-	159	69,168	58,144
Clothing program	77	10	30	9	1	-	-	127	65,429	55,052
Drugstores and perfumeries	19	9	-	4	-	-	-	32	3,740	3,092
Intersport	32	10	26	9	2	2	-	81	50,808	38,993
Other store formats	128	29	56	22	3	2	-	240	119,976	97,137
TOTAL	985	131	222	49	87	5	4	1,483	1,209,429	787,198

Development of new technological solutions

Mercator is an innovative retailer. In terms of development of store formats, this includes implementation of state-of-the-art technology and equipment in sales facilities, which make shopping easier and more pleasant for the customer, providing a development-oriented shopping experience.

In 2010, we were focused on introduction and examination of new technological solutions which provide the following:

- allow the customers to **quickly obtain information** on a product, offer, or a store (info stands with extended contents, three-dimensional product projection, etc.).



- provide a **more pleasant shopping experience** (self-checkouts which we are already introducing to supermarkets as well, beverage vending machines, etc.)



In stores with Tik-Tak self-checkouts, these account for over 30 percent of all shopping checkouts.



Introduction of a wine vending machine at Hypermarket Ljubljana Šiška

- ease the work process** and allow reducing related costs (digital price tags)



*Examining the **electronic price tags***

- reduce operating costs** (environmentally friendly technologies, fruit and vegetable moistening technology, LED lighting, etc.)



***Closing of the refrigerators** has been completed at 18 stores sized over 900 m².*

- allow a **shop assistant friendly working environment** (ergonomics).

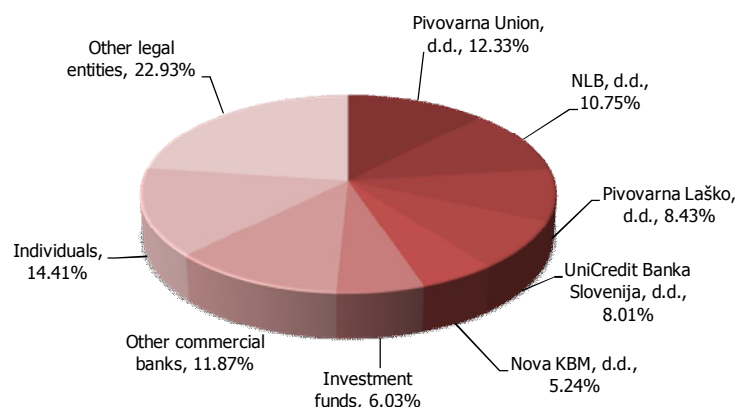
MERCATOR SHARE AND INVESTOR RELATIONS

Mercator share and ownership structure

Basic information on the share of the company Poslovni sistem Mercator, d.d., as at December 31st 2010

Code / Symbol	MELR
Type	Common share
Listing	Prime market of Ljubljana Stock Exchange, d.d.
Share capital	EUR 157,128,514.53
Number of shares	3,765,361
Number of treasury shares	42,192
Number of shareholders	16,331

Ownership structure of the company Poslovni sistem Mercator, d.d., as at December 31st 2010



Major shareholders

As at December 31st 2010, the following ten largest shareholders combined owned **61.11 percent** of the company:

Major Shareholders		Country	Number of shares	Share
1	Pivovarna Union, d.d.	Slovenia	464,390	12.33%
2	NLB, d.d.	Slovenia	404,832	10.75%
3	Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4	UniCredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5	Nova KBM, d.d.	Slovenia	197,274	5.24%
6	Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
7	Gorenjska Banka d.d., Kranj	Slovenia	142,920	3.80%
8	Abanka Vipra, d.d.	Slovenia	103,400	2.75%
9	NFD 1 Delniški Investicijski Sklad d.d.	Slovenia	97,743	2.60%
10	Radenska, d.d.	Slovenia	96,952	2.57%
Total			2,300,963	61.11%

Shares held by Management and Supervisory Board members as at December 31st 2010

	First and last name	Position	Number of shares	Share
Management Board				
1	Žiga Debeljak	Management Board President	1,100	0.0292%
2	Mateja Jesenek	Senior Vice President	1,000	0.0266%
3	Melita Kolbezen	Senior Vice President (as of January 1 st 2011)	0	0.0000%
4	Vera Aljančič Falež	Senior Vice President	30	0.0008%
5	Peter Zavrl	Senior Vice President	60	0.0016%
6	Stanka Čurović	Senior Vice President (as of January 1 st 2011)	0	0.0000%
	Total		2,190	0.0582%
Supervisory Board				
1	Robert Šega	Supervisory Board Chairman	0	0.0000%
2	Jadranka Dakič	Deputy Supervisory Board Chairwoman	0	0.0000%
3	Stefan Vavti	Supervisory Board member	0	0.0000%
4	Kristjan Verbič	Supervisory Board member	0	0.0000%
5	Matjaž Kovačič	Supervisory Board member	0	0.0000%
6	Miro Medvešek	Supervisory Board member	0	0.0000%
7	Mateja Širec	Supervisory Board member	36	0.0010%
8	Jože Cvetek	Supervisory Board member	2,000	0.0531%
9	Janez Strniša	Supervisory Board member	0	0.0000%
10	Ivica Župetič	Supervisory Board member	0	0.0000%
	Total		2,036	0.0541%

Foreign shareholders

As at December 31st 2010, the share in the company Poslovni sistem Mercator, d.d., held by foreign investors amounted to **15.01 percent**, which is 2.53 percentage point more than at the end of 2009.

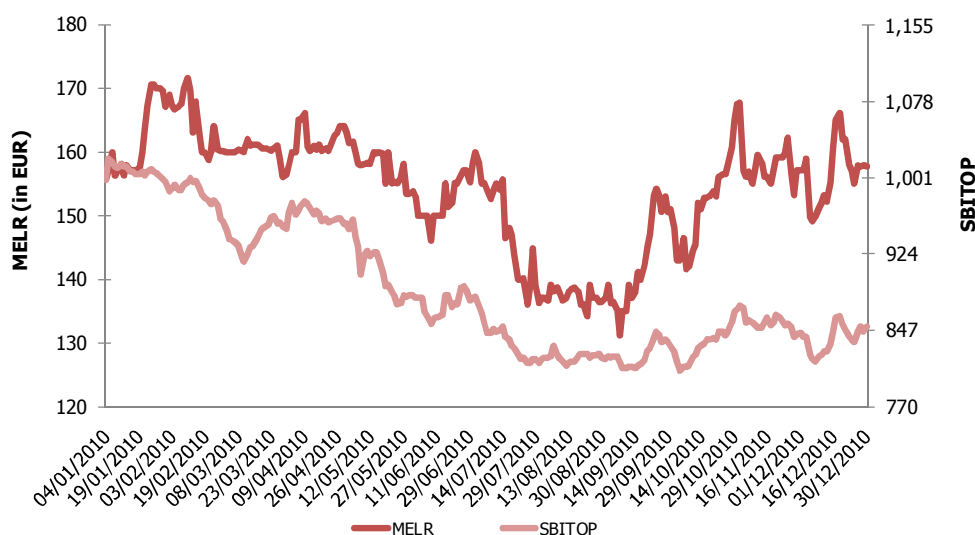
Shareholders indirectly or directly owned by the Republic of Slovenia

Directly or indirectly state-owned shareholders currently hold 5.25% of the company. The company NLB, d.d., is not included in this figure as it is not defined or declared as a company with a majority state shareholding.

Treasury shares

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

Movement of closing price per MELR share in 2010, compared to the movement of the SBI20 index



Key information for the shareholders

	December 31 st 2010	December 31 st 2009	Index 2010/2009
Number of shares entered in the court register	3,765,361	3,765,361	100.0
Number of treasury shares	42,192	42,192	100.0
Market capitalization as at Dec 31 st (in EUR)	593,797,430	576,740,344	103.0
Market price per share as at Dec 31 st (in EUR)	157.70	153.17	103.0
Book value per share as at Dec 31 st (in EUR)	221.76	211.13	105.0
Minimum close rate in the period (EUR)	131.20	144.03	91.1
Maximum close rate in the period (EUR)	171.50	183.11	93.7
Average close rate in the period (EUR)	154.14	164.22	93.9
Net return on equity – ordinary shares (in EUR)	9.9	5.2	190.9
P/E ratio	16.0	29.6	53.9
Capital gain (in %)	2.96	-3.11	–
Dividend yield (in %)	4.70	2.85	165.1
Total yield (in %)	7.66	-0.26	–

Market capitalization is calculated by multiplying the number of shares entered into the court register as at December 31st with market price per share as at December 31st.

Net return on equity (ordinary share) is calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares.

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

P/E (price-to-earnings ratio) is calculated as the ratio between market price per share as at December 31st and net profit per share.

Capital gain is calculated as the ratio between market price per share as at December 31st in the period at hand and market price per share as at December 31st in the previous period.

Dividend yield is calculated as the ratio between dividend per share and market price per share as at December 31st.

Dividend policy

The Shareholders Assembly shall decide on the amount of gross dividend per share for each fiscal year separately. At the 16th regular Shareholders Assembly held on July 13th 2010, the resolution on the payment of dividends in the amount of EUR 7.20 per share was adopted.

Approved capital

Subject to certain conditions, the company Mercator, d. d., has the option to issue approved capital in the amount of up to 20 percent of the current company share capital, by July 12th 2012.

Investor relations

The strategy of communication with the shareholders, financial analysts and institutions, the media, and the general public, is based on the pursuit of transparency and clarity of our operations; this is achieved by regular and timely announcement of information on the company status and position, as well as on major changes in company operations.

The company Poslovni sistem Mercator, d.d., treats all shareholders holding shares of the same class equally, both internal and external, minority and majority, domestic and foreign. The company shall motivate all shareholders to exercise their rights proactively and responsibly. Stronger representation of minority shareholders at the Shareholders Assembly

is also encouraged indirectly, through proxies. The company motivates major shareholders and institutional investors to publicly disclose their investment policy at the company, e.g. their voting policy, level of activity in the corporate governance processes and the manner thereof, and the mechanisms and frequency of communication with the managerial or supervisory bodies.

Mercator is looking to consolidate shareholder confidence by regularly reporting on the events at the company and anything related to it. Communication with the financial community takes place via company website at www.mercator.si, and through announcements on the Ljubljana Stock Exchange electronic information dissemination system, the SEOnet where we have been publishing all announcements simultaneously in Slovenian and English since 2005, and where all financial statements and reports for the company and the Group have since been published in compliance with the International Financial Reporting Standards.

Mercator also regularly organizes meetings with shareholders at company headquarters, press conferences on major business events and announcements of results, meetings with investors and analysts, presentation meetings, and conferences for investors at home and abroad.

In 2010, the company Poslovni sistem Mercator, d.d., conducted the following investor relations activities:

- **Presentation for Slovenian investors and analysts** at two events held by the Ljubljana Stock Exchange (April and December 2010).
- **Extensive 2010 Semi-Annual Report** with detailed disclosures and an auditor's opinion on the compiled condensed Mercator Group financial statements. Thus, Mercator provided the investors with even more exhaustive and quality information on the Group's operations.
- The company was the first in the Republic of Slovenia to announce the convocation of its Shareholders Assembly in the EuroVote system. **EuroVote** employs the Euroshareholders web platform, an association of 29 national members with approximately 500,000 private European investors, to allow the investors to lodge via this international association a proxy to represent the interests of individual shareholders in the country or at a particular Shareholders Assembly. In this way, EuroVote is promoting an active role of shareholders and their attendance at the Shareholders Assemblies and general meetings, as it facilitates cross-border voting in the European Union and additionally supports and motivates the diversity of equity investment at the international level, while reducing risk. This year, proxy voting services were provided for Shareholders Assemblies and general meetings of the following six major issuers: ArcelorMittal, SA (Investas, Luxembourg), Banco Santander, SA (AEMEC, Spain), Mercator, d.d. (VZMD, Slovenia), SAP, AG (DSW, Germany), Shell, Plc (VEB, Netherlands), and Total, SA (DSW, France). Joining the most reputable companies, Mercator is looking to further improve the recognition of the company shares at the international level.
- In September 2010, the company held the **1st Conference of Investors and Financial Analysts** which was attended by representatives of over 30 financial companies including financial analysts and many existing and potential investors. The company presented the details of Mercator Group operations in the first half of 2010.

- The company Poslovni sistem Mercator, d.d., signed an agreement with the Tax Administration of the Republic of Slovenia to join its pilot project called **Horizontal Monitoring**. Planned to last two years, the project is aimed at achieving an improvement in the quality of relations between the Tax Administration of the Republic of Slovenia and the persons liable for taxation. Within the project, the latter shall cooperate with the Tax Administration as equal partners, in a transparent manner, based on mutual trust and understanding of the business events. Mercator's expectations from the project include improved taxation certainty, faster response by the Tax Administration to any inquiries, better understanding of tax legislation, and understanding the effects of major business decisions on company financial and taxable income statements even before they are actually adopted. The information was welcomed by potential investors as this move improves their confidence in the company with regard to mitigation of the tax risks.
- Company representatives took part in the **London and Vienna roadshows** held by the Viennese stock exchange in cooperation with the Ljubljana Stock Exchange (October and November 2010).
- In December 2010, Mercator received a special **award by the Ljubljana Stock Exchange for the most improved investor relations in 2010**. Our active approach to investors and quality up-to-date information witness how seriously investor relations are managed at Mercator.

EMPLOYEE DEVELOPMENT

As the region's largest employer in the trade industry, we manifested our corporate social responsibility to the employees through managerial and other training, internal communication, employee motivation, improvement of working conditions, internal staffing and recruitment, and care for the safety and health of our employees and their families.

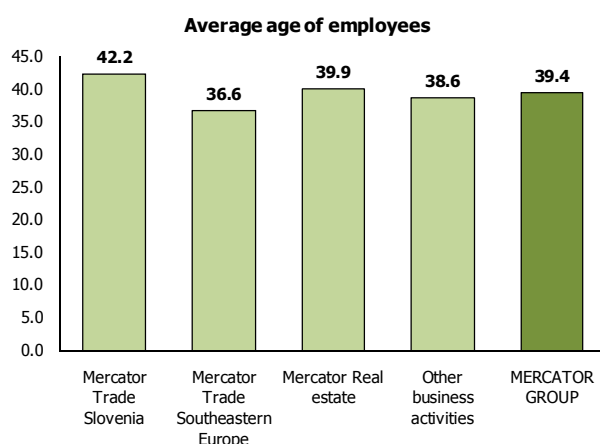
Aspects	Goals for 2010	Completed
Employee development	Being a trustworthy employer, key personnel and talent development, increasing the number of in-house instructors, employee training – particularly shop assistants, employee motivation, development of new methods of internal communication, development of a family friendly company, promotion of employee health, care for co-workers who are seriously ill or in social distress, development of social enterprise.	<p>The company Mercator-BH, d. o. o., won the Best Employer 2010 Award, presented by the human resource web portal www.posao.ba.</p> <p>The company M-BL, d. o. o., won the Award presented by the Chamber of Commerce and Industry of the Republika Srpska for the biggest contribution to job creation and employment.</p> <p>27 junior employees were enrolled in the Mercator International Business Academy.</p> <p>1,409 leaders and experts attended the Key Employee Conference.</p> <p>402 store managers took part in training for store managers and their deputies.</p> <p>4th Mercator Human Resource Days were held.</p> <p>There are 960 in-house instructors at the company.</p> <p>654 commerce students (from vocational schools) were admitted for practical training.</p> <p>Our training network carried out a total of 18,812 hours of shop assistant training.</p> <p>Over 1,000 Mercator athletes took part in Mercatoriada.</p> <p>364 employees attended the team building sessions and trips.</p> <p>We measured the organizational (corporate) climate and employee satisfaction.</p> <p>In Slovenia, the entire pay system was adjusted to comply with the increase in the minimum wage.</p> <p>We revised our intranet in Slovenia.</p> <p>We mass communicated our revised corporate values.</p> <p>9,090 employees took part in the annual interviews.</p> <p>We obtained the full Family-Friendly Company certificate.</p> <p>Santa Claus brought presents to 2,401 children of our employees.</p> <p>267 parents of first-graders were given a free day of paid leave on September 1st.</p> <p>We founded the Mercator Society of Sports and Culture</p> <p>We organized 17 hiking trips, attended by 894 hikers.</p> <p>Mercator Humanitarian Foundation provided EUR 90,334 of aid to employees and their families in serious distress.</p> <p>Our social enterprise employs 295 people, 48% more than last year.</p>

In 2010, we remain the largest retailer in the region. As at December 31st 2010, Mercator Group had 23,482 employees, of which 11,319 (48.2%) percent were employed in markets outside Slovenia.

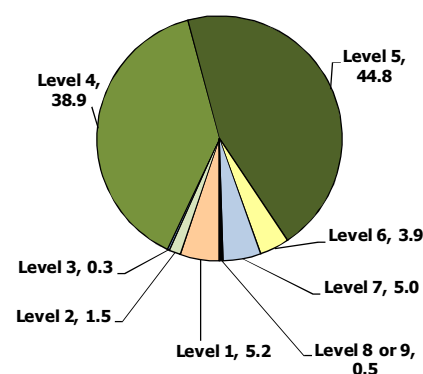
Number of employees

	Number of employees as at December 31 st 2010	Number of employees as at December 31 st 2009	Number of employees index Dec 31 st 2010/Dec 31 st 2009	Number of employees based on hours worked in the period January – December 2010
Poslovni sistem Mercator, d.d.	10,606	12,297	86.2	10,630
Mercator IP, d.o.o.	295	200	147.5	200
Mercator Operations Slovenia	10,901	12,497	87.2	10,829
Mercator - S, d.o.o.	3,968	3,714	106.8	3,776.5
Mercator - H, d.o.o.	3,600	3,023	119.1	3,348.0
Mercator - BH, d.o.o.	826	1,024	80.7	894
M - BL, d.o.o.	262	241	108.7	240
Mercator - Mex, d.o.o.	326	368	88.6	323
Mercator - CG, d.o.o.	1,103	–	–	475.8
Mercator - B, e.o.o.d.	279	76	367.1	97
Mercator - A, sh.p.k.	121	131	92.4	106
Mercator Operations Southeastern Europe	10,485	8,577	122.2	9,260
Mercator - Optima, d.o.o.	16	21	76.2	16
Mercator real estate	16	21	76.2	16
Eta, d.d.	187	198	94.4	184
Mercator - Emba, d.d.	119	111	107.2	118
Intersport ISI, d.o.o.	324	0	–	271
Intersport S-ISI, d.o.o.	114	–	–	58
Intersport H, d.o.o.	264	–	–	163
Intersport BH, d.o.o.	66	–	–	31
Modiana, d.o.o., Slovenia	616	–	–	490
Modiana, d.o.o., Serbia	142	–	–	66
Modiana, d.o.o., Croatia	169	–	–	111.2
Modiana, d.o.o., Bosnia and Herzegovina	79	–	–	34
Other operating activities	2,080	309	673.1	1,527
MERCATOR GROUP	23,482	21,404	109.7	21,632

Compared to the year before, the number of employees rose by 2,078. Increase in the number of employees in foreign markets is a result of organic growth and acquisition of trade operations in Croatia and Montenegro. In Slovenia, vacancies were filled mostly by internal staffing.



Breakdown by level of education in Mercator Group



Employee relations

A lot of attention was paid to **key employee training and talent management**. At the 4th Key Employee Conference, attended by 1,409 leaders and experts from all markets, the Management Board presented the business goals for the following medium-term period. Training for shop managers and deputy shop managers is becoming an established form of middle management training in retail. Central focus of the 4th Mercator HR Days was on employment of seniors. Young talented employees were enrolled in the 4th Mercator International Business Academy.

The Key Employee Conference was attended by 1,409 employees.

Great majority of employee education and training is provided by our own **in-company instructors** currently numbered at 960. Most of them are trainers; they train shop assistants. Customer satisfaction is impossible to attain without adequately trained sales personnel. Training network provides transfer of knowledge from the experienced to the less experienced shop assistants. We also promote the development of (vocational) schools of commerce. Mentors in retail allowed 654 students of vocational schools of commerce to complete their internship.



In addition to the mechanisms for transfer of knowledge and experience, the employees also take part in other activities: the 32nd **Mercatoriada** was attended by over 1,000 Mercator athletes. Team building sessions saw great response by our employees. Internal promotion awarded to 2,056 employees was also an important vehicle of motivation. We measured the organizational (corporate) climate and employee satisfaction to identify the possibilities for improvement in the fields of work, motivation, and relationships between employees.

We measured employee satisfaction and corporate climate among all employees. Average response rate to the survey was 31%; average satisfaction rating on a scale from 1

to 5 was 3.3. The best rating was given to the "Customer relationship" dimension while "Promotion" was the dimension with the worst grade.

We honour Mercator's collective contract and we maintain regular contact with the representative trade unions ZSSS and KS'90. In Slovenia, we responded to the increase in the minimum wage from EUR 597.43 to EUR 734.15 gross as early as in the beginning of the year, by adjusting the entire payroll system. A special bonus increased the salaries of employees, particularly those in the 4th wage group which includes the largest number of our employees.

We revised the intranet.

The biggest project in internal communication was setting up the **intranet** for the Slovenian market. Thus, the employees were provided with an information hub that allows them to find information on HR activities, read the most recent news from the company, and find information on projects and employees. We communicated the revised corporate values through company newsletters and in meetings. 9,090 employees took part in the annual interviews.



Parents of first-graders were given a free day of paid leave on September 1st

We are improving the balance between work and leisure, and taking care of our employees' families as well. In Slovenia, activities of the Family-Friendly Company were extended to new measures: 267 Parents of first-graders were given a free day of paid leave on September 1st. In the first week of their child's attendance of the kindergarten, employees are allowed flexible working hours, as well as to work fewer hours. Santa Claus brought presents to 2,401 children of our employees.

POLNI CERTIFIKAT



We founded the Mercator Society of Sports and Culture

Our healthcare activities are prevention-oriented. We founded the Mercator Society of Sports and Culture to organize and manage regular sports and cultural activities. Working with renowned physicians, we regularly organize seminars to improve awareness of health issues. In addition to seminars, all employees are offered free medical advice by phone. We carried out a pan-Slovenian campaign for measuring the risk factors of heart and coronary disease. Our ergonomics team is managing the working environment, taking care of the layout and equipment of typical workplaces. Increasing number of disabled persons finds employment at Mercator social enterprise which had 295 employees as at December 31st 2010. They are engaged in manufacturing and services.



The **Mercator Humanitarian Foundation** provided aid in the amount of EUR 90,334 to our fellow employees in need. The aid was given to employees who are seriously ill or in grave financial distress, as well as for restoration efforts after natural disasters.

SELECTED FINANCIAL DATA FOR 2010

All below financial data were taken from audited annual report of Mercator Group and company Poslovni sistem Mercator, d.d., for 2010.

Sales Revenues

Despite difficult macro-economic situation and a slump in purchasing power, which reflected in changes in scope and structure of consumption, sales revenues of Mercator Group in 2010 amounted to EUR 2,781,604 thousand, which is 5.2 percent higher than in 2009, assuming constant exchange rates (depreciation of Serbian dinar reflected in 9.6 percent higher average exchange rate in 2010 in comparison with 2009) sales revenues increased by 6.9 percent.

Gross cash flows from operating activities

Relevant measure of capability to create cash flows from operating activities, which also include expansion of retail network of Mercator Group using operating lease, gross cash flow from operating activities before rent, in 2010 amounted to EUR 204,846 thousand, which is 7.5 percent higher than in 2009. Assuming constant exchange rates gross cash flow from operating activities amounted to EUR 208,340 thousand, which is 9.3 percent higher than in 2009.

Gross cash flow from operating activities of Mercator Group amounted to EUR 170,087 thousand, which meant 1.7 percent growth in comparison to 2009. Assuming constant exchange rates gross cash flow from operating activities amounted to EUR 172,409 thousand, which meant 3.1 percent growth in comparison to 2009.

Profit

Profit before income tax of Mercator Group amounted to EUR 40,344 thousand in 2010 which is EUR 15,148 thousand or 60.1 percent higher than in 2009 and 48.4 percent higher than was planned for 2010.

Excluding extraordinary events in 2010, profit before tax would amount EUR 33,461 thousand in 2010, which is 23.3 percent higher than adjusted profit in 2009 (EUR 27,145 thousand).

The Mercator Group realized net profit in amount of EUR 30,387 thousand in 2010, which is EUR 9,268 thousand or 43.9 percent higher than in 2009 and for 39.0 percent or EUR 8,531 thousand exceeds the planned net income for 2010.

Equity

Equity of Mercator Group as at 31.12.2010 amounted to EUR 798,165 thousand, which is EUR 7,225 thousand or 0.9 percent less than at the end of 2009.