Business Plan of the Mercator Group and the Company Poslovni Sistem Mercator, d.d., for the Year 2008

Poslovni sistem Mercator, d.d.
Management Board

December 2007

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SUMMARY

Successful performance in 2007 to be followed by ambitious continuation of internationalization in 2008

In 2008, Mercator Group is planning net revenues from sales in the amount of EUR 2.6 billion, which is 9.5 percent more than the estimated figure for 2007. Of this sum, almost EUR 870 million, or one third, will be generated in four foreign markets. At the end of the following year, there will be close to 22,500 employees in the Group, which is 10 percent more than in the year before. Comparable profit before taxes in 2008 is planned to grow by 9.3 percent, and the net profit is planned at EUR 40.6 million.

Net revenues of the Mercator Group in 2007 are estimated at EUR 2.4 billion, which is 16.2 percent more than in 2006. Annual revenue growth is lower than the year-on- year growth by the third quarter (19.3 percent) when the operations of the company M-Rodić, d.o.o., was included into the Group in the last quarter of 2006. In 2008, net revenues from sales of EUR 2.6 billion are planned, exceeding the figure from the year before by 9.5 percent. The following aspects will affect the high growth of net revenues in 2008: extensive investments and development of retail network, reinforced marketing activities, year-long effect of the strategic alliance with the company Presoflex, d.o.o., in Croatia, and strategic alliance and inclusion of the company Mercator-Mex, d.o.o., Montenegro, into the Mercator Group.

Net profit of the Mercator Group in 2007 is estimated to amount to EUR 42.8 million. The profit for 2007 was considerably affected by some extraordinary and unique events mostly related to disposal of business and financial assets; hence, inter-year data are not comparable. Comparable profit before taxes in 2007, as estimated (at EUR 38.2 million), rose by 17.9 percent compared to the year 2006 (EUR 32.4 million). In 2008, Mercator Group is planning EUR 40.6 million of net profit; planned comparable profit before taxes in 2008 exceeds the estimated figure for 2007 (EUR 38.2 million) by 9.3 percent. Operations in 2007 were positively affected by general economic conditions in all markets; the negative influences included further lowering of margins and stringent competition, high interest rates, and inflation-related cost pressures in the second half of the year. In 2008, general economic conditions in the markets of Mercator's operation, political situation in the region, inflation-related cost pressures, high levels of interest rates, and currency exchange risks in Serbia are expected to affect the operations.

Gross cash flow from operating activities in 2007 is estimated to amount to EUR 156.6 million, which is 15.6 percent more than in 2006. In 2008, Mercator Group is planning gross cash flow from operations in the amount of EUR 173.2 million, which represents a 10.6 percent growth compared to the estimate for 2007. Increase in gross cash flow from operating activities is predominantly the result of development and investment efforts, improved productivity, and further cost rationalization and reaping the economies of scale in all markets of our operations.

In 2008, Mercator group is planning EUR 264 million of **capital expenditure for fixed assets** which will mostly be allocated for the development of retail network in all markets of the company's operations, development of distribution centers, and upgrade of information systems. **Major investment projects in Slovenia** in 2008 include the following: opening of Mercator centers in Postojna and Murska Sobota, hypermarket and Intersport in trade center in Rudnik, Ljubljana, and trade centers in Škofja Loka, Šentjernej, Litija, Bled, and Cerkno. **Among the major investment projects abroad** in 2008 are the following: in Croatia, the third Mercator center in Sesvete, Zagreb, Mercator center in Velika Gorica, trade centers in Koprivnica, Labin, and Križevci; in Serbia, Mercator center Niš and M-Rodić trade centers in Kragujevac and Kruševac; in Bosnia and Herzegovina, Mercator centers Banja Luka and Brčko.

In 2008, Mercator Group will continue to examine the possibilities of forging **strategic alliances with appropriate trade companies in key markets beyond the territory of Slovenia**.

In 2008, **number of employees** will rise as well. By the end of 2008, Mercator Group is expected to employ 22,467 people, which is 9.6 percent more than the estimated number of employees at the end of 2007. Of the said figure, 39.7 percent are expected to be employed in markets outside Slovenia at the end of 2008.

The Management Board believes that the business plan for 2008 is consistent with the company's resoluteness to pursue the strategic policies of the Mercator Group.

INTRODUCTION

In 2007, Mercator Group intensively performed **activities of planned strategic projects for improving competitiveness, business performance, and operations effectiveness**.

The strategic project of general optimization of operations in the Mercator Group included flexible allocation of working hours, which led to improvement in retail unit productivity in one third of all units. Furthermore, optimization of processes in procurement of non-trade goods resulted in rationalization of operations related to procurement of non-trade goods and services.

In the field of category management, we carried on the activities related to measures for improving the offered assortment and placement of products in the aisles, as well as prepared automated preparation tools for annual negotiations.

By carrying out the activities of optimization of logistics infrastructure, we successfully proceeded with the integration and consolidation of warehouses, as well as with activities for constructing the Mercator logistics center in Želodnik.

In the field of IT system upgrade, we successfully implemented the SAP software for accounting, controlling, and finance; in 2008, SAP will be introduced in human resource management and investment management.

With regard to **development of retail network**, three new Mercator centers were opened in Slovenia an abroad in 2007, as well as 2 refurbished and one redesigned Mercator center, a M-Rodić megamarket, three trade centers, five supermarkets, two new and one refurbished superette, three Hura! discount stores, a Cash&Carry outlet, and a refurbished hardware and electronics warehouse; in addition, several major and minor retail units were refurbished, and our textile and Intersport programs were also extended.

In Croatia, Mercator forged in July 2007 a strategic alliance with the company Presoflex, d.o.o., thus increasing its market share in Croatian market to approximately 6 percent. The strategic alliance is consistent with Mercator's strategy of growth and securing the position of the leading fast moving consumer goods retailer in the Southeastern European region.

In September 2007, Mercator sold its 100-percent share in the company M Hotel, d.o.o.; this transaction was consistent with the strategy of focusing on its core activity of FMCG trade.

On November 30th 2007, the companies Mex, d.o.o., and Mercator, d.d., signed an agreement on strategic alliance according to which Mercator, d.d., shall become a 51 percent owner of the company Mex market, d.o.o., Podgorica. The company Mex, d.o.o., will transfer its activity of FMCG retail to the newly founded company. This includes two trade centers, in Podgorica and Nikšič, respectively, as well as eight other retail units in Podgorica, Ulcinj, Bar, and Nikšič. Mex is among the largest Montenegrin alimentary product retailers by market share. As of January 1st 2008, the company will be renamed to Mercator-Mex, d.o.o., and will be responsible for entire Mercator's development in the Montenegrin market. With this strategic alliance, Mercator entered the fourth market outside Slovenia, consistently with its internationalization strategy and the vision of becoming the leading FMCG retailer in the Southeastern European region. The goal of the company Mercator-Mex, d.o.o., is to carry on the intensive development of trade centers and stores across the territory of Montenegro, and to become one of the leading retailers in this country.

Marketing activities involved further intensive upgrade of the Mercator Pika card customer loyalty system (there are over one million card holders in all markets of our operations combined). We founded the **Maxi club**, developed a customer loyalty program for its members, and launched a dedicated club website. Mercator's offer was extended with the **M Holidays** service which involves marketing of tourist arrangements in cooperation with the Kompas tourist agency. As a socially accountable company, we introduced the **fair trade** products in our major shopping centers. We also launched a new customer loyalty system based on a multi-program platform. Each Mercator program offers different products to the customer. This customer loyalty program was also launched in all foreign markets, with a limited array of products (market program only). **Mercator Pika business card** was introduced in the market; the card is intended for legal persons, individual entrepreneurs, societies, and other institutions. New products were developed within all private label lines, and innovative communication and sales promotion were employed to boost sales of individual lines. In Slovenian market, there are approximately 1,600 Mercator brand products in all lines combined; these products account for roughly 12.5 percent of total retail sales revenues. A new private label line has also been introduced, called **Ambient**, which will replace and upgrade the M line. Ecological, or organic, products were included in the private label existing lines; to this end, the **EKO** sign was developed. Following a favorable response from the customers, we continued to install the TIK TAK self-checkout cashiers. We also successfully completed the **project of redesign or establishing the Mercator corporate website and Mercator Pika card website** in all markets of Mercator's operations. We developed a new store format with products for the home and ambiance: in the Maximarket passageway, we opened the store called **Maxi Ambient**.

Mercator's central humanitarian campaign called 'Ljubimo življenje' ('Love for Life') contributed significantly to procurement of a magnetic resonance tomography equipment in the new Neurological Clinic; this equipment will enable more exams and shorter waiting lists. Through this campaign, Mercator teamed up with over one thousand major business partners who contributed to the donation, as well as with the broader environment. In the beginning of the year, Mercator organized collection of tolar banknotes and coins upon the introduction of euro as the new national currency; during the year, donations were made to several healthcare institutions and humanitarian organizations. Special offer of fair trade products was introduced in major shopping centers. Considerable attention was paid to children, both by donations to various institutions and foundations, as well as by carrying on the campaign 'We Were all Children' which provides summer and winter vacation trips for children from socially / economically deprived families. The campaign 'Lumpi's Safe Way to School' is aimed at spreading the awareness among all road traffic participants that the safety of our children in road traffic is our common responsibility. Organization of the Ljubljana marathon also included a humanitarian running race for the society 'SOS Telephone for Aid to Women and Children – Victims of Violence', and the Lumpi's running competition.

In the field of human resource management efforts, Mercator as one of the largest employers in the region, is devoting particular attention to employee management, care for their health and well-being; the projects 'Humanitarian Fund' and 'Family-friendly Company' are the most important ones in this field. With regard to environment protection within the Mercator Group trade companies, our activities are steered in compliance with the legislation, in the direction of constant reduction of harmful effect on the environment, rational use of energy, and prevention of pollution.

The plans for 2008 again include extensive activities in the field of development, marketing, supplier relations, and accountable action in the social environment; simultaneously, operating activities will continue to focus on improving business performance and effectiveness of the Mercator Group.

FINANCIAL HIGHLIGHTS FOR THE YEAR 2008

	Mercator Group		
	Estimation 2007	Plan 2008	Index
Net sales revenues (in EUR 000)	2,398,994	2,627,903	109.5
Operating profit (in EUR 000)	81,611	90,574	111.0
Profit before income tax (in EUR 000)	53,954	50,046	92.8
Profit for the financial period (in EUR 000)	42,829	40,556	94.7
Comparable profit before income tax (in EUR 000) *	38,161	41,726	109.3
Gross cash flow from operating activities (in EUR 000)	156,564	173,215	110.6
Capital expenditure (in EUR 000)	190,911	263,529	138.0
Long - term financial investments (in EUR 000)	43,260	0	-
Return on equity	6.7%	6.0%	90.7
Return on sales	1.8%	1.5%	86.4
Gross cash flow from operating activities / sales	6.5%	6.6%	101.0
Number of employees based on hours worked	19,110	20,770	108.7
Number of employees as at the end of the period	20,496	22,467	109.6

* Calculation is presented below.

COMPANY PROFILE

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 52.110 Retail in non-specialized food retail outlets
Identification number	5300231
VAT Tax Code	45884595
Court registry number	1/02785/00
Court registry date	October 12th 1995
Company share capital as at September 30th 2007	EUR 157,128,514.53
Nominal value of one share	EUR 41.73
Number of shares quoted at the Ljubljana Stock Exchange as at September 30th 2007	3,765,361
Share listing	Ljubljana Stock Exchange, official market, prime market, trading code MELR
President of the Management Board & CEO	Žiga Debeljak
Management Board Members	Vera Aljančič Falež, Mateja Jesenek, Peter Zavrl
Chairman of the Supervisory Board	Robert Šega
Deputy chairman of the Supervisory Board	Kristjan Sušinski

COMPOSITION AND ORGANIZATION OF THE MERCATOR GROUP

Mercator Group consists of both trade and non-trade companies in manufacturing, catering and service industries. The company Poslovni sistem Mercator, d.d., is the controlling company of a group of associated companies (forming the Mercator Group), which will comprise the following companies in 2008:

Estimation - December 31st 2007	Plan - December 31st 2008
TRADE IN SLOVENIA	
Poslovni sistem Mercator, d.d.	Poslovni sistem Mercator, d.d.
M.COM, d.o.o. (100.0 %) *	M.COM, d.o.o. (100.0 %) *
TRADE IN FOREIGN MARKETS	
M - H, d.o.o., Croatia (99.9 %)	M - H, d.o.o., Croatia (99.9 %)
- Presoflex, d.o.o., Croatia (100.0 %) **	-
M - S, d.o.o., Serbia (100.0 %)	M - S, d.o.o., Serbia (100.0 %)
M - Rodić, d.o.o., Serbia (100.0 %)	M - Rodić, d.o.o., Serbia (100.0 %)
M - BH, d.o.o., Bosnia and Hercegovina (100.0 %)	M - BH, d.o.o., Bosnia and Hercegovina (100.0 %)
Mercator Makedonija, d.o.o., Macedonia (100.0 %)	Mercator Makedonija, d.o.o., Macedonia (100.0 %)
M - Mex, d.o.o., Montenegro (51.0 %)	M - Mex, d.o.o., Montenegro (51.0 %)
NON - TRADE	
Pekarna Grosuplje, d.d., (97.5 %) ***	-
- Belpana, d.o.o., Croatia (100.0 %)	-
Eta, d.d. (100.0 %)	Eta, d.d. (100.0 %)
M - Emba, d.d. (100.0 %) ****	-
M - Optima, d.d. (100.0 %)	M - Optima, d.d. (100.0 %)

* Business operations shall not be planned; company has not comenced business activities yet.

** Planned merger of the company with the company Mercator-H, d.o.o., as of January 1 2008.

*** As of January 1 2008, production of this company is planned within the operations of the company Poslovni sistem Mercator, d.d.; in 2008, merger of this company is planned.

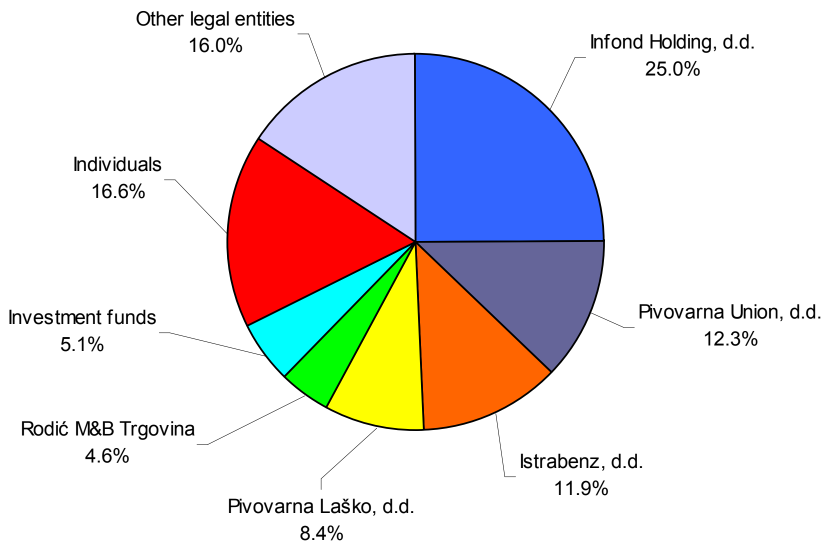
**** Planned disposal of ownership share in the company by December 31st 2008; operations are planned within the Group thru December 31 2008.

OWNERSHIP STRUCTURE

Ownership structure

On November 30th 2007, 17,203 shareholders were registered in the Share Register of the company Poslovni sistem Mercator, d.d., which means an increase by 6 shareholders compared to December 31st 2006 (17,197 shareholders).

Ownership structure of the company Poslovni sistem Mercator, d.d., as at November 30th 2007



CORPORATE GOVERNANCE

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

Supervisory Board of the company Poslovni sistem Mercator, d.d., consists of ten members. Half of the members who represent the interests of the shareholders, are elected by the Shareholders Assembly, while the members that represent the employees are elected by the Group Workers Council, in accordance with the Worker Participation in Management Act; the Council communicates the supervisory board election results to the Shareholders Assembly or to the Management Board.

Supervisory Board

As at November 30th 2007, the Supervisory Board consisted of ten members. Following is a chart of MELR shares owned by the members of the Supervisory Board of the company Poslovni sistem Mercator, d.d.

	President of the Supervisory Board	Number of shares	Ownership share
1.	Robert Šega	0	0.00000%
	Members of the Board (representatives of capital)		
2.	Matjaž Božič	0	0.00000%
3.	Dušan Mohorko	0	0.00000%
4.	Kristjan Sušinski	0	0.00000%
5.	Mateja Vidnar	0	0.00000%
	Members of the Board (workers representatives)		
6.	Ksenija Bračič	0	0.00000%
7.	Jože Cvetek	2,000	0.05312%
8.	Dragica Derganc	0	0.00000%
9.	Jelka Žekar	400	0.01062%
10.	Ivica Župetić	0	0.00000%
	TOTAL	**2,400**	**0.06374%**

Management Board

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

As at November 30th 2007, the members of the Management Board of the company Poslovni sistem Mercator, d.d., owned the following number of the company shares (MELR):

Name and surname	Number of shares	Ownership share
Žiga Debeljak	1,100	0.02921%
Vera Aljančič Falež	30	0.00080%
Mateja Jesenek	1,000	0,02656%
Peter Zavrl	60	0,00159%
TOTAL	**2,190**	**0,05816%**

STRATEGIC POLICIES OF THE MERCATOR GROUP

VISION

Mercator's vision is to become the leading retailer with FMCG program (market program) in Southeastern Europe.

MISSION

By way of our business operations, we create:

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

CORPORATE VALUES

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

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

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

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

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

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

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

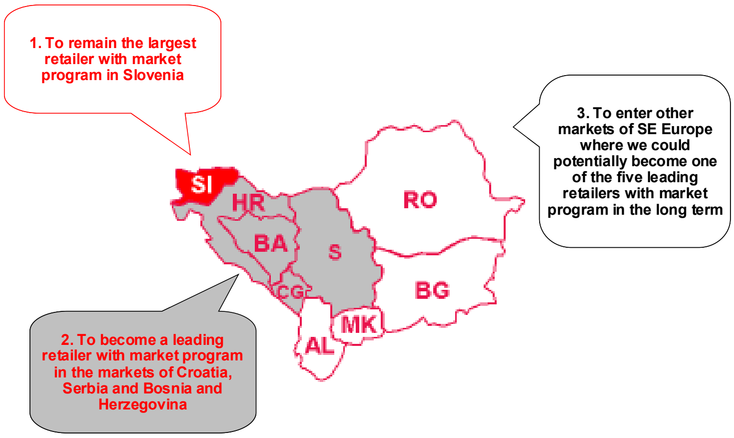
- training key human resources for assuming international tasks,
- understanding the differences and adapting to local environment.

STRATEGIC POLICIES

1. LARGEST RETAILER IN SLOVENIA: To retain the leading market share of market program in Slovenia, primarily by:
   - improving the competitiveness of our offer and
   - development of the retail network.

2. LEADING RETAILER IN THE NEIGHBORING MARKETS OF SE EUROPE: To remain the first or second largest retailer with market program in the markets of Croatia, Serbia and Montenegro and Bosnia and Herzegovina, especially by:
   - strategic partnerships and
   - development of our own retail network.

3. ENTERING OTHER SE EUROPEAN MARKETS: To enter or enable the entrance to other markets in Southeastern Europe, where we could become one of the five leading retailers with market program; this will be attained by:
   - purchasing appealing locations,
   - developing our own retail network and
   - strategic partnerships.



4. DEVELOPMENT OF NON-MARKET PROGRAMS: To develop non-market program which:
   - enable reaping the potential of positive synergies with market program and/or
   - enable a concept for development of the second fundamental commercial program with a long-term potential of growth and profitability in the target markets.,
   - encourage development of a specific competitive advantage

5. PROFITABLE OPERATIONS: Ensure profitable operations by:
   - measures for retaining the level of trade margins,
   - measures for cost rationalization and increasing the productivity and
   - measures for increasing the productivity of invested capital.

STRATEGIC GOALS

Strategic goals are laid down based on the Medium Term Run Business Plan of the Mercator Group for the period 2008-2012.

1. GROWTH OF NET SALES REVENUES FROM TRADE

   a. average annual organic growth in EUR: 9 %

2. TARGET MARKET SHARES

	2007	2010	2012
a. Slovenia	37 %	36 %	35 %
b. Croatia	7 %	12 %	15 %
c. Serbia	8 %	10 %	15 %
d. Bosnia in Herzegovina	2 %	5 %	10 %
e. Montenegro	-	5 %	10 %
f. Macedonia	-	-	5 %
g. Bulgaria	-	-	3 %

* Source: Market share measurement (research by Valicon)

3. INVESTMENT AND FINANCING SOURCES

a. annual investment in the amount of EUR 220 – 260 million, financed by own resources and additional debt capital
b. issuing new capital for forming strategic partnerships/alliances

4. SUCCESSFUL BUSINESS PERFORMANCE AND EFFICIENCY

a. Growth of gross cash flow from operating activities should be 1 percentage point higher than net sales revenue growth.
b. At least 1 % average annual growth of economic labor productivity in the period 2008-2012.
c. At least 1 % annual productivity growth of invested capital in the period 2008-2012.

KEY OBJECTIVES AND TASKS IN 2008

In 2008, the Mercator Group intends to perform the following activities in order to accomplish the strategic goals laid down:

1. THE LARGEST RETAILER IN SLOVENIA

- ✓ We shall continue to **extend the retail network** in Slovenia by constructing new facilities, as well as extending, refurbishing, and upgrading the existing ones. Thus, a Mercator center will be opened in Postojna and in Murska Sobota, a hypermarket and Intersport will be opened in Rudnik, and trade centers will be opened in Šentjernej, Litija, Bled, and Cerkno.
- ✓ With regard to **customer relations management**, the Mercator Pika card will be further developed in terms of applicability in various fields where customers do their shopping. The loyalty system will be upgraded (Pika 2) in such way to enable rapid increases in transactions, which was experienced in Slovenia and in other countries of Mercator's operations. We shall establish a connection between the POS terminal and the electronic cashier, or a system that will enable, at the point of sale, gathering information on customer purchases up to the level of a particular product; this will be the basis for the organization of the data warehouse and implementation of the CRM system, which will enable central management of marketing activities.

- ✓ **Web store** will be considerably upgraded in terms of optimization of operations, logistics, and purchasing process. New web store units will be opened, and we intend to join the IRIS project (web store for the disabled), run by the Institute of the Republic of Slovenia for Rehabilitation.
- ✓ In the field of **clubs and services**, particular attention will be paid to benefits for the members of the existing clubs (Maxi and 'Uživajmo Zdravo' – 'Healthy Living') and the users / subscribers of services (M Mobil and M Holidays), as well as to adding new benefits. Even more favorable and customized, or personalized, offers will be prepared for our loyal members, particularly through close cooperation with renowned brands of suppliers, both within the offer by clubs and within services. New possibilities offered by the upgraded Mercator Pika card system will be employed to prepare innovative approaches that will facilitate our customer's shopping decisions, reward their shopping, as well as increase membership in clubs and the number of service subscribers, and the volume of their purchases. Sound practices and certain clubs and services will also be extended to foreign markets, including establishing of particular customer clubs.
- ✓ With regard to **marketing communication**, our efforts will be devoted to following the trends in project design and the use of media space, efficient employment of alternative media ,and more specific adjustment of activities to various target customer groups and various environments.
- ✓ The goal of **Sales promotion and private label development** is to increase loyalty and confidence in the products of all private label lines, particularly by providing constant quality and price competitiveness of products, as well as by developing new products consistently with the trends in the market. Furthermore, we aim to raise the awareness among our customers on the scope and competitiveness of Mercator's offer, by various forms of sales promotion; on the other hand, we intend to further promote sales growth in the FMCG (market program) stores and stores of other formats. We will also strengthen Mercator's distinctive competitive advantage by linking sales promotion activities in various formats and services that are developed by Mercator as an upgrade to the trade activities (clubs, tourism, mobile communication, etc.).
- ✓ Our capital expenditure, or investment into fixed assets, is planned at EUR 140 million, of which EUR 102 million will be allocated for the development of retail network, while the rest shall be devoted to infrastructure / facility development projects.

2. LEADING RETAILER IN THE NEIGHBORING MARKETS OF SE EUROPE

- ✓ We plan to open or commence the construction of new retail units in Croatia (Mercator center Sesvete in Zagreb, Mercator center Velika Gorica, trade center Koprivnica, trade center Labin, and trade center križevci), in Serbia (trade center Kragujevac, trade center Kruševac, and Mercator center Niš), and in Bosnia and Herzegovina (Mercator center Brčko, Mercator center Banja Luka, and hypermarket on Ilidza, Sarajevo).
- ✓ We are planning to acquire nine retail units by entering strategic alliances in Bosnia and Herzegovina.
- ✓ We shall continue to adapt our marketing activities to regional and local requirements,

and to continue the expansion of the Mercator Pika card customer loyalty system.

- ✓ We shall conduct and extend our operations within the company M-Mex, d.o.o, Montenegro.
- ✓ We intend to invest EUR 124 million for capital expenditures.

3. ENTERING OTHER MARKETS OF SE EUROPE

- ✓ We shall conduct in-depth analysis of micro markets for potential expansion of Mercator retail network to the markets of Macedonia and Bulgaria.

4. DEVELOPMENT OF NON-MARKET PROGRAMS

- ✓ We shall look for potential strategic partners for particular non-market programs, with the possibility to access the global purchasing/procurement sources; this would further improve Mercator's competitiveness in this field.
- ✓ We shall seek new synergy effects in the combination of non-market and market program.

5. PROFITABLE OPERATION

- ✓ provide growth of sales;
- ✓ improve current capital management;
- ✓ disinvest from commercially unviable business and financial assets;
- ✓ improve the capacity to generate cash flow and create value for the shareholders.

STARTING POINTS FOR THE PREPARATION OF THE BUSINESS PLAN

MACROECONOMIC STARTING POINTS

Business Plan for 2008 is prepared based on the following macroeconomic assumptions regarding particular markets of Mercator Group's operations.

	Slovenia	Croatia	Bosnia and Herzegovina	Serbia	Montenegro
Everage annual economic growth (in %)	4.6%	4.3%	6.5%	6.2%	5.0%
Everage annual 6m Euribor (in %)	4.8%	4.8%	4.8%	4.8%	4.8%
Everage annual index of inflation (in %)	3.5%	2.9%	2.5%	6.5%	4.0%
Everage annual exchange rate	-	7.25	1.96	84.50	-

MICROECONOMIC STARTING POINTS

Business Plan for 2008 is based on the following microeconomic assumptions:

Assumptions related to the organization of the Mercator Group

The following organizational changes within the group were accounted for during the preparation of the financial plan for 2008.

- merging the company Presoflex, d.o.o, Croatia, to the company Mercator–H, d.o.o., Croatia, as of January 1st 2008;
- operations of the company M-Mex, d.o.o., Montenegro, as of January 1st 2008;
- operation of the manufacturing company Pekarna Grosuplje (Grosuplje Bakery) will be integrated with the operations of the company Poslovni sistem Mercator, d.d., during the year 2008;
- disposal of the ownership share in the company Mercator-Emba, d.d., as of December 31st 2008; company operations are planned within the Mercator Group for the entire year.

Other assumptions

Net revenues from sales

- In trade, movement of net revenues from sales is planned consistently with the dynamics of investment and disinvestment in retail units. For newly opened units, operational plan is made based on investment studies.

- In non-trade, net revenues from sales are planned according to the conditions in respective industries, consistently with the growth of Mercator Group's retail network.

Gross Margins

- In trade, gross margins are expected to fall consistently with the expected reinforcement of competition both in Slovenian markets as in new markets where Mercator has been present with its retail network.

- In non-trade, price margin is planned according to market conditions and competition.

Costs

- Growth of depreciation costs is planned consistently with the increase in the Group's fixed assets.

- Labor costs per employee are increasing consistently with the general escalation in Slovenia, and consistently with inflation in new markets. In the field of tax legislation for personal income in Slovenia, provisions of the relevant Personal Income Tax Act were considered.

Financial expenditure (revenues) from interest

Financial expenditure (revenues) from interest are planned according to the indebtedness and the macroeconomic assumptions.

Tax policy

In Slovenia and in the new markets, we have observed the current tax legislation, as well as all planned changes and amendment to this legislation in respective markets in 2008.

Current asset management

Claim / receivables turnover is planned consistently with the revenues from wholesale activities. Business liabilities are planned in accordance with the policy of current capital management and the movement of purchase value of goods sold, while financial liabilities are planned according to the projected requirements and availability of financial resources, within the adopted financial commitments towards creditor banks.

ANALYSIS OF THE MERCATOR GROUP'S MARKET POSITION

Following is a short analysis of the Mercator Group's market position in the industry of FMCG (market program) retail by particular markets where Group operates, as well an overview of the markets that Mercator Group plans to enter in 2008.

Slovenia

Situation in the household consumer product (FMCG) market

Mercator has retained the leading position among the FMCG retailers; its market share amounted to 39.5 percent at the end of 2006. The second largest retailer in Slovenia is Spar with 20.5 percent market share, followed by Tuš in third place with 16.4 percent. Three largest retailers account for approximately 75 percent of the market.

The first among foreign discount store chains to enter Slovenian market was Eurospin which entered an alliance with Era, forming the joint venture Eurospin Eko. In 2005, Aldi was the second one, followed by Lidl in 2007.

Market shares of trade companies in the years 2002 to 2006 (in %)

Trade company	2002	2003	2004	2005	2006
Mercator*	34.5	36.5	37.5	38.8	39.5
Spar	16.3	21.3	19.6	21.7	20.5
Tuš**	11.4	10.3	18.4	14.8	16.4
Hofer	-	-	-	-	2.1
Leclerc	1.7	1.8	1.5	1.6	1.9
Vele	2.3	2.4	-	-	-
Era	3.4	4.3	2.4	-	-

Notes:

* Market share for Mercator is defined based on experience. According to the data of the GfK survey Slovenian trade, Mercator's market share in 2006 amounted to 45.8 percent; however, this share may be overrated for methodological reasons. According to the calculation based on official statistical data on sales in the trade industry and Mercator's revenues, Mercator's market share in 2006 amounted to 32.4 percent; however, for methodological reasons, this share is underrated. Mercator's market share does not include franchise stores; since 2003, its market share has also included the acquired Živila retail units, and since 2003, its market share has included the Era outlets.

** Tuš market share in 2004 also includes Vele which was acquired in July 2004.

Source: GfK Gral-Iteo, Slovenian trade, Panel of Households, 2001-2006, internal estimations.

SWOT analysis for the Mercator Group for Slovenian market

STRENGTHS	WEAKNESSES
▪ leading retailer in Slovenian market ▪ well established and highly reputable brand ▪ integration into the local environment ▪ partnership relation with key domestic suppliers ▪ strong corporate culture ▪ developed retail network ▪ shopping centers in all major Slovenian cities and in all regions ▪ development of various store formats ⇒ synergy effects ▪ high level of offer and service – kind and qualified sales personnel and efficient after sales service, as well as introduction of innovative new features in trade (e.g. self-checkout cashiers TIK-TAK, fair trade products, etc.) ▪ high-quality trademark, private label lines that cover customer needs and requirements in various price segments ▪ monitoring of private label products – guaranteed quality of products from all private label lines ▪ developed customer loyalty program and database of loyal customers ▪ extension of applicability of the Mercator Pika card to other fields (tourism, telecommunication, fuel, legal persons, etc.) and to other markets of Mercator's operations ▪ development of additional services: M mobil, 'Healthy Living' club, Maxi club, M Holidays, Mercator web store ▪ active performance of optimization processes that improve the effectiveness of business processes	▪ sub-optimal logistics system and, as a result, lesser process efficiency ▪ lesser flexibility due to the size / scope of the system ▪ sub-optimal program mix offered in rented outlets in Mercator centers (too little offer of reputable and distinctive brands, particularly in the field of textile and footwear) ▪ somewhat inferior perception of price competitiveness compared to some of the competing retailers ▪ sub-optimal retail network – some shops are already outdated, require refurbishment or extensions; in other areas in Slovenia, we are not present yet, although there is potential
OPPORTUNITIES	**THREATS**
▪ rationalization of retail network in Slovenian market and expansion in micro markets where potential still remains	▪ expansion and entry of large European retail chains in Slovenian markets (particularly by discount stores – e.g. Hofer, Lidl; E.Leclerc)

- extension of retail network in other markets by strategic alliances and organic growth; entering new markets
- development of customer relation management (CRM) system based on the existing customer loyalty program and efficient use of advantages that such system brings in comparison with the competition
- carrying out the category management process in all business functions
- further development of trademark (towards multi-level offer that reaches various customer segments) and expansion to the field of non-market program
- expansion by franchise stores in all programs
- further expansion and development of new store formats (convenience stores, comfort stores, hard discount stores, Home and Ambient, organic shops)
- improving competitiveness by maintaining an efficient and versatile marketing mix: customer loyalty program, long-term and short-term sales promotion campaigns, private label
- further development of additional / supplementary services (e.g. in the field of financial services, 'baby club'. etc.)
- further development and introduction of new shop floor technologies (self-service check-out cashiers, info stands, 'in-store TV', etc.)
- inclusion into a strong global association in order to secure resources for the private label (non-market program) and season-related products

- lower growth of consumption in Slovenian households due decreasing disposable household income in real terms
- expansion of retail network of competing retailers who still have growth potential in some micro markets

Croatia

Market overview

Croatian national retail chain Konzum is the market leader with a 21.5 percent market share. In 2006, Mercator's market share amounted to 6.7 percent. Five largest retailers combined account for 46 percent of the market, which is the same as in 2005, but more than in 2004.

Market shares of largest retailers in Croatian market in the years 2004 to 2006 (in %)

	2004			2005			2006	
1.	Konzum	19.5	1.	Konzum	22.1	1.	Konzum	21.5
2.	Getro	7.6	2.	Getro	7.2	2.	Billa	7.7
3.	Billa	5.0	3.	Billa	6.8	3.	Getro	6.3
4.	KTC	4.8	4.	Kaufland	5.4	4.	Kaufland	6.0
5.	Kaufland	4.8	5.	KTC	4.5	5.	KTC	4.5
6.	Mercator	2.1	6.	Mercator*	4.0	6.	Mercator**	4.1
7.	Presoflex	2.0	7.	Kerum	2.5	7.	Plodine**	3.9
8.	Kerum	1.9	8.	Presoflex	1.9	8.	Presoflex**	2.6
9.	Metro	1.7	9.	Metro	1.8	9.	Kerum	2.4
10.	Ipercoop	1.6	10.	Ipercoop	1.4	10.	Tommy	2.4

Notes:
* Estimate – including Era.
** In 2007, Mercator acquired (took over) the retailer Presoflex. In 2006, market share of Mercator and Presoflex combined amounted to 6.7 percent. Furthermore, Mercator is working with the retailer Plodine, as the two companies have a common procurement / purchasing enterprise.
Source: GfK, Household Panel, 2004-2006

SWOT analysis for the Mercator Group for Croatian market

STRENGTHS	WEAKNESSES
▪ high level of offer, services, and equipment of retail units ▪ high-quality private label – private label lines that cover the needs and requirements in various segments and price levels ▪ highly developed Mercator Pika card customer loyalty program ▪ premium customer loyalty card for the most loyal customers – golden Mercator Pika card ▪ sound reputation in the public – reputable brand and integration into the local environment ▪ strong corporate culture ▪ development of various sales programs – synergy effects ▪ introduction of web store	▪ inadequately developed retail network ▪ high diversification of activities ▪ inadequate IT support, incapacity to develop an adequate customer relation management (CRM) system

OPPORTUNITIES	THREATS
▪ increasing popularity of trade centers (shopping for everything at one place) ▪ further expansion of the applicability of the Mercator Pika card (introduction of the business Mercator Pika card) ▪ development of customer relation management (CRM) system based on the existing customer loyalty program, and efficient use of the advantages of such a system in comparison to the competitors ▪ intensive expansion of the private label and development towards multi-level offer, reaching various customer segments ▪ expansion by franchises in case of all programs ▪ expansion and development of new store formats (convenience stores, comfort shops, hard discount shops, Home and Ambient, organic shops, etc.) ▪ further development in those Croatian regions where purchasing power is high (Istria, central Croatia – Zagreb – with all store formats) ▪ further development of web store ▪ securing competitiveness of the offer by maintaining an efficient and versatile marketing mix: customer loyalty program, customer loyalty projects, long-term and short-term sales promotion campaigns, private label ▪ expansion of new services (M holidays, M Mobil, etc.) and introduction of new technologies (self-checkout TIK-TAK, info stands, 'in-store' TV, etc.)	▪ very strong existing competition and potential entry of new competitors (discount retailers) ▪ plans of foreign investors to open large shopping centers with highly attractive offer in rented outlets ▪ fast response of competitive retailers to the challenges

Serbia

Market overview

Concentration in the Serbian market is low, with five largest retailers in the market accounting for only around 19 percent market share in 2005. The share of small outlets in the market is still predominant. Mercator's market share in 2006 is estimated at approximately 8 percent.

Market shares of largest retailers in Serbian market in the years 2004 and 2005 (in %)

2004			2005		
1.	Maxi (Delta M)	5	1.	Maxi (Delta M)	7.0
2.	Rodić	5	2.	Rodić	6.0
3.	C market	4	3.	C market (Delta M)	3.6
4.	Pekabeta (Delta M)	2	4.	Pekabeta (Delta M)	1.1
5.	Mercator	1	5.	Mercator	1.0

Note: in 2006, combined market share of companies Mercator-S and M-Rodić amounted to approximately 8 percent.
Source: GfK, Household Panel, 2004 - 2005.

SWOT analysis for the Mercator Group for Serbian market

STRENGTHS	WEAKNESSES
▪ well established name in the market from the period of Yugoslavia ▪ strong corporate culture ▪ with the strategic alliance with the company Rodić M&B, Mercator became the second largest retailer in Serbia ▪ development of various sales programs ⇒ synergy effects ▪ high level of offer and services ▪ strong marketing projects, developed customer loyalty program, credit-debit cards ▪ highly developed Mercator Pika card customer loyalty program that was also introduced in the company M-Rodić ▪ premium customer loyalty card for the most loyal customers – golden Mercator Pika card ▪ high-quality private label – private label lines that cover the needs and requirements in various segments and price levels ▪ product mix is adjusted to local preferences, a lot of products are of domestic origin	▪ lack of distribution center, which affects the optimum level of inventory and high related costs ▪ inadequately developed and integrated IT system ▪ lower productivity ▪ lower cost efficiency ▪ bureaucratic system that hinders more intensive expansion ▪ smaller number of private label products
OPPORTUNITIES	**THREATS**
▪ underdeveloped trade sector ▪ considerable unused market potential I Belgrade which offers the opportunity to construct Mercator centers in the city ▪ unused potential in other Serbian cities ▪ clear differentiation of M-Rodić and Mercator formats ▪ expansion of the existing Mercator center Belgrade and upgrade of the offer in rented outlets ▪ development of discount stores (M-Rodić outlets) in cities / towns with lesser purchase power ▪ expansion by franchises in case of all programs ▪ expansion and development of new store formats (convenience stores, comfort shops, hard discount shops, Home and Ambient, organic	▪ macroeconomic and political risks ▪ high interest rates ▪ inconsistent regulations / legislation and frequent changes related therewith ▪ non-customs duty import barriers ▪ strengthening of domestic and foreign retail chains already present in the market ▪ entry of foreign retailers ▪ Cash & Carry stores with up to 20 percent lower prices ▪ low purchasing power in the central regions of Serbia ▪ Metro is planning to open shopping centers in Niš and Novi Sad ▪ Expansion of foreign supermarkets (TC Super Vero) and Cash & Carry outlets (Tempo, Metro,

shops, etc.) ▪ securing competitiveness of the offer by maintaining an efficient and versatile marketing mix: customer loyalty program, customer loyalty projects, long-term and short-term sales promotion campaigns, private label ▪ expanding the applicability of the Mercator Pika card ▪ development of customer relation management (CRM) system based on the existing customer loyalty program and efficient use of advantages that such system brings in comparison with the competition ▪ further development of trademark (towards multi-level offer that reaches various customer segments) and expansion to the field of non-market program ▪ introduction of customer relation management (CRM) ▪ gaining competitive edge by purchasing the best locations in major cities ▪ development of web store ▪ expansion of new services (M Holidays, M Mobil, etc.) and implementation of new technologies (TIK-TAK self-checkout cashiers, info stands, 'in-store TV', etc.)	Swisslion) ▪ informal (grey) economy

Bosnia and Herzegovina

Market overview

Concentration in the market of Bosnia and Herzegovina is low – market share of five major retailers in the market was estimated at 16.3 percent in 2006. No retailer can be declared with certainty as market leader. In 2006, Mercator's market share amounted to approximately 2 percent.

Market share of the major retailers in the market of Bosnia and Herzegovina in the years 2005 and 2006 (in %)

2005			2006		
1.	Interex	6.1	1.	Interex	5.8
2.	VF Komerc	3.9	2.	VF Komerc	3.7
3.	Tropic Centar	2.6	3.	Tropic Centar	2.6
4.	Bingo	2.3	4.	Bingo	2.4
5.	Mercator	2.0	5.	Mercator	1.8
6.	Omega	1.7	6.	Omega	1.7
7.	Robot	0.6	7.	Merkur	1.0

Note: The first survey on market shares in Bosnia and Herzegovina was conducted in 2005.
Source: GfK, Household Panel, 2005-2006

SWOT analysis for the Mercator Group for the market of Bosnia and Herzegovina

STRENGTHS	WEAKNESSES
▪ sound image in the market ▪ high-quality offer and level of service ▪ development of various sales programs ⇒ synergy effects ▪ currently, Mercator centers are a unique form of retail facilities with the most extensive assortment ▪ modern shopping centers at good locations ▪ highly developed Mercator Pika card customer	▪ current size of the company and development of retail network are inadequate for reaping economies of scale ▪ inadequately developed retail network ▪ presence only in three cities in Bosnia and Herzegovina ▪ inadequately developed and integrated IT system ▪ smaller number of private label products

loyalty program ▪ Green Mercator Pika card – unique as a payment (credit-debit) card, compared to the cards of other retailers ▪ developed private label ▪ sound liquidity of the company ▪ Mercator is an active member of the local community	▪ faster expansion and development of domestic retailers ▪ entry of foreign retailers from the region and acquisitions of local retailers ▪ flexibility of local retailers who can respond to the new market conditions faster ▪ small market share does not enable a strong position in negotiations with the suppliers
OPPORTUNITIES	**THREATS**
▪ the market is till underdeveloped ▪ small number of foreign retailers ▪ expansion to other cities in Bosnia and Herzegovina, where market potential is present with regard to population and purchasing power ▪ development and expansion of the retail network ⇒ acquire the most attractive locations for constructing smaller trade centers in major cities with considerable background in the environment and market potential, or take over some local retailers – as soon as possible ▪ cooperation with local producers ▪ increasing popularity of trade centers ▪ making use of the favorable existing reputation in the public and further improvement of the level of service ▪ further development of private label ▪ further development of Mercator Pika card, cooperation with business partners ▪ web store	▪ macroeconomic and political risks ▪ still unstable political environment in the country ▪ inconsistent regulations / legislation and frequent changes related therewith ▪ entry of foreign regional retailers (Croatian and Serbian) and expansion through acquisitions of local retailers ▪ further expansion of retail networks of local retailers (Robot, Bingo, Merkur) ▪ increasingly stringent competition ▪ occurrence of alliances between retailers, which enables their price competitiveness ▪ entry of foreign international competitors into the market ▪ entry of foreign competitors ▪ low purchasing power

Montenegro

Market overview

After several years of preparations, Montenegro declared independence on June 3rd 2006. Montenegro is a small Mediterranean country where approximately 45 percent of total population is Montenegrin, while the rest includes Serbs (30 percent), Bosnians (13 percent) and Albanians (7 percent). The fastest growth in the years to come is expected in the tourist sector, which however will not involve only development of seaside facilities, but other tourist destinations as well.

Projected macroeconomic indicators for the period 2005 to 2008

Macroeconomic indicators	2005	2006	2007	2008
Population (million):	0.62	0.625	0.626	0.627
GDP (EUR billion, current prices):	1,460	1,594	1,881	2,049
GDP per capita (v EUR):	2,344	2,550	3,005	3,267
GDP growth (%):	4.1	6.0	6.0	6.0
Unemployment (%):	18.4	17.0	15.5	15.3
Inflation (annual average, in %):	3.4	2.1	3.0	3.0

Source: www.izvoznookno.si, 2007

*State of competition: list of major retailers in Montenegro (2007) **

Retailer	MARKET SHARE %
Carine	-
Panto Market	-
MEX	-
VOLI	-
Mješovito	-
Plus commerce	-
Đurkovič	-
Kaća	-
ANB	-

*Market share % – no appropriate data is available

Homogeneity of the Montenegrin market is considerably low. Apart from the retail / trade companies listed above, there is a great dispersion of minor retailers, wholesalers, and distributors. A lot of fast moving consumer goods are sold in open markets, often without control of appropriateness or quality assurance. In Montenegro, store formats under 300 square markets are predominant, which opens up a considerable opportunity in introducing more modern store formats such as supermarket, hypermarket, and trade center.

SWOT analysis for the Mercator Group for the Montenegrin market

STRENGTHS

- macroeconomic stabilization and increase in foreign direct investments
- GDP growth (6 percent in 2006)
- low foreign debt
- Montenegro is in the process of negotiation on stabilization – association treaty with the EU
- high growth of private loans and consumption
- low rate of inflation (2.1 percent)
- member of CEFTA
- low concentration of retailers (leading retailers have relatively low market share -unused market potential)
- small number of foreign retailers
- genera reputation of Slovenian companies
- developing tourist sector

WEAKNESSES

- low competiveness of the country and weak private sector
- growth of wages (labor compensation) is higher than growth of competitiveness
- high share of informal (grey) economy (27 percent of people are employed in informal economy, which accounts for 30 percent of the GDP)
- high unemployment rate (14.7 percent of the workforce is unemployed)
- high interest rate
- regional development is very versatile – low purchasing power in the central regions of the country (possibility of development of discount retailers)

OPPORTUNITIES

- opportunity for entry before major foreign retailers
- possibility of strategic alliances with the existing local retailers (economies of scale, better position in negotiations with the suppliers and consequently better purchasing conditions)
- Mercator's opportunity for success in Montenegrin market due to the following:
  - well-established and highly reputable brand in the markets of foreign Yugoslavia
  - years of experience in Yugoslav markets and knowledge of the specific aspects of respective markets
  - high quality of offer and services (Montenegrin market is considerably underdeveloped)

THREATS

- expansion of the existing competitors and entry of new ones
- the market is relatively small; hence, a sound position should be timely assumed and fortified
- import barriers and duties
- strong effect on sales during the tourist season

- successful development of various modern sales formats (supermarket, hypermarket, trade center, convenience store)
- developed customer loyalty program
- high quality Mercator private label
- development of various sales programs

PLANNED ACTIVITIES OF THE MERCATOR GROUP

DEVELOPMENT AND INVESTMENT

Investment activities in 2008 will be targeted at all existing markets of Mercator operations; it represents a further pursuit of the development strategy planned in 2006.

In 2008, Mercator Group is planning capital expenditures (investment into fixed assets) in the amount of EUR 264.9 million, of which 75 percent will be allocated to investment in new retail facilities, while the remaining share relates to refurbishment of the existing trade facilities, investment into distribution centers, and investment into information technology.

A summary of Mercator Group investments by particular markets:

Conutry	Plan 2008 (in EUR 000)	Structure (in %)
Slovenia	**139,578**	**53.0%**
Total investment within trade operations	128,215	48.7%
Total investment within non-trade	11,363	4.3%
Croatia	**76,154**	**28.9%**
Bosnia and Herzegovina	**16,642**	**6.3%**
Serbia	**25,155**	**9.5%**
Montenegro	**6,000**	**2.3%**
TOTAL	**263,529**	**100.0%**

In 2008, Mercator Group is planning to generate EUR 14.6 million of proceeds from disinvestment from fixed assets; hence, net investment amounts to EUR 249 million.

In 2008, we are planning to open 34 new trade outlets which will be acquired by construction, purchase, rental, and expansion and refurbishment of the existing facilities.

Major investment projects in Slovenia, whose completion is scheduled for 2008:

- **Mercator Center Postojna**

Mercator center Postojna will be constructed at Mercator's location on Tržaška cesta. The construction project includes demolition and clearing of the currently existing facilities, except for one which will be transformed into a garage. Total area of this Mercator center will amount to 11,262 square meters. The center will include a hypermarket, Intersport, Modiana, Beautique, hardware and electronics store, Cash & Carry, and 22 outlets to be leased. Customers will be offered 383 parking spots, of which 300 will be in the garage. Opening is scheduled for the third quarter of 2008.

- **Mercator Center Murska Sobota**

Mercator Center Murska Sobota will be constructed at Mercator's location of a former warehouse. The construction project includes demolition and clearing of the currently existing facilities and constructing a new facility with a total area of 10,000 square meters. The building will include a hypermarket, Intersport, Modiana, Beautique, and outlets to be leased. There will be 517 parking spots for the customers in two subterranean stories. Opening is scheduled for the fourth quarter of 2008.

- **Hypermarket and Intersport in the shopping center Supernova Ljubljana – Rudnik**

These two outlets will operate in rented facilities of the said shopping center. Opening is scheduled for the first quarter of 2008.

- **Trade center Šentjernej**

Trade center Šentjernej will include a large supermarket, Modiana, and two outlets to be leased, all together on a total area of 1,809 square meters. There will be 92 outdoor parking spots. Opening is scheduled for the second quarter of 2008.

- **Trade center Litija**

Total area of the Trade center Litija will amount to 3,156 square meters. It will include a large supermarket, Modiana, Intersport, and fifteen outlets to be leased. 142 parking spots will be provided for the customers, of which 118 will be in the garage under the trade center storey. Opening is scheduled for the fourth quarter of 2008.

- **Trade center Bled**

Total area of the Trade center Bled will amount to 3,629 square meters. It will include a supermarket, Modiana, Intersport, and outlets to be leased to providers of supplementary offer. 160 parking spots will be provided for the customers, of which 101 will be in the garage under the trade center storey. Opening is scheduled for the fourth quarter of 2008.

- **Trade center Cerkno**

Total area of the Trade center Cerkno will amount to 1,457 square meters. It will include a supermarket, Modiana, and three outlets to be leased to providers of supplementary offer. 59 outdoor parking spots will be provided for the customers. Opening is scheduled for the third quarter of 2008.

- **Trade center Škofja Loka**

Trade center Škofja Loka will include a supermarket and a Hura! discount store. Total area of the supermarket will amount to 2,250 square meters, while that of the Hura! discount store will amount to 750 square meters. 170 outdoor parking spots will be provided for the customers.

In addition to the shopping centers listed above, we are also planning in 2008 to open new supermarkets in Ljubljana (Poljanska), Šmartno ob Paki, Kobarid, Dragomer, Škocijan, and Preddvor, and to extend the Era hypermarket in Ptuj.

In Mercator center Koper, leased outlet Hervis will be replaced by our own sportswear store Intersport.

We shall also invest in the program of Hura! discount stores; thus, we are planning openings in Kranj and Ribnica; in Sevnica, Tolmin, and Slovenj Gradec, Hura! discount stores will be opened along with hardware and electronics store. We are planning to purchase nine new locations for further extension of the Hura! discount store network.

In Maribor, a new Cash & Carry facility will be opened at the location of the current distribution center; production of deli products will be transferred to Grosuplje.

With regard to refurbishment projects, further works in the Maximarket shopping center should be emphasized. In the third quarter, we are planning to open a completely refurbished hypermarket, as well as to commence works in other stories.

In foreign markets where we are already present, we shall extend our retail network by the following facilities:

CROATIA

- **Mercator Center Sesvete - Zagreb**

Mercator center Sesvete – Zagreb will include a total area of 8,420 square meters and 350 parking spots, of which 175 will be in the basement storey under the trade storey. Program mix will be offered in a supermarket, Intersport, Modiana, and outlets leased to providers of supplementary offer. Opening is scheduled for the fourth quarter of 2008.

- **Mercator Center Velika Gorica**

Total area of Mercator center Velika Gorica will amount to 9,000 square meters. Program mix will be offered in a hypermarket, Intersport, Modiana, hardware and electronics store, restaurant, and several outlets leased to providers of supplementary offer. Opening is scheduled for the fourth quarter of 2008.

- **Trade center Koprivnica**

Total area of trade center Koprivnica will amount to 3,628 square meters. Program mix will be offered in a supermarket, Intersport, Modiana, café, and several outlets leased to providers of supplementary offer. Opening is scheduled for the fourth quarter of 2008.

- **Trade center Labin**

Total area of trade center Labin will amount to 3,440 square meters. Program mix will be offered in a supermarket, café, and several outlets leased to providers of supplementary offer. 104 garage parking spots will be provided for the customers, as well as 18 outdoor parking spots. Opening is scheduled for the third quarter of 2008.

- **Trade center Križevci**

Total area of trade center Križevci will amount to 3,064 square meters. Program mix will be offered in a supermarket and several outlets leased to providers of supplementary offer. Opening is scheduled for the third quarter of 2008.

SERBIA

- **Mercator Center Niš**

Mercator Center Niš will operate in a leased facility built according to Mercator's guidelines by an external investor. Total area of this Mercator center will amount to 21,167 square meters. 523 parking spots will be provided for the customers, of which 210 will be in the ground floor of the facility, under the floor comprising the trade facilities. Program mix will be offered in a hypermarket, Intersport, Modiana, Beautique drugstore and perfume store, hardware and electronics store, restaurant, and several outlets sub-leased to providers of supplementary services. Opening is scheduled for the first quarter of 2008.

- **Trade center Kragujevac**

Trade center Kragujevac will operate in a leased facility built according to Mercator's guidelines by an external investor. Total area of this trade center will amount to 18,175 square meters. 394 parking spots will be provided for the customers, of which 269 will be in the ground floor of the facility, under the floor comprising the trade facilities. Program mix will be offered in an M-Rodić hypermarket, Intersport, Modiana, Beautique drugstore and perfume store, hardware and electronics store, and several outlets sub-leased to providers of supplementary services. Opening is scheduled for the second quarter of 2008.

- **Trade center Kruševac**

Trade center Kruševac will operate in a leased facility built according to Mercator's guidelines by an external investor. Total area of this trade center will amount to 12,048 square meters. 332 parking spots will be provided for the customers, of which 165 will be roofed. Program mix will be offered in an M-Rodić hypermarket, Intersport, Modiana, Beautique drugstore and perfume store, hardware and electronics store, and several outlets sub-leased to providers of supplementary services. Opening is scheduled for the third quarter of 2008.

BOSNIA AND HERZEGOVINA

- **Mercator Center Brčko**

Mercator center Brčko will operate in a leased facility built according to Mercator's guidelines by an external investor. Total area of this trade center will amount to approximately 5,800 square meters. Program mix will be offered in a hypermarket, Intersport, Modiana, and several outlets sub-leased to providers of supplementary services. Opening is scheduled for the third quarter of 2008.

- **Mercator Center Banja Luka**

Mercator center Banja Luka will operate in a leased facility built according to Mercator's guidelines by an external investor. Total area of this trade center will amount to approximately 16,000 square meters. Program mix will be offered in a hypermarket, Intersport, Fashion Avenue, Beautique drugstore and perfume store, restaurant, and several outlets sub-leased to providers of supplementary services. Opening is scheduled for the fourth quarter of 2008 or the first quarter of 2009, depending on the dynamics of construction activities.

- **Hipermarket, Intersport, Modiana, Beautique Ilidza**

These outlets will operate in rented facilities within a foreign shopping center. Opening is scheduled for the fourth quarter of 2008.

Part of the funds will also be allocated for purchasing new locations in Croatia, Bosnia and Herzegovina, Serbia, and Montenegro.

MARKETING

Foundations of long-term marketing strategy

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

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

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

Care for the environment and for health:

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

Innovativeness in the offer of goods and services:

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

Mercator customers

Monitoring consumers and competition is of great importance for the success of Mercator's performance. In order to provide support for decision making, we shall continue to conduct surveys and studies of customers, market, and competition, to prepare business reports, and communicate with the customers.

Based on the research conducted thus far, we identified several target groups of customers, to which we wish to adjust our marketing mix – the offer of products and services – and marketing activities. Primarily, we are focused on **families with adolescent children**; also important to us are **families and single-member households with high income without children, pensioners,** and **students.**

Strategic marketing activities

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

Market research

Knowledge, expertise, innovativeness, creativity, and cooperation will be employed to prepare comprehensive data sets to support decision-making by the Management Board on further development of the Mercator Group, and its marketing strategies for trademark management within the Mercator Group and for generating added value for the customer; this is the vision of the market research department, which will be pursued further in 2008. We shall carry on the standard research such as Mercator customer satisfaction, purchasing habits, Mystery Shopper, research on Mercator's strategic projects – private label, Mercator Pika card, clubs, and sales promotion flyers, research on supplier satisfaction (conducted for the first time in 2007), and research on efficiency of market communication activities. In the years to come, emphasis will be placed on researching the foreign markets of SE Europe in which Mercator has been present and to which Mercator is planning to expand; these markets are increasingly important for Mercator's business success.

Customer relations management – Mercator Pika card

Focus on the customers, establishing, maintaining, and improving relations with them, is the foundation of relationship-based marketing which will also be pursued in 2008, particularly by direct communication with the existing and potential customers, through various marketing channel; in addition, their response will be monitored. In order to establish a permanent relation, we will continue to pursue the vision and mission of the Mercator Pika card (as the key instrument for boosting customer loyalty to Mercator), and develop technology and offered assortment of products and services according to the requirements and lifestyle of our customers:

- from the masses to the individuals (sending personalized messages according to the requirements of the holder or particular segments of Mercator Pika card holders);
- from products to customers (orientation towards the customer, optimization of the relationship, and perfecting our services and offer of products according to the requirements of the customers);
- from attracting new customers to retaining, rewarding, and increasing the activity of the existing loyal customers;
- reducing the costs and increasing revenues through better relations with the customers.

New services and clubs

Consistently with the European and global trends in retail, Mercator has also established a model of direct communication with identified customer groups. We define our customers according to their lifestyle and fields of interest. To this end, we are developing new services and clubs. There is ample potential in the market for the development and links to Mercator's core activity (FMCG – market program, hardware and electronics, textile, drugstore products, sportswear), particularly in the field of telecommunication, financial and insurance services, tourism, legal services, fuel (gas stations), etc.

Thus, we have already introduced two new services and related trademarks – telecommunication with the M Mobil prepaid system, and M Holidays, offering tourist services. These activities are aimed directly at attaining the following two goals:

- improve Mer5cator's reputation as perceived by the customers;
- promote sales by adjusting the offer to the target group.

Indirectly, customer loyalty is significantly increased in this way; also, the group of Mercator brand and other Mercator trademark flagships is expanded. However, accomplishment of these goals requires excellent and well-integrated IT support.

M MOBIL

M Mobil is a prepaid mobile communication (telephony) suite prepared through cooperation of the companies Mercator, d.d., and Si.mobil, d.d.; it offers favorably priced calls and use of benefits related to shopping in Mercator.

In the long run, we are looking to increase the number of M Mobil users. Parallel to the goal of increasing the number of M Mobil subscribers, we are also carrying out activities for increasing the frequency and value of purchases, as well as activities for retaining customer loyalty to Mercator. In 2008, we are planning to carry out activities that will allow us to attain a total number of 15,000 to 20,000 M Mobil subscribers.

M HOLIDAYS

The purpose of introducing the trademark M Holidays was to offer tourist services and benefits of relaxation, vacation, and leisure time to our customers, in relation to favorable offer of Mercator's core sales programs.

We are looking to attract 5,000 members who would subscribe to M holidays e-bulletin in Slovenia in 2008. In 2008, tourist services under this trademark will also be offered in Croatia. The main target group on which our offer is focused are families with children aged up to 14.

In 2008, the M Holidays website at **www.mholidays.si** will enable an accurate and comprehensive list of current offer, as well as on-line reservations and payment. By introducing the option to pay and obtain benefit points through the redesigned Mercator Pika card system, this option will immediately be included and offered to the customers.

HEALTHY LIVING CLUB

The purpose of the Healthy Living club is to join the enthusiasts for healthy and active life, who require more: more information, more activities, and more benefits. The club is aimed at improving the reputation of the Mercator trade network, raising the awareness on the advantages of the Mercator Pika card, and promotion of sales of products from Mercator programs. In addition to the sales promotion function, the club also has an educational function which is mostly carried out by experts with whom we are cooperating within the club activities.

We plan to extend the Healthy Living club to all countries of Mercator's operations; thus, it will be launched in Croatia in the second half of 2008. In 2008, our goals is to increase membership to 20,000 members in Slovenia, and to reach the number of 3,000 members in Croatia.

MAXI CLUB

Maximarket convenience store with its customer loyalty card and approach to customers has created a high-quality level of flexible, adjusted, and personalized customer relations. This is seen as an opportunity by Mercator to enrich such approach based on trends of shopping and socializing in downtown, or center areas of the city. Members of the Maxi club are offered theme-oriented social events and special offers; furthermore, customer loyalty is increased by special additional customer loyalty program offered to all loyal customers.

The goals of the Maxi club are to improve satisfaction and consumption among the existing Maximarket customers, to attract new customers, to attract new Maxi club members, to boost sales in categories represented only by Maximarket, to enrich the group of Mercator Pika card holders (with additional segments), to dedicate particular care to the activity of socializing (events, shows, education courses, etc.), to establish more personal communication between Mercator and the members of the Maxi club (monthly direct mail) and to improve the reputation of the company Mercator. In 2008, we wish to reach the figure of 10,000 loyal Maxi club members.

E - COMMUNITY

In 2008, we shall form and establish the Mercator electronic community, whose purpose is to offer the possibility of web socializing to as wide group of people as possible; this electronic socializing will be placed in an attractive electronic setting, or environment, with interesting contents and information related to the adjusted offers from the aspect of sales and advertising.

The point of the community is for everyone connected to the user's site to participate in the conversation / dialogue, and to submit opinions, comments, and grades. Thus, people make new acquaintances, compete somewhat, and feel accepted into a certain community. Hence, the site is planned to include a large number of personalized web portals where every user has a special, personalized website which is also used for communication with everyone else. The advantage is that advertisement to such user can be targeted very accurately and dedicatedly according to the profile, contents, community, and search phrases.

LUMPI CLUB

The purpose of founding the Lumpi club is to provide useful information to the target group of families with pre-school children, particularly on spending their leisure time, beneficial activities, and economic use of family budget.

Membership of 5,000 is planned for Slovenia in 2008. The club will be intended for families with children and will be established around the Lumpi trademark products. It will cover the area of pregnancy and early parenthood, enabling its members more favorable shopping for products and obtaining expert advice and information.

IN-STORE TV

Mercator is planning to upgrade its web sales channel with a special TV program which will offer the fast-moving consumer goods via TV sets. Thus, we will follow the guidelines of comfortable and convenient shopping – from the armchair. Such services will also be highly appropriate for all persons with disabilities, as well as for the elderly population who find the use of computer and access to the Internet either difficult or impossible. With this service, Mercator will be able to join the project Dom IRIS, through which the Institute of the Republic of Slovenia for Rehabilitation is carrying out a project of intelligent solutions and innovations for independent life.

CONTACT CENTER

Contact center is a communication junction that perceives and records information. It enables monitoring and recording of all interaction carried out, with the possibility of subsequent analysis. Recording interaction also enables obtaining and updating personal information on the customers and setting up a single customer database with updated information. It also offers support to marketing activities, monitoring of response, and recording and processing of contacts according to the customer (Mercator Pika card holder).

Mercator is planning to upgrade the service 080 (free information for the customers) and set up its own contact center, with the purpose to optimize the work processes related to communication interaction between the company and its customers, to improve performance of marketing activities with the aid of customer relations management which includes gathering information on customer history and essential information on the client in order to generate a customer profile, to optimize marketing support and marketing of products, and to provide input information for marketing, including product preparation.

Development of private label lines

Within the development of the private label lines that was launched in 1998, seven private label lines are marketed in Mercator; these will also be developed in 2008:

- products of the Mercator line
- products of the generic line
- products of the Wishing Table line
- products of the Healthy Living line
- products of the Lumpi line
- products of the Total Body Care line
- products of the Ambient line

For all products offered under the private label, we shall encourage the suppliers and manufacturers to use recyclable packaging materials and to focus on the development of products in 'refill' packaging. We shall also continue to encourage innovativeness with regard to packaging (both in terms of volume and shape), and to improve the offer of more convenient packaging. All lines (except for generic products) will be 'related' to quality in communication with the customers. We shall include as much useful information for the consumer as possible to the packaging of the most successfully sold products of the private label; this is called labeling (e.g. on healthy and wholesome nutrition, on other lines being offered, etc.). We shall also introduce the 'gourmet' line as an upgrade to the 'Wishing Table' line, and 'premium' line as an upgrade to the Mercator line. Product assortment in all lines will be extended with the products of 'world' cuisines (e.g. Mexican, Turkish, Greek, Italian, etc.). We will introduce 'organic' products, and constantly monitor the quality of all products being offered in all private label lines.

Sales promotion

Based on the experience in carrying out sales promotion projects in 2006, perceived strengths and weaknesses, activities of our competitors, internal analyses on success of the campaigns carried out, and purchasing habits and trends in the market, we shall plan activities in 2008 that support the fundamental strategic policies of Mercator and ensure its competitiveness in all fields of its operation.

Wits our sales promotion activities, we wish to provide high-quality, interesting, and competitive offer or products and prepare attractive sales promotion projects. Sales promotion activities will follow the fundamental mission of Mercator – which is creating benefit and satisfaction for the customers by excellent trade services, high quality of goods, and competitive prices – as well as Mercator's marketing policies.

Marketing communication

Guidelines of corporate communication and other marketing activities are defined consistently with the mission, vision, and strategic goals of the Mercator Group. In 2008, corporate and sales promotion activities will continue to be focused on establishing customer confidence in the Mercator corporate brand and other Mercator's trademarks (Fashion Avenue, Intersport, Beautique, Mercator hardware and electronics), and on increasing the number of customers and volume of sales, whereby special care will be devoted to increasing the company's presence in particular critical locations and regions.

Communication through all media will be adjusted to the relevant segments of the public that are being addressed, in order to reach maximum effect of our messages. When planning advertising in the media, we shall take into account the situation in the market and relevant trends, while considerable attention will be paid to alternative forms of media outlets. We shall use the media outlets rationally in order to rationalize advertising costs and at the same time boost advertising efficiency; quality of material will be preferred over its quantity.

CATEGORY MANAGEMENT AND SUPPLIER RELATIONS

Category management

In 2007, we carried on the activities in the field of category management. We worked closely with our key suppliers and prepared special measures for boosting on-the-aisle profit for those categories that represent 50 percent of total adjusted gross margin (difference in price / gross margin and special supplier benefits); these categories were also implemented throughout the retail network.

In 2008, 74 categories will be included in the **category management process**, which represent 87 percent of total sales in the market program, as well as five categories from the programs of textile, and hardware and electronics. Thus, the process will take off as regular work in these categories, which means that performance in the aisles will be constantly analyzed and that assortment, placement, promotions, and prices will be adjusted regularly to optimize profits.

To facilitate implementation of measures that will become a part of daily routines, we shall establish records of all space in supermarkets and superettes, which will enable accurate overview of the specific features of a particular outlet, or point of sale, thus facilitating implementation for the optimization of the existing space. Furthermore, this overview will also aid us in managing the relations between particular categories in our retail units.

The entire category management system, process, and organization, will also be implemented in Croatian market.

In 2008, all categories that are deemed appropriate will be included in the new process of **private label purchasing / procurement**, and the products will be offered at more competitive terms in the aisles. Furthermore, the approach tested in Slovenia will also be extended to the Croatian market.

Due to the transition to active category management, we adjusted the organization and method of monitoring **key performance indicators** at the level of individual categories to the process. In 2008, standardized organization will be launched in programs of hardware and electronics, and textile, while in market program, the redesigned and upgraded system of individual performance monitoring system will be introduced, based on the responsibility for financial results and appropriate rewarding. To enable this, we have implemented the process of planning the growth of net sales value (revenues) and adjusted gross margin on the level of individual category, as well as the target market share and target share that should be attained by a brand / label within a particular category. Hence, in 2008, the performance of particular category will always be monitored in comparison to the same period of the previous year, and the plan.

Relations with suppliers

In 2008 we shall continue to purchase / procure trade goods in compliance with the guidelines of category management principles that have become the way of our daily operation and which include establishing objective relations with our suppliers.

In 2008, supplier relations will continue to be based on optimization of the assortment, prices, promotions, and positioning in the aisles for particular categories. All activities with individual suppliers will be focused on improving performance of individual categories.

On the other hand, mutual activities and cooperation with suppliers will be targeted at maximizing benefit or efficiency of mutual operations, which includes focus on cutting costs and improving productivity (reducing packaging, activities for implementation of half pallets, etc.). In 2008, considerable attention will again be devoted to marketing of healthy, wholesome, and safe food or products.

In 2008, we shall demand from our suppliers to offer assortment that is interesting to the market, and adjusted to the requirements and preferences of contemporary customers. Consistently with the principles of category management, we shall introduce new products in the assortment and optimize them accordingly from the aspect of contribution to the sales and margins, as well as carry out appropriate pricing policy measures, promotion policies, and policies of positioning at the point of sale (in the aisles of our retail units).

Even more attention will be paid to the goals of particular categories as in 2007; thus, we shall secure improved distinctiveness compared to our competitors, and improve customer perception on our competitiveness from the aspect of assortment and prices.

The number of products in various types and forms of sales promotion projects will be increased, with emphasis placed on more permanent projects. Number of products in all private label lines will be increased; the same applies to their presence in all markets of our operations; hence, we shall approximate the target values of sales made. Due to import (customs duty) barriers in the markets of Croatia, Serbia, and Bosnia and Herzegovina, we shall have to increase the number of local suppliers for private labels abroad.

In 2008, we shall continue to focus on global purchasing / procurement sources, particularly in the non-alimentary goods and fresh fruits and vegetables. Scope of business with the common suppliers will be extended, with particular emphasis on the markets of Croatia, Serbia, and Bosnia and Herzegovina; thus, we plan to boost synergies in procurement, or to improve purchasing terms.

In addition to common suppliers and suppliers from global purchasing / procurement sources, adequate attention will be paid to local suppliers, as we wish to emphasize local particularities which are seen by Mercator as potential considerable competitive advantage. Negotiations with suppliers for 2008 will be carried out in the last quarter of 2007. Negotiations are based on an altered methodological approach based on the principles of category management – fact-based negotiations. Such approach was introduced for the first time in 2007.

Consistently with internal standards, suppliers will be continuously monitored and evaluated, mostly with regard to the extent to which they meet Mercator's requirements (deviations from previously defined quality and other deviations such as delivery failures that affect the quality of our mutual cooperation). Hence, the best suppliers will be preferred in compliance with the principles of category management, as they have the capacity to meet the 'Mercator standard'.

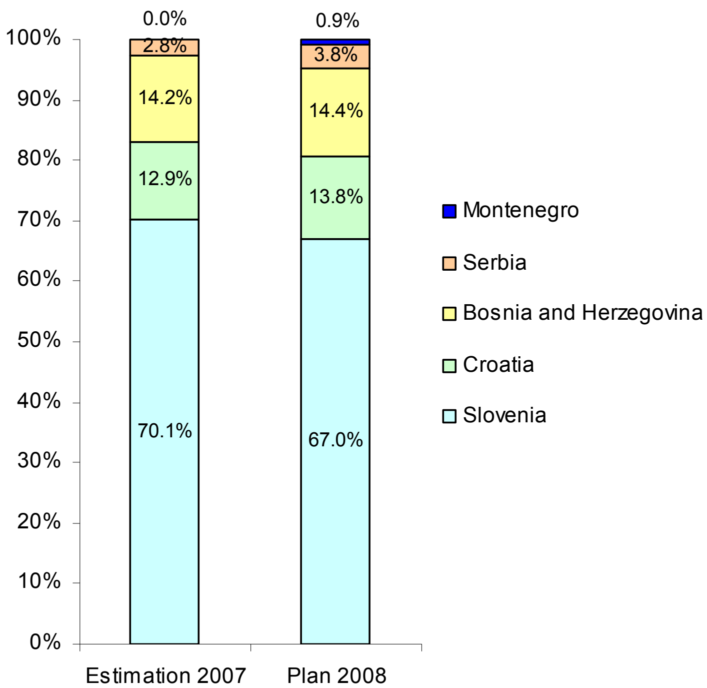
SALES AND STORE FORMATS

Sales

In 2008, Mercator Group is planning EUR 2,627,903 thousand of net revenues from sales, which is 9.5 percent more than in 2007.

Breakdown of net revenues from sales of the Mercator Group by segments

in EUR 000	Estimation 2007	Plan 2008	Index
Slovenia	1,681,676	1,760,791	104.7
Croatia	310,103	362,413	116.9
Bosnia and Herzegovina	339,645	379,096	111.6
Serbia	67,570	100,648	149.0
Montenegro	0	24,954	-
TOTAL	**2,398,994**	**2,627,903**	**109.5**



In Slovenia, 4.7 percent nominal growth in net revenues from sales is planned for 2008. Revenue growth in Slovenia in 2008 is affected by opening of new and refurbished retail units, and planned marketing activities.

In foreign markets, planned nominal increase in net revenues from sales in 2008 compared to the year 2007 amounts to 20.9 percent. This should be the result of the following: inclusion of the operations of the company Presoflex, d.o.o., into the Mercator Group in August 2007, planned extension of operations in Montenegro, planned strategic alliances in Bosnia and Herzegovina, and opening of new retail units.

Development of store formats

In 2008, we are planning various activities that are expected to contribute to further development of Mercator's retail network and better response to the requirements of Mercator's customers:

- further adjustment of store formats to the shopping environment,
- formation of a project council and commencement of the project of Store Format Standardization for market program, specialized hardware and electronics store, textile stores, and Beautique drugstores and perfume stores in Mercator,
- development of new technologies in Mercator's retail outlets and their extension to new retail units,
- development and expansion of new sales services for Mercator's customers.

Further adjustment of store formats to the shopping environment

In 2007, a new standardization (classification) of Mercator's retail network was prepared for market program retail units; the purpose of this effort was to enable following the changes in economic and social environment, and the resulting changes in customer shopping habits, as closely as possible.

Based on the existing classification of hardware and electronics, and market retail units, further intensive development of these formats will take place in 2008. Furthermore, new classification of textile stores and drugstores / perfume stores will be prepared. Starting points for the new classifications will provide consistent and unified program mixes for further refurbishments and openings of relevant stores, as well as physical appearance of retail units and the level of service in particular types of retail units in Mercator.

From the aspect of existing and new market program store formats, most emphasis will be placed on the development of the so-called 'convenience store' in the year to come, as well as neighborhood stores and supermarkets, and further development or upgrade of the concept of type A hypermarket. The aim of further development of store formats is upgrading and refreshment of the existing retail network, its further adjustment to the local environment and customers, and refreshment of program mixes of particular format.

Type A hypermarket, the concept of which was presented in 2007 in the refurbished hypermarket Ljubljana, is intended for the most demanding customers, offering them neatly arranged and decorated, attractive shopping environment with a wide choice of high-quality goods at reasonable prices. The concept of type A hypermarket will be implemented in 2008 in some new and refurbished hypermarkets, which will involve upgrading of some of the existing solutions or improving the functionality of particular sections and develop solutions for some new sections (tasting and presentation section within the sales area, etc.).

Due to the intensity of expansion of Mercator's retail network both in Slovenia and in new markets, and due to the process of implementation and development of new store formats in Mercator, the requirement for standardization of store formats has been perceived. The goals of the project of store format standardization is to transfer the standards, and along with them the know-how, to particular markets outside Slovenia, and accelerating the pace of refurbishment and redesign for smaller store formats (market program up to 1,500 m^2 and specialized stores with up to 600 m^2 of sales area).

Development of new technologies in Mercator's retail units and their transfer to the new units

In 2007, Mercator commenced intensive implementation of new technologies to its retail units. The first novelty to be introduced was the self-checkout, or Tik Tak cashier. In view of remarkably favorable response from the customers, we are planning to introduce approximately 80 more self-checkout cashiers at 15 locations; after installation at most Slovenian hypermarkets, most emphasis will be allocated to introduction in major hypermarkets in Croatia, while the self-checkout cashiers will also see their debut in Serbia.

In the refurbished hypermarket Ljubljana, info strands were introduced for the first time for three selected categories. Info stands present a technology that offers information on selected products, or advice with regard to the selection of the most appropriate product in a simple manner, by various criteria; thus, the customer is aided in shopping decision and given other useful information (recommendations on recipes, information on the characteristics of selected products, etc.). In 2008, this technology will also make its debut in Croatian market; in total, it will be installed in 25 retail units. In addition to the said three categories, extension to some other categories is also planned.

Development and extension of new sales services for Mercator's customers

In Mercator, we wish to reward our loyal customers with some additional services that generate added value for the customers who demand and expect more when shopping. Considerable emphasis will be devoted particularly to additional services in the fresh program sections (preparation of various vegetable and fruit salads, freshly squeezed juices, offer of previously packed products, preparation of various dishes, etc.), Furthermore, some services have been introduced to be tested in selected units; in case of positive performance evaluation in 2008, these technologies will be introduced in other retail units as well; these services include photography services being offered in the acoustics section in the 'photo corner', activity 'recipe of the week', and introduction of the so-called 'gourmet' corner.

LOGISTICS

In the year 2008, the company will continue to carry out consolidation and standardization of all processes and operations within logistic activities in **Slovenia**. Logistic operations in the year 2008 will continue to be performed at several locations, due to existing spatial and technical resources. In accordance with allowances set by current conditions the Company will continue integration and optimization of related operations in all areas of logistics.

At Velenje location the purpose of warehouse will be changed by abandoning the storage of market program and replacing it with the storage of hardware and technical appliances after carrying out the relevant adaptations. Inappropriate warehouse in Šmartno ob Paki will also be abandoned. Sermin facility will be equipped for the new handling operations, thereby evacuating the Dekani facility, which will be used for other business activities. Other locations will presumably remain unchanged and carry out their routine activities in the year 2008.

Logistic operations in **foreign markets** will be optimized as far as practicable within given circumstances. Available warehousing capacities will have to satisfy the distribution of goods into the own retail network and to external customers, in accordance with the elaborated sales plan and customer requirements.

Plans for further efficiency, enhanced productivity and quality of work include the following:

- Continued implementation of computer assisted system of planning transport routes to all outlets;
- Carry out activities of renovation, harmonization, enlargement, and reorganization of storage capacities and functions in accordance with logistic infrastructure optimization program;
- Continued performance of activities within the strategic project of general optimization of operations;
- Preparation and implementation of the GOLD – STOCK system in remaining warehouses;
- Introduction of automatic refurbishment of stocks for the remaining warehouses.

Following the new feasibility studies and selection of the most appropriate technological solution for the Mercator Logistic Center Želodnik the year 2008 is facing activities of paying appropriate land and public taxes for property sanitary connections, elaboration of project documents, and obtaining relevant approvals and permits.

Until the new warehouse is erected the logistics will be carried out at ten locations. Maximum synergy effects and considerable reduction of logistics costs will not be attainable until finalized construction of the central warehouse facility.

HUMAN RESOURCES

In the year 2008 the Company will continue with the realization of objectives set out in the Human Resources Strategy of the Mercator Group 2006 - 2010. The targeted objectives will be realized in the following order of priority:

Perspective and key executive recruitment planning → carry out assessments applying the 360 degree method, perform career interviews and various forms of training employees at key positions, perform new round of headhunting for executive material, implement the hereditary system.

Dialog with employees at all levels → introduce specific boards for key position executives, carry out information of all employees via internal news bulletin and electronic information board, carry out annual interviews.

Transfer of expertise and experience → Carry out Store Manager School, carry out Second International Mercator Business Academy, develop coaching network, and renew the introduction seminar for employees at VI and VII level of education (2-year college and academic degree).

Internal and external recruitment → Advertising on web pages and job center sites, organize comprehensive system of recruitment planning, study possibilities for various models of personnel sponsorships, elaboration of employment web site, and creation of employer brand.

Compensations and motivation → Revision/modernization of non-material rewarding system.

Intercultural organizational development → Participate in the selection of key executives on foreign markets, in accordance with investment plans; carry out the Measurement of Employee Satisfaction Survey, organize the Second Employee Days.

Management of Changes – Innovation Activities → Implement the system of useful proposals collected at annual interviews, and determine the assessment group with the task of evaluating and rewarding suggestions and monitoring efficient implementation of adopted suggestions.

Employee Health and Safety → Realize the »More Health for Mercator Employees« Project by carrying out the following activities:

- Physical checkups;
- Mountain trekking, aerobics, dance, walking up stairs;
- Training of managers, stress management instructions;
- Purchasing manual lifting devices;
- Massages for muscular and skeleton disordered employees;
- Weight control, healthy diet in in-house restaurants.

Another priority in addition to the above named:

Personnel IT System, Controlling and Benchmarking → existing personnel information will be substituted with the new SAP-HCM, which will provide uniformed and integrated information support for all personnel processes within the Group, with the ultimate objective to put in place the standardized employee analyses, and develop the personnel controlling model for human resources benchmarking.

Number of employees in Mercator Group

	Estimation 2007		Plan 2008	
	Estimated no. of employees based on hours worked in 1-12 2007	Estimated no. of employees as at 31 December 2007	Planned no. of employees based on hours worked in 1-12 2008	Planned no. of employees as at 31 December 2008
Poslovni sistem Mercator, d.d.	12,070	12,921	12,510	13,296
Total trade - Slovenia	**12,070**	**12,921**	**12,510**	**13,296**
Mercator - H, d.o.o.	2,422	2,803	3,038	3,422
Presoflex, d.o.o.	220	71	0	-
Mercator - S, d.o.o.	587	766	956	1,148
M - Rodić, d.o.o.	2,575	2,622	2,605	2,660
Mercator - BH, d.o.o.	609	710	1,001	1,380
Mercator Makedonija, d.o.o.	0	0	0	-
M - Mex, d.o.o.	0	0	307	320
Total trade - foreign markets	**6,413**	**6,972**	**7,908**	**8,930**
Total trade	**18,483**	**19,893**	**20,418**	**22,226**
Pekarna Grosuplje, d.d.	248	243	-	-
Belpana, d.o.o.	0	0	-	-
Eta, d.d.	209	218	209	218
Mercator Emba, d.d.	116	122	120	-
Mercator Optima, d.o.o.	20	20	23	23
M Hotel, d.o.o.	35	0	0	0
Total non - trade	**628**	**603**	**352**	**241**
Mercator Group	**19,110**	**20,496**	**20,770**	**22,467**

ORGANIZATION AND QUALITY

Our activities in the field of organization and quality in the year 2008 will continue to develop organization management, and rationalization and standardization of operations within the entire Mercator Group. We will continue to implement the requirements of international standards, and by enhanced preventive activities of internal controls minimize and/or eliminate discrepancies in the trading of goods in services in our retail outlets.

Following are the planned objectives within the above references in the year 2008:

Performance of organization management → The objective is to revise the employment roster by setting new catalog of positions and introduction of new working procedures. The company Poslovni sistem Mercator d.d. will support operations by the SAP module Organization Management which will commence to display the catalog with the list of positions and workplaces, in addition to the list of organizational units. In accordance with the new classification of outlets we will revise the standards for determining minimum and correctional number of employees which will consequently be applied to all outlets throughout the Mercator Group.

Standardization and documenting operations → Requirements and sound Mercator practices will further be standardized and documented in form of Mercator Standards Collection, accessible via electronic procedures to all trading companies of Mercator Group.

Implementation and performance of international standards requirements → New standards will be introduced in Mercator trading companies, including the performance of ISO 9001 requirements, and activities related to systemic requirements of other, already implemented standards.

STANDARD	Standard description	Standard implementation status	Slovenia	Croatia	Bosnia and Herzegovina	Serbia
ISO 9001	Management system	Documented	1999	2002	2002	2008
		Implemented	2000	2003	2003	2008
		Certified	2000	2004	2004	2009
Qweb	Web store	Documented	2002	2008	2009	2011
		Implemented	2003	2008	2009	2011
		Certified	2003	2009	2010	2012
ISO 22000 (HACCP)	Safe food	Documented	2003	2008	2008	2011
		Implemented	2008	2008	2008	2011
		Certified	2009	2009	2009	2012
ISO 14001	Environment protection	Documented	2008	2010	2010	-
		Implemented	2008	2011	2011	-
		Certified	2009	-	-	-

Following legislation and cooperation with inspections → We will closely follow updated standing legislation related to goods and services in shops, assist in its implementations and provide assistance in suggesting improvements of procedures.

Performance of internal controls → We will carry out internal controls in regular intervals on newly proposed fields of operation in accordance with management directions, and in addition carry out extraordinary internal audits and controls requested by the executive staff or in case of extraordinary events.

Food safety management system (ISO 22000) → In accordance with the records kept by the Food Safety Management System ISO 22000 requirements the Company will revise the existing documentation and introduce new procedures in operations. For butcher shops the Company will have to harmonize the existing standards to meet the Directives elaborated by the Slovenian Chamber of Commerce and in accordance with legal requirements, as well as implement own monitoring of microbiological analyses related to butcher shops. As a consequence of organizational changes and legislative requirements the Company will have to revise the procedures of refusing inadequate products by the introduction of effective notification.

Education and training → The Company will continue to perform functional training for target groups, with the purpose of transferring legal requirements to the operative level in form of standard procedures and instructions, and provide the required assistance on the occasions of opening new large scale outlets and in line with the requirements of retail network.

Information backup of Organization and Quality → Application for the electronic holding of meetings and sessions will be expanded to cover the entire Group.

Continuing the Mercator Group Organization Optimization Project → In the year 2008 the Company expects to conclude activities of current projects in Slovenia, and continue their implementation in Croatia and in Serbia.

Development and renovation of operations within the Mercator Group → Managements of particular companies within the Group will be provided assistance in the development and modernization of processing model with the purpose of achieving maximum success in the organization of work and expansion of corporate regulations and culture, and following the best business practices, with specific emphasize on newly incorporated or merged companies in the Mercator Group on all markets of Company operations.

Management of changes in the implementation of IT solutions in the Mercator Group → The Company will collaborate with project teams responsible for the modernization of the Mercator Group IT system as consultants for users, especially in the determination and implementation of demanding integration processes. We will also participate in the establishment of micro level of work organization in the planning and implementation stage of modernized information subsystems of the Mercator Group, with the emphasis on the expansion of the SAP system in Croatia, and introduction of the GOLD system in Slovenia and in Croatia.

SOCIALLY ACCOUNTABLE ACTION AND ENVIRONMENT PROTECTION ACTIVITIES

Socially accountable action

Laying at the core of our socially accountable action are the requirements of the people and the environment in which we operate. Mercator's actions are consistent with the company's strategy and vision of the most socially accountable company in the region.

Mercator is sensitive towards the environment

The central humanitarian campaign which is the top of our socially accountable action and has been carried out from this year forward in cooperation with our business partners, is oriented towards those fields where our help is most needed, mostly for healthcare and social care.

In 2008, we shall continue to act in cooperation with our suppliers through charitable campaigns in the field of environment protection and care for children; we will combine the shopping experience with charitable efforts, warn of safety of children in road traffic, try to improve the life in daycare centers, kindergartens, and homes for elderly citizens. In the following year, during the half-year of Slovenia's presidency over the European Community, Mercator will support cultural projects that are related to this presidency, while taking into account the efficiency of such projects and support to reputation, as well as compliance with the goals and vision of the company.

Environment protection activities

Trade activity

In order to reach a high level of material and energy efficiency, we must rationalize our work processes. We must find the most significant, or major consumption points and key points of irrational consumption of raw materials and fuels; these points offer numerous possibilities for cutting costs. Some goals will be attained by the introduction of the ISO 14001 standard which provides elements of efficient environment management system to the company; these elements can then be combined with other management requirements in a way that is beneficial to and supportive of the company's efforts of attaining the environment-related, as well as business or economic goals.

Activities of preserving the natural environment in the company **Poslovni sistem Mercator, d.d.,** in the year 2008, will include the following:

- Efficient management of the waste packaging treatment in order to increase separate collection of waste packaging by materials; this will be attained by unification of equipment of particular locations (presses, etc.), improved supervision over the mass flow of waste packaging (weighing, etc.), and cooperation with the company Slopak.
- Efficient management of the waste electric and electronic equipment, including potential required changes (transport method, etc.), and active cooperation in the operations of the company Zeos.
- Control over the newly introduced unified method of organic waste treatment and reduction of cost related to this system.
- Implementation of the field of oil and fat / grease filters within the PHC and on parking surfaces.
- Extension of the system of separate collection of waste office paper and used printer cartridges and toners to all locations with offices.
- Introduction of collecting all types of waste batteries and car batteries in our major trade centers and hardware and electronics stores, in cooperation with the company Zeos.
- Reduction of communal waste treatment through reduction of volume of containers by at least 10 percent.

- Preparation of the project of collecting the waste non-reusable packaging / containers in major Mercator centers across Slovenia, and relevant marketing activities.
- Linking of environment-related parameters (packaging weight, content of hazardous substances, net weight, etc.) to individual items in the GOLD system.
- Performance of activities defined in the concept of the project of efficient use of power and heat, with the aim to prepare an overview of the current situation regarding the consumption of fuels by individual consumption points, analysis of their consumption and proposals of corrective measures for cutting the consumption, as well as gathering of information on facility specifications, which will serve as the base for certifying the facilities.
- Reduction of power consumption by 1 percent, which amounts to 2 million kWh.
- Introduction of energy efficient technologies that enable heating of facilities with wooden biomass. Pellets made of waste wooden packaging, a byproduct of our operations, will be used as source of energy for heating at a selected test location, thus contributing to the reduction in CO_2 emissions.
- Assignment of persons in charge of the field of environment protection in companies in foreign markets.
- In 2008, we shall also invest a lot of efforts to attain and present an appropriate attitude towards the environment and become distinctive among the consumers as an environment-friendly and aware company. In order to attain such distinctiveness, as well as to promote customer loyalty, we shall prepare a central environment protection activity for our customers and carry on with the project of education on environment protection for all employees.

Non-trade activity

In 2008, the company **Eta, d.d.**, will continue to invest its efforts in a positive attitude towards the environment. Company activities will be seen in its relation to the immediate and broader environment, which will include providing aid, cooperation, and support through sponsorships and donations in the field of sports, culture, education, and humanitarian activities. Hence, the company will work on establishing a positive relation to all aspects, while reinforcing its distinctiveness in the narrow and broader business and entire social environment.

We are aware of the extraordinary importance of protection of the natural environment. We shall continue to use the natural resources in a carefully deliberated and economical manner. Due to increasing environment protection duties, and in the spirit of care for reducing the adverse effects of our company on the quality of our common habitat, we shall further pursue and extend the activities related to reducing of consumption of all types of energy, particularly steam and electricity, and carry on the project of reducing water consumption, which will also affect the reduction of the quantity of generated waste water. We shall extend our activities related to economic and rational use of both processes and materials required for product packaging, since they represent a considerable share in our total material costs and environment protection duties.

Within the planned strategy, the company **Mercator - Emba, d.d.,** will commence at the end of 2008 its transfer to the new location in Logatec. Until the planned move, the company will carry on its involvement in all fields of environment protection; after moving to the new location, major plans and improvements are planned which will considerably improve the company's positive effect on immediate and broader environment.

The new building will be planned and constructed according to the principle of industrial design and will present a distinctive aspect when it is placed into the wider environment. Planning of the new manufacturing facility was carried out in compliance with increasingly stringent requirements set by standards and regulations on construction; in addition, all guidelines from the field of protecting the broader social environment will be considered when preparing the project documentation. We shall install modern energy systems for hot air heating, cooling, and ventilation of premises. In the process, all waste water and condensation water generated in our production process will be used to the highest degree possible. By collecting the rainwater, we intend to decrease the consumption of clean potable water used in the process of producing industrial steam. To reduce the emissions into earth, an industrial waste water treatment plant will be constructed, which will treat all waste industrial water from the production and the lab, in compliance with the relevant legislation.

New products, production methods, and relevant technologies, will continue to be developed by considering as much as possible all guidelines from the field of ecology, looking to decrease power consumption and emissions into the environment, to use environment-friendly packaging, and to increase the share of recycled waste materials.

INFORMATION TECHNOLOGY

In the field of information technology in Slovenia and in foreign markets, we are planning the following activities for the year 2008:

- ensuring regular operation of the existing applications and implementing all changes required for complying with the legislation, and adapting to changes in business processes and changes related to the adoption of euro in the period of double price indication and after it;
- redesign of the IT system for basic and support processes;
- integration of purchased packages and development of new applications in a way that ensures the support to standardization and harmonization of operations, integration into a common architecture, and unified development for all trade companies or at least within the same country;
- reducing the number of different applications for the same business processes.

In the field of **IT system redesign**, projects of upgrading the IT system support functions are under way, as well as the projects of upgrading the IT system for material operation and project of master data management.

Within the upgrade of IT system support functions, we are planning to introduce new modules of the SAP software solution in the field of human resource management, calculation of employee compensations (wages), and investment management in the parent company. In addition, we are planning to introduce the SAP software solution in the field of accounting, finance, controlling, and purchasing and sales of non-trade goods and services in the company Mercator-H, d.o.o., in Croatia.

With regard to the project of upgrading the IT system for material operation, we are planning the launch the operation of the GOLD Central system on the following functional units in Slovenia and Croatia: transfer of central database for master data / master data warehouse (items, categories, prices) to GOLD, managing the existing assortment policy, and simultaneously the introduction of mechanisms for implementing the new assortment policy and pricing policy management. We are also planning the commencement of operation of the GOLD Shop system and gradual connection of all FMCG (market program) retail units in Slovenia and Croatia to this system by the end of 2008, as well as adjustment and introduction of POS Front-Office as a complementary system to the central GOLD Shop, in cooperation with three service providers in Slovenia and one in Croatia, and further progress of the implementation of the GOLD Stock system in warehouses in Slovenia and Croatia.

The plan of upgrading and extending the existing IT system by individual fields comprises the following:

- **upgrade of the customer loyalty system** → we are planning to redesign / upgrade the existing Mercator Pika card system for processing the transactions made with Mercator Pika cards and a further solution of the Mercator Pika customer relations management system by including additional data;
- **material operation** → we are planning to upgrade and unify / harmonize the IT support to processes in retail, and further implementation of self-checkout cashiers in foreign markets; simultaneously, we are planning to upgrade the information support to processes in purchasing, wholesale, and logistics.
- **human resource management** → we are planning to centralize the IT support for recording working hours.
- **management, leadership, and decision-making** → within the project "material operation data warehouse", we are planning further inclusion of the data on operation of units in foreign markets (companies Mercator-BH, d.o.o., Mercator-S, d.o.o., and M-Rodić, d.o.o.);
- **infrastructure and safety** → we are planning to upgrade the IT infrastructure due to the implementation of the GOLD software solution, as well as increasing the throughput and reliability of key telecommunications, unification / harmonization and centralization of the electronic mail system for all foreign markets, and preparation of plan for recovery after a potential disaster for the central IT systems; within the project of development, security, and protection of information and IT system, we are also planning to carry on the activities for establishing a catalogue of IT resources.

In addition, we shall carry on the activities within other key projects:

- **computer data exchange** → v Slovenia and in foreign markets, we shall continue to increase the number of suppliers involved, to expand the document exchange, to extend the computer data exchange to the field of retail operations, and to include service providers;
- **IT support to teamwork and electronic operations** → we shall carry on the upgrade and extension of the existing applications to foreign markets.

Along with Mercator companies in foreign markets, we are also planning the extension of the OPTSM measures (automatic ordering, flexible workforce project, etc.), implementation of additional functionality in Mercator-Rodić (central calculations, assortment management), support to C & C sales methods, and establishing IT support for the newly founded company in Montenegro.

FINANCIAL OPERATION

Financial operations in the year 2007 will continue to be oriented towards providing favorable sources of financing and maintaining financial stability of the Mercator Group and effective management of financial risks.

Liabilities from financing in the Mercator Group will continue to increase in the year 2008. Target capital structure of the Group in the year 2007 remains 1:1.5 between equity and debt, with the option of temporary departures dictated by the operational requirements. We will continue to provide 90 % long-term coverage of long-term assets, and finance net working assets with current banking borrowings. To provide such coverage and with the purpose of maintaining the risk of refinancing at low level, we will in the future try to maintain the 70 % : 30 % ratio between long term and current sources.

In the following year, we are expecting the key interbank interest rate Euribor to settle. Given the macroeconomic forecasts, projected inflation in the euro zone, movement of oil prices, and current situation with regard to swap interest rates, it our estimate that the average value of Euribor in 2007 will amount to approximately 4.75 percent, which will presumably result in somewhat higher financing costs as in 2006. However, risk of further increase in financing costs is limited, since we had hedged a considerable portion of Mercator financing liability portfolio in the year 2006 in the amount of EUR 350 million by the application of traditional interest rate swaps and zero-cost interest rate collars. In the year 2007, we expect the scope of financial liabilities at fixed, i.e. hedged interest rate to remain at high level, which will maintain the exposure to interest rate risk at a low level.

It is also expected that in 2008, the National Bank of Serbia will continue to maintain high level of reserve requirements for commercial banks, which will most probably make local sources of financing in that market less competitive. Both Mercator companies in Serbia will therefore maintain low scope of borrowing with local banks, intended solely for financing current requirements for working capital, while other sources of financing would have to be acquired mainly from banks abroad.

The Mercator Group will obtain funds required for planned investments and refinancing of existing debt both from internal and external sources. In the external financing, we expect to maintain the level of business with existing banking partners, whereby the principal issue will be the competitive level of financing, possibility of supporting Mercator in all markets of its operations, as well as the actual range of services in line with the defined points of reference.

Loan financing will therefore continue by renewing and acquiring new bilateral loans, while in foreign markets there is also the possibility of increasing the share of financing by capital increases in the parent company. Increase in the share of capital in subsidiaries abroad will strengthen the financial power of these companies, enabling cost and tax optimization at the level of Mercator Group.

We also plan to increase the volume of financial and operative leasing, mostly in foreign markets and at locations already purchased. Leasing will be increasingly convenient in view of the fact that VAT has been introduced both in Serbia and in Bosnia and Herzegovina, although this form of financing will not necessarily be offered yet in 2008 due to lack of experience and lacking legislation in these two markets.

Supplement or alternative to the above policies is a potential restructuring of Mercator financing policy via eventual utilization of Mercator real-estate portfolio, with the purpose of increasing the borrowing capacity for the support of intensive investment cycle, as well as anticipated reduction of financing costs and improving the maturity of loan portfolio. Decision on implementation of the project depends mostly on final estimate of costs and effects of the project, which are, however, at this point largely dependent on the situation in international capital markets, particularly the real-estate segment. It is our estimate that the decision on the implementation of this project will be adopted during the year 2008.

RELATIONS WITH SHAREHOLDERS

The company Poslovni sistem Mercator, d.d., devotes great care to the quality of communication with shareholders and other groups within the financial community. Hence, we regularly publish extensive periodical reports in operations and performance of the Mercator Group and other important information on accomplished and planned operations of the Mercator Group and the company Poslovni sistem Mercator, d.d. Since 2006, we have prepared and published all financial statements in compliance with the International Financial Reporting Standards.

The following ten major shareholders combined owned 72.28 percent of the company as at November 30th 2007, as follows:

	Shareholder	Country	Number of shares	Ownership share
1.	INFOND HOLDING, D.D.	Slovenia	941,301	25.00%
2.	PIVOVARNA UNION D.D.	Slovenia	464,390	12.33%
3.	ISTRABENZ D.D.	Slovenia	448,797	11.92%
4.	PIVOVARNA LAŠKO, D.D.	Slovenia	317,498	8.43%
5.	RODIĆ M&B TRGOVINA	Serbia	174,517	4.63%
6.	RADENSKA, D.D.	Slovenia	96,952	2.57%
7.	NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	Slovenia	89,435	2.38%
8.	SMALLCAP WORLD FUND	USA	69,933	1.86%
9.	KLM NALOŽBE, D.D.	Slovenia	61,490	1.63%
10.	EAST CAPITAL BALKAN FUND	Sweden	57,320	1.52%
TOTAL			**2,721,633**	**72.28%**

Key information for the shareholders

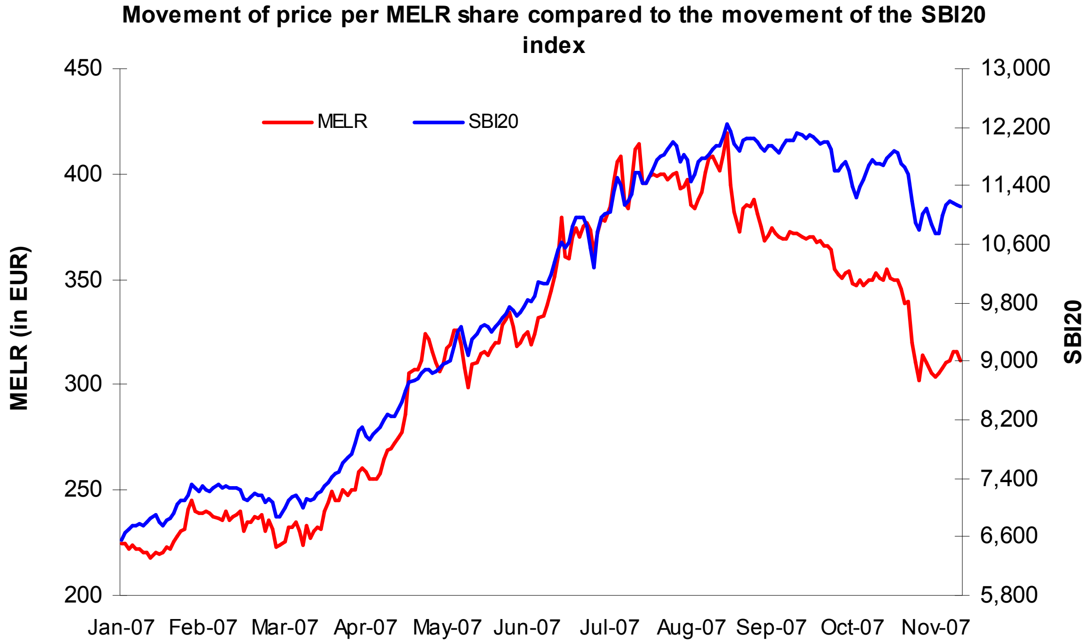
Share capital of the company Poslovni sistem Mercator, d.d., as at November 30th 2007, was divided into 3,765,361 shares that are listed and traded at the Ljubljana Stock Exchange. Nominal value per share amounts to SIT 41.73. Shares of the company Poslovni sistem Mercator, d.d., are listed on the prime market of the Ljubljana Stock Exchange, d.d., under the trading code MELR.

According to the resolution adopted at the 13th Shareholders Assembly of the company Poslovni sistem Mercator, d.d., the Management Board may, subject to previous consent by the Supervisory Board, increase the share capital by up to 20 percent of the capital subscribed as at the day of adoption of the said resolution at the 13th regular Shareholders Assembly of the company Poslovni sistem Mercator, d.d., in five years following the entry of changes into the court register; the capital may be increased by issuing new shares, whereby preemptive right of the existing shareholders to subscribe new shares may be omitted.

Price per MELR at the Ljubljana Stock Exchange

Average price per MELR share as at November 30th 2007 amounted to EUR 311.69; compared to the last trading day of the year 2006, it has increased by 46.4%. The price per share reached its peak on August 31st 2007 at the average price of EUR 419.00.

Movement of share market price



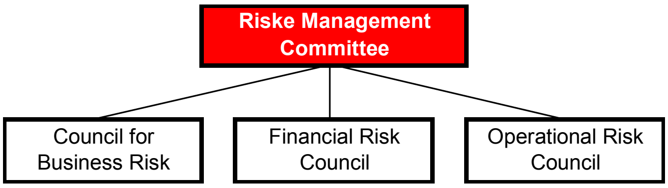
Dividend Policy

Supervisory Board of the company Poslovni sistem Mercator, d.d., adopted at its regular meeting held on April 17th 2007 the company dividend policy for the period 2007 – 2010. Based on the newly adopted dividend policy, the Supervisory Board and the company Management Board proposed to the Shareholder's Assembly in the years 2007 – 2010 the payment of dividend in the following sums: EUR 4.00 per share in 2007, EUR 4.25 per share in 2008, EUR 4.50 per share in 2009, and EUR 4.75 per share in 2010; the actual sum of dividend per share in each respective year will be subject to the decision of the Shareholder's Assembly. At the 13th regular Shareholder's Assembly held on June 27th 2007, the resolution on payment of dividends in the amount of 4.00 EUR per share was adopted. The adopted dividend policy – considering the development, taxation, and other relevant issues – represents an appropriate compromise between dividend yield of the shareholders and employment of net profit for financing company investment plans; on one hand, this will enable long-term maximization of shareholder benefit, while on the other hand it will support long-term growth and development of the Mercator Group.

RISK MANAGEMENT

Expansion of operating activities to foreign markets and strategic alliances of the Mercator Group severely influence the growth of the level of exposure to various types of risk; thus, risk management is constantly heeded. Systematic monitoring, analysis and risk management helps us to efficiently perceive the critical factors; another important component of strategic planning and control is the identification of and control over the critical factors that could bear a negative influence on performance.

The process is institutionalized as a permanent expert team of members of the Risk Management Committee in the Mercator Group (henceforth referred to as the Committee), along with members of councils and experts in charge. Basic activities of respective councils are aimed at ensuring an acceptable, expected exposure to various types of risk, which contributes to the reliability of attaining the planned goals of the Mercator Group.



The council defines the key risks as those whose probability is either medium or high, and where the damage suffered by the Mercator Group in case of such an event is considerable. Risks that are defined as key risks are paid most attention to, and protective measures are implemented either minimize the damage in case of the event, or lower the probability level for such an event to occur in the first place, thus making the risk acceptable.

The following chart presents the main groups/types of risks by respective risk management councils.

BUSINESS RISKS
Risk of market share and sales growth
- Risks of marketing mix competitiveness
- Risks of number of customers
- Investment risks (Realised)
Risks of procurement process (Retail)
Risks in the process of relative price differential realization (Retail)

FINANCIAL RISKS
Credit risk
Mercator Pika Card Credit risk
Interest rate risk
Exchange rate risk
Payment ability / liquidity risk
Risk of introduction of tax at the income source

OPERATIONAL RISKS
Management / leadership
Legislation and Standards management and real estate management
Strategic projects management, standardization, organization and quality management
Costumer relationship, sales format management, and development of services
Manufacturing within the trade companies
Category management and purchase sources management
Purchasing, warehousing and distribution
Wholesale management and sale of goods and services
Retail management and sale of goods and services
Providing competent human resources
Investment, construction and facility refurbishment
Maintenance of facilities, equipment and machinery
Development and maintenance of IT infrastructure
Purchasing of nontrade merchandise and services and environment protection
Providing financing sources
Accounting processes
Analysing, reporting and auditing

In 2007, we have reassessed the risks that the Mercator Group is exposed to, and defined key risks that we will pay special attention to in 2008.

Business risks

❖ Risks of market share and sales growth in the field of retail

Within the management of **risks related to competitiveness of the marketing mix** we shall continue to monitor regularly the competitiveness of prices and plans of other retailers that may announce their entrance to any market of Mercator operation, as well as monitor consistently the shopping habits of our customers and changes in their lifestyles, receive feedback from customers and adjust our sales equipment, and premises correspondingly – both when refurbishing existing outlets and when preparing projects for new facilities – and we will continue to develop the Mercator private label lines.

Managing the **risk of growing number of customers**, which is defined as key risk in the foreign markets, will involve adjusting business activities to specific characteristics of local markets; hence, we shall continue to include local products in the sales promotion projects, and introduce and develop customer loyalty systems in all markets of our operations.

In order to properly manage the **investment risks**, we shall follow the appropriate pricing policy, adjust our marketing mix to specific characteristics of local markets, secure appropriate human resources, continuously carry out corporate activities, and attempt to obtain feedback information relevant for monitoring the planned activities. In 2007, Department of Investment Controlling was founded, which is in charge of preparing investment elaborates that reduce the risk of accepting wrong investment decisions.

❖ Risks in the purchasing / procurement process in the field of retail

To efficiently manage these risks, we shall continue to work closely with our suppliers and try to motivate manufacturers to produce new, innovative products and to invest more in sales promotion; simultaneously, we shall include in our assortment key products of multinational companies and continue the activities of entering international supply chains, in order to attain better procurement conditions, particularly in non-alimentary program. We shall intensify introduction of our private label in various price segments and for various target groups.

❖ Risks in the process of relative gross margin (price differential) realization in the field of retail

Managing the risks in the process of relative gross margin (price differential) realization will include carrying on the activities of customer relations management, inclusion of a larger share of private labels into the product assortment, and taking part in the global procurement / purchasing sources in order to attain lower purchasing prices. We shall also continue to optimize the business processes in order to cut costs and compensate for decreasing margins.

❖ Risks of competitiveness of the marketing mix in the field of wholesale

Managing the risks in the field of wholesale will include further decrease in wholesale margins, adjusting the services within logistics to specific requirements of our key customers, and further development of new services.

Financial risks

Management of **interest rate risk** which is defined as a key risk will involve continuous monitoring of exposure in order to bring the exposure level down to an acceptable level, thus attaining higher predictability and certainty of cash flows, reducing exposure to financial shocks, improving financial planning, reaching higher confidence of various interest groups, and securing increase of value for the shareholders.

Operational risks

Operational risks are described by particular business processes.

- With regard to managing the **risks in the management process**, we shall continue to improve the activities of integration of acquired companies into the Mercator Group, in order to generate and reap synergy effects.
- With regard to managing the **risks in the field of monitoring and complying with the legislation and standards**, we will continue our efforts to solve any legal disputes by out-of-court settlements and adopt preventive measures in the field of protection from any disclosure of company business / commercial secrets.
- Within the set of **risks related to the process of our own production**, we will carry out the HACCP verification of plans and all relevant documents on sound hygienic practice and sound production / manufacturing practice, for which the HACCP team is responsible.
- **Risks of category management and creating new purchasing sources** will be managed by timely orders of goods, regular monitoring of failed deliveries both by our suppliers and by our distribution centers, and any sanctioning of such failed deliveries.
- We plan to manage the **risks related to the process of securing adequate and appropriate human resources** by extending the systematization of workplaces, improving of human resource information system, employing a systematic approach to constant seeking of new employees, continuous rotation of human resources among markets, motivation, and stimulating compensations.
- Managing the **risks in the process of investment, construction, and refurbishment of facilities** will include careful monitoring of the construction progress and warning the investor of contract obligations; when making investment decisions, we shall base them on relevant economic analyses.
- Within the set of **risks of maintenance of facilities, equipment, and machinery**, we will provide appropriate communication between project head for particular investment and the maintenance department, before, during, and after the investment.
- To ensure efficient management of **risks related to the process of development and maintenance of IT infrastructure / facilities**, we shall continue to develop controls in the

procedure of making changes to applications and control the compliance with the measures of physical security and additional measures of electronic security with regard to access to information.
- Managing the **risks in the process of securing financial resources** will include acquiring financial assets for financing investment from retained earnings / profits, bank loans, leasing, issuing bonds, and capital increase.
- Within managing the set of **risks in the process of analysis, reporting, and auditing**, we shall continue to optimize the processes in administrative services.

Additional activities in the field of risk management in 2008 will be oriented towards the following aspects:

- extending the findings of the Risk Management Committee of the Mercator Group to all fields that are included in the risk management process;
- more active inclusion of subsidiaries into the risk management process;
- continuation of the process of systematization and formalization of implementation and control of risk management measures as defined and adopted by the Risk Management Committee.

Management of the Mercator Group estimates that total exposure to risks, considering the planned measures, is moderate. In 2008, we plan to constantly monitor our exposure to all identified key risks, and alleviate such exposure of the Mercator Group by implementation of relevant measures.

PERFORMANCE OF THE MERCATOR GROUP COMPANIES

Mercator – H, d.o.o. → Integration of the company Presoflex, d.o.o., to the company Mercator-H, d.o.o., is planned for January 1st 2008. In 2008, the company is planning the following major openings of new retail units: TC Križevci (September 1st 2008), TC Labin (October 1st 2008), TC Koprivnica (November 1st 2008), MC Sesvete (December 1st 2008) and MC Velika Gorica (December 4th 2008). Planned growth of net revenues form sales is the result of the inclusion of the company Presoflex, d.o.o., acquired on July 18th 2007, and new retail units whose opening is scheduled for the end of 2007 and for 2008, into the company. Company investment activities is also oriented towards the purchase of landed property for construction of new retail units, refurbishment of the acquired retail units of the company Presoflex, d.o.o., and into development of IT system.

Mercator – S, d.o.o. → In 2008, the company is planning to open the MC Niš (April 1st 2008), and trade units Intersport, Modiana, and Beautique in Subotica (October 1st 2008), in Kragujevac (Septmber 1st 2008), Sremska Mitrovica (April 1st 2008), Kruševac (December 1st 2008), and in Megamaraket Novi Sad (April 1st 2008). Planned growth of net sales revenues is related to the growth in net sales revenues of the existing and newly opened retail units. Company investment activities in 2008 are also oriented towards the purchase of landed property FMP (capital increase by the company Poslovni sistem Mercator, d.d., in January 2008), and the purchase of landed property from the company SL Gross in Sremska Mitrovica.

M – Rodić, d.o.o. → In 2008, the company is planning to open a megamarket in trade center Kragujevac (September 1st 2008), megamarket in trade center Kruševac (December 1st 2008), and five new supermarkets in the last quarter of the year 2008. Company investment activity in 2008 is also oriented towards the purchase of landed property, equipment for leasing retail units, reconstruction of retail facilities, and investment into IT system.

Mercator – BH, d.o.o. → In 2008, the company is planning a strategic combination that will involve leasing a total of nine supermarkets. Furthermore, a hypermarket is planned for opening in Ilidža, Sarajevo (July 1st 2008), as well as a MC in Brčko (December 1st 2008) and MC in Banja Luka (December 2nd 2008). Planned growth of net revenues from sales is the result of increase in the revenues from existing retail units, opening of new retail units, and planned strategic alliances. Investment activity of the company in 2008 was also oriented towards the purchase of landed property for the construction of new retail units, refurbishment of retail units acquired by strategic combinations, and development of IT system.

M – Mex, d.o.o. → The company Poslovni sistem Mercator, d.d., purchased in December 2007 a 51 percent share of the company Mex-market, d.o.o. (the company Mex-market, d.o.o., was founded by the company Mex, d.o.o., Podgorica, the second largest FMCG (market program) retailer in Montenegro, who is also active in wholesale and representing other trademarks, for the purpose of strategic combination with Mercator). Upon the completion of the purchase, the company Mex-market, d.o.o., will be renamed to the company Mercator-Mex, d.o.o. The company M-Mex, d.o.o., will be registered for retail activity. Its operations will be conducted in 11 business units of market program type, of which two are owned by the company, while in other facilities the company will lease the units.

Eta, d.d → In 2008, the company plans to maintain the positive trend attained in the last two years in the field of cost efficiency and assortment of products and variety of customers. In 2008, positive result is planned with regard to intensified development of new products; furthermore, international nutritional certificate IFS which will be obtained by the end of this year, will improve the possibilities of sales in foreign markets. Planned company investment in 2008 is directed predominantly towards improvement and urgent replacement of the existing technological equipment (filling station for tubes, electricity, preservation table, etc.), and works related to the company's own water well and reduction of thermal losses. In 2008, the company will commence intensive activities of looking for an appropriate strategic partner.

Mercator Emba, d.o.o. → Company plan for 2008 is compiled consistently with planned increase in prices of strategic raw materials (coffee, cocoa, milk), as well as other intermediate goods, or semi products, and increase in prices of services (transport, maintenance, payments, advertising, and other services. One half of total company revenues is planned by sale sin foreign markets. In 2008, the company is planning an investment into new manufacturing – commercial facility in Logatec. In 2008, the company will commence intensive activities of looking for an appropriate strategic partner.

Mercator Optima, d.o.o. → In the first half of 2007, the company carried out a reorganization of business operations, whereby a part of activities was transferred to the controlling company Poslovni sistem Mercator, d.d. For 2008, the company is planning the perform engineering / planning activities.

FINANCIAL STATEMENTS

FUNDAMENTAL ACCOUNTING POLICIES

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

Consolidated financial statements (balance sheet, income statement, cash flow statement and statement of changes in equity) are compiled according to the single company method. According to this method, the effects of all transactions between the associated companies within the group are omitted. Consolidated financial statements include the subsidiaries, i.e. the companies where the parent company holds the majority interest.

COMPOSITON OF THE MERCATOR GROUP

In addition to the parent company Poslovni sistem Mercator, d.d., seven subsidiaries are included in the planned consolidated financial statements of the Mercator Group for 2008, in which the controlling company directly or indirectly holds the majority interest. These subsidiaries are the following:

- <u>in Slovenia</u>: Eta, d.d., Mercator - Optima, d.o.o.,

- <u>abroad</u>: Mercator - H, d.o.o. (Croatia), Mercator - S, d.o.o. (Serbia), M - Rodić, d.o.o. (Serbia), Mercator - BH, d.o.o. (Bosnia and Herzegovina), M - Mex, d.o.o., (Montenegro).

CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated Income Statement

in EUR 000

	Type of revenue / expense / cost	Estimation 2007	Plan 2008	Index
A.	**NET SALES REVENUES**	**2,398,994**	**2,627,903**	**109.5**
1.	Revenue from products sold	31,271	34,248	109.5
2.	Revenue from services sold	170,446	185,539	108.9
3.	Revenue from goods and material sold	2,201,274	2,411,796	109.6
4.	Expenses for given discounts	-3,996	-3,681	92.1
B.	**COST OF GOODS SOLD**	**-1,760,608**	**-1,935,426**	**109.9**
1.	Production costs	-46,911	-46,090	98.3
2.	Purchase value of goods and material sold	-1,720,375	-1,896,696	110.2
3.	Received discounts	7,974	8,594	107.8
4.	Other expenses	-1,297	-1,233	95.1
C.	**GROSS PROFIT**	**638,386**	**692,477**	**108.5**
D.	Selling and marketing costs	-458,305	-491,169	107.2
E.	Administrative expenses	-116,115	-120,595	103.9
F.	Other gains - net	17,645	9,860	55.9
G.	**OPERATING PROFIT**	**81,611**	**90,574**	**111.0**
H.	Revenue from investments	10,534	4,874	46.3
I.	Financial revenue from non-current loans and receivables	3,913	1,251	32.0
J.	Financial revenue from current loans and receivables	7,688	6,652	86.5
K.	Realised and unrealised losses on financial investments	-1,996	-300	15.0
L.	Interest and other financial expenses	-47,797	-53,006	110.9
M.	**PROFIT BEFORE INCOME TAX**	**53,954**	**50,046**	**92.8**
N.	Income tax expense	-10,341	-8,599	83.1
O.	Deferred income tax	-784	-892	113.7
P.	**PROFIT FOR THE FINANCIAL PERIOD**	**42,829**	**40,556**	**94.7**
R.	Profit attributable to equity holders of the Company	42,822	40,199	93.9
S.	Profit attributable to minority interest	7	357	5,115.4
T.	**Gross cash flow from operating activities**	**156,564**	**173,215**	**110.6**
U.	**Gross cash flow from operating activities before rental expenses**	**166,318**	**187,165**	**112.5**
V.	Number of employees based on hours worked	19,110	20,770	108.7

Consolidated Balance Sheet

in EUR 000

	Type of assets / liabilities	Estimation 31.12.2007	Plan 31.12.2008	Index
	ASSETS			
A.	**NON-CURRENT ASSETS**	**1,547,511**	**1,695,848**	**109.6**
I.	Property, plant and equipment	1,411,898	1,568,520	111.1
II.	Investment property	15,417	14,989	97.2
III.	Intangible assets	88,854	83,598	94.1
IV.	Deferred income tax assets	8,452	8,073	95.5
V.	Derivative financial instruments	5,571	2,974	53.4
VI.	Trade and other receivables	611	484	79.2
VII.	Available-for-sale financial assets	16,709	17,210	103.0
B.	**CURRENT ASSETS**	**513,509**	**537,513**	**104.7**
I.	Inventories	255,913	275,435	107.6
II.	Trade and other receivables	245,424	250,651	102.1
III.	Current income tax receivables	1,416	1,823	128.7
IV.	Cash and cash equivalents	10,755	9,604	89.3
	TOTAL ASSETS	**2,061,020**	**2,233,361**	**108.4**
A.	**EQUITY**	**682,075**	**701,724**	**102.9**
I.	Ordinary shares	157,129	157,129	100.0
II.	Share premium	198,848	198,848	100.0
III.	Revenue reserves	229,277	229,277	100.0
IV.	Revaluation reserve	56,963	56,963	100.0
V.	Retained earnings	359	24,582	6,842.0
VI.	Profit for the financial period	42,822	40,199	93.9
VII.	Currency translation reserve	-7,119	-9,216	129.4
VII.	Minority interest in equity	3,796	3,942	**103.8**
	LIABILITIES			**-**
B.	**NON-CURRENT LIABILITIES**	**678,166**	**779,661**	**115.0**
I.	Financial liabilities	629,371	732,545	116.4
II.	Derivative financial instruments	0	0	-
III.	Deferred income tax liabilities	16,052	14,669	91.4
IV.	Retirement benefit obligations	19,153	19,569	102.2
V.	Provisions for other liabilities and charges	13,590	12,878	94.8
C.	**CURRENT LIABILITIES**	**700,779**	**751,976**	**107.3**
I.	Trade and other payables	480,875	503,256	104.7
II.	Current income tax payables	13,554	11,035	81.4
III.	Financial liabilities	206,350	237,686	115.2
	TOTAL LIABILITIES	**1,378,945**	**1,531,637**	**111.1**
	TOTAL EQUITY AND LIABILITIES	**2,061,020**	**2,233,361**	**108.4**
	Number of employees as at the end of the period	20,496	22,467	109.6

Consolidated Cash Flow Statement

in EUR 000

	Cash flows	Plan 2007	1 - 9 2007
A	**OPERATING ACTIVITIES**		
I.	**Cash generated from operations**	**216,625**	**169,574**
1.	Interest paid	-46,881	-52,508
2.	Income tax paid	-10,341	-8,599
II.	**Net cash generated from operating activities**	**159,403**	**108,467**
B	**INVESTING ACTIVITIES**		
1.	Acquisition of subsidiaries, net of cash acquired	-43,260	0
2.	Purchases of property, plant and equipment (PPE)	-190,911	-263,529
3.	Purchases of intangible assets	0	0
4.	Purchases of available-for-sale financial assets	0	0
5.	Purchases of current investments	0	0
6.	Loans made	-7,551	-3,774
7.	Proceeds from disposal of subsidiaries	9,100	12,458
8.	Proceeds from sale of PPE	18,540	14,642
9.	Proceeds from sale of intangible assets	0	0
10.	Proceeds from sale of available-for-sale financial assets	10,308	4,903
11.	Proceeds from sale of current investments	0	0
12.	Interest received	10,119	7,174
13.	Dividends received	0	0
14.	Loan repayments received	1,537	0
III.	**Net cash used in investing activities**	**-192,117**	**-228,126**
C	**FINANCING ACTIVITIES**		
1.	Proceeds from issuance of shares	0	0
2.	Proceeds from sell of treasury shares	7,200	0
3.	Proceeds / repayments of borrowings	33,295	134,510
4.	Purchase of treasury shares	0	0
5.	Dividends paid to Company's shareholders	-15,061	-16,003
IV.	**Net cash used in financing activities**	**25,434**	**118,507**
V.	**Increase/decrease of cash and cash equivalents**	**-7,280**	**-1,151**
D	**Movements of cash and cash equivalents**		
1.	Cash at the begining of the period	18,035	10,755
2.	Increase/decrease	-7,280	-1,151
3.	Currency translation differences	0	0
V.	**Cash at the end of the period**	**10,755**	**9,604**

Consolidated Statement of Changes in Equity

in EUR 000

	Share capital	Share premium	Revenue reserves				Revaluation reserve	Retained earnings	Profit for the year	Currency translation reserve	Minority interest	Total
	Ordinary shares		Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves						
Balance as at 1 January 2007	**157,129**	**198,848**	**13,389**	**3,250**	**-3,250**	**215,888**	**56,963**	**359**	**42,822**	**-7,119**	**3,796**	**682,075**
Revaluation of PP&E to fair value	0	0	0	0	0	0	0	0	0	0	0	**0**
Cash flow hedge net of tax	0	0	0	0	0	0	0	-2,597	0	0	0	**-2,597**
Currency translation differences	0	0	0	0	0	0	0	0	0	-2,096	0	**-2,096**
Net income (expense) recognised directly in equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2,597**	**0**	**-2,096**	**0**	**-4,693**
Profit for the financial period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	40,199	**0**	357	**40,556**
Total recognised income and expense in the financial period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2,597**	**40,199**	**-2,096**	**357**	**35,863**
Dividend payout	0	0	0	0	0	0	0	-16,003	0	0	0	**-16,003**
Allocation of net profit in line with the Management/Supervisory Board resolution	0	0	0	0	0	0	0	42,822	-42,822	0	0	**0**
Change in share capital of subsidiaries	0	0	0	0	0	0	0	0	0	0	-211	**-211**
Balance as at 30 September 2007	**157,129**	**198,848**	**13,389**	**3,250**	**-3,250**	**215,888**	**56,963**	**24,582**	**40,199**	**-9,216**	**3,942**	**701,724**

Notes and Explanations to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

- **Net sales revenues**

In 2008, a total of EUR 2,627,903 thousand of net sales revenues is planned, which is EUR 228,908 thousand, or 9.5 % more than the estimated net sales revenues for the year 2007. The increase is a result of the opening of new and refurbished retail units, inclusion of the operations of the company Presoflex, d.o.o., Croatia, as of August 2007, into the Group, inclusion of the company M-Mex, d.o.o., Montenegro, and the planned strategic alliance in Bosnia and Herzegovina.

- **Costs of goods sold**

Costs of goods sold are planned in accordance with the growth of net revenues from sale of goods and material. These costs include manufacturing costs and purchase value of goods and material sold; in 2008, they are planned to amount to EUR 1,935,426 thousand, which is 9.9 % more than in 2007.

Purchase value of goods sold is decreased by received early payment discounts (cassasconto) in the planned value of EUR 8,594 thousand, which is 7.8 percent more than the estimated figure for 2007.

- **Gross profit**

The planned gross profit for 2008 amounts to EUR 692,477 thousand and exceeds the estimated figure for 2007 by EUR 54,091 thousand, or 8.5 %. Share of gross profit in net sales revenues in 2008 is planned in the amount of 26.4 %, which is 0.2 percentage point less than in 2007. The decrease is primarily a consequence of more stringent competition in all markets.

- **Selling costs and administrative expenses**

Selling costs and administrative expenses for 2008 are planned at EUR 611,764 thousand, which is EUR 37,344 thousand, or 6.5 %, more than in 2007. The cost increase is primarily the consequence of the increased scope of operations and the integration of the companies Presoflex, d.o.o., and M-Mex, d.o.o., into the Group, as well as the planned strategic combination in Bosnia and Herzegovina.

Expenses by nature

in EUR 000

	Type of Cost	Estimation 2007	Plan 2008	Index
1.	Costs of material	75,213	77,712	103.3
2.	Costs of services	170,255	180,868	106.2
3.	Depreciation and amortisation	81,641	86,155	105.5
4.	Provisions for other liabilities and charges	0	414	-
4.	Labour costs	274,851	296,385	107.8
5.	Other expenses	17,934	13,913	77.6
6.	Cost of goods sold	1,715,134	1,891,743	110.3
7.	**TOTAL COSTS**	**2,335,028**	**2,547,189**	**109.1**

The largest part of costs in the composition of costs by natural categories (apart from purchase value of goods sold) are the labor costs, representing 45.2 percent. Apart from regular labor costs, these also comprise costs of additional pension insurance and other labor costs according to the collective labor agreement.

Selling costs and administrative expenses also include the losses incurred in the disposal of fixed assets, planned for 2008 in the amount of EUR 709 thousand (estimate for 2007: EUR 1,967 thousand) and the current assets revaluation expenses, planned at EUR 2,789 thousand (2007 estimate: EUR 5,494 thousand) .

- **Other revenues from operations**

Other revenues from operations are planned at EUR 9,860 thousand, of which EUR 4,694 thousand is related to business revaluation revenues for fixed (non-current) assets, generated upon the disposal of commercially unviable (non-operating) assets, while the rest are other business revenues.

- **Operating profit**

The planned operating profit amounts to EUR 90,574 thousand, and will exceed the estimated figure for 2007 by EUR 8,963 thousand, or 11.0 %.

- **Finance income and costs / expenses**

The financial revenues/income for 2008, planned in the amount of EUR 12,777 thousand, relate predominantly to proceeds from the disposal of financial investment into other companies, revenues from default interest, and revenues from regular financing interest received. Compared to 2007, financial revenues (income) are lower by EUR 9,358 thousand, which is mostly the result of financial revenues from disposal of financial investments.

Financial expenditures (costs) in the amount of EUR 53,306 thousand are primarily related to financial expenditures for interest on borrowings.

- **Profit before income tax**

Planned profit before income tax of the Mercator Group in 2008 amounts to EUR 50,046 thousand, which is EUR 3,908 thousand, or 7.2 %, less than in 2007.

The estimated profit for 2007 and planned profit for 2008 are considerably affected by extraordinary accounting events, such as proceeds from disposal of business and financial assets. Excluding these effects, comparable profit before income tax in 2008 is planned at EUR 41,726 thousand, which is EUR 3,565 thousand more than the estimated comparable profit before taxes in 2007 (EUR 38,161 thousand).

Calculation of comparable profit before taxes is shown in the following chart:

in EUR 000

	Estimation 2007	Plan 2008	Index
Gross cash flow from operating activities	156,564	173,215	110.6
Depreciation and amortisation	81,641	86,155	105.5
Comparable operating profit	**74,923**	**87,060**	**116.2**
Interest expence	-46,881	-52,508	112.0
Interest income	10,119	7,174	70.9
Comparable profit before income tax	**38,161**	**41,726**	**109.3**

- **Gross cash flow from operating activities**

In 2008, the Mercator Group is planning a gross cash flow from operating activities of EUR 173,215 thousand, which is 10.6 % more than in 2007.

The calculation is shown in the following chart:

in EUR 000

Type of revenue / expense / cost	Estimation 2007	Plan 2008	Index
Profit for the financial period	42,829	40,556	94.7
Income tax	11,125	9,490	85.3
Depreciation and amortisation	81,641	86,155	105.5
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost	-465	0	-
Net gains from disposal and impairment of property, plant and equipment	-4,096	-3,985	97.3
Net movements in provisions	-2,694	239	-
Net gains/losses from disposal of financial assets	-8,539	-4,574	53.6
Net interest	36,762	45,334	123.3
Gross cash flow from operating activities	**156,564**	**173,215**	**110.6**
Rental expenses	9,754	13,950	143.0
Gross cash flow from operating activities before rental expenses	**166,318**	**187,165**	**112.5**

Since the Group will considerably increase the employment of business leasing of retail facilities in foreign markets (Serbia, Bosnia and Herzegovina) in 2008, gross cash flow from operating activities before rents (EBITDAR, earnings before interest, taxes, depreciation, amortization, and rent) will also be compared, in addition to gross cash flow from operating activities, since it represents a more accurate indicator of the capacity of the Group to generate cash flows with its revenues.

NOTES TO THE CONSOLIDATED BALANCE SHEET

- **Property, plant and equipment, and intangible long-term assets**

Value of property, plant and equipment, and intangible assets as at December 31st 2008 is planned at EUR 1,667,107 thousand, which is EUR 150,937 thousand more than the estimated value for December 31st 2007. The changes relate to investment in the amount of EUR 263,529 thousand, integration of the company M-Mex, d.o.o., Montenegro, into the Mercator Group, in the amount of EUR 12,765 thousand, depreciation in the amount of EUR 86,155 thousand, disposal of commercially unviable (non-operating) fixed assets in the amount of EUR 10,192 thousand, disposal of the company Mercaotr-Emba, d.o.o., in the amount of EUR 19,719 thousand, and currency translation differences.

- **Derivative financial instruments**

Value of derivative financial instruments intended for hedging the cash flow (protecting it from risks), at positive fair value as at December 31st 2008 is planned at EUR 2,974 thousand, which is EUR 2,597 thousand less than the estimated figure for December 31st 2007.

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

Planned value of available-for-sale (long-term) financial investments as at December 31st 2008 amounts to EUR 17,210 thousand, which is quite similar to the figure at the end of 2007.

- **Inventories**

Inventories of raw materials and trade goods at the end of 2008 are planned in the amount of EUR 275,435 thousand, which is 51.2 % of the short-term asset composition. Compared to December 31st 2007, the planned level of inventories has will rise by 7.6 percent.

- **Trade and other receivables**

Trade and other receivables are planned in the amount of EUR 250,651 thousand, which is 2.1 % more than the estimation for December 31st 2007.

- **Equity**

We are planning a capital increase in the amount of EUR 19,649 thousand, which is related to the following:

- increase by net profit of the majority interest holder in 2008, in the amount of EUR 40,556 thousand,
- decrease due to planned dividend payment in the amount of EUR 16,003 thousand (EUR 4.25 per share),
- decrease in equity by the change in fair value of derivative financial instruments in the amount of EUR 2,597 thousand,
- decrease due to currency translation differences in translation of planned financial statements of foreign companies into the currency of presentation, in the amount of EUR 2,096 thousand;
- decrease in minority capital in the amount of EUR 211 thousand.

- **Borrowings**

Borrowings as at December 31st 2008 are planned to amount to EUR 970,231 thousand, which is EUR 134,510 thousand, or 16.1 %, more than at the end of 2007. At the end of 2008, non-current borrowings will represent 75.5 % of the total borrowings / financial liability composition, while the current, or short-term borrowings will amount to 24.5 % (as at December 31st 2007, the ratio is estimated at 75.3 % : 24.7 %).

- **Retirement benefit obligations**

Retirement benefit obligations, or liabilities, as at December 31st 2008 are planned at EUR 19,569 thousand, which is EUR 416 thousand more than the estimated figure for the 2007 year end.

- **Long-term provisions**

As at December 31st 2008, planned long-term provisions amount to EUR 12,878 thousand, which is 5.2 % less than on December 31st 2007, mostly due to drawing of long-term provisions for improvement of working conditions of the employees with disabilities.

- **Trade and other payables**

As at December 31st 2008, trade and other payables are planned at EUR 503,256 thousand, which is 4.7 percent more than the estimated figure for the end of 2007.

Financial indicators of the Mercator Group

	Estimation 2007	Plan 2008
Indicators of profitability		
Return on equity	6.7%	6.0%
Return on sales	1.8%	1.5%
Indicators of financial structure		
Financial liabilities / equity	1.23	1.38
Equity and provisions for liabilities and charges to total equity and liabilities	33.8%	32.0%
Financial liabilities to total equity and liabilities	40.5%	43.4%
Trade and other payables to total equity and liabilities	23.3%	22.5%
Indicators of operating efficiency and productivity		
Labor costs per hours worked (in EUR 000)	14.4	14.3
Sales / labor costs	8.7	8.9
Revenues per employee per hours worked (in EUR 000)	125.5	126.5
Value added per employee per hours worked (in EUR 000)	22.6	22.6
Gross cash flow from operating activities / sales	6.5%	6.6%
Total costs without depreciation and provisions / sales	20.1%	19.8%
Invested capital (in EUR 000)	1,504,371	1,580,145
Gross cash flow from operating activities / invested capital	10.4%	11.0%

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

The company Poslovni sistem Mercator, d.d., has a double role in the Mercator Group: it is the parent company that owns all ownership shares in the Group's subsidiaries; simultaneously, it is the operative company, carrying out all trade and other activities in Slovenia. Thus, the application of financial statements of the company Poslovni sistem Mercator, d.d., for economic analysis of the operation of the Mercator Group is not appropriate. For such analysis, it would be sensible to apply only the consolidated financial statements that represent the performance of the Mercator Group as a uniform business entity.

Income Statement

in EUR 000

	Type of revenue / expense / cost	Estimation 2007	Plan 2008	Index
A.	**NET SALES REVENUES**	**1,673,745**	**1,772,861**	**105.9**
1.	Revenue from products sold	3,323	26,510	797.7
2.	Revenue from services sold	137,463	144,448	105.1
3.	Revenue from goods and material sold	1,536,199	1,605,157	104.5
4.	Expenses for given discounts	-3,241	-3,254	100.4
B.	**COST OF GOODS SOLD**	**-1,211,101**	**-1,284,581**	**106.1**
1.	Production costs	-2,904	-16,937	583.2
2.	Purchase value of goods and material sold	-1,212,085	-1,271,885	104.9
3.	Received discounts	4,366	4,790	109.7
4.	Other expenses	-478	-550	115.0
C.	**GROSS PROFIT**	**462,644**	**488,280**	**105.5**
D.	Selling and marketing costs	-322,690	-337,171	104.5
E.	Administrative expenses	-90,742	-93,330	102.9
F.	Other gains - net	11,373	6,361	55.9
G.	**OPERATING PROFIT**	**60,585**	**64,140**	**105.9**
H.	Revenue from investments	14,541	4,873	33.5
I.	Financial revenue from non-current loans and receivables	149	145	97.5
J.	Financial revenue from current loans and receivables	4,395	5,396	122.8
K.	Realised and unrealised losses on financial investments	-7,559	-300	4.0
L.	Interest and other financial expenses	-29,021	-35,217	121.3
M.	**PROFIT BEFORE INCOME TAX**	**43,089**	**39,038**	**90.6**
N.	Income tax expense	-9,731	-7,977	82.0
O.	Deferred income tax	-743	-647	87.0
P.	**PROFIT FOR THE FINANCIAL PERIOD**	**32,615**	**30,413**	**93.2**
V.	Number of employees based on hours worked	12,070	12,510	103.6

Balance Sheet

in EUR 000

	Type of assets / liabilities	Estimation 31.12.2007	Plan 31.12.2008	Index
	ASSETS			
A.	**NON-CURRENT ASSETS**	**1,313,435**	**1,385,196**	**105.5**
I.	Property, plant and equipment	771,250	861,239	111.7
II.	Investment property	12,446	12,121	97.4
III.	Intangible assets	5,961	3,811	63.9
IV.	Deferred income tax assets	8,300	8,055	97.1
V.	Derivative financial instruments	5,571	2,974	53.4
VI.	Trade and other receivables	440	327	74.3
VII.	Available-for-sale financial assets	509,469	496,669	97.5
B.	**CURRENT ASSETS**	**359,470**	**362,337**	**100.8**
I.	Inventories	178,040	180,817	101.6
II.	Trade and other receivables	180,583	180,613	100.0
III.	Current income tax receivables	0	0	-
IV.	Cash and cash equivalents	847	906	107.0
	TOTAL ASSETS	**1,672,906**	**1,747,533**	**104.5**
A.	**EQUITY**	**676,143**	**687,957**	**101.7**
I.	Ordinary shares	157,129	157,129	100.0
II.	Share premium	198,848	198,848	100.0
III.	Revenue reserves	195,827	195,827	100.0
IV.	Revaluation reserve	80,759	80,759	100.0
V.	Retained earnings	10,966	24,982	227.8
VI.	Profit for the financial period	32,615	30,413	93.2
	LIABILITIES			**-**
B.	**NON-CURRENT LIABILITIES**	**443,578**	**504,739**	**113.8**
I.	Financial liabilities	402,105	464,907	115.6
II.	Derivative financial instruments	0	0	-
III.	Deferred income tax liabilities	13,577	12,557	92.5
IV.	Retirement benefit obligations	16,456	16,933	102.9
V.	Provisions for other liabilities and charges	11,441	10,341	90.4
C.	**CURRENT LIABILITIES**	**553,184**	**554,837**	**100.3**
I.	Trade and other payables	351,779	345,546	98.2
II.	Current income tax payables	12,179	10,046	82.5
III.	Financial liabilities	189,226	199,246	105.3
	TOTAL LIABILITIES	**996,762**	**1,059,576**	**106.3**
	TOTAL EQUITY AND LIABILITIES	**1,672,906**	**1,747,533**	**104.5**
	Number of employees as at the end of the period	12,921	13,296	102.9

Cash Flow Statement

in EUR 000

	Cash flows	Plan 2007	1 - 9 2007
A	**OPERATING ACTIVITIES**		
I.	**Gross cash flow from operating activities**	**100,974**	**107,637**
1.	Trade and other receivables	-23,712	455
2.	Inventories	-15,223	-2,777
3.	Trade and other payables	107,486	-9,729
II.	**Changes in working capital**	**68,552**	**-12,052**
III.	**Cash generated from operations**	**169,526**	**95,585**
1.	Interest paid	-28,691	-34,862
2.	Income tax paid	-9,731	-7,977
IV.	**Net cash generated from operating activities**	**131,103**	**52,746**
B	**INVESTING ACTIVITIES**		
1.	Acquisition of subsidiaries, net of cash acquired	-43,011	-11,000
2.	Purchases of property, plant and equipment (PPE)	-98,443	-128,215
3.	Purchases of intangible assets	-898	0
4.	Purchases of available-for-sale financial assets	-98	0
5.	Purchases of current investments	0	0
6.	Loans made	-440	-485
7.	Proceeds from disposal of subsidiaries	9,100	12,458
8.	Proceeds from sale of PPE	10,920	7,677
9.	Proceeds from sale of intangible assets	0	0
10.	Proceeds from sale of available-for-sale financial assets	9,259	4,903
11.	Proceeds from sale of current investments	0	0
12.	Interest received	4,054	5,043
13.	Dividends received	0	0
14.	Loan repayments received	318	113
V.	**Net cash used in investing activities**	**-109,239**	**-109,505**
C	**FINANCING ACTIVITIES**		
1.	Proceeds from issuance of shares	0	0
2.	Proceeds from sell of treasury shares	7,200	0
3.	Proceeds / repayments of borrowings	-15,650	72,822
4.	Purchase of treasury shares	0	0
5.	Dividends paid to Company's shareholders	-15,061	-16,003
VI.	**Net cash used in financing activities**	**-23,511**	**56,819**
VII.	**Increase/decrease of cash and cash equivalents**	**-1,647**	**60**
D	**Movements of cash and cash equivalents**		
1.	Cash at the begining of the period	2,493	847
2.	Increase/decrease	-1,647	60
3.	Currency translation differences	0	0
VIII.	**Cash at the end of the period**	**847**	**907**

Statement of Changes in Equity

in EUR 000

	Share capital	Share premium	Revenue reserves				Revaluation reserve	Retained earnings	Profit for the year	Total
	Ordinary shares		Legal reserves	Reserves for treasury shares	Treasury shares	Other revenue reserves				
Balance as at 1 January 2007	**157,129**	**198,848**	**13,389**	**4,900**	**-3,250**	**180,788**	**80,759**	**10,966**	**32,615**	**676,143**
Revaluation of PP&E to fair value	0	0	0	0	0	0	0	0	0	0
Cash flow hedge net of tax	0	0	0	0	0	0	0	-2,597	0	-2,597
Currency translation differences	0	0	0	0	0	0	0	0	0	0
Net income (expense) recognised directly in equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2,597**	**0**	**-2,597**
Profit for the financial period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**30,413**	**30,413**
Total recognised income and expense in the financial period	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-2,597**	**30,413**	**27,817**
Dividend payout	0	0	0	0	0	0	0	-16,003	0	-16,003
Allocation of net profit in line with the Management/Supervisory Board resolution	0	0	0	0	0	0	0	32,615	-32,615	0
Allocation of net profit in line with the Shareholders assembly resolution	0	0	0	0	0	0	0	0	0	0
Balance as at 30 September 2007	**157,129**	**198,848**	**13,389**	**4,900**	**-3,250**	**180,788**	**80,759**	**24,982**	**30,413**	**687,957**

NOTES TO THE INCOME STATEMENT

- **Net sales revenues**

In 2008, a total of EUR 1,772,861 thousand of net sales revenues is planned, which is EUR 99,116 thousand, or 5.9 % more than estimated net sales revenues in 2007.

Net sales revenues of goods and services in 2008 are planned at EUR 170,958 thousand, which is EUR 30,171 thousand more than the estimate for 2007. This is mostly the result of integrating the operations of the company Pekarna Grosuplje, d.d., in to the parent company in 2007.

Planned net sales revenues from sale of goods and material in 2008 amount to EUR 1,605,157 thousand, which is EUR 68,958 thousand, or 4.5 percent, more than the estimate for 2007. The ratio between planned revenues in retail and wholesale in 2008 is 85 : 15.

- **Cost of goods sold**

Costs of goods sold are planned in accordance with the growth of net revenues from sale of goods and material. These costs include manufacturing costs and purchase value of goods and material sold; in 2008, they are planned to amount to EUR 1,284,581 thousand, which is 6.1 % more than in 2007.

Planned purchase value of goods sold is decreased by received early payment discounts in the planned value of EUR 4,790 thousand, or EUR 425 thousand more than the estimate for 2007.

- **Gross profit**

The planned gross profit for 2008 amounts to EUR 488,280 thousand and exceeds the estimated figure for 2007 by EUR 25,636 thousand, or 5.5 %. Share of gross profit in net sales revenues in 2008 is planned in the amount of 27.5 %, which is 0.1 percentage point less than the estimate for 2007.

- **Selling costs and administrative expenses**

Selling costs and administrative expenses for 2008 are planned at EUR 430,501 thousand, which is EUR 17,069 thousand, or 4.1 %, more than the estimate for 2007.

Expenses by nature

in EUR 000

	Type of Cost	Estimation 2007	Plan 2008	Index
1.	Costs of material	34,082	38,264	112.3
2.	Costs of services	114,590	126,918	110.8
3.	Depreciation and amortisation	45,068	46,974	104.2
4.	Provisions for other liabilities and charges	0	0	-
4.	Labour costs	210,109	225,254	107.2
5.	Other expenses	12,486	10,028	80.3
6.	Cost of goods sold	1,208,197	1,267,644	104.9
7.	**TOTAL COSTS**	**1,624,533**	**1,715,082**	**105.6**

The largest share in the composition of costs by natural categories (apart from purchase value of goods sold) is represented by the labor costs. In addition to regular labor costs, these comprise costs of additional pension insurance and other labor costs according to the collective labor agreement.

Selling costs and administrative expenses also include losses incurred at disposal of fixed assets which are planned in 2008 at EUR 231 thousand (2007 estimate: EUR 1,235 thousand), and current assets revaluation adjustments / expenses, planned at EUR 2,487 thousand for 2008 (2007 estimate: EUR 4,233 thousand).

- **Other revenues from operations**

In 2007, other revenues from operations are planned at EUR 6,361 thousand, of which EUR 3,229 thousand is related to business revaluation revenues for property, plant, and equipment, generated upon the disposal of commercially unviable (non-operating) assets, while the rest are other business revenues.

- **Operating profit**

The planned operating profit amounts to EUR 64,140 thousand, and will be higher than the estimated figure for 2007 by EUR 3,555 thousand, or 5.9 %.

- **Finance income and costs / expenses**

Planned finance income (financial revenues) in 2008 in the amount of EUR 10,415 thousand are mostly related to revenues from disposal of financial investments into other companies, and revenues from regular and default interest on loans approved. Compared to the year 2007, financial income is lower by EUR 8,670 thousand, which mostly the result of lower financial income from disposal of financial investments.

Financial costs / expenses in the amount of EUR 35,517 thousand are mostly related to financial costs of interest on borrowings.

- **Profit before income tax**

In 2008, the company is planning profit before income tax in the amount of EUR 39,038 thousand, which is EUR 4,052 thousand, or 9.4 percent, less than in 2007; the decrease is related mostly to the effects of extraordinary accounting events in 2007.

- **Profit for the financial period**

In 2008, the company is planning a net profit of EUR 30,413 thousand, which is EUR 2,202 thousand less than the estimated figure for 2007; the difference is mostly the result of extraordinary accounting events in 2007.

NOTES TO THE BALANCE SHEET

- **Property, plant and equipment, and intangible long-term assets**

Planned value of property, plant and equipment and intangible assets as at December 31st 2008 is planned at EUR 877,171 thousand, which is EUR 87,515 thousand more than the estimated value for December 31st 2007. The changes relate to the change in investment in the amount of EUR 128,215 thousand, planned integration of the company Pekarna Grosuplje, d.d., in the amount of EUR 10,953 thousand into the company, depreciation in the amount of EUR 46,974 thousand, and disposal of commercially unviable fixed assets in the amount of EUR 4,679 thousand.

- **Derivative financial instruments**

Planned value of derivative financial instruments intended for hedging the cash flow (protecting it from risks), at positive fair value as at December 31st 2008 amounts to EUR 2, 974 thousand, which is EUR 2,597 thousand less than the estimated figure for December 31st 2007.

- **Available-for-sale financial investments**

Planned value of available-for-sale (long-term) financial investments as at December 31st 2008 amounts to EUR 496,669 thousand, which is EUR 12,800 thousand more than on December 31st 2007. This is related to the planned integration of the company Pekarna Grosuplje, d.d., into the company, planned disposal of ownership share in the company Mercator – Emba, d.d., planned capital increase in the company M – S, d.o.o., and planned disposal of shares in other companies.

- **Inventories**

Inventories of material, raw materials, and trade goods at the end of 2008 are planned in the amount of EUR 180,817 thousand, which is 49.9 % of the current asset composition. Compared to December 31st 2007, the planned increase amounts to 1.6 %.

- **Trade and other receivables**

Trade and other receivables are planned in the amount of EUR 180,613 thousand, which is approximately at the same level as at the end of the year 2007.

- **Equity**

We are planning a capital increase in the amount of EUR 11,814 thousand, which is related to the following:

- increase by net profit in 2008, amounting to EUR 30,413 thousand;
- decrease by planned payment of dividends in the amount of EUR 16,003 thousand (EUR 4.25 per share);
- decrease in equity by the change in fair value of derivative financial instruments in the amount of EUR 2,597 thousand.

- **Borrowings**

Borrowings as at December 31st 2008 are planned to amount to EUR 664,153 thousand, which is EUR 72,822 thousand, or 12.3 %, more than estimated for the end of 2007. At the end of 2008, total borrowings will consist of 70.0 % of non-current borrowings and 30.0 % of current borrowings.

- **Retirement benefit obligations**

Retirement benefit obligations as at December 31st 2008 are planned to amount to EUR 16,933 thousand, which is EUR 478 thousand more than the estimated figure for the end of 2007.

- **Long-term provisions**

Long-term provision as at December 31st 2008 are planned in the amount of EUR 10,341 thousand, which is EUR 1,100 thousand, or 9.6 percent, less than as at December 31st 2007; this is mostly related to drawing of long-term provisions for improvement of working conditions of the emplyoees with disabilities.

- **Trade and other payables**

Trade and other payables as at December 31st 2008 are planned to amount to EUR 345,546 thousand, which is approximately the same as at the end of 2007.

Financial indicators

	Estimation 2007	Plan 2008
Indicators of profitability		
Return on equity	5.2%	4.6%
Return on sales	1.9%	1.7%
Indicators of financial structure		
Financial liabilities / equity	0.9	1.0
Equity and provisions for liabilities and charges to total equity and liabilities	41.1%	40.0%
Financial liabilities to total equity and liabilities	35.3%	38.0%
Trade and other payables to total equity and liabilities	21.0%	19.8%
Indicators of operating efficiency and productivity		
Labor costs per hours worked (in EUR 000)	17.4	18.0
Sales / labor costs	8.0	7.9
Revenues per employee per hours worked (in EUR 000)	138.7	141.7
Value added per employee per hours worked (in EUR 000)	25.8	26.6
Gross cash flow from operating activities / sales	6.0%	6.1%
Total costs without depreciation and provisions / sales	21.5%	21.4%