

**Business report of the Mercator Group
and the company
Poslovni sistem Mercator, d.d.,
for the period I - VI 2009**



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Živite s Piko

Poslovni sistem Mercator, d.d.
Management Board

August 2009

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SUMMARY

Despite gravely challenging economic conditions, Mercator continues to increase its revenues, further its development activities, and generate profit

As a result of the global financial crisis and its effects on the real economy, economic conditions in the first half of 2009 were extremely harsh; compared to the first quarter, the situation was even further aggravated.

Despite such business environment, Mercator Group generated EUR 1.3 billion of net revenues from sales in the first half, which means a 3.4 percent growth if constant exchange rates are assumed; including the changes in exchange rates, total growth amounts to 0.9 percent. In Slovenia, revenue growth amounted to 1.1 percent while abroad, the growth was 8.1 percent assuming constant exchange rates, or 0.5 percent when adjusted for exchange rate changes.

In the first half of the year, Mercator engaged in various development and investment activities, in compliance with its plan. The Group's investments, totaling at EUR 66 million, were mostly allocated to the development of retail network. The activities for entering the Bulgarian and Albanian market are in the final stage and Mercator expects to open its first two units in these two countries in the second half of this year.

In the first half of 2009, the Group's net profit amounted to EUR 11.3 million which is 49.6 percent less than in the same period of 2008. Excluding the extraordinary proceeds from the disposal of property, plant, and equipment, and eliminating the effect of the currency translation differences, the adjusted profit before taxes (EUR 14.1 million) is 30.2 percent lower than the last year's figure (EUR 20.2 million). The management sees this as a good result, given the severe economic conditions in all markets.

Economic conditions highly challenging in all markets

Mercator Group operations in the first half of 2009 were marred by arduous economic conditions stemming from the global financial crisis and its effects on the real economy, which seemed to grow in intensity in the second quarter. Economic activity was markedly below expectations in all markets, which was reflected notably in the changes of both volume and composition of consumer demand. At the same time, the global financial crisis has, despite falling reference interest rates, kept the financing costs at high levels.

Macroeconomic situation in many countries of the Western Balkans is difficult and the "payment indiscipline", i.e. the risks of debtors defaulting on their payments to the Group, is quite considerable, particularly in light of the decreased amount of credit available to the companies and households. In addition, Republic of Serbia has seen substantial depreciation of its local currency whose average per-EURO rate has increased by nearly 15 percent compared to the same period last year.

Carrying on the intensive consumer-oriented activities in Slovenia

Operations in Slovenia in the first half of the year included intensive marketing activities aimed at providing favorable offer for the consumers, and at retaining consumer loyalty. These activities resulted in a 1.1 percent growth of net revenues from sales in Slovenia; however, the numerous campaigns, paired with strong competition in the market, contributed to a decrease in the share of gross profit in total revenues by 1.4 percentage point.

As at June 30th 2009, Mercator Group had 13,144 employees in all Slovenian companies combined. Thus, it has retained the position of Slovenia's largest employer.

Revenues abroad considerably affected by exchange rates

In addition to the general economic conditions, our foreign operations were significantly affected by the changes in exchange rates, particularly the Serbian dinar. Its average per-EUR rate rose by 14.7 percent in the first half of the year, compared to the same period last year, causing a decrease in Mercator Group revenues of EUR 32 million. Despite the harsh conditions, however, Mercator carried on its development activities in foreign markets and attained an 8.1 percent revenue growth outside Slovenia in the first half of the year, if constant exchange rates are assumed; adjusting for currency translation differences, revenue growth amounts to 0.5 percent. As at June 30th 2009, Mercator Group had 8,114 employees in companies outside Slovenia.

In the first half of the year, net profit amounted to EUR 11.3 million

In 2009, Mercator Group continued to carry out its activities planned to dam the effects of the adverse economic conditions. These activities are divided into two groups: activities of providing favorable offer for the consumers, and activities of business rationalization. Intensive investments into consumer-oriented activities, paired with harsh situation in all markets, resulted in a decrease in the share of gross profit in total revenues (i.e. the profit margin), which could not be fully compensated for by business rationalization measures - mostly due to still considerable financing costs. Thus, net profit amounted to EUR 11.3 million, which is approximately 49.6 percent less than in the same period last year.

This should, however, be further clarified by noting that the profit generated in the first half of last year was considerably higher due to the proceeds from the disposal of fixed assets, which have amounted to a much lower figure in this year. Furthermore, this year's results were considerably affected by the negative currency translation differences. Eliminating these two effects, profit before taxes for this year would have amounted to EUR 14.1 million, which is 30.2 percent less than in the same period last year (EUR 20.2 million).

The management sees this as a good result, given the severe economic conditions in all markets.

Stable cash flows and unfettered investment and financial operations

In the first half of 2009, Mercator Group generated EUR 95.7 million of gross cash flow from operating activities before rents (EBITDAR), representing a 4.1 percent growth assuming fixed exchange rates, or 1.6 percent growth when currency translation differences are accounted for. Stable generation of cash flow from operating

activities, even in the time of severe economic conditions, points to high financial power, competitiveness, and business efficiency of the entire Group.

In the first half of 2009, the Group pursued its investment activities as planned. Investments totaled at EUR 66 million, equivalent to 41.6 percent of the annual investment plan; they were predominantly allocated for the development of retail network. Furthermore, preparations for entering two new markets, Bulgaria and Albania, were under way without setbacks; opening of two Mercator units in these two markets is planned for the second half of the year.

The Group's financial operations were equally smooth. The Group has refinanced all of its short-term financial liabilities while managing to obtain additional finance sources that even enabled a premature settlement of a major part of payables to suppliers, resulting in corresponding financial discounts.

Due to the expected economic conditions in the second half of the year, the Business Plan for 2009 is not likely to be fully attained

In light of the acute uncertainty about the elements of the business environment, the company Management Board has decided to reassess the viability of the business goals planned for 2009. The Management Board believes that, given the economic conditions in all markets in the second quarter, and the current expectations about the development of the business environment in the second half of the year, the planned goals for 2009 will not be fully accomplished.

Therefore, the company has prepared an assessment of the key economic categories that are, considering the current expectations with regard to future development of business conditions, still attainable. Net revenues of the Group are planned to increase by 3 percent in the entire year 2009, assuming fixed exchange rates, or by 0.1 percent when expected currency translation differences are accounted for, amounting to EUR 2.7 billion, which is 3.2 percent less than initially planned for 2009. Net profit for 2009 is expected at EUR 20.5 million, which is equal to 50.3 percent of the profit generated in 2008 and 32 percent less than initially planned. According to the current estimates, there will be no significant deviations from the initial 2009 plan in terms of the key categories of assets and property.

The company has defined the decrease in real purchasing power of consumers, and foreign exchange risks, particularly with regard to the Serbian dinar and the Croatian kuna as the two key risks in the second half of the year.

Due to the current economic conditions, the company will reevaluate the viability of the currently planned figures for the key achievements in 2009 after the end of the third quarter of 2009; in case of any changes, these will be reported in the quarterly report.

MAJOR EVENTS IN THE PERIOD I - VI 2009

DEVELOPMENT OF RETAIL NETWORK

In **SLOVENIA**, Planina supermarket was opened in Kranj on February 5th 2009; on April 30th 2009, hypermarket and Intersport were opened in Škofja Loka; and on May 23rd 2009, a refurbished superette was opened in Primskovo in Kranj.

In **CROATIA**, Supermarket Buje was opened on March 4th 2009, and Mercator Center Varaždin was opened on May 21st 2009.

In **SERBIA**, Roda Centar Šabac was opened on February 25th 2009; supermarket was opened in Ruma on April 28th 2009; seven superettes were opened in Sombor; and a supermarket and market were opened in Zrenjanin.

In **BOSNIA AND HERZEGOVINA**, a hypermarket, Intersport, Modiana, and Beautique were opened in the Ilidža - Sarajevo shopping center on April 16th 2009, and on May 7th 2009, Mercator Center Banja Luka was opened.

CHANGES IN THE COMPOSITION OF THE MERCATOR GROUP

- ✓ On January 1st 2009, the company Mercator - S, d.o.o., took over the activity of the company M - Rodić, d.o.o.; merger is currently in the final stage.
- ✓ On April 9th 2009, the company Belpana, d.o.o., Croatia, was merged with the company Mercator-H, d.o.o.
- ✓ On April 16th 2009, a new company called Mercator-A, sh.p.k., Tirana, was opened in order to enter the Albanian market.
- ✓ Based on the agreement on strategic combination in the field of trade activity, signed on October 19th 2006 by Holding Rodić M&B and Mercator, d.d., the company Poslovni sistem Mercator, d.d., purchased on May 29th 2009 an additional 12 percent share of the company M-Rodić, d.o.o., Novi Sad. Before the transaction, the company Mercator, d.d., Ljubljana, held 88 percent of the share capital of the company M-Rodić, d.o.o.; after the transaction, the company Mercator, d.d., Ljubljana holds 100 percent of the share capital of the company M-Rodić, d.o.o.
- ✓ On June 1st 2009, the companies Pekarna Grosuplje, d.d., and Evolution, d.d., were merged with the company Poslovni sistem Mercator, d.d.

CORPORATE GOVERNANCE

Supervisory Board of the company Poslovni sistem Mercator, d.d., met twice in the period 1-6 2009. It adopted the audited Annual Report of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the year 2008, proposals of the Audit Committee and the Supervisory Board Report on the Revision of the Annual Report, and

the opinion on the allocation of distributable profit for 2008. Board members were also presented the Business Report for the period 1-3 2009.

MARKETING AND CORPORATE ACTIVITIES

- ✓ This year, Mercator is celebrating its **60th anniversary**. As Slovenia's leading retailer, we were constantly improving our offer during this time, surprising our customers with novelties, while a solid corporate culture has proved conducive to continuous growth and development of the company, the employees, and our business partners.
- ✓ In the beginning of February we launched a long-term activity "**Price perception**" which includes permanently reducing the prices of the most commonly sold items. It is a socially accountable gesture in a time of economic slowdown, aimed at offering competitive prices and improving the price perception of Mercator's offer. In April, we related these activities to marketing of our most affordable private label products, the so-called **barcode line** (product baskets "everything for breakfast" and "basic aliments").
- ✓ On February 11th, we carried out **10th Marketing days**. The event that took place in Cankarjev dom was attended by 500 suppliers and other business partners.
- ✓ On March 4th, we organized for the ninth consecutive year the **meeting with financial partners**. The main purpose of the event that took place in Cankarjev dom was to provide representatives of commercial banks, leasing companies, and insurance companies, with information on the business plans, operations and performance, and financing policy of the Mercator Group in 2009.
- ✓ In March 2009, we established the **employment portal** at Mercator website www.mercator.si/kariera.
- ✓ In May 2009, we launched the marketing activities related to the **10th anniversary of the Mercator private label**. We prepared a special campaign flyer marketing the products of the private label lines, and worked with our suppliers to prepare special promo packages ("gratis" packaging) celebrating the event.
- ✓ In May 2009, the first products of the **revamped Lumpi line** were launched in the aisles. The assortment of products is confirmed by the Pediatric Clinic in Ljubljana, and the Kranj Institute of Public Health. The Lumpi logo got a face lift and the entire line will become distinctive for its new lovable characters. In June, the first promotion of the new **Lumpi Club** and of the new Lumpi ice cream took place as a part of the Luna Festival.
- ✓ In June 2009, the company received an award for **ranking second among the finalists for the Slovenian Award of Social Accountability HORUS 2009**.

PROCEEDINGS AT THE COMPETITION PROTECTION OFFICE

- ✓ Completing and terminating the proceedings instituted against the companies Mercator, d.d., Spar Slovenija, d.o.o., and Engrotuš, d.d., on the grounds of allegedly concerted action between the said companies, the Competition Protection Office issued on **May 7th 2009**, a decision to accept the commitment proposed to the Office by the parties in the proceedings. The commitments are related to various aspects of managing relationships between retailers and suppliers of fast-moving consumer goods, and to reporting on such activities to the Office.
- ✓ On **June 26th 2009**, the Competition Protection Office, completing and terminating the proceedings instituted due to alleged abuse of the allegedly dominant position in the upstream market of fast-moving consumer goods, issued a decision to accept the commitments proposed by the company Mercator, d.d. The commitments are related to various aspects of managing the relations with the suppliers of fast-moving consumer goods, and to reporting on such activities to the Office. The commitments shall be valid for the period of five years. The company Poslovni sistem Mercator, d.d., will regularly report on the implementation of the commitments in the audited Annual Reports.

Thereby, both proceedings instituted by the Competition Protection Office against the company at the end of 2007, were completed.

KEY INFORMATION FOR THE SHAREHOLDERS

As at June 30th 2009, the average price per share of the company Poslovni sistem Mercator, d.d., as traded in the regular official market of the Ljubljana Stock Exchange, d.d., with the code MELR, amounted to EUR 163.21.

Share book value, calculated as the ratio between the value of the equity of the company Poslovni sistem Mercator, d.d., as at June 30th 2009, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares, amounts to EUR 212.05.

Basic net earnings per ordinary share, calculated as the ratio between net profit of the company Poslovni sistem Mercator, d.d., and weighted average number of ordinary shares in the period at hand, excluding the treasury shares, amounts to EUR 2.4.

MAJOR EVENTS FOLLOWING THE BALANCE SHEET DATE

After the end of the first half of 2009, the operations of the Mercator Group saw the following major events:

✓ Corporate governance:

- At the 15th regular Shareholder Assembly of the company Poslovni sistem Mercator, d.d., held on Monday, July 20th 2009, the resolutions on the allocation of distributable profit, dividend payment, and granting discharge to the Management Board and the Supervisory Board were adopted. A new 8-member Supervisory Board was elected. The appointed members of the new Supervisory Board, representing capital, are Stefan Vavti, Robert Šega, Jadranka Dakič and Kristjan Verbič. The members shall assume their terms on October 31st 2009; pursuant to the company Statute (Articles of Association and Bylaws), the term lasts four years, i.e. until October 31st 2013. The assembly was informed that the Worker's Council had also appointed the representatives of the employees who will assume their respective terms on the same day as the representatives of capital. These members are: Mateja Širec, Jože Cvetek, Janez Strniša, and Ivica Župetič. The company KPMG Slovenia, podjetje za revidiranje (auditing company), d.o.o., Železna cesta 8a, Ljubljana, was appointed as the authorized auditing company for the year 2009.

✓ Changes in the composition of Mercator Group:

- On July 31st 2009, the company Interier, d.o.o., was merged with the company Poslovni sistem Mercator, d.d.

✓ Major changes in ownership:

- Following the end of the accounting period, major changes took place in the ownership composition of the company Poslovni sistem Mercator, d.d.

Following are the ten major shareholders of the company Poslovni sistem Mercator, d.d., as at August 14th 2009:

Major shareholders	Country	Number of shares	Ownership share
1 PIVOVARNA UNION, d.d.	Slovenia	464,390	12.33%
2 FIN-DO, d.o.o.	Slovenia	404,832	10.75%
3 PIVOVARNA LAŠKO, d.d.	Slovenia	317,498	8.43%
4 UNICREDIT BANKA SLOVENIJA d.d.	Slovenia	301,437	8.01%
5 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
6 BANKA CELJE, d.d.	Slovenia	165,270	4.39%
7 GB d.d., Kranj	Slovenia	142,920	3.80%
8 NFD 1 DELNIŠKI INVESTICIJSKI SKLAD, d.d.	Slovenia	107,211	2.85%
9 ABANKA, d.d.	Slovenia	104,436	2.77%
10 RADENSKA, d.d.	Slovenia	96,952	2.57%
Total		2,279,463	60.54%

FINANCIAL HIGHLIGHTS FOR THE PERIOD I - VI 2009

Financial highlights

	Mercator Group				
	1-6 2008	Plan 2009	1-6 2009	Index 1-6 2009 / 1-6 2008	Index 1-6 2009 / Plan 2009
Revenue (EUR thousand)	1,282,205	2,798,426	1,293,618	100.9	46.2
Results from operating activities (EUR thousand)	48,280	104,385	40,544	84.0	38.8
Profit before income tax (EUR thousand)	27,206	38,678	13,297	48.9	34.4
Profit for the financial period (EUR thousand)	22,337	30,157	11,268	50.4	37.4
Gross cash flow from operating activities (EUR thousand)	85,062	183,670	82,949	97.5	45.2
Gross cash flow from operating activities before rental expenses (EUR thousand)	94,205	206,643	95,739	101.6	46.3
Capital expenditure (EUR thousand)	116,312	158,952	66,049	56.8	41.6
Long-term financial investments (EUR thousand)	7,294	0	1	0.0	-
Return on equity*	5.9%	3.8%	2.8%	47.2	73.9
Return on sales	1.7%	1.1%	0.9%	50.0	80.8
Gross cash flow from operating activities / net sales revenues	6.6%	6.6%	6.4%	96.7	97.7
Gross cash flow from operating activities before rental expenses / net sales revenues	7.3%	7.4%	7.4%	100.7	100.2
Number of employees based on hours worked	20,383	21,332	20,318	99.7	95.2
Number of employees as at the end of the period	21,333	22,077	21,258	99.6	96.3

* The indicator is adjusted to the annual level.

Some financial highlights assuming constant exchange rates

	Mercator Group				
	1-6 2008	Plan 2009	1-6 2009	Index 1-6 2009 / 1-6 2008	Index 1-6 2009 / Plan 2009
Revenue (EUR thousand)	1,282,205	2,798,426	1,326,005	103.4	47.4
Gross cash flow from operating activities (EUR thousand)	85,062	183,670	84,434	99.3	46.0
Gross cash flow from operating activities before rental expenses (EUR thousand)	94,205	206,642	98,067	104.1	47.5

Due to a considerable effect of the currency translation differences with regard to the Serbian dinar (RSD), comparable performance data is shown, calculated in a simulation that assumes constant RSD exchange rate in both periods at hand.

COMPANY PROFILE

Full name	Poslovni sistem Mercator, d.d.
Abbreviated name	Mercator, d.d.
Activity	G 47.110 Retail in non-specialized food retail outlets
Identification number	5300231
VAT Tax Code	45884595
Court registry date	January 1 st 1990
Company share capital as at June 30 th 2009	EUR 157,128,514.53 EUR
Number of shares issued and paid-up as at June 30 th 2009	3,765,361
Share listing	Ljubljana Stock Exchange (Ljubljanska borza, d.d.) official market, prime market, trading code MELR
President of the Management Board & CEO	Žiga Debeljak
Management Board Members	Vera Aljančič Falež, Mateja Jesenek, Peter Zavrl
President of the Supervisory Board	Robert Šega
Deputy chairman of the Supervisory Board	Kristjan Sušinski

COMPOSITION AND ORGANIZATION OF THE MERCATOR GROUP

December 31 st 2008	June 30 th 2009
TRADE COMPANIES 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 COMPANIES ABROAD	
Mercator - H, d.o.o., Croatia (99.9 %)	Mercator - H, d.o.o., Croatia (99.9 %)
Mercator - S, d.o.o., Serbia (100.0 %)	Mercator - S, d.o.o., Serbia (100.0 %)
M - Rodić, d.o.o., Serbia (88.0 %)	M - Rodić, d.o.o., Serbia (100.0 %)*****
Mercator - Mex, d.o.o., Montenegro (51.0 %)	Mercator - Mex, d.o.o., Montenegro (51.0 %)
Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)	Mercator - BH, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator Makedonija, d.o.o., Macedonia (100.0 %)	Mercator Makedonija, d.o.o., Macedonia (100.0 %)
M - BL, d.o.o., Bosnia and Herzegovina (100.0 %)	M - BL, d.o.o., Bosnia and Herzegovina (100.0 %)
Mercator - B, e.o.o.d., Bulgaria (100.0 %)*	Mercator - B, e.o.o.d., Bulgaria (100.0 %)*
Investment International, d.o.o., Macedonia (100.0 %)*	Investment International, d.o.o., Macedonia (100.0 %)*
-	Mercator - A, sh.p.k., Albania (100.0 %)*
NON-TRADE COMPANIES	
Pekarna Grosuplje, d.d. (100.0 %)***	-
- Belpana, d.o.o., Croatia (100.0 %)**	-
Eta, d.d. (100.0 %)	Eta, d.d. (100.0 %)
Mercator - Emba, d.d. (100.0 %)	Mercator - Emba, d.d. (100.0 %)
Mercator - Optima, d.o.o. (100.0 %)	Mercator - Optima, d.o.o. (100.0 %)
Interier, d.o.o. (97.6 %)	Interier, d.o.o. (97.6 %)******
M - nepremičnine, d.o.o. (100.0 %)	M - nepremičnine, d.o.o. (100.0 %)
Evolution, d.d. (100.0 %)***	-
Mercator IP, d.o.o. (100.0 %)	Mercator IP, d.o.o. (100.0 %)

* The company has not yet commenced its operating activities.

** The company is merged with the company Mercator - H, d.o.o., Croatia as of April 9th 2009.

*** The company is merged with the company Poslovni sistem Mercator, d.d., Slovenia as of June 1st 2009.

**** Company operations have been taken over by the company Mercator - S, d.o.o., Serbia, as of January 1st 2009.

***** In the process of merger with the company Poslovni sistem Mercator, d.d., Slovenia.

BUSINESS REPORT

BUSINESS STRATEGY OF THE MERCATOR GROUP

Strategic policies and strategic goals of the Mercator Group for the medium term period 2008 - 2012 were adopted in December 2007. A summary thereof was published on December 18th 2007 in the SEOnet, the electronic information dissemination system of the Ljubljana Stock Exchange, d.d.

Vision

To be the leading retail chain with FMCG program (market program) in Southeastern Europe.

Mission

Our business is aimed at creating:

- benefit for the customers by providing excellent retail services, high-quality goods and competitive prices,
- benefit for employees by providing a safe and pleasant working environment and a possibility of personal and professional development,
- benefit for suppliers by taking part in the development of high-quality and innovative products and by providing the possibilities for growth in Slovenia and in emerging markets,
- benefit for shareholders by attaining a profitable growth of business operations, improving business efficiency, and increasing the company market value,
- benefit for wider 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 culture 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 of the Mercator Group

1. **LARGEST RETAILER IN SLOVENIA:** To retain the leading market share of market program in Slovenia, primarily by the following activities:
 - ✓ improving the competitiveness of our offer,
 - ✓ developing the retail network.
2. **LEADING RETAILER ON NEIGHBORING MARKETS OF SE EUROPE:** To become the largest or second largest retailer with market program in the markets of Croatia, Serbia, and Bosnia and Herzegovina, by:
 - ✓ strategic combinations and alliances,
 - ✓ development of our own retail network.
3. **ENTERING OTHER SE EUROPEAN MARKETS:** To enter or enable the entrance to other markets in Southeastern Europe, where we could become one of the five leading retailers with market program; this will be attained by:
 - ✓ purchasing attractive locations,
 - ✓ development of our own retail network,
 - ✓ strategic combinations and alliances.
4. **DEVELOPMENT OF NON-MARKET PROGRAMS:** To develop non-market programs and supplementary programs that will:
 - ✓ enable reaping the potential of positive synergies with market program and/or
 - ✓ provide a concept for development of the second fundamental commercial program with a long-term potential of growth and profitability in the target markets,
 - ✓ foster the development of long-term competitive advantages.
5. **PROFITABLE OPERATION:** Ensure profitable operation by:
 - ✓ measures for retaining the level of trade margins,
 - ✓ measures for cost rationalization and increasing the productivity,
 - ✓ measures for increasing the productivity of invested capital.

IMPACT OF ECONOMIC CONDITIONS ON BUSINESS OPERATIONS IN THE PERIOD I - VI 2009

Operations of the Mercator Group in the first half of 2009 were marred by economic conditions that have proven more challenging than initially expected as the attained GDP growth rates in all key markets were lower than forecast at the end of last year. This resulted in a decline in the volume of demand in retail in all markets of the Group's operations; simultaneously, negative effects of the global financial crisis have continued to exert a downward pressure on performance. Risk of a decline in real purchasing power of the consumers, and the foreign exchange risk remain the key risks in 2009.

As early as in 2008, the Management Board adopted a package of measures for mitigating the negative effects of the changes in economic conditions. The measures can be classified in two groups:

- Measures for improving competitiveness of our offer for the consumers are due to the decrease in their purchasing power. Numerous activities and extensive investments are aimed at making our prices even more favorable.
- Business rationalization measures are aimed at improving efficiency of the Group's operations within expected economic conditions.

Due to the lower demand and negative effects of currency translation differences in markets outside Slovenia, Mercator Group estimates that the planned business goals for 2009 will not be fully accomplished. The cost rationalization measures will not suffice to fully compensate for the negative effects of lower revenue growth, decrease in profit margins, and the currency translation differences. An estimate of business results for 2009, considering the current forecasts on economic conditions in the second half of 2009, is given in a separate section.

Slovenia

- ✓ In the second quarter of 2009, Slovenia officially entered recession. Forecasts about economic growth for 2009 are quite different, ranging from -2.5 percent (Slovenian Chamber of Commerce) to -4 percent (Institute of Macroeconomic Analysis and Development) to -6 percent (OECD). In the first quarter of the year, GDP dropped by 8.5 percent. Year-on-year inflation rate in the period 1-6 2009 amounted to 1.3 percent (6.6 percent in the same period last year), and by the end of 2009 it is expected to drop to 0.4 percent.

Croatia

- ✓ In the first quarter of 2009, Croatia saw a strong 6.7 percent decline in GDP compared to the same period last year. The main fuel of economic growth in previous years was a growing domestic demand, paired with financial investments; in 2009, domestic demand dropped by 9.9 percent compared to the same period last year. For 2009, a negative economic growth is expected, amounting to -5.0 percent. In

June 2009, compared to June 2008, inflation was 2.1 percent and the estimates for the entire year 2009 are at 2.5 percent.

Serbia

- ✓ In the first quarter of 2009, Serbia, too, had a negative economic growth at -3.5 percent. In the period, growth in manufacturing, construction, and trade saw the most notable decline. Inflation in the first half of 2009, compared to the first half of 2008, was 9.4 percent. Analysts are forecasting a -4.8 percent economic growth in Serbia in 2009, while the average inflation rate in 2009 is expected at 10 percent. Dinar, Serbian currency, continued to depreciate as its value dropped from RSD 89.4 per EUR as at December 31st 2008, to RSD 94.9 per 1 EUR as at June 30th 2009. Average exchange rate in the period 1-6 2009 amounted to RSD 93.8 per 1 EUR, while in the same period last year, the average exchange rate was RSD 81.8 per 1 EUR.

Currency rate RSD/EUR	1-6 2008	1-12 2008	1-6 2009	Change 1-6 2009 / 1-6 2008
Average currency rate of the period	81.8	81.1	93.8	114.7
Currency rate at the end of the period	82.4	89.4	94.9	115.3

Bosnia and Herzegovina

- ✓ In the first half of 2009, inflation amounted to 0.7 percent, compared to the same period last year. Analysts are forecasting an economic growth of -3 percent in 2009, and the inflation rate is expected around 2 percent.

Montenegro

- ✓ In the first half of 2009, compared to the same period last year, inflation rate was 4.8 percent. Analysts are forecasting the economic growth to amount to -2.7 percent, while inflation is expected at 1.7 percent.

DEVELOPMENT AND INVESTMENT

- ✓ In the period 1-6 2009, Mercator Group's investment into property, plant, and equipment amounted to EUR 66,049 thousand, which is 41.6 percent of the annual investment plan; of this sum, EUR 36,865 thousand (55.8 percent) was invested abroad. The most funds, EUR 46,215 thousand, or 70 percent, were allocated for construction, completion, and equipment of shopping centers, while the rest was invested into new independent stores, refurbishments, distribution centers, and upgrades to the IT system.
- ✓ In the period 1-6 2009, Mercator Group allocated EUR 1 thousand for long-term financial investments, which relates to founding the company in Albania. In the first half of 2009, the company Poslovni sistem Mercator, d.d., purchased the remaining 12 percent ownership share of the company M-Rodić, d.o.o., thus becoming the 100-percent owner of the said company. This acquisition is not listed among long-term

financial investments, as it was, in compliance with IAS 39, already listed as investments in compliance with a binding future agreement on the purchase of an ownership share.

Investment summary

Country	Capital expenditure 1-6 2009 (in EUR 000)	Long-term financial investments 1-6 2009 (in EUR 000)	Total 1-6 2009 (in EUR 000)	Structure in %	Plan 2009 (in EUR 000)
Slovenia	29,184	0	29,184	44.2%	72,508
Serbia	4,281	0	4,281	6.5%	29,686
Croatia	15,714	0	15,714	23.8%	31,262
Bosnia and Herzegovina	14,832	0	14,832	22.5%	19,596
Montenegro	125	0	125	0.2%	2,900
Bulgaria	1,914	0	1,914	2.9%	3,000
Albania	0	1	1	0.0%	0
SKUPAJ	66,049	1	66,050	100.0%	158,952

SLOVENIA

- ✓ On February 5th 2009, we opened the supermarket Planina in Kranj, with a total area of 784 square meters.
- ✓ On April 30th 2009, we opened the Škofja Loka hypermarket and Intersport, including one supplementary offer outlet (a café). The newly constructed facility has a total area of 3,156 square meters and it includes 113 parking spots.
- ✓ On May 23rd 2009, we opened an extended and refurbished superette in Primskovo in Kranj, with a total area of 445 square meters.



FOREIGN MARKETS

CROATIA

- ✓ On May 21st 2009, we opened the Mercator Center Varaždin, a facility with a total area of 9,310 square meters and 411 parking spots, of which 266 are in the subterranean garage. The offer comprises a hypermarket (total area of 3,037 square meters), Intersport, Modiana, café, and 21 outlets offering supplementary services.



SERBIA

- ✓ On February 25th 2009, we opened Roda Center Šabac, a facility with a total area of 14,646 square meters and 206 parking spots, of which 180 are roofed. The center includes a hypermarket extending over 4,379 square meters, Intersport, Modiana, Beautique, hardware and electronics store, and 39 facilities offering supplementary services. The company Mercator-S, d.o.o., signed a long-term lease agreement for the center.



- ✓ On April 28th 2009, we opened a supermarket in Ruma; the facility with a total area of 753 square meters is leased.

BOSNIA AND HERZEGOVINA

- ✓ On April 16th 2009, we opened a hypermarket, Intersport, Modiana, and Beautique in the shopping center Ilidža - Sarajevo. Total area of Mercator's leased outlets amounts to 3,643 square meters, of which the hypermarket extends over 2,690 square meters.
- ✓ On May 7th 2009, we opened the Mercator Center Banja Luka. Gross trade area of the facility amounts to 17,271 square meters; 631 parking spots are available to the customers in the garage. The Center includes a hypermarket (total area of 6,201 square meters), Intersport, Modiana, Beautique, and 51 outlets leased out to supplementary service providers.



MARKETING

Market Share

Mercator Group market shares in the markets of its operations have not seen any considerable change in the period 1-6 2009, compared to the market shares in 2008.

Mercator Group Market shares by markets of operation

	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Montenegro
Market share	36.0 %	8.0 %	6.0 %	4.0 %	4.0 %

Source: market share in Slovenia - Mercator market share survey (a survey by Valicon); market shares abroad - various market research and Mercator estimates.

Marketing Strategy

We wish to position Mercator as the most competitive retailer in the market by offering added value for the customer and providing a modern and pleasant shopping experience.

! Our customers will be provided with an offer that is suited to the contemporary way of life;

! We care for the environment and health

! Innovation in the offer of products and services

Changed social and economic conditions have led us to devise new activities in the field of marketing and procurement / purchasing, and to redefine our priorities to include the following:

! Care for the customer and adjustment to the new market conditions: intensive adjustment of prices of the most commonly sold products

! Upgrade to the customer loyalty system

! Development of private label line products

! Adjustment of the sales assortment and sales area

! Rationalization of costs in marketing activities, but not at the expense of the customer benefits

! High level of service

! Social accountability

Customer Relations Management

Mercator Pika Card Customer Loyalty System

At the end of June 2009, there were a total of **1,352,518 Mercator Pika card holders** in all markets combined. In the period 1-6 2009, their number increased by 80,681.

Mercator Pika card holders	Slovenia	Serbia	Croatia	Bosnia and Herzegovina	Total
as at December 31 st 2008	836,851	129,017	213,418	92,551	1,271,837
as at June 30 th 2009	880,692	140,283	227,536	104,007	1,352,518
new holders 1-6 2009	43,841	11,266	14,118	11,456	80,681

In Slovenia, the share in total retail revenues pertaining to purchases effected with the Mercator Pika card amounted to **54.0 percent** in the period 1-6 2009 (in 2008, this share was 50.8 percent); in all markets of Mercator's operations, this share amounted to **43.9 percent** (40.6 percent in 2008).

Each month, we are working with the partners in the Mercator Pika card system to prepare the **Special Pika Discounts** campaign, and in the period 1-6 2009, we also carried out several **Double** and **Triple bonus point** campaigns. To celebrate the 10th anniversary of the Mercator Pika card, the card holders were awarded 10 additional points at every 10th purchase, within the campaign called "**10 on 10**".

Revising the Mercator Pika card customer loyalty system, which includes replacing the POS terminals at all Mercator points of sale, will grant the card holders all advantages of the currently existing system, as well as simplification of procedures, cost rationalization, higher level of service, and new possibilities of upgrading the customer loyalty programs. We have launched the preparation of the first stage of the system upgrade which will enable additional functionality and new basis for recognizing a Mercator Pika card holder. Thus, shopping basket analysis, combined with the already known data on the card holder, will enable planning marketing activities with special offer adapted to individual segments or even individual customers. Card holders were asked, by direct mail, for permission to send them targeted marketing materials directly.

Healthy Lifestyle club

In the first half of 2009, members of the Healthy Lifestyle Club received by mail a new issue of the Healthy Lifestyle Magazine and six e-bulletins with current news. Prize competitions and special discounts on specially selected products are also prepared for the members, and on the club website, experts from various fields are providing answers to the questions submitted by the club members.

Lumpi Club

At Mercator, we are always looking to offer the parents and their babies something new; hence, the Lumpi Club was founded in May this year. The parents are expected with a range of interesting activities and ideas for the kids, including advice on raising and education, nutrition, care, learning, play, and development of their Lumpi child, which are prepared in cooperation with renowned experts. Parents can also share their own experience among them. Members are regularly informed on club activities, events and workshops for children, and on numerous easy-on-the-pocket offers of products and services.



Maxi Club

The purpose of the Maxi Club is to provide links between people who like shopping in the tranquil environment of the Maxi department store and who value the high quality of offer and expert service. Maxi Club is aimed at attaining an even more adjusted and customized approach to loyal customers at the Maxi department store. The members are regularly informed on favorable offers prepared for them.

M Mobil

By launching the M Mobil service in 2006, Mercator became the first retailer in Slovenia to enter the mobile telephony market. Numerous benefits are offered each month to the M Mobil club members.

M Holidays

Since March 2009, our operations are carried out independently within the M Holidays offices. During the spring, we issued a new catalogue M Holidays Spring/Summer 09, and again prepared benefit coupons that our customers receive upon purchasing a tourist arrangement.

Mercator Call Center

In the period 1-6 2009, we successfully set up the call centers in Croatia, Serbia, and Bosnia and Herzegovina. We are also preparing new value added services such as a welcome call, active telephone notices in case of overdue payments, and the service "live chat" which will be integrated into the Mercator website.

Mercator Web Store

In the first half of 2009, Mercator webstore saw a 5 percent growth compared to the same period last year.

Mercator Web Portal

Mercator's web appearance is being continuously upgraded by introducing new web presentations. In March 2009, an employment portal was launched, intended both for those seeking employment and existing employees. In June, we set up the website for the companies Mercator-B, e.o.o.d., Sofia, and M-BL, d.o.o., Banja Luka.

Development of Private Label Lines

In the first half of 2009, Mercator Group continued to pursue the following goals in the field of private label development:

- ✓ preparing the strategy of future development and upgrade for all private label lines;
- ✓ improving the reputation and distinctiveness of the private label lines;
- ✓ promoting shopping among various target groups of users by sales promotion activities and innovative communication;
- ✓ increasing the number of products offered under private label lines;
- ✓ clarity and focus of individual private label lines and building on respective lines with market potential;
- ✓ growth of the share of private label products in total sales revenues;
- ✓ monitoring trends, sales, efficiency of communication;

- ✓ monitoring safety, quality, and compliance / suitability of products of all private label lines (testing products within internal focus groups and external testing at the Faculty of Biotechnology and the Institute of Public Health Kranj);
- ✓ launching the first products of the revamped Lumpi line.



Mercator Line

- ✓ Activities upon the 10th anniversary of the Mercator private label: special "gratis" packaging of products, private label flyer, marketing.
- ✓ We carried on the redesign of product packaging.
- ✓ As at June 30th 2009, the line included **484** products (351 featuring redesigned packaging).

Total Body Care:

- ✓ At the end of June 2009, the line included **43** products.
- ✓ In the second half of the year, this line of products will be redesigned, and the product assortment will be revised.

Generic Line:

- ✓ This line includes FMCG products for the most price-sensitive customers, as it follows a clearly defined goal: lowest price in the market.
- ✓ As at end of June 2009, the line included **61** products.

Ambient Line:

- ✓ The line is an upgrade to the M-Line and it includes high-quality products for home.
- ✓ As at end of June 2009, the line included **48** products (while the M-Line included 52 products).

Lumpi

- ✓ Products of the Lumpi line are being redesigned. New products are added under surveillance of the Kranj Institute of Public Health and the Ljubljana Pediatric Clinic.
- ✓ As at end of June 2009, the line included **233** products.



The Wishing Table:

- ✓ This line enables simple and fast preparation of a high-quality and hearty meal.
- ✓ As at end of June 2009, the line included **103** products.

Healthy Living:

- ✓ The selection of products, confirmed by the Kranj Institute of Public Health, complies closely with the recommendations and modern findings in the field of healthy nutrition.
- ✓ As at end of June 2009, the line included **82** products.

Premium

- ✓ This line, launched in the beginning of 2009, will be intended for the customers with a refined taste. The products will be made of the finest ingredients, they will be of higher quality, with less artificial additives, and mostly of Slovenian origin.
- ✓ As at end of June 2009, the line included **5** products.

Pekarna Grosuplje (bakery):

- ✓ At the end of June 2009, a total of **50** products from our own bakery were included in the line. The offer was extended by introducing the "Spring Bread with Tarragon" and the summer bread with corn kernels.

Five a Day - Let Some Color Into Your Life:

- ✓ In January and February, the project "**Five a Day - Let Some Color Into Your Life**" which is aimed at promoting the consumption of fruit and vegetables among our customers, included carrying out a coupon campaign and offering weekly discounts on selected categories of fruit and vegetables.

Number of products in the Mercator private label

	Slovenia	Serbia	Croatia	BiH
Number of products as at June 30 th 2009	2,160	797	1,463	860

Sales Promotion Projects

We are constantly working to offer our customers a wide choice of high-quality products and services at competitive, affordable prices. Thus, we are carrying out numerous long-term and short-term sales promotion projects.

The long-term projects included the promotion campaigns "Every Day Low Price", "Slovenian Basket", "Locked Price", "YES! Coupon" with 10 percent Tuesday discounts, 10 percent discount for pensioners on Thursdays, and the "Collect and Choose" customer loyalty program.

Short-term sales promotion projects include regular special offer flyers, category and brand discounts, "Happy Hour" campaigns, and the "Shop and Save" campaign.



Sales promotion projects were also carried out within specialized programs.

Sales promotion activities that have proven successful in Slovenia are also carried out in foreign markets. In 2009, we focused in all markets primarily on improving price competitiveness and localization of all marketing projects.

Communication with the Customers

In March, we issued a revamped catalogue "**Shopping Companion**" which lists the events and the offer at Mercator shopping centers in Ljubljana.

In April, we issued the 38th edition of the Mesec magazine, which was focused on celebrating Mercator's 60th anniversary and presenting Mercator projects.



STORE FORMATS

As a response to the uncertain market conditions, changes in shopping habits of our customers, and changes of market trends, we started preparing a revision of Mercator hypermarket programs in Slovenia, which includes the following activities:

- ✓ redistributing the sales area among sales programs and categories;
- ✓ increasing sales area allocated for special offer goods (special offer aisles or islands within all programs, and final allocation of aisle compartments for targeted special offers);
- ✓ increasing the sales area intended for seasonal offer - establishing season-related aisles or islands where attractive season-related products can be promoted;
- ✓ more pronounced and effective labeling of special offer within regular and special offer sales areas.

Store Formats in Foreign Markets

In the first half of 2009, we prepared:

- ✓ Starting points for defining the marketing mix for hypermarkets in Bulgaria;
- ✓ Starting points for defining the sales area and marketing mix for a new "open cash and carry" store format in Bulgaria.

Development of New Technologies and Services

In 2009, we have continued to introduce new technologies to our stores. In this year, self-checkout cashiers were introduced to four more hypermarkets in Croatia and to the newly opened HM Škofja Loka. Thus, Tik-tak cashiers are in operation in 28 Mercator hypermarkets and two supermarkets. In Slovenia and Croatia combined, a total of 132 self-checkout cashiers have been installed.

Retail Unit Composition

Breakdown of the composition of Mercator Group retail units by types of stores, particular programs, and particular markets as at June 30th 2009

COUNTRY	SLOVENIA	CROATIA	SERBIA	BOSNIA AND HERZEGOVINA	MONTENEGRO	MERCATOR GROUP		
ACTIVITY	Number of units	Number of units	Number of units	Number of units	Number of units	Number of units	Gross sales area	Net sales area
Hypermarkets	20	13	12	6	-	51	250,354	158,997
Supermarkets	129	29	22	11	4	195	223,154	141,998
Superettes	281	43	23	1	4	352	147,701	83,704
Neighbour stores	66	17	7	-	1	91	14,750	7,863
Cash & Carry	12	-	2	-	-	14	35,355	22,966
Hard discount stores	17	-	-	-	-	17	14,011	9,765
TOTAL FMCG programme	525	102	66	18	9	720	685,325	425,292
Technical programme	101	15	6	-	-	122	163,349	90,666
Technical programme	69	14	3	-	-	86	126,548	63,708
Furniture programme	32	1	3	-	-	36	36,801	26,958
Clothing programme and drugstores	97	30	18	12	0	157	70,128	57,759
Clothing programme	80	30	10	8	-	128	66,690	54,971
Drugstores and perfumeries	17	-	8	4	-	29	3,439	2,788
Intersport	30	23	9	8	1	71	40,117	31,100
Restaurants	21	17	6	11	-	55	16,709	10,782
Other	8	-	-	-	-	8	145	138
TOTAL specialised programmes	257	85	39	31	1	413	290,448	190,446
TOTAL	782	187	105	49	10	1,133	975,773	615,738
Franchise stores	227	76	-	-	-	303	54,458	35,108
TOTAL with franchise stores	1,009	263	105	49	10	1,436	1,030,231	650,846

(in square meters)	Trade area for own programs	Trade area leased to other service providers	Total
Proprietary retail area	770,154	146,144	875,725
Retail area on lease	205,619	49,666	295,859
Total trade area managed	975,773	195,810	1,171,583

SALES

In the period 1-6 2009, Mercator Group generated EUR 1,293,618 thousand of **revenues from sales**, which is 0.9 percent more than in the same period last year. Assuming a constant exchange rate of the Serbian currency relative to euro, revenues from sales for the Mercator Group would have amounted to EUR 1,326,005 thousand, which would be a 3.4 percent growth compared to the same period last year. According to the annual plan, sales revenue growth in 2009 should amount to 3.3 percent compared to the year 2008.

Mercator Group attained 46.2 percent of the planned annual revenues from sales in the period 1-6 2009.

Mercator Group net sales revenues by geographical segments

In Slovenia, net sales revenues of the Mercator Group amounted to EUR 865,803 thousand in the period 1-6 2009, which is 1.1 percent more than in the same period last year. Revenues from retail rose by 1.6 percent, revenues from wholesale remained at the last year's level.

In **foreign markets**, net sales revenues in the period 1-6 2009 amounted to EUR 427,815 thousand, which is 0.5 percent more than in the same period last year. Assuming a constant euro exchange rate of the Serbian currency, companies abroad would have attained revenues from sales in the amount of EUR 460,202 thousand, which would mean an 8.1 percent growth compared to the same period last year. The increase is primarily the result of opening of new and refurbished retail units.

Mercator Group net sales revenues by business segments

Mercator Group made 98.3 percent of total net sales revenues in **trade activity**; **non-trade activity** accounts for 1.7 percent of total net sales revenues.

In the period 1-6 2009, the majority of Mercator Group trade activity revenues resulted from sales of **market program** products as they accounted for 85 percent of trade activity revenues from sales; share of total revenues from sales generated in other **specialized trade programs** amounted to 15 percent.

CATEGORY MANAGEMENT AND SUPPLIER RELATIONS

Category Management

In the first half of 2009, category management was focused on adapting our offer to the stringent conditions of declining purchasing power, and on improving the price competitiveness and perception in Slovenia. In the first stage, we cut prices of 2,800 products which resulted in an increase in their sales relative to total sales throughout the first half of the year. We will continue to pursue to policy of price changes until the end of 2009. We have also commenced the development of promotional tool through simulation of marketing mix effects (product, price, promotion, place), which is aimed at increasing the efficiency of promotion activities.

In order to redefine the development strategy of the private label, we analyzed sales and prices in all three Mercator private label lines, comparing them to the competition and the comparable branded products. We effected a segmentation of categories and calculated the price dispersion within each category, which will allow facilitate definition of new products and their pricing / positioning in the future.

At the end of April, we intensified the implementation of the Category Management project in Croatia; in the second half of the year, emphasis will be placed on improving the price competitiveness and price perception, as well as on development of strategies for selected categories.

Purchasing of trade goods and supplier relations

In the first half of 2009, we continued to look for new procurement sources and to adjust our offer to various segments of customers; the currently prevailing market conditions pushed the offer for the most price-sensitive customers to the forefront of

our attention. We expanded the offer of generic private label line products and launched the first products of the new, Premium line.

We introduced numerous additional products into our permanent sales promotion projects such as the "Every Day Low Price", "Locked Price", etc., thus offering an even more affordably priced assortment.

Supplier negotiations for 2009 have been completed. We continued to work on cutting down delivery failures, inventories, and on optimizing our operations.

Supplier relations were compliant with the Trade Goods Supplier Relation Management Code, working instructions on business communication, and working instructions on price effecting changes, all of which were adopted as sound practice measures for providing compliance of company operations and its commercial transactions with the internal and external rules and regulations related to competition protection.

LOGISTICS

In the period 1-6 2009, we continued to provide quality logistics services for all entities of the system that require them.

With regard to implementation of strategic program for improving competitiveness, we continued to carry out the logistics infrastructure optimization project. Following are the most notable activities performed in the period at hand:

In Slovenia:

- ✓ We have prepared an organization and technological plan for revising the fruit and vegetables distribution processes.
- ✓ Due to the economic crisis, we cut down in 2009 the volume of investment; as a result, we temporarily halted the construction of the central logistics center in Želodnik.

In foreign markets:

- ✓ In Croatia, the agreement on long-term lease of a distribution center was postponed by one year due to the economic crisis.
- ✓ In Bosnia and Herzegovina, logistics facilities are currently being moved from the Rajlovac location to the Kakanj location. The new location is more convenient both from the aspect of logistics operations and economics.
- ✓ In Bulgaria, we inspected several potential warehousing facilities and potential locations for construction of new warehouses. Given the current dynamics of development of Bulgarian market, we are looking for optimum temporary and long-term solutions.

ORGANIZATION AND QUALITY OF OPERATIONS

In the period 1-6 2009, our main focus was organizational management, implementing new and maintaining the current international quality standards and preventing the incompatibility or incompliance of goods and business processes. We carried on the activities within the framework of the strategic project of a general optimization of operations within the Mercator Group.

Organization management

We have implemented the organizational changes resulting from the transfer of activities of the company M-Rodić, d.o.o., to Mercator-S, d.o.o.; we reorganized the company Mercator-H, d.o.o. At the company Poslovni sistem Mercator, d.d., we reorganized the hypermarkets and executive fields, and merged the companies Pekarna Grosuplje, d.d., and Evolution, d.d. We revised the catalogue of workplaces/jobs and updated the electronic collection of organizational rules - Mercator standards.

Quality standards

At the company Poslovni sistem Mercator, d.d., the Internal Audit Plan 2009 has been prepared and confirmed; furthermore, the spring and the summer parts of the internal audit have been completed. In May, we carried out the most extensive external audit thus far, according to the requirements of four standards. This audit allowed us to extend the ISO 9001 certificate of quality, carry out the certification audit for obtaining the ISO 14001 certificate for environmental management systems, carried out the first stem of certification audit to obtain the ISO 22000 certificate for food safety management, and carried out the regular audit of Mercator webstore by the QWeb certification scheme. As a part of the project of obtaining the ISO 9001 quality certificate at the company Mercator-S, d.o.o., we have completed most of the documentation for this system and completed the internal audit. At the company Poslovni sistem Mercator, d.d., we introduced electronic application for paperless management of incompliance, recommendations, and commendations. We also prepared a blueprint of solution, and devised a prototype of application, for electronic register of contracts.

Internal control at our sales units

We have been following the legislation changes in the field of goods and services flow processes in commerce, notified the users on requirements, advised them and introduced these changes into internal standards. At the end of April, Rules and Regulations on minimum technical requirements for trade activity were adopted, which introduce some novelties in the field of compulsory goods taring.

We carried out regular and extraordinary internal controls at our sales units, coordinated examinations, and conducted training.

With regard to food safety, we were highly committed to preparing for the external "ISO 22000" certification in the first half of the year. We revised some of the existing documents and carried out training for target groups. We issued a new version of the Working Instructions on Product Withdrawal. In March, we carried out the first internal audit, and in May, the 1st part of the external audit for "ISO 22000" certification. We appointed a food safety task force that operates as a council and includes all responsible sectors in the field of food safety. Based on legislative requirements and the requirements of this standard, the management appointed a crisis task force responsible for withdrawing the products during store working hours, outside the regular working hours of administrative workers. We are also carrying out the activities to assume the new function of coordination and reporting in the field of monitoring, which includes execution and reporting on monitoring of private label products, own production at butcher departments, results of fruit and vegetable sampling upon import, and results of the national monitoring.

Strategic project of general optimization of operations

Within the framework of the performance of the **strategic project of a general optimization of operations** in the Mercator Group, we have predominantly focused on increasing efficiency and reducing operating costs in the period 1-6 2009. This included, in addition to regular activities in Slovenia, using the productivity tools in order to retain the level of sales personnel productivity from 2008, while in Croatia, implementation of productivity measures and transfer of some sales units to other forms of management have already yielded savings. We have defined the goals of inventory turnover by categories and devised a plan of activities for gradual attainment of the planned goals, and carried out the activities of eliminating non-viable stock at our stores. We have also prepared environmental projects and measures whose implementation has already yielded the first cost-cutting effects.

INFORMATION TECHNOLOGY

Consistently with the **strategic project of IT system revision**, the following activities were carried out in the first half of 2009:

- ✓ As a part of the **support function IT system revision project**, we completed the extension of the use of the basic SAP modules in the companies Mercator-H, d.o.o., Mercator-BH, d.o.o., and Mercator-BL, d.o.o. The extension of the use of these modules shall continue by introduction at the companies Mercator - S, d.o.o., in Serbia, and Mercator - B, e.o.o.d., in Bulgaria;
- ✓ As a part of the **material operation IT system revision project** or the implementation of the G.O.L.D. software solution for operation management in retail, logistics, and wholesales, we carried out the following:
 - We have started to use the G.O.L.D. CENTRAL module intended for editing and maintaining master data, managing procurement processes, and managing promotion activities. Over 350 stores of the market program were connected to this module (market format, hardware and electronics, Beautique);

- We connected 51 market format outlets to the G.O.L.D. SHOP module (module for ordering and inventory management in the store) by integrating the new POS trade system.

The following activities were carried out in other fields:

- ✓ we continued to upgrade the **Mercator Pika card customer loyalty system**;
- ✓ With regard to **IT support to general operations optimization projects in the Mercator Group** we introduced the goods acceptance at the Fruit & Vegetables warehouse and continued to upgrade and expand the order generation system that employs distributors, automatic ordering system, and reporting system;
- ✓ **IT support to management and decision-making** included further activities within the program of category management, the project of Integral Material Operation Data Warehouse (inclusion of data from new markets and inclusion of units that have introduced G.O.L.D.), and launched the activities within the customer relations management project.
- ✓ **IT support to retail, manufacturing, and catering** included further qualitative upgrade of the POS trade systems, unification of IT support, and extension of the self-check-out cashiers in Slovenia and Croatia. We also established IT support for tourist services;
- ✓ In the field of **infrastructure and security**, we upgraded the infrastructural environment (G.O.L.D. and other systems), established the infrastructural environment for M Holidays, carried on the implementation of the risk management system in the field of SAP authorizations (security), completed the implementation of the revised communication system, and carried on the revision of the communication network.

In foreign markets, we carried on the unification of the infrastructure and the IT support to retail and wholesale in compliance with the standards of support to the companies of the Mercator Group. At the same time, we carried out activities with regard to establishing IT support to the companies M-BL, d.o.o., and started to set up the IT support for Mercator-B, e.o.o.d.

FINANCIAL MANAGEMENT

Financial liabilities

In the period 1-6 2009, financial liabilities of the Mercator Group rose by EUR 68,918 thousand or by 6.7 percent compared to the end of 2008. The increase is a result of the intra-year dynamics of the requirements for cash and the active policy of premature settlement / payment of trade payables that result in beneficial financial discounts.

Net borrowings of the Mercator Group, calculated as the difference between financial liabilities (current and non-current financial liabilities with derivative financial instruments) and financial assets (cash including available-for-sale financial assets and cash deposits) of the Mercator Group, as at June 30th 2009, amount to EUR 1,046,152 thousand.

Capitalization ratio

As at June 30th 2009, the capitalization ratio of the Mercator Group amounted to 1 : 1.31 (at the end of 2008, the ratio was 1 : 1.22). This is the ratio between equity - comprising disclosed equity plus provisions for liabilities and charges; and debt capital - comprising non-current and current financial liabilities.

Long term coverage of non-current assets

As at June 30th 2009, long-term coverage of non-current assets with non-current liabilities for the Mercator Group amounted to 79.0 percent.

Obtaining sources of financing

In the period 1-6 2009, Mercator mostly signed agreements on bilateral short-term loans for refinancing the existing sources. Despite harsh conditions in the financial markets, we have managed to completely refinance all due borrowings in the period at hand.

In addition, we entered several new long-term loan agreements which allow us to retain a sound maturity composition of our financial liabilities.

The Group also obtained additional short-term financing sources which were predominantly used for pursuing the policy of trade payables management.

MERCATOR SHARE AND OWNERSHIP STRUCTURE

Mercator Share

As at June 30th 2009, **share capital of the company Poslovni sistem Mercator, d.d.**, was divided into 3,765,361 shares. Nominal value of each share amounts to EUR 41.73.

The 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**.

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

Key information for the shareholders

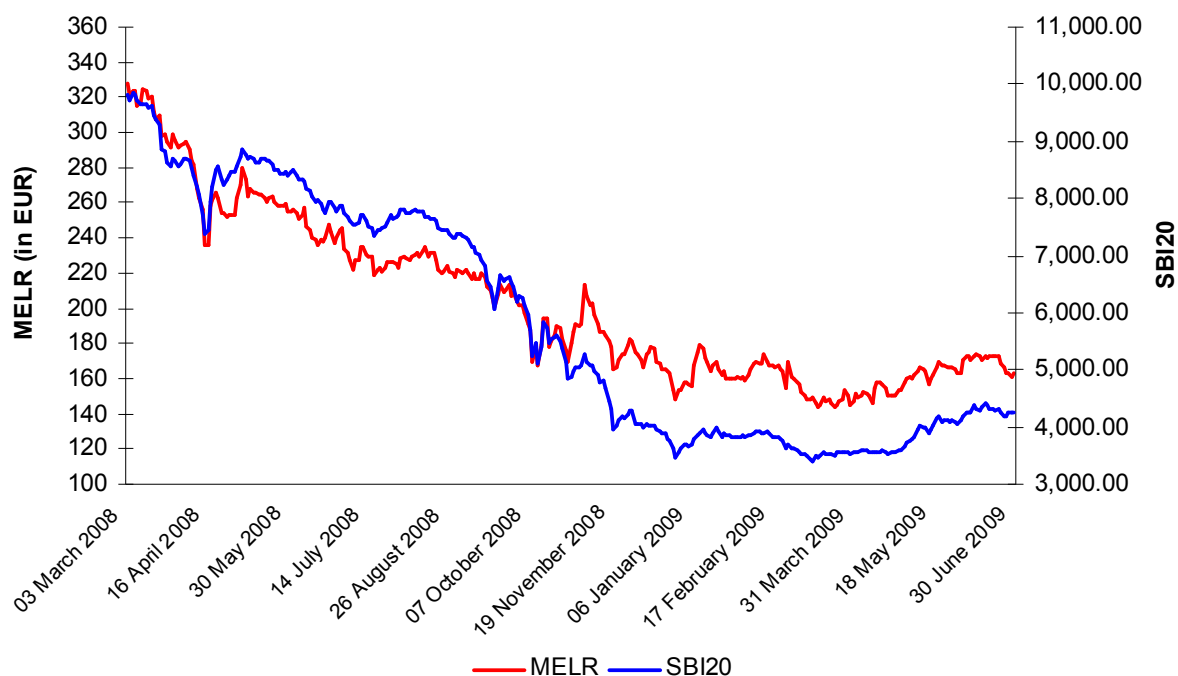
June 30 th 2009	
Number of shares registered in Court Register	3,765,361
Market capitalization (in EUR)	614,544,569
Market value of share (in EUR)	163.21
Book value per share (in EUR)	212.05
Annual low (in EUR)	144.03
Annual high (in EUR)	178.92
Weighted average market price, excluding block and cross trades (in EUR)	162.20
Earnings per share (in EUR)	2.4

Equity market capitalization is calculated as the product of the number of shares entered into Court Register as at June 30th 2009, and the market price per share as at June 30th 2009.

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

Share book value is calculated as the ratio between the value of equity of the company Poslovni sistem Mercator, d.d., as at June 30th 2009, and the weighted average number of ordinary shares in the period at hand, excluding treasury shares.

Movement of average price per MELR share compared to the movement of the SBI20 index



Dividend policy

At its regular meeting held on April 17th 2007, the Supervisory Board of the company Poslovni sistem Mercator, d.d., adopted the company dividend policy for the period 2007-2010. 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 gross dividend in the following sums:

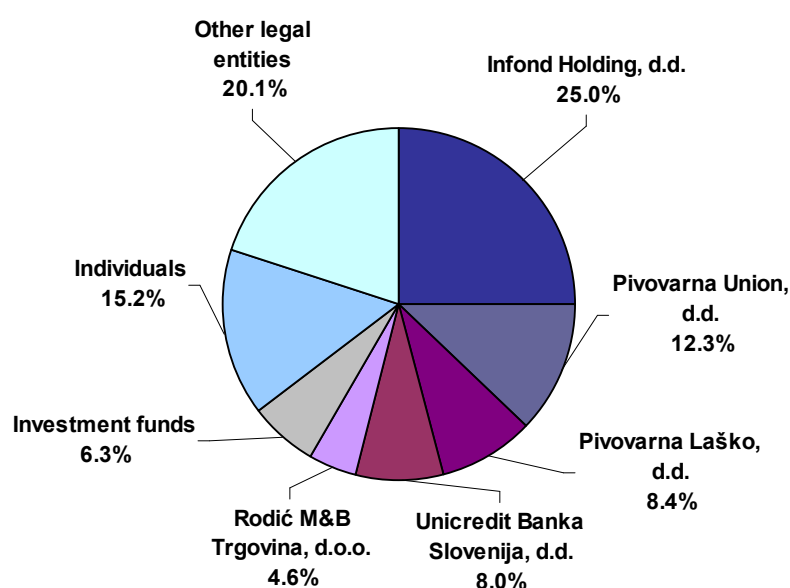
- ✓ EUR 4.00 per share in 2007,
- ✓ EUR 4.25 per share in 2008,
- ✓ EUR 4.50 per share in 2009,
- ✓ EUR 4.75 per share in 2010.

The actual sum of dividend per share for each business year respectively will be subject to Shareholder's Assembly decision. The adopted dividend policy - considering the development, taxation, and other relevant issues - represents an appropriate compromise between dividend yield of the shareholders and allocation 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.

Company Ownership Composition

As at June 30th 2009, the **Share Register** of the company Poslovni sistem Mercator, d.d., indicated **17,188** shareholders or 112 less compared to the situation as at December 31st 2008.

As at June 30th 2009, the **ownership structure of the company Poslovni sistem Mercator, d.d.**, was as follows:



Major shareholders

As at June 30th 2009, the following ten largest shareholders combined owned **69.38 percent** of the company:

Major shareholders	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 Pivovarna Laško, d.d.	Slovenia	317,498	8.43%
4 Unicredit Banka Slovenija, d.d.	Slovenia	301,437	8.01%
5 Rodić M&B Trgovina, d.o.o.	Serbia	174,517	4.63%
6 NFD 1 Delniški investicijski sklad, d.d.	Slovenia	107,211	2.85%
7 Radenska, d.d.	Slovenia	96,952	2.57%
8 Hypo bank, d.d.	Slovenia	77,547	2.06%
9 Smallcap World Fund	USA	69,933	1.86%
10 KLM Naložbe, d.d.	Slovenia	61,490	1.63%
Total		2,612,276	69.38%

Foreign shareholders

As at June 30th 2009, the share of foreign investors in the company Poslovni sistem Mercator, d.d., amounted to **12.15 percent**, which is 0.09 percentage points less than at the end of 2008.

Shares owned by Management Board members as at June 30th 2009

Name and surname	Number of shares	Ownership share
Žiga Debeljak	1,100	0.0292%
Vera Aljančič Falež	30	0.0008%
Mateja Jesenek	1,000	0.0266%
Peter Zavrl	60	0.0016%
Total	2,190	0.0582%

Shares owned by Supervisory Board members as at June 30th 2009

Name and surname	Number of shares	Ownership share
President of Supervisory Board		
1. Robert Šega	0	0.0000%
Members of Supervisory Board (representatives of capital)		
2. Matjaž Božič	0	0.0000%
3. Dušan Mohorko	0	0.0000%
4. Kristjan Sušinski	0	0.0000%
5. Mateja Vidnar	0	0.0000%
Members of Supervisory Board (workers representatives)		
6. Ksenija Bračič	0	0.0000%
7. Jože Cvetek	2,000	0.0531%
8. Dragica Derganc	0	0.0000%
9. Jelka Žekar	400	0.0106%
10. Ivica Župetić	0	0.0000%
Total	2,400	0.0637%

Treasury shares

As at June 30th 2009, the company Poslovni sistem Mercator, d.d., held 42,381 treasury shares. In the period 1-6 2009, the company Poslovni sistem Mercator, d.d., neither acquired nor disposed of treasury shares.

RISK MANAGEMENT

The global financial crisis which displayed its severity and depth as early as in the second half of 2008, continues to directly affect the trade activities in all markets of Mercator's operations in 2009.

At Mercator, we are constantly reexamining and analyzing the existing and potential new risks, as we devise and implement the measures for their management in daily operations.

In the first half of 2009, we paid particular attention to the changes in the economic environment and the effects of these changes in particular fields of risks.

- ✓ With regard to **business risks**, we focused on managing the following:
 - Risk of a decline in the purchasing power:
As a result of harsh economic conditions, the risk of a decline in purchasing power remains high. Furthermore, changes in shopping habits and behavior of our customers have also been perceived, which affects the changes in the composition of consumption. Particularly, the effect on the volume of demand is notable in foreign markets. In all markets, we have adopted the marketing activities to the new conditions in order to provide a favorable offer for our customers, and to retain our revenue level. This is the key risk in 2009.
- ✓ With regard to **financial risks**, we were focused on managing the following aspects:
 - Foreign currency risks:
For Mercator Group, foreign currency risk, defined as the probability of a loss of economic benefit due to a change in the exchange rate of a particular currency, appears in the markets of Serbia and Croatia; therefore, we are actively monitoring the macroeconomic background of the changes in exchange rates and attempt to adapt our operations so as to mitigate the exposure to the foreign currency risk, by responding to general trends and by natural hedging. Foreign exchange risk is among the key risks.

The Group is looking to hedge the foreign currency risk in the business segments with appropriate business measures. As for foreign currency risks in the financial field, there are not efficient protection mechanisms.

- Credit risk:
Due to the aggravation of the economic crisis, exposure of companies to liquidity problems is increasing; hence, credit risk in Mercator's wholesale is also

increasing. The same applies to the probability that claims / receivables arising from deferred or overdue payments will only be settled partly or not at all. as a response, we intensified our activities in receivable collection processes, restricted the exposure to individual customers, and intensified our efforts to obtain insurance of our receivables.

- Refinancing risks:

As a result of the global financial crisis, credit activity of the banks has also shrunk and there is a risk that the banks will refuse to refinance the existing financial liabilities. In the first half of the year, all Mercator's short-term borrowings were successfully refinanced. Moreover, we managed to acquire additional financial loans.

- ✓ In the field of **operating risks**, no additional measures were implemented due to the global financial crisis.

Management Board reevaluated the exposure to key risks and found that as at June 30th 2009, Mercator Group's total exposure to business, financial, and operating risks has not changed considerably compared to the assessment dating from December 31st 2008, except for foreign currency risks in Croatia and Serbia, which, considering the macroeconomic position, have increased according to the Management Board's assessment.

SOCIALLY ACCOUNTABLE ACTION

Sponsorships, Donations, and Charity Campaigns

In **Slovenia**, our traditional central humanitarian campaign was dedicated to those who are unexpectedly facing social distress. The campaign called *"Good Deeds Stem from Good Words"* encourages all people who are willing to help to support the campaign by clicking on the good words on Mercator website or special screens at Mercator Centers, while we shall make sure that good words actually give birth to good deeds. Products for people in distress will be donated to the Red Cross of Slovenia and the Slovenian Karitas organization; the aid is particularly intended for children who are socially or financially deprived.

We also backed the eco-schools from across Slovenia in their project of planting 10 thousand fruit trees of indigenous species; these trees will be planted around schools, in public areas. We have teamed up with the company Henkel Slovenia to back a not-for-profit organization "Rdeči noski" ("Red Noses") - Clown Doctors. Continuing our tradition, we backed the foundation "Z glavo na zabavo" ("Party Without Loosing Your Head"), Cankarjev dom (culture and events center), National Gallery, National Museum, International Center of Visual Arts, Municipal Museum, and the Faculty of Economics. Numerous sponsorship projects also included the UNICEF project "Povej!" ("Say it out loud!"), the charity concert for constructing the first Slovenian center for children with the Down syndrome, and the traditional "Hike along the Barbwire" in Ljubljana.

In **Serbia**, we donated products to the maternity department of the Šabac General Hospital upon the opening of the Roda Center Šabac. We again sponsored the "Euroleague Basketball Nike International Junior Classification Tournament" in Belgrade; at the end of March, we also sponsored the concert of Slovenian musician Zoran Predin in Novi Sad. Furthermore, we sponsored the children's events Baby Exit and the 52nd traditional "Dragon Children's Games" in Novi Sad, as well as backed the events of the Association of International Relations, Cooperation, and Tolerance.

In **Croatia**, we announced for the first time a public call for applications for our sponsorships and donations and selected organizations and projects which we shall support in their socially accountable activities. We donated funds to the diving club "Vrtoglavica" ("Vertigo") which carries out a special diving program for children with special needs; we cooperate with the Croatian Association for Therapeutic Horse Riding, particularly in terms of training volunteers; this is also our central humanitarian campaign. The summer took off with our traditional sponsorship of the Ulysses theatre on Brijuni islands and sponsorship of breaking the Guinness World record of graduate dance (square dance) in Metković. Upon the opening of Mercator Center in Varaždin, we also donated funds to the municipal solidarity fund. We also supported the "Association for Education against Breast Cancer" and donated funds to the Association of the Blind and Visually Impaired for equipment of a children's playground for the blind and visually impaired children.

In **Bosnia and Herzegovina**, we started the year with donations to 52 children who were born on the first day of the year. We also carried out the first public call for applications for sponsorships and donations in the categorizers of culture, sports, education, humanitarian campaigns, and awarded the funds to the applicants that met the most criteria. In cooperation with the Dobro ("Good") Association, we raised funds to aid 92 deprived families, and we supported the project "A Walk For Life" which was aimed at raising funds for the purchase of a mammography equipment. We are also sponsoring the volleyball club "Jedinstvo" from Brčko, the Slovenian "Cankar" Society in Sarajevo, Association of Citizens of Slovenian Origin in Tuzla, Hiking Society "Friends of Nature" ("Prijetelji prirode"), and the Second Gymnasium from Sarajevo.

In the territory of **Republika Srpska**, we donated funds, upon the start of our operations, to the Center for Developmentally Impaired Children and Youngsters "Protect Me" in Banja Luka. We donated funds to 18 kindergartens in the Banja Luka region as a part of the "Play by Drawing" campaign; the resulting drawings were then exhibited at the Mercator Center Banja Luka. We also sponsored the Radivoj Korač Basketball Club, while Intersport was a sponsor of the Rafting World Championship, thus far the largest sports event in Republika Srpska and Bosnia and Herzegovina.

In **Montenegro**, among other activities, we sponsored the children's quiz show "Through the Doors of Knowledge to a Trip", and continued to sponsor the handball club "Budućnost" and the karate club "Ariston". We also donated funds to the "Maksim Gorki" elementary school, Ulcinj municipality, and Podgorica municipality.

Care for the Environment

In compliance with the legislation and market requirements, as well as requests by our customers, Mercator Group is committed to pursuing the **principles of sustainable commerce**. We strove to make our activities sustainable, all the while stimulating our suppliers to embrace sustainable manufacturing and our customers to embrace sustainable consumption.

Following is a list of activities we conducted in the first half of 2009 in order to **reduce the use of raw materials and energy**:

- ✓ We carried out the 2nd part of certification audit for obtaining the **ISO 14001 certificate for environmental management systems**. We are gradually eliminating all inconsistencies and implementing the recommendations from the 1st and 2nd part of the audit.
- ✓ We are aware of the importance of information on the environmental impact in the decision-making process; therefore, we started to set up a **system of key environment efficiency indicator management** which will lead to sound management of the company's environmental impacts.
- ✓ In order to **reduce the use of power**, we have devised a proposal on the use of LED lighting in illuminated signs. We are also carrying out the measures of efficient power use in individual outlets, in compliance with the adopted Manual on Efficient Use of Power at Sales Units in Slovenia. We are gradually eliminating energy wastes and implementing changes to the power consumption groups.
- ✓ In order to **reduce the use of power and fuels for heating**, we have prepared an assessment of the current status of the operation of central control systems at major Mercator Centers.
- ✓ In order to **optimize the business processes that bear an impact on the environment**, we have set up automated reporting on key environment indicators for each location, and the assessment of their deviation from the most efficient locations in the Group.
- ✓ In order to comply with the provisions of the Regulation on Light Pollution and reduce the use of power, we prepared an **internal lighting standard** for lighting elements with corporate graphics at the company Poslovni sistem Mercator, d.d.
- ✓ We included in regular sale the **reusable shopping bags**, thus helping our customers take a step towards a more environment-friendly daily conduct.
- ✓ We joined the **European Project for Sustainable Plastic Materials PLASTiCE** called "Innovative value chain development for sustainable plastics in Central Europe"; in Slovenia, the project is managed by the Institute of Chemistry.
- ✓ We joined the **EU Program GreenLight** whose goal is to find new solutions to reduce power consumption for lighting.
- ✓ The company Poslovni sistem Mercator, d.d., received an award for **ranking second among the finalists for the Slovenian Award of Social Accountability HORUS 2009**.

Human Resource Management

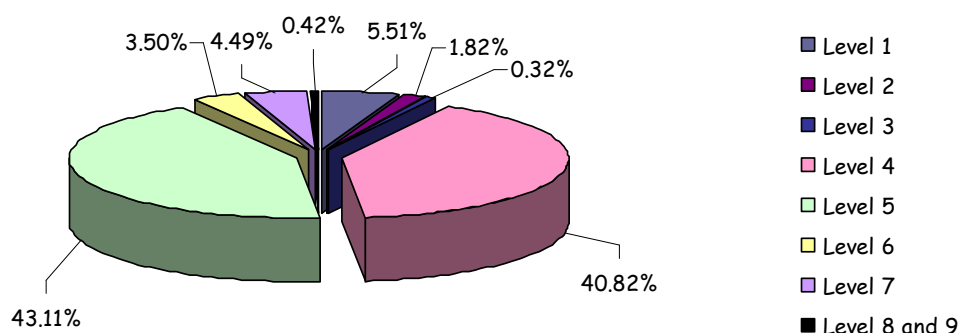
Number of employees

As at June 30th 2009, the Mercator Group employed **21,258** people of which **38.2 percent** were employed in foreign markets. The company Poslovni sistem Mercator, d.d., had **12,630** employees, or **59.4 percent** of all employees.

Number of employees

	No. of employees as at 31th December 2008	No. of employees as at 30th June 2009	Planned no. of employees as at 31th December 2009	Index No. of employees as at 30th June 2009 / Plan as at 31th December 2009	No. of employees based on hours worked in 1-6 2009
SLOVENIA	13,139	13,144	13,249	99.2	12,279
FOREING MARKETS	8,497	8,114	8,828	91.9	8,039
TOTAL MERCATOR GROUP	21,636	21,258	22,077	96.3	20,318

Breakdown by level of education



Employment of the disabled

Mercator Group employs 919 disabled persons or 4.32 percent of all employees. Of these, 839 are employed in the parent company, 74 in non-trading sector, and 6 persons in foreign markets. Compared to the period 1-6 2008, the share of disabled persons in the Group rose by 0.14 percentage point.

The share of disabled persons at the parent company amounts to 6.64 percent (which is 0.03 percentage point less than in the period 1-6 2008).

Employee relations

Career planning for key employees

For the first time, we evaluated the competencies of 631 key employees in Croatia and Serbia, employing similar methods as last year in Slovenia.

- ✓ In Slovenia, we conducted 112 career interviews / discussions with key employees in administration and management, as part of the key employee system.
- ✓ We selected a group of 30 promising employees for the **3rd International Mercator Business Academy**. For the first time, the group included promising employees from non-trade subsidiaries.

Education and training

- ✓ We organized a seminar "**Presentation of commitments adopted in the proceedings of cartel and monopoly, instituted by the Competition Protection Office**" for the leading, managerial, and other employees who are often and regularly in contact with the suppliers. The seminar was attended by 316 employees.
- ✓ We also prepared training on occupational health and safety and fire safety, in the form of self-education. 1,107 employees from administration were trained using programmed materials and a test.
- ✓ In Croatia and Serbia, we carried out the **Store Manager School**. In Slovenia, we prepared a concise program for **Mercator School for Deputy Store Managers**, and included a third of market program deputies.
- ✓ 269 tutors have been trained as a part of the **tutor network**, while 125 are still in training. In June, the tutor network began operating in Serbia, where it currently includes 80 tutors.



- ✓ We organized the **9th Meeting of Internal Teachers at Mercator, d.d.**, which was attended by nearly 400 internal teachers. 27 employees were presented the awards for special achievements and awards for their work as mentors, lecturers, instructors, or tutors.
- ✓ We were also presented an award by the **Slovenian Adult Education Center** for outstanding teaching and expert achievements in teaching of Mercator employees.

Staffing and recruitment

- ✓ We have set up the **employment portal** on our website, at www.mercator.si/kariera.
- ✓ We completed the transition to the new **SAP** information system in the field of **human resource administration and education**.

- ✓ At the company Poslovni sistem Mercator, d.d., we received 4,821 applications for employment, which is 43.6 percent more than in the same period last year. We have employed **445 new employees**, mostly in retail.
- ✓ In 2009, **staffing** is also focused on foreign markets, particularly in key employees in **Bosnia and Herzegovina, Bulgaria, and Albania**.
- ✓ We have adopted the **standard for recruitment** for the company Poslovni sistem Mercator, d.d.

Motivation and compensation

- ✓ The **expert task force for changes in the employee compensation system** was inaugurated. The task of this team is to monitor and improve the employee compensation system in the parent company.
- ✓ In the first half of 2009, 1,400 employees were promoted in the Mercator Group, of which 138 were key and promising employees.
- ✓ At a special festivity held in June, **20** most distinguished employees received the prestigious "**Mercator Award**" for 2008.
- ✓ Management Board member in charge of human resources, organization, legal and general affairs, Mrs. **Vera Aljančič Falež**, was awarded the **Human Resource Manager of the Year 2009**. The award is presented by the company Planet GV.

Communication with employees

- ✓ **Annual discussions** took place at the Mercator Group from March 20th to June 26th 2009 in all markets.
- ✓ In Slovenia, three regular and one anniversary issues of the "Časomer" ("Timekeeper") **internal magazine** were issued. The anniversary issue celebrating the 60th anniversary of Mercator was also prepared, in an abridged version, as a **compact disc** for web magazines in Mercator markets abroad. In Bosnia and Herzegovina, Montenegro, Croatia, and Serbia, two issues of the internal magazine were published in the first half of 2009.
- ✓ The project "Family-Friendly Company" included presenting a "**Lumpi Package**" to 149 newborn babies of the employees at the controlling company. We also published two brochures: "**Mercator – a Family Friendly Company – Benefits for the Entire Family**", received by all employees, and "**What Should I Know When Expecting a Baby**", received by female employees before going on maternity leave.
- ✓ We also received an award for innovative staffing practice, for the project "**Humanitarian aspects of Human Resource Management at Mercator**".

- ✓ In the period at hand, the Mercator Humanitarian Foundation awarded aid to 64 applicants.

Intercultural organizational development

- ✓ At the end of May, traditional **Mercator Sports Games** took place.
- ✓ We have also launched the project of intensive **transfer of Mercator culture to the Bulgarian market**; the transfer takes the form of numerous visits of new key employees, and training for all newly employed.

Occupational health and safety

- ✓ We have launched the project "**Promotion of health at the company Mercator, d.d.**" A **project team** was appointed which will be responsible for appropriate and effective implementation of measures to reduce **absenteeism**. We have also launched intensive control of sick leaves and carried out a pilot series of discussions/interviews. A team was appointed to resolve issues related to workplace ergonomics. We also organized the first **meeting** of Mercator representatives with **presidents of disability committees** and **authorized physicians** in order to intensify the cooperation between personal and authorized physicians, representatives of disability committees, and human resource managers.
- ✓ We appointed a **task force** for devising and implementing preventive measures in case of the **new influenza** and anti-crisis measures in case of a pandemic outburst.

Mercator Social Enterprise

- ✓ In the first half of 2009, 114 employees of the parent company were transferred to the company Mercator IP, d.o.o. (Mercator Social Enterprise). Additional activities were launched that complement and extend the "**Dvorec Trebnik**" ("**Trebnik Castle**") **program**. Consistently with the business plan of further expansion and transfer of some activities from the parent company, the employees of the company Mercator IP, d.o.o., are providing the services of **archiving, occupational health and safety, fire safety, and decoration**, predominantly for the requirements of the parent company. As a part of the transfer of manufacturing activity, the employees are packaging fresh fruit and vegetables; the products are marketed by the company primarily for the requirements of the parent company. After the expansion of activity, the company has **153 employees** as at June 30th 2009.

FINANCIAL REPORT

ACCOUNTING POLICIES

All financial statements of the Mercator Group and the company Poslovni sistem Mercator, d.d., for the period 1-6 2009 were compiled in compliance with the International Financial Reporting Standards, and they are unaudited.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE MERCATOR GROUP

Consolidated financial statements of the Mercator Group include the company Poslovni sistem Mercator, d.d., and 17 subsidiaries, in which the controlling company directly or indirectly holds a majority interest. These subsidiaries are the following:

- ✓ **in Slovenia:** Eta, d.d., Mercator - Emba, d.d., Mercator - Optima, d.o.o., Interier, d.o.o., Mercator IP, d.o.o., M.COM, d.o.o., and M - nepremičnine, d.o.o.;
- ✓ **abroad:** 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 - BL, d.o.o., Bosnia and Herzegovina, Mercator - Mex, d.o.o., Montenegro, Mercator Makedonija, d.o.o., Macedonia, Investment International, d.o.o., Macedonia, Mercator - B, e.o.o.d., Bulgaria, and Mercator - A, sh.p.k., Albania.

Consolidated Income Statement

EUR thousand

	Type of revenue / expense / cost	1-6 2008	Plan 2009	1-6 2009	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Revenue	1,282,205	2,798,426	1,293,618	100.9	46.2
1.	Net sales of goods, materials and products	1,180,008	2,582,042	1,184,200	100.4	45.9
2.	Revenue from services sold	104,813	221,613	112,665	107.5	50.8
3.	Expenses for given discounts	-2,616	-5,229	-3,247	124.1	62.1
B.	Cost of sales	-950,103	-2,099,671	-966,565	101.7	46.0
1.	Production costs	-16,874	-31,987	-14,757	87.5	
2.	Purchase value of goods and material sold	-937,438	-2,072,389	-953,558	101.7	46.0
3.	Received discounts	5,268	9,434	4,042	76.7	42.8
4.	Other expenses	-1,059	-4,729	-2,292	216.4	48.5
C.	Gross profit	332,102	698,756	327,053	98.5	46.8
D.	Selling and marketing costs	-237,067	-530,983	-243,359	102.7	45.8
E.	Administrative expenses	-57,993	-73,977	-47,935	82.7	64.8
F.	Other income	11,238	10,589	4,785	42.6	45.2
G.	Results from operating activities	48,280	104,385	40,544	84.0	38.8
H.	Finance income	10,824	9,969	8,758	80.9	87.9
I.	Finance expenses	-31,898	-75,677	-36,005	112.9	47.6
J.	Profit before income tax	27,206	38,678	13,297	48.9	34.4
K.	Income tax expense	-4,252	-7,683	-2,211	52.0	28.8
L.	Deferred income tax	-617	-838	182	-	-
M.	Profit for the financial period	22,337	30,157	11,268	50.4	37.4
N.	Attributable to equity holders of the Company	22,331	30,151	11,362	50.9	37.7
O.	Attributable to minority interest	6	6	-94	-	-
P.	Number of employees based on hours worked	20,383	21,332	20,318	99.7	95.2
R.	Gross cash flow from operating activities	85,062	183,670	82,949	97.5	45.2
S.	Gross cash flow from operating activities before rental expenses	94,205	206,643	95,739	101.6	46.3

Consolidated Statement of Comprehensive Income

EUR thousand

	1-6 2008	Plan 2009	1-6 2009
1	2	3	4
Profit for the financial period	22,337	30,157	11,268
Other comprehensive income			
Foreign currency translation differences for foreign companies in group	4,141	-2,000	-10,850
Change in fair value of cash flow hedges	2,549	-1,109	-2,575
Revaluation of property	157,532	0	0
Deferred tax	0	0	603
Other changes	-29,618	0	158
Other comprehensive income for the financial period	134,604	-3,109	-12,664
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	156,941	27,048	-1,396
Attributable to equity holders of the Company	156,907	27,042	-1,305
Attributable to minority interest	34	6	-91

Consolidated Statement of Financial Position

EUR thousand

	Type of assets / liabilities	30.6.2008	31.12.2008	Plan 31.12.2009	30.6.2009	Structure 30.6.2009	Index
1	2	3	4	5	6	7	8=6/4
	ASSETS						
	A. NON-CURRENT ASSETS	1,763,542	1,873,310	1,887,465	1,888,049	76.6%	100.8
I.	Property, plant and equipment	1,644,479	1,771,963	1,808,199	1,794,551	72.8%	101.3
II.	Investment property	9,710	9,563	9,238	9,486	0.4%	99.2
III.	Intangible assets	80,811	78,196	55,899	70,018	2.8%	89.5
IV.	Deferred tax assets	8,197	8,380	7,306	8,837	0.4%	105.5
V.	Trade and other receivables	366	333	396	265	0.0%	79.6
VI.	Bank deposits	61	51	0	64	0.0%	125.5
VII.	Available-for-sale financial assets	19,918	4,824	6,428	4,828	0.2%	100.1
	B. CURRENT ASSETS	635,488	666,811	578,638	575,866	23.4%	86.4
I.	Inventories	259,027	272,391	268,482	269,118	10.9%	98.8
II.	Trade and other receivables	313,719	329,123	299,473	261,071	10.6%	79.3
III.	Bank deposits	21,250	18,618	0	12,807	0.5%	68.8
IV.	Current tax assets	4,522	809	0	3,954	0.2%	488.8
V.	Derivative financial instruments	8,320	0	0	0	0.0%	-
VI.	Cash and cash equivalents	28,650	45,870	10,683	28,916	1.2%	63.0
	TOTAL ASSETS	2,399,030	2,540,121	2,466,103	2,463,915	100.0%	97.0
	A. EQUITY	845,080	814,100	818,899	812,140	33.0%	99.8
	Total equity attributable to equity holders of the company	842,845	812,092	816,855	810,223	32.9%	99.8
I.	Ordinary shares	157,129	157,129	157,129	157,129	6.4%	100.0
II.	Share premium	198,848	198,848	198,848	198,848	8.1%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-3,250	-0.1%	100.0
IV.	Revenue reserves	243,309	267,640	247,720	267,640	10.9%	100.0
V.	Fair value reserve	193,108	188,751	165,346	183,909	7.5%	97.4
VI.	Retained earnings	31,455	0	28,134	27,146	1.1%	-
VII.	Profit for the year	22,331	24,682	30,151	11,362	0.5%	46.0
VIII.	Currency translation reserve	-85	-21,708	-7,223	-32,561	-1.3%	150.0
	Minority interest	2,235	2,008	2,044	1,917	0.1%	95.5
	LIABILITIES						
	B. NON-CURRENT LIABILITIES	740,555	708,969	676,801	678,546	27.5%	95.7
I.	Trade and other payables	0	2,271	0	1,981	0.1%	87.2
II.	Financial liabilities	656,934	622,787	593,435	594,322	24.1%	95.4
III.	Deferred tax liabilities	48,764	52,496	49,032	51,509	2.1%	98.1
IV.	Provisions	34,857	31,415	34,334	30,734	1.2%	97.8
	C. Current liabilities	813,395	1,017,052	970,403	973,229	39.5%	95.7
I.	Trade and other payables	472,568	599,933	566,611	452,007	18.3%	75.3
II.	Current tax liabilities	4,146	724	7,910	4,869	0.2%	672.5
III.	Financial liabilities	336,681	412,797	395,623	510,180	20.7%	123.6
IV.	Derivative financial instruments	0	3,598	260	6,173	0.3%	171.6
	TOTAL LIABILITIES	1,553,950	1,726,021	1,647,204	1,651,775	67.0%	95.7
	TOTAL EQUITY AND LIABILITIES	2,399,030	2,540,121	2,466,103	2,463,915	100.0%	97.0
	Number of employees as at the end of the period	21,333	21,636	22,077	21,258	-	98.3

Consolidated Statement of Cash Flows

EUR thousand

Cash flows	1-6 2008	1-6 2009
Cash flows from operating activities		
Gross cash flow from operating activities	85,062	82,949
Change in trade and other receivables	-79,887	60,194
Change in inventories	-11,191	3,273
Change in trade and other payables	-16,954	-148,215
Changes in working capital	-108,032	-84,748
Interest paid	-29,155	-30,183
Income tax paid	-4,252	-2,211
Net cash from operating activities	-56,377	-34,192
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	-7,294	-3,001
Acquisition of property, plant and equipment	-107,555	-64,785
Acquisition of intangible assets	-8,757	-1,264
Acquisition of available-for-sale financial assets	0	0
Deposits made	0	-9,978
Proceeds from sale of property, plant and equipment	10,795	4,692
Proceeds from sale of intangible assets	1,786	0
Proceeds from sale of available-for-sale financial assets	7,221	0
Interest received	8,528	7,594
Deposits repayments received	0	15,776
Net cash used in investing activities	-95,276	-50,967
Cash flows from financing activities		
Proceeds (repayments) of borrowings	157,039	68,918
Dividends paid to company shareholders	0	-105
Net cash from financing activities	157,039	68,813
Net increase in cash and cash equivalents	5,386	-16,346
Cash and cash equivalents at the beginning of the period	23,089	45,870
Currency translation differences	175	-608
Cash and cash equivalents at the end of the year	28,650	28,916

Consolidated Statement of Changes in Equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at 1 January, 2008	157,129	198,848	-3,250	243,309	68,078	0	26,047	-4,223	685,938	2,258	688,196
Total comprehensive income for the financial period	0	0	0	0	125,030	5,408	22,331	4,138	156,907	34	156,941
Transfer of profit for the year in retained earnings	0	0	0	0	0	26,047	-26,047	0	0	0	0
Purchase of minority interest	0	0	0	0	0	0	0	0	0	-57	-57
Balance at 30 June, 2008	157,129	198,848	-3,250	243,309	193,108	31,455	22,331	-85	842,845	2,235	845,080

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Currency translation reserve	Total equity attributable to equity holders of the Company	Minority interest	Total equity
Balance at 1 January, 2009	157,129	198,848	-3,250	267,640	188,751	0	24,682	-21,708	812,092	2,008	814,100
Total comprehensive income for the financial period	0	0	0	0	-4,842	3,027	11,362	-10,853	-1,306	-91	-1,397
Transfer of profit for the year in retained earnings	0	0	0	0	0	24,682	-24,682	0	0	0	0
Purchase of minority interest	0	0	0	0	0	-563	0	0	-563	0	-563
Balance at 30 June, 2009	157,129	198,848	-3,250	267,640	183,909	27,146	11,362	-32,561	810,223	1,917	812,140

Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED INCOME STATEMENT

✓ **Net sales revenues**

Net sales revenues for the period 1-6 2009 amounted to EUR 1,293,618 thousand and achieved 46.2 percent of planned net sales revenues for the year 2009; they exceed the figure from the comparable period last year by 0.9 percent. Assuming a constant euro exchange rate of the Serbian currency, the dinar, net sales revenues would have amounted to EUR 1,326,005 thousand which would mean a 3.4 percent growth compared to the same period last year (in 2009, 3.3 percent growth was planned relative to the 2008 figure).

EUR thousand	1-6 2008	Plan 2009	1-6 2009	Index 1-6 2009 / 1-6 2008	Index 1-6 2009 / Plan 2009
Slovenia	856,482	1,810,849	865,803	101.1	47.8
Foreign markets	425,723	987,577	427,815	100.5	43.3
Mercator Group	1,282,205	2,798,426	1,293,618	100.9	46.2

Assuming fixed exchange rate of the Serbian dinar:

EUR thousand	1-6 2008	Plan 2009	1-6 2009	Index 1-6 2009 / 1-6 2008	Index 1-6 2009 / Plan 2009
Slovenia	856,482	1,810,849	865,803	101.1	47.8
Foreign markets	425,723	987,577	460,201	108.1	46.6
Mercator Group	1,282,205	2,798,426	1,326,005	103.4	47.4

Revenues resulting from the sale of goods, material, and products amount to EUR 1,184,200 thousand which is 0.4 percent more than in the same period last year.

✓ **Cost of sales**

Costs of sales including production costs, purchase value of sold goods and material, and other operating expenditures, in the relevant period amounted to EUR 966,565 thousand, and exceeded the figure for this category in the same period last year by 1.7 percent.

✓ **Gross profit**

Gross profit for the period 1-6 2009 amounted to EUR 327,053 thousand, which is a 1.5 percent decrease compared to the period 1-6 2008.

The share of gross profit in net sales revenues in the period 1-6 2009 amounted to 25.3 percent, which is 0.6 percentage point less than in the same period last year. This decrease is mostly the result of lower profit margins due to numerous consumer-oriented campaigns.

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

Selling and marketing costs, administrative expenses and production costs amounted to EUR 291,294 thousand, which is EUR 3,766 thousand less than in the same period last year.

Administrative expenses also include losses from disposal of property, plant, and equipment in the amount of EUR 134 thousand.

Selling and marketing costs, administrative expenses and production costs

EUR thousand

	Type of Cost	1-6 2008	Plan 2009	1-6 2009	Index	Index
1	2	3	4	5	6=5/3	7=5/4
1.	Costs of material	45,264	84,429	46,799	103.4	55.4
2.	Costs of services	84,273	172,354	80,630	95.7	46.8
3.	Depreciation and amortisation	44,516	94,801	48,852	109.7	51.5
4.	Labour costs	141,050	296,567	135,922	96.4	45.8
5.	Other costs	8,803	7,744	4,675	53.1	60.4
6.	Changes in the value of inventories	-12,024	-19,030	-10,961	91.2	57.6
7.	Impairments and receivable write-offs	52	80	134	257.7	167.6
8.	SELLING AND MARKETING COSTS, ADMINISTRATIVE EXPENSES AND PRODUCTION COSTS	311,934	636,946	306,051	98.1	48.0
9.	Purchase value of goods and material sold	932,170	2,062,955	949,516	101.9	46.0
10.	Other expenses	1,059	4,729	2,292	216.4	48.5
11.	TOTAL COSTS	1,245,163	2,704,629	1,257,859	101.0	46.5

In the period 1-6 2009, costs of material rose by 3.4 percent compared to the period 1-6 2008, mostly due to higher energy costs.

The share of costs excluding depreciation and negative revaluation adjustments in net revenues amounts to 18.7 percent, which is 0.8 percentage point lower than in the same period last year. Increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, logistics infrastructure optimization, and cost rationalization measures in the Mercator Group.

✓ **Other income**

Other income amounted to EUR 4,785 thousand, of which EUR 1,078 thousand is related to proceeds from disposal of property, plant, and equipment, while the remaining other revenues from operations relate to elimination of provisions, revenues from indemnities and other revenues.

✓ **Results from operating activities**

Results from operating activities for the period 1-6 2009 amounted to EUR 40,544 thousand, which is EUR 7,736 thousand, or 16.0 % less than the same figure for the period 1-6 2008.

Results from operating activities in the previous year were considerably increased by proceeds from disposal of property, plant, and equipment, in the amount of EUR 6,571 thousand; this year, such proceeds only amounted to EUR 1,078 thousand. Eliminating these extraordinary effects, this year's result from operating activities would have been only 5.4 percent lower than the last year's figure.

✓ **Financial income and expenses**

Financial income amounted to EUR 8,758 thousand, which is 19.1 percent less than in the period 1-6 2008. Financial revenues were mostly generated by regular interest received from financing, revenues from default interest, and positive currency translation differences.

Financial expenses for the relevant period amount to EUR 36,005 thousand, of which a major portion relates to costs from interest paid to commercial banks and negative currency translation differences. Compared to the same period last year, they represent a 12.9 % increase, mostly resulting from increases in interest rates and larger scope of total debt.

Net effect of currency translation differences is negative and it amounts to EUR 2,331 thousand in the period 1-6 2009 (in the period 1-6 2008, the currency translation differences were positive, amounting to EUR 152 thousand).

✓ **Profit for the financial period**

In the period 1-6 2009, the Mercator Group generated EUR 11,268 thousand of net profit, which is 49.6 percent less than in the same period last year. The decrease in net profit for the financial period is mostly the result of lower profit margins, negative currency translation differences, higher financing costs, and lower proceeds from disposal of property, plant, and equipment.

Profit in the first half of last year was considerably increased by extraordinary proceeds from disposal of property, plant, and equipment, which were considerably lower this year. In addition, this year's profits are considerably decreased by negative currency translation differences. Eliminating these two effects, this year's profit before taxes would have amounted to EUR 14.1 million, which is 30.2 percent lower than in the same period last year (EUR 20.2 million).

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

Gross cash flow from operating activities before rental expenses (EBITDAR) of the Mercator Group for the period 1-6 2009 amounted to EUR 95,739 thousand, which is 1.6 percent more than in the same period last year. Simulating for fixed exchange rate of the Serbian dinar, EBITDAR in the period 1-6 2009 would have amounted to EUR 98,067 thousand, which would be a 4.1 percent growth over the same period last year.

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

Gross cash flow from operating activities (EBITDA) of the Mercator Group for the period 1-6 2009 amounted to EUR 82,949 thousand, which is 2.5 percent less than in the period 1-6 2008. Simulating for fixed exchange rate of the Serbian dinar, EBITDA in the period 1-6 2009 would have amounted to EUR 84,434 thousand, which would be approximately the same as in the first half of 2008.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

As at June 30th 2009, the value of property, plant, and equipment, investment property, and intangible assets amounts to EUR 1,874,055 thousand, which is EUR 14,333 thousand more than at the beginning of the year; these assets represent 76.1 % of total assets. Changes in the period 1-6 2009 are related to investments, depreciation, disposal of commercially unviable assets / property, plant, and equipment, and currency translation differences.

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

As at June 30th 2009, available-for-sale financial assets amount to EUR 4,828 thousand, which is EUR 4 thousand more than as at December 31st 2008. The increase is a result of currency translation differences.

✓ **Inventories**

Inventories of trade goods, raw materials, and material as at June 30th 2009 amount to EUR 269,118 thousand, and represent 46.7 % of the total current assets. Compared to the beginning of the year, the value of inventories fell by EUR 3,273 thousand, or 1.2 percent.

✓ **Trade and other receivables**

As at June 30th 2009, trade and other receivables amounted to EUR 261,336 thousand, which is EUR 68,120 thousand less than at the beginning of the year.

Trade receivables also include loans to other parties, which amount to EUR 9,581 thousand as at June 30th 2009, which is EUR 744 thousand less than at the beginning of

the year. The loans to other parties are related to loans for construction of several trade centers in Serbia, real estate loans, and, to a lesser extent, a loan to the Handball Club Krim Mercator.

✓ **Bank deposits**

As at June 30th 2009, bank deposits amount to EUR 12,871 thousand.

✓ **Equity**

In the period 1-6 2009, the equity of the Group decreased by EUR 1,960 thousand. Major changes are related to the following:

- increase by net profit of the majority interest holder attained in the period 1-6 2009, in the amount of EUR 11,362 thousand;
- decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,575 thousand;
- increase in equity by deferred taxes related to the change in fair value of derivative financial instruments and elimination of deferred taxes related to depreciation of revalued property, plant, and equipment in the amount of EUR 603 thousand;
- decrease in equity due to currency translation differences in the translation of financial statements of foreign companies into the representation currency, in the amount of EUR 10,853 thousand;
- decrease in minority capital in the amount of EUR 91 thousand;
- other net decreases in equity in the amount of EUR 405 thousand.

Net return on equity, calculated as the ratio between net profit and average equity in the period at hand, amounts to 2.8 %.

✓ **Trade and other payables**

Trade and other payables as at June 30th 2009 amounted to EUR 453,988 thousand, which is EUR 148,216 thousand less than at the end of 2008. The decrease is mostly the result of early payment of payables to suppliers, and the intra-year business dynamics.

✓ **Financial liabilities**

Non-current financial liabilities as at June 30th 2009 amount to EUR 594,322 thousand, and have decreased by EUR 28,465 thousand compared to the beginning of the year.

Current financial liabilities as at June 30th 2009 amount to EUR 510,180 thousand, and have increased by EUR 97,383 thousand compared to the beginning of the year.

Total financial liabilities as at June 30th 2009 amount to EUR 1,104,502 thousand, which is EUR 68,918 thousand more than at the end of 2008. The increase in current financial

liabilities is mostly the result of borrowings due to the changes in trade payables which dropped by EUR 148,216 thousand since the end of 2008.

In the composition of financial liabilities, non-current financial liabilities represent 53.8 percent, and current financial liabilities represent the remaining 46.2 percent (as at December 31st 2008, the ratio between non-current and current financial liabilities was 60.1 : 39.9).

As at June 30th 2009, net debt of the Mercator Group, calculated as the difference between financial liabilities and financial assets amounted to EUR 1,046,152 thousand.

✓ Provisions

As at June 30th 2009, the provisions amounted to EUR 30,734 thousand. Compared to the beginning of the year, these provisions have decreased by EUR 681 thousand.

✓ Derivative financial instruments

As at June 30th 2009, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 6,173 thousand, which is EUR 2,575 thousand more than at the end of 2008. The difference is recognized as a decrease in equity.

✓ Deferred tax

As at June 30th 2009, the net deferred tax liabilities totaled at EUR 42,672 thousand.

Financial Indicators

	Mercator Group		
	1-6 2008	Plan 2009	1-6 2009
Indicators of profitability			
Return on equity*	5.9%	3.8%	2.8%
Return on sales	1.7%	1.1%	0.9%
Gross profit / revenue	25.9%	25.0%	25.3%
Indicators of financial structure			
Financial liabilities / equity	1.2	1.2	1.4
Equity and provisions to total equity and liabilities	36.7%	34.6%	34.2%
Financial liabilities to total equity and liabilities	41.4%	40.1%	44.8%
Trade and other payables to total equity and liabilities	19.7%	23.0%	18.4%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (EUR thousand)*	13.8	13.9	13.4
Revenue / labour costs	9.1	9.4	9.5
Revenue per employee per hours worked (EUR thousand)*	125.8	131.2	127.3
Value added per employee per hours worked (EUR thousand)*	22.2	22.5	21.5
Business costs / sales	22.7%	21.8%	22.6%
Gross cash flows from operating activities / revenue	6.6%	6.6%	6.4%
Gross cash flows from operating activities before rental expenses / revenue	7.3%	7.4%	7.4%
Invested capital (EUR)	1,764,555	1,895,782	1,937,917
Gross cash flows from operating activities / invested capital*	9.6%	9.7%	8.6%

* The indicator is adjusted to the annual level.

Note: Value added is calculated as the sum of gross cash flow from operating activities and labor costs. Invested capital represents the differences between total liabilities and current trade and other payables at the beginning of the financial period.

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

The company Poslovni sistem Mercator, d.d., has a double role in the Mercator Group: it is the parent company that owns all ownership shares in the Group's subsidiaries; simultaneously, it is the operative company, carrying out all trade and other activities in Slovenia. Thus, employing the financial statements of the company Poslovni sistem Mercator, d.d., for economic analysis of Mercator Group's operation is inappropriate. For such analysis, it would be more sensible to apply only the consolidated financial statements that represent the performance of the Mercator Group as a uniform business entity.

Income Statement

EUR thousand						
	Type of revenue / expense / cost	1-6 2008	Plan 2009	1-6 2009	Index	Index
1	2	3	4	5	6=5/3	7=5/4
A.	Revenue	855,399	1,814,343	865,090	101.1	47.7
1.	Net sales of goods, materials and products	785,334	1,673,583	795,863	101.3	47.6
2.	Revenue from services sold	72,147	146,391	73,237	101.5	50.0
3.	Expenses for given discounts	-2,082	-5,631	-4,009	192.6	71.2
B.	Cost of sales	-621,380	-1,336,853	-640,740	103.1	47.9
1.	Purchase value of goods and material sold	-623,400	-1,338,401	-640,334	102.7	47.8
2.	Received discounts	2,213	4,863	1,764	79.7	36.3
3.	Other expenses	-192	-3,315	-2,170	1,128.7	65.5
C.	Gross profit	234,019	477,490	224,351	95.9	47.0
D.	Selling and marketing costs	-158,346	-353,349	-161,190	101.8	45.6
E.	Administrative expenses	-43,670	-52,631	-33,214	76.1	63.1
F.	Other income	5,284	6,565	3,369	63.7	51.3
G.	Results from operating activities	37,287	78,075	33,316	89.3	42.7
H.	Finance income	4,003	3,165	3,542	88.5	111.9
I.	Finance expenses	-21,260	-52,452	-25,351	119.2	48.3
J.	Profit before income tax	20,030	28,788	11,507	57.4	40.0
K.	Income tax expense	-3,905	-5,447	-2,202	56.4	40.4
L.	Deferred income tax	-617	-838	-191	30.9	22.7
M.	Profit for the financial period	15,508	22,503	9,114	58.8	40.5
N.	Number of employees based on hours worked	12,077	12,153	11,853	98.1	97.5

Statement of Comprehensive Income

EUR thousand			
	1-6 2008	Plan 2009	1-6 2009
	2	3	4
Profit for the financial period	15,508	22,503	9,114
Disposal of available-for-sale financial assets	2,884	-319	0
Change in fair value of cash flow hedges	2,549	-1,109	-2,575
Revaluation of property	115,284	0	0
Deferred tax	-23,605	0	541
Other changes	0	-2,123	1,337
Other comprehensive income for the financial period	97,113	-3,551	-697
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	112,620	18,952	8,417

Statement of Financial Position

EUR thousand

	Type of assets / liabilities	30.6.2008	31.12.2008	Plan 31.12.2009	30.6.2009	Structure 30.6.2009	Index
1	2	3	4	5	6	7	8=6/4
	ASSETS						
A.	NON-CURRENT ASSETS	1,506,492	1,600,654	1,608,534	1,603,997	81.5%	100.2
I.	Property, plant and equipment	920,835	1,001,697	1,031,128	1,015,214	51.6%	101.3
II.	Investment property	9,676	9,563	9,238	9,486	0.5%	99.2
III.	Intangible assets	12,434	12,420	1,849	10,372	0.5%	83.5
IV.	Deferred tax assets	8,054	8,430	7,298	8,893	0.5%	105.5
V.	Trade and other receivables	292	261	284	237	0.0%	90.9
VI.	Bank deposits	61	51	0	45	0.0%	87.8
VII.	Participation in equity of group companies	537,539	564,019	553,090	555,505	28.2%	98.5
VIII.	Available-for-sale financial assets	17,601	4,213	5,646	4,245	0.2%	100.7
B.	CURRENT ASSETS	457,366	431,690	394,867	363,107	18.5%	84.1
I.	Inventories	172,794	180,819	183,473	177,637	9.0%	98.2
II.	Trade and other receivables	254,053	234,630	210,883	184,559	9.4%	78.7
III.	Bank deposits	6,250	15,700	0	5	0.0%	0.0
IV.	Current tax assets	0	541	0	905	0.0%	167.4
V.	Derivative financial instruments	8,320	0	0	0	0.0%	-
VI.	Cash and cash equivalents	15,949	0	511	0	0.0%	-
	TOTAL ASSETS	1,963,857	2,032,344	2,003,401	1,967,104	100.0%	96.8
A.	EQUITY	795,655	781,041	783,877	789,458	40.1%	101.1
I.	Ordinary shares	157,129	157,129	157,129	157,129	8.0%	100.0
II.	Share premium	198,848	198,848	198,848	198,848	10.1%	100.0
III.	Treasury shares	-3,250	-3,250	-3,250	-3,250	-0.2%	100.0
IV.	Revenue reserves	214,979	235,460	219,390	235,460	12.0%	100.0
V.	Fair value reserve	183,390	173,341	175,609	166,147	8.4%	95.8
VI.	Retained earnings	29,052	3,444	13,648	26,011	1.3%	755.3
VII.	Profit for the year	15,508	16,070	22,503	9,114	0.5%	56.7
	LIABILITIES						
B.	NON-CURRENT LIABILITIES	526,716	480,507	527,729	446,780	22.7%	93.0
I.	Trade and other payables	0	2,271	0	1,981	0.1%	87.2
II.	Financial liabilities	455,215	411,959	456,269	378,601	19.2%	91.9
III.	Deferred tax liabilities	41,353	39,054	40,829	39,685	2.0%	101.6
IV.	Provisions	30,148	27,222	30,632	26,513	1.3%	97.4
D.	Current liabilities	641,486	770,796	691,794	730,866	37.2%	94.8
I.	Trade and other payables	330,096	423,490	379,909	315,304	16.0%	74.5
II.	Current tax liabilities	3,905	0	7,760	0	0.0%	-
III.	Financial liabilities	307,484	343,708	303,866	409,388	20.8%	119.1
IV.	Derivative financial instruments	0	3,598	260	6,173	0.3%	171.6
	TOTAL LIABILITIES	1,168,202	1,251,303	1,219,524	1,177,646	59.9%	94.1
	TOTAL EQUITY AND LIABILITIES	1,963,857	2,032,344	2,003,401	1,967,104	100.0%	96.8
	Number of employees as at the end of the period	12,828	12,737	13,006	12,630	-	99.2

Statement of Cash Flows

EUR thousand

Cash flows	1-6 2008	1-6 2009
Cash flows from operating activities		
Gross cash flow from operating activities	59,120	56,259
Change in trade and other receivables	-66,503	49,730
Change in inventories	-6,138	3,181
Change in trade and other payables	-21,436	-107,104
Gross cash from operating activities	-94,077	-54,192
Interest paid	-21,027	-23,560
Income tax paid	-3,905	-2,202
Net cash from operating activities	-59,890	-23,695
Cash flows from investing activities		
Acquisition of subsidiaries	-32,351	-9,610
Acquisition of property, plant and equipment	-70,293	-24,394
Acquisition of intangible assets	-5,834	-926
Acquisition of available-for-sale financial assets	0	0
Deposits made	0	0
Proceeds from sale of subsidiaries	0	0
Proceeds from sale of property, plant and equipment	6,407	4,451
Proceeds from sale of intangible assets	0	0
Proceeds from sale of available-for-sale financial assets	7,221	0
Interest received	3,168	3,256
Dividends received	0	0
Deposits repayments received	0	15,702
Net cash used in investing activities	-91,682	-11,522
Cash flows from financing activities		
Proceeds from issue of share capital	0	0
Proceeds (repayments) of borrowings	167,233	35,322
Dividends paid to company shareholders	0	-105
Net cash from financing activities	167,233	35,217
Net increase in cash and cash equivalents	15,661	0
Cash and cash equivalents at the beginning of the period	288	0
Cash and cash equivalents at the end of the year	15,949	0

Statement of Changes in Equity

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Total equity
Balance at 1 January, 2008	157,129	198,848	-3,250	214,979	94,915	2,705	17,708	683,035
Total comprehensive income for the financial period	0	0	0	0	88,474	8,638	15,508	112,620
Treasury shares sold	0	0	0	0	0	0	0	0
Dividends to equity holders	0	0	0	0	0	0	0	0
Transfer of profit for the year in retained earnings	0	0	0	0	0	17,708	-17,708	0
Balance at 30 June, 2008	157,129	198,848	-3,250	214,979	183,390	29,052	15,508	795,655

EUR thousand

	Ordinary shares	Share premium	Treasury shares	Revenue reserves	Fair value reserve	Retained earnings	Profit for the financial period	Total equity
Balance at 1 January, 2009	157,129	198,848	-3,250	235,460	173,341	3,444	16,070	781,041
Total comprehensive income for the financial period	0	0	0	0	-7,194	6,497	9,114	8,417
Treasury shares sold	0	0	0	0	0	0	0	0
Dividends to equity holders	0	0	0	0	0	0	0	0
Transfer of profit for the year in retained earnings	0	0	0	0	0	16,070	-16,070	0
Balance at 30 June, 2009	157,129	198,848	-3,250	235,460	166,147	26,011	9,114	789,458

NOTES TO THE INCOME STATEMENT

✓ **Net sales revenues**

Net sales revenues for the period 1-6 2009 amounted to EUR 865,090 thousand, which is an increase of 1.1 % over the comparable period last year.

Revenues resulting from the sales of goods, materials, and products amounted to EUR 796,863 thousand, which is 1.3 % more compared to the same period last year. In retail, revenues rose by 1.6 percent, while in wholesale, they remained at the same level as in the comparable period last year.

Revenues from sales of services amounted to EUR 73,237 thousand, which is a 1.5 percent increase compared to the same period last year.

✓ **Cost of sales**

Cost of sales, including production costs, purchase value of goods and materials sold, discounts on early payments received, and other expenses in the relevant period, amounted to EUR 640,740 thousand, and exceed the figure for the same period last year by 3.1 percent.

✓ **Gross profit**

Gross profit for the period 1-6 2009 amounted to EUR 224,351 thousand, which is 4.1 percent less compared to the period 1-6 2008.

The share of gross profit in net sales revenues in the period 1-6 2009 amounted to 25.9 percent, which is 1.4 percentage point less than in the same period last year. This is predominantly a result of highly committed marketing activities.

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

Selling and marketing costs, administrative expenses and production costs amount to EUR 194,404 thousand, which is 3.8 percent less than in the same period last year.

The share of selling and marketing costs, administrative expenses and production costs excluding amortization, depreciation and revaluation adjustments, in net sales revenues, amounts to 19.4 percent, which is 1.4 percentage point less than in the same period last year. The increase in cost efficiency is a result of highly committed implementation of strategic projects of business process optimization, optimization of logistics infrastructure, and implementation of cost rationalization measures at the company.

Administrative expenses also include losses from disposal of property, plant, and equipment in the amount of EUR 48 thousand.

✓ **Other income**

Other income in the period 1-6 2009 amounts to EUR 3,369 thousand, of which EUR 947 thousand is related to proceeds from disposal of property, plant, and equipment. Compared to the same period last year, other income is lower by EUR 1,915 thousand.

✓ **Results from operating activities**

Results from operating activities in the period 1-6 2009 amount to EUR 33,316 thousand, which is 10.7 percent less than in the period 1-6 2008.

✓ **Financial income and expenses**

In the period 1-6 2009, financial income amounted to EUR 3,542 thousand, which is 11.5 percent less in the period 1-6 2008. Financial income relates predominantly to financial income from interest received (EUR 2,366 thousand).

Financial expenses in the period 1-6 2009 amount to EUR 25,351 thousand, which is 19.2 percent more than in the same period last year. The majority of this figure, in the amount of EUR 23,468 thousand, relates to financial expenses from interest paid.

✓ **Profit for the financial period**

Company net profit for the period 1-6 2009 amounted to EUR 9,114 thousand, which is 41.2 percent less than in the same period of the last year.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

As at June 30th 2009, the value of property, plant, and equipment, investment property, and intangible assets amounts to EUR 1,035,072 thousand, which is EUR 11,392 thousand more than at the beginning of the year. These assets represent 52.6 % of total assets. The change in this ratio is a result investment, amortization and depreciation, and disposal of commercially unviable assets.

✓ **Participation in equity of group companies**

As at June 30th 2009, Participation in equity of group companies amounted to EUR 555,505 thousand; in the period 1-6 2009, the figure fell by EUR 8,514 thousand as a result of the merger of the companies Evolution, d.d., and Pekarna Grosuplje, d.d.

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

Available-for-sale financial assets as at June 30th 2009 amounted to EUR 4,245 thousand, which is 0.7 percent more than at the beginning of the year.

✓ **Inventories**

Inventories of raw materials, material, and trade goods as at June 30th 2009 amount to EUR 177,637 thousand, and represent 48.9 % of total current assets. Compared to the beginning of the year, the value of inventories fell by EUR 3,181 thousand, or 1.8 percent.

✓ **Trade and other receivables**

As at June 30th 2009, trade and other receivables amounted to EUR 184,796 thousand, which is EUR 50,095 thousand less than at the beginning of the year.

Trade receivables also include loans to other parties, which amount to EUR 2,653 thousand as at June 30th 2009 and which are related to loans to subsidiaries, real estate loans, and a loan to the Handball Club Krim Mercator.

✓ **Equity**

In the period 1-6 2009, company equity increased by EUR 8,417 thousand. The major changes are related to the following:

- increase by net profit generated in the period 1-6 2009, in the amount of EUR 9,114 thousand;
- decrease in equity by the adjustment of fair value of derivative financial instruments in the amount of EUR 2,575 thousand;
- increase in equity by deferred taxes in the amount of EUR 541 thousand;
- decrease in equity due to the merger of the company Evolution, d.d., in the amount of EUR 57 thousand;
- increase in equity due to the merger of the company Pekarna Grosuplje, d.d., in the amount of EUR 1,394 thousand.

Net return on equity calculated as the ratio between net profit and average equity in the period at hand amounts to 2.3 %.

✓ **Trade and other payables**

Trade and other payables as at June 30th 2009 amounted to EUR 317,285 thousand, which is EUR 108,476 thousand less than at the end of 2008.

✓ **Financial liabilities**

Non-current financial liabilities as at June 30th 2009 amount to EUR 378,601 thousand, and have decreased by EUR 33,358 thousand compared to the beginning of the year.

Current financial liabilities as at June 30th 2009 amount to EUR 409,388 thousand, and have increased by EUR 65,681 thousand compared to the beginning of the year.

Total financial liabilities as at June 30th 2009 amount to EUR 787,990 thousand, which is EUR 32,322 thousand more than at the end of 2008.

In the composition of financial liabilities, non-current financial liabilities represent 48.0 percent, and current financial liabilities represent the remaining 52.0 percent (as at December 31st 2008, the ratio between non-current and current financial liabilities was 54.5 : 45.5).

As at June 30th 2009, net debt of the Mercator Group, calculated as the difference between the sum of financial liabilities and derivative financial instruments on one hand, and financial assets on the other hand (bank deposits, available-for-sale financial assets) amounted to EUR 789,869 thousand.

✓ **Provisions**

As at June 30th 2009, the provisions amounted to EUR 26,513 thousand. Compared to the beginning of the year, the figure has decreased by EUR 709 thousand.

✓ **Derivative financial instruments**

As at June 30th 2009, the negative fair value of derivative financial instruments intended for hedging the risks related to cash flow, amounts to EUR 6,173 thousand, which is EUR 2,575 thousand more than at the end of 2008. The difference is recognized as a decrease in equity.

✓ **Deferred tax**

As at June 30th 2009, the net deferred tax liabilities totaled at EUR 30,792 thousand.

TRANSACTIONS WITH ASSOCIATED PERSONS

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

The company Poslovni sistem Mercator, d.d., is working with the subsidiaries of the Mercator Group in various business and financial fields under market conditions. Managerial personnel are receiving compensation based on the effective employment

agreements or resolutions adopted by the Shareholders Assembly (Supervisory Board members).

Financial indicators

	POSLOVNI SISTEM MERCATOR, D.D.		
	1-6 2008	Plan 2009	1-6 2009
Indicators of profitability			
Return on equity*	4.2%	2.9%	2.3%
Return on sales	1.8%	1.2%	1.1%
Gross profit / sales	27.4%	26.3%	25.9%
Indicators of financial structure			
Financial liabilities / equity	0.96	0.97	1.00
Equity and provisions to total equity and liabilities	42.1%	40.7%	41.5%
Financial liabilities to total equity and liabilities	38.8%	37.9%	40.1%
Trade and other payables to total equity and liabilities	16.8%	19.0%	16.1%
Indicators of operating efficiency and productivity			
Labour costs per hours worked (EUR thousand)*	17.3	17.8	16.7
Revenue / labour costs	8.2	8.4	8.7
Revenue per employee per hours worked (EUR thousand)*	141.7	149.3	146.0
Business costs / sales	23.3%	22.5%	22.5%

* The indicator is adjusted to the annual level.

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

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

Poslovni sistem Mercator, d.d.
Management Board

Ljubljana, August 17th 2009

ESTIMATE OF BUSINESS PERFORMANCE BY THE END OF 2009

The first half of 2009 saw extremely harsh economic conditions stemming from the global financial crisis and its effects on the real economy, which were even more adverse in the second quarter.

In light of the unplanned and unforeseen changes in the volume and composition of demand, and negative effects of the currency translation differences in markets outside Slovenia, and considering the current expectations with regard to the development of business environment in the second half of the year, the Management Board at the half of the year 2009 estimated, that the planned business goals for 2009 will not be fully accomplished since the effects of cost rationalization will not be sufficient to fully compensate for the negative effects of slower revenue growth, decrease in profit margins, and currency translation differences. Therefore, the Management Board prepared an assessment of the key economic categories by accounting for the current estimates on economic conditions in the second half of 2009.

Considering actual / expected exchange rates:

	Mercator Group					
	1-12 2008	Plan 2009	1-6 2009	Estimated 2009	Index Estimated 2009 / 1-12 2008	Index Estimated 2009 / Plan 1-12 2009
Revenue (EUR thousand)	2,708,560	2,798,426	1,293,618	2,710,000	100.1	96.8
Profit for the financial period (EUR thousand)	40,761	30,157	11,268	20,500	50.3	68.0
Gross cash flow from operating activities before rental expenses (EUR thousand)	198,158	206,643	95,739	200,000	100.9	96.8

Assuming fixed exchange rates:

	Mercator Group					
	1-12 2008	Plan 2009	1-6 2009	Estimated 2009	Index Estimated 2009 / 1-12 2008	Index Estimated 2009 / Plan 1-12 2009
Revenue (EUR thousand)	2,708,560	2,798,426	1,326,005	2,790,000	103.0	99.7
Gross cash flow from operating activities before rental expenses (EUR thousand)	198,158	206,643	98,067	205,000	103.5	99.2

According to the assessment of the key categories of the assets, property, and liabilities, no major deviations are expected from the initial plan for 2009.

The assessment of the key economic categories for 2009 is based on the assumption that in the second half of 2009, average and closing exchange rates of RSD and HRK will not deviate significantly from the rates attained in the first half of 2009. Uncertainty in this regard is high and it bears a direct effect on the reliability of the estimates.

According to the economic conditions after the first three quarters of 2009, the company will reevaluate the attainability of business results for 2009; in case of any changes, these will be duly reported in the quarterly report.